STRONGER TOGETHER

BMI Building,
Ayala Avenue near corner
Metropolitan Avenue,
Makati City

8889.0000

bankofmakati.com.ph

bankofmakati

A proud member of BancNet Non-Stop Banking Network

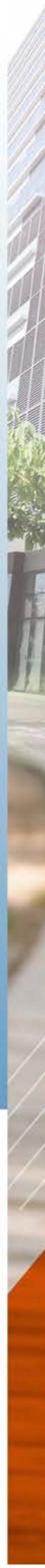
Supervised by Bangko Sentral ng Pilipinas (02) 708.7087 consumeraffairs@bsp.gov.ph

CTB CHAMBER OF THRIFT BANKS

Deposits are insured by PDIC up to P500,000 per depositor

ANNUAL REPORT 2020 | STRONGER TOGETHER

BANK OF MAKATI A Savings Bank



BANK OF MAKATI
since 1956 BMI
A Savings Bank

ANNUAL REPORT 2020

STRONGER TOGETHER

ANNUAL REPORT 2020 | STRONGER TOGETHER

BANK OF MAKATI
A Savings Bank

STRONGER TOGETHER | ANNUAL REPORT 2020

2020 was a different year that went beyond simply following the business plan, crafted and approved by the Board of Directors at the start of the year. Instead, the year was largely spent dealing with the demands and disruptions of the pandemic created by COVID-19.

Management prioritized the safety and well-being of its employees, and their families. At the start of the pandemic, BMIers were working from home, and looking after their families. This required their commitment, professionalism, and resilience.

Despite these extraordinary circumstances, BMIers grew Stronger Together as a family, and forged even stronger relationships with our clients. We have risen to a tough challenge, making us a stronger bank.

Looking ahead

As we move into 2021, COVID-19 is not behind us yet, and we do not expect 2021 to be easy. Still we are optimistic, and looking at how BMI has risen to the challenge so far, we expect 2021 to be another growth year for BMI.

We look forward to accelerating our Malalapitan, Maaasahang Kaibigan battle cry, and to continuing our journey as the bank of choice of the mSMEs.

table of contents

BUSINESS MODEL

Bank of Makati, from being the leading rural bank in the country, upgraded to a savings bank in 2015 as part of its long-range strategic plans. BMI envisions itself to be the micro, small and medium entrepreneurs' (mSME) bank of choice. With a well-defined market, BMI zeroed in on how we can better serve our targeted clients who want simpler, easier and straight forward banking. Our service delivery proposition is DIRETSO. ASENSO. In addition, as a powerful sales call to our market, mSMEs, we adopted as our tagline MALALAPITAN, MAAASAHANG KAIBIGAN.

BMI is a low-cost, high quality provider of financial services. We have established 62 branches and 40 branch-lite units in key provincial cities and towns in the country, including Metro Manila. In support of our vision to promote financial inclusion, BMI aims to be present in more unbanked/underbanked areas, a market, which, according to a study by the BSP, is still at 69%.

BMI has range of deposit and loan products that cater to our target market. Under the loans product line, BMI has Malalapitan Microfinance Loan, Power Negosyo Enterprise Loan, Expanded Motor Loan, Business Loans and other Consumer Loans that cater to the lower C, D and E income strata segments.

For deposit products, we have low-cost current, savings deposit and small-denominated time deposit.

To serve Filipino savers and entrepreneurs, we consciously adopt a customer care program and philosophy that provides our customers friendly, personalized service and makes them feel that that "BMI cares".

mission and VISION

M

We exist to help more people attain better financial security.

We value our role in economic development and our contribution to social progress.

We are dedicated to the continuing growth of the Bank.

We are committed to the well-being of our employees and to providing them a work-life environment that brings out the best of their abilities, talents and behavior.

We aim to provide our share holders optimum returns on their investments.

In pursuit of our mission, we shall be guided by the values of

TEAMWORK INTEGRITY CONCERN EXCELLENCE

V

We aim to be the mSME bank of choice, creating value through

innovative and responsive financial products and services.

We will be:
Recognized for our ability to satisfy and delight our customers;

Admired for the competence and commitment of our people and Respected for the values and principles we stand for.

the BMI brand

BMI's catch phrase, "Diretso. Asenso." conveys the aspirations of our bank's target market: the impassioned micro, small and medium entrepreneur (mSME); the hardworking young professional; the budget-conscious consumer; the father who aims to provide for his family; the mother who tries to make ends meet; and the student who dreams of finishing school.

They desire to earn and save money for a better future, or to grow their business or pursue a dream. Yet they are hampered by the lack of know-how and determination. With "Diretso. Asenso." we offer them a means to achieve their goals through simple and no-frills banking.

At Bank of Makati, we make it easy for Filipino savers and entrepreneurs to open an account or secure a loan through our accessible and affordable products, and friendly, personalized service.

- Our Power Negosyo Enterprise Loan 300 provides micro and small businessmen a non-collateral loan with minimal documentary requirements.
- Our loan products come with low interest rates suitable for striving businesses.
- Savers seeking to avail of our deposit products can open accounts with low initial deposits.
- Our bank personnel go out of their way to make it easy for clients to transact business with us, from doing house calls to deliver documents to assisting in getting financial statements in order

With more than 60 years in community banking, Bank of Makati has helped countless Filipinos fulfill their dreams through our "Diretso. Asenso." brand of service.

In the coming years, we look forward to further building our community of Filipino savers and entrepreneurs!

BANK OF MAKATI
since 1956 BMI A Savings Bank

Deposit Products
- Regular Savings Account
- Power Cash ATM Account
- Power ATM Debit Card
- Maaasahan Savings Account (Basic Deposit)
- Power Build-up Savings Account
- Young Savers Account
- BMI Checking Account Plus
- Current Account Premium
- CTD Peso Time Deposit

Loan Products
Motorcycle Loan
KaSH Microfinance Loan
Consumer Loans
- Power Payday Loan
- Housing Loan
- Auto Loan
- Rx Loan
- Seafarer's Salary Loan
- Luxury Bike
- Personal Loan

Real Estate Loans
- Bridge Financing Line
- CTS Financing Facility
- Purchase of CTS
- Real Estate Term Loan

Business Loans
- Loan Line
- Term Loan
- Back-to-Back Loan (Term or Line)
- Power Insta - Credit
- Power Negosyo ™300 & 500

Cash Management Services
- ATM Payroll
- Bills Payment
- HMO Collection
- PESOnet Electronic Fund Transfer

8889.0000
www.bankofmakati.com.ph

Deposits are insured by PDIC up to P500,000 per depositor

Supervised by:

(632) 8811-1277

Chairman and President's Message

The banking sector was faced with great challenges during 2020, given the Covid-19 pandemic and the measures implemented by the National Government and various municipalities. The overall effect of the ten-month quarantine to the economy was a sharp drop in both demand and output of products and services. Annual GDP growth rate was -9.5% with the largest declines coming during the second and third quarters. The worst hit sectors were construction, accommodation and food services, and other services (including transportation).

The most noticeable effect of this contraction on the banking industry was a reduction in new loan releases and an increase in past due incidence. Past due incidences were often seen in small and medium-sized businesses, or new project financing for large businesses. Normally, a bank's reaction to an increase in past due loans is to tighten credit criteria, accelerate collection from bad loans, consolidate good accounts, and increase non-lending business such as treasury trading and fee-based services. These alternatives were not possible in the light of the pandemic. Rates in the money market stayed low, with little trading opportunity for treasury personnel. The enforced lockdown forced banks to maintain only a skeletal workforce. Therefore, for much of the second and third quarter of 2020, BMI branch personnel focused on dispensing essential services from a limited number of branches, at reduced banking hours. Main office lending personnel concentrated on updating maturing loans and PNs to forestall unnecessary defaults.

But bad as the economic figures and business conditions appeared, the banking industry remained strong for one reason: the country's financial indicators remained sound. Inflation stayed within the targeted band between 2.5% and 4.0%. The Monetary Board continued to lower key rates, as it has since the last quarter of 2018. This brought deposit rates in down to four-year lows in 2020. Lastly, the Peso: US Dollar exchange rate stayed below 49:1

Bank of Makati's primary loan product, motorcycle loans, proved its resilience and consistency during the period. Total motorcycle loans grew by 779 million from 23.37 billion at the start of the year to 24.14 billion by year's end. Total interest income went down by only 366 million from 8.45 billion in 2019 to 8.08 billion. Interest expense on deposits went down by 181 million to total 964 million. Net income for 2020 was 2.02 billion, down by 654 million from 2019 net earnings. The biggest cause of the drop was a 450-million increase in impairment costs.

At this point, we would like to say that while we are thankful the Bank's financial performance remained highly satisfactory, we do not take pleasure at the thought that our profits came from customers sure to be suffering, to some degree, from the effects of the pandemic. What pleases us very much is that motorcycle transport in the Metro helped to alleviate the lack of public transportation during the periods of enforced quarantines. Motorcycles provided a safe and economical transport option to citizens; whether for private conveyance, or to deliver goods and services straight to households.

We are grateful to the National Government for instituting the Bayanihan Act. This law helped alleviate the plight of some borrowers struggling to meet their obligations. And finally, we would like to thank the employees of Bank of Makati; for exerting heroic effort in continuing to dispense services to our customers.

Operations Highlights

Personnel Safety:
The Bank ensured the safety and well-being of all of its employees during the first year of the pandemic. During the ECQ periods, through the generosity of its stockholders, the Bank still paid compensation equal to one month to all employees despite not reporting to work. A special allowance was provided to those forming the skeletal workforce. With the gradual relaxation of community quarantines, the Bank adopted an alternative work arrangement such

as work from home scheme and flexible work arrangements. The Bank conducted regular disinfection of all working areas, rearranged workstations to maintain social distancing and implemented guidelines for employees to follow the minimum health protocols. The Bank also recognized the state of its employees' mental health during this period. The Corporate Services Group initiated employee wellness programs such as regular coaching, Bible studies, fellowships and regular "Self Care Friday" infographics.

Recently, our management has also approved the random testing for BMI employees as a preventive measure in safeguarding our employees.

Products and Services:
The bank introduced new products and services, initially to employees, that were responsive to the needs of the new normal. We introduced bicycle loans to augment the need for transportation. Financing was offered for the purchase of gadgets and computers to support distance learning or setting up work from home station set ups. The Bank also offered financing to acquire second-hand motorcycles; giving employees a cheap option for personal conveyance.

Technological Infrastructure:
The Information Technology landscape of the Bank in 2020 covers both Infrastructure and Application Systems projects. For Infrastructure initiatives, there were tools, devices and initiatives that would enhance the network connectivity and IT security; and the exploration of Cloud computing to possibly house non-core banking systems. All these were initiated in 2020. For the application systems related initiatives consistent with the Bank's Vision and Mission, solutions such as additional electronic banking channels (Cash Card, Mobile Banking and PESONet), payment channels/gateway solutions, and automation and digitization solutions were also started in 2020. These are set for implementation in 2021.

Legal / Regulatory Compliance:
The Bank remained compliant with the guidelines set forth by the regulators especially during the year when new regulatory issuances were released to respond and manage the Covid-19 pandemic. In terms of compliances to the Bangko Sentral, regulatory reports were continuously submitted through electronic means. The Bank also complied with the Minimum Liquidity Ratio (MLR), Capital Adequacy Ratio (CAR) and Reserve Requirements. Also, tax obligations and compliance to all tax regulations were ensured. The Bank has strengthened its good working relationship with the Bangko Sentral and other regulators.

Financial Results:
The Bank still ended the year 2020 with a positive net income and still managed to continue satisfactory delivery of banking services. Also, our liquidity and capital adequacy positions remained strong and above the regulatory requirements during the whole year. Our return on equity remained among the highest in the industry.

As of end-December 2020, the Bank's total loans amounted to 31.89 billion; a slight increase from 31.69 billion in 2019. Total deposits went up from 27.09 billion in December 2019 to 29.44 billion in December 2020, or an 8.67% increase. Current and savings accounts (CASA) levels were steady, going below the 2.4-billion core level only once in September. Cost of funds went down by 181 million.

Impairment expenses increased by 450 million total 2.11 billion. Other operating income went down by 74 million while income from associate fell by 118 million. With the above changes, net income went down from 2.67 billion in 2019 to 2.02 billion in 2020.

The Bank plans to move forward this 2021, bounce back from the negative impacts of the pandemic and apply the lessons learned during the quarantine. Our corporate planning has adjusted projections for 2021, but still expecting growth in earnings. We will continue to pursue being the mSME bank of choice by tapping and helping small businesses and retail clients cope up with the new changes and move forward.

CORPORATE GOVERNANCE COMMITTEE

CORAZON S. DELOS SANTOS
CHAIRPERSON

The Investors confidence is a key element of Bank of Makati (A Savings Bank), Inc., success. Corporate Governance is extremely important for securing a sustainable growth of the Bank and it needs to continually evolve with the changes and demands at all times.

The Board of Directors acts as steward of the organization, exercising independent judgment in supervising management and safeguarding the interest of the shareholders. The Board of Directors foster a corporate environment built on integrity and provides management with guidance in pursuit of our shared goal and maximizing long term shareholder value. The BOD has long been proactive in adopting leading corporate governance practices. We remained firmly committed to the continuous improvement of BMI's strong and effective governance standards.

The Board of Directors has appointed the Corporate Governance Committee to assist the Board in fulfilling its corporate governance responsibilities for ensuring that BMI adheres to the Principles of Good Corporate Governance at all times. Our goal is to nurture the positive values that are already well entrenched in BMI's corporate culture and to reinforce the ethical principles on which its reputation and success are founded in the Board's outlook, that are critical to the long term success of the Bank.

As the Chairman of the Corporate Governance Committee my objective is to add value and provide independent leadership that will empower the Board. This involves keeping the Board focused on its objectives, cultivating a team approach and encouraging participations to draw the greatest advantage from each director's individual strengths. One of my key responsibilities as CGC Chairman is to ensure that the Board is independent and evaluate matters through a shareholder's lens. Another is overseeing board assessment and peer review, as well as the Board's development program. As we continue to aim for Bank of Makati (A Savings Bank), Inc. as "Malalapitan, Maaasahang, Kaibigan", we will also work to achieve a good Corporate Governance built on integrity and provide management with guidance in pursuit of the shared goal – long term shareholder value.

Overall Corporate Governance Structure and Practices

Bank of Makati (A Savings Bank), Inc. adheres to the principles of good corporate governance and maximizes shareholder-value through the four (4) elements of corporate governance: fairness, accountability, independence and transparency. Good corporate governance also plays an important role in maintaining corporate integrity and managing the risk of corporate fraud, combating against management misconduct.

In carrying out the advocacy of good corporate governance, the framework of Corporate Governance includes: 1) The Board of Directors who is responsible for approving Bank's strategies to achieve corporate objectives, risk governance framework, check and balance, sound corporate governance and selection of key officers of senior management and control functions and oversee their performance; 2) The Board-level Committees which are duly delegated by the Board of Directors to perform some of the functions of the Board; 3) Senior Management that carries the implementation of the strategies and initiatives approved by the Board; 4) Internal Control Groups which handles the implementation of the key control function such as Risk Management, Compliance and Internal Audit.

The Bank remains steadfast and maintains its compliance to the regulations. The Bank has a Board-approved Manual of Corporate Governance that encompasses the Corporate Governance in reference to the Bangko Sentral ng Pilipinas (BSP), the Securities & Exchange Commission (SEC), the Philippine Stock Exchange (PSE), and local and global best practices. The Manual serves as guide to the directors, officers and employees to instill awareness of their responsibilities to continuously adopt the best in maintaining corporate integrity, to help in mitigating the risk of corporate fraud and preventing management misconduct and corruption. It shall also embody transparency to uphold the rights of the Stockholders and Stakeholders of the Bank.

The Bank is determined to maintain good corporate governance and professionalism in the management and operation of the Bank's business. The Bank will continue to strictly comply with all the rules and regulations set forth by the BSP and other regulators.

Selection Process for the Board and Senior Management

The nominees for appointment to the Board will be assessed by the Corporate Governance Committee which will make recommendations to the Board. The Committee reviews and evaluates the qualifications of the persons nominated by applying the fit and proper standards, integrity/probity, physical/mental fitness, relevant education/financial literacy/training, possession of competencies relevant to the job such as knowledge and experience, skills, diligence. The Committee shall also apply the independence of mind, and sufficiency of time to carry out responsibilities as added qualifications for Board of Directors.

The Committee ensures that all persons nominated to the Board of Directors and Senior Management are qualified for their positions, have a clear understanding of the role in corporate governance and are not subject to undue influence to effectively perform the task assigned to them.

The Board of Directors makes the final decision in the appointment of the members of the Board, in consideration of the qualifications, expertise and experience, fitness, and core competencies required to the position of the Board.

Boards Overall Responsibility and Oversight and the role and contribution of Executive, Non-Executive Directors and Chairman of the Board

The Board of Directors is committed to the corporate governance principles and oversees the overall corporate governance practices and performance of the Bank. The responsibilities of the Board include:

- Establish the code of ethical standards in the Bank and play a lead role in establishing the Bank's corporate culture and values

- Overseeing management implementation to achieve business strategies and targets set by the Board

- Appointment/selection of key members of Senior Management and heads of control functions and the approval of sound remuneration and other incentives policy for personnel

- Approving of risk governance framework and ensuring the implementation of appropriate systems to manage those risk

- Approving and overseeing the implementation of the Bank's corporate governance framework.

The Board of Directors is duly elected during the Annual Stockholders Meeting and are named as such in the Articles of Incorporation and By-Laws and other rules and regulations mandated by the Republic of the Philippines and regulatory bodies.

The Bank is led and managed by an experienced Board comprising of members with extensive experience in Banking activities as well as audit background.

The Board of Directors is currently comprised of three (3) Independent Directors, two (2) Non-executive Directors and two (2) Executive Directors. The composition of the Board reflects the Board's commitment to maintaining an appropriate balance with a relevantly mixed backgrounds, skills and experience to provide strong and effective leadership and control of the Bank.

Independent Directors (ID) – these are the directors with diverse backgrounds and whose responsibility is to exercise independent judgment on corporate affairs requiring the decision or approval of the Board; Independent Directors also provide check and balance to ensure that the Bank operates with a proper governance framework, and with the necessary internal control and systems in place.

Non-executive Directors (NED) – these are the directors who are not part of the day-to-day management of the Bank's operations; they possess skills to contribute to the formulation of strategies and policies of the Bank. The NEDs on the Board also bring strong independent judgment and objective participation in the proceedings and decision making process of the Board.

Executive Directors (ED) - these are the directors who are responsible for the direct management of the implementation of Board-approved policies, procedures, strategies, and initiatives.

Description of the major role and contribution of the Chairman of the Board.

The Board of Directors elects the **Chairman of the Board**. The Chairman of the Board shall ensure the effective functioning of the Board of Directors, including maintaining a relationship of trust with members of the Board of Directors. The Chairman's role includes the following: 1) ensure that the meeting agenda focuses on strategic matters including discussion on risk appetites, and key governance concerns; 2) ensure sound decision making process; 3) encourage and promote critical discussion; 4) ensure that dissenting views can be expressed and discussed within the decision-making process; 5) ensure that members of the Board of directors receive accurate, timely, and relevant information; 6) ensure the conduct of proper orientation for first-time directors and provide training opportunities for all directors; and 7) ensure the conduct of performance evaluation of the Board of Directors at least once a year.

Board Composition

	Board of Directors	Type of Directorship	Principal Stockholder represented, if nominee	No. of Years served as Director	No. of Direct & Indirect shares Held	% of shares Held to Total Outstanding Shares of Bank
1	Thomas C. Ongtenco	NED (Chairman)	N/A	19	49,969,958	9.99399
2	Luis M. Chua	ED (President)	N/A	3	10	0.00000
3	Ramon B. Manzana	ED (Managing Director)	N/A	19	25,124,568	5.02491
4	Corazon S. Delos Santos	ID	N/A	5	32	0.00001
5	Alfredo P. Pineda	ID	N/A	12	474	0.00009
6	Ma. Rodora E. Bañares	NED	N/A	10	42	0.00001
7	Imelda S. Singzon	ID	N/A	3	10	0.0000

Director's Attendance at Board Committee Meetings

JANUARY – DECEMBER 2019	BOARD COMMITTEE No. of meetings: 12		CORPORATE GOVERNNANCE COMMITTEE No. of meetings: 10		EXECUTIVE COMMITTEE No. of meetings: 9		AUDIT AND COMPLIANCE COMMITTEE No. of meetings: 14		RISK OVERSIGHT COMMITTEE No. of meetings: 24		RELATED PARTY TRANSACTION COMMITTEE No. of meetings:12	
Composition	Attendance	Percentage	Attendance	Percentage	Attendance	Percentage	Attendance	Percentage	Attendance	Percentage	Attendance	Percentage
Thomas C. Ongtenco	12	100%										
Ramon B. Manzana	12	100%			9	100%						
Luis M. Chua	12	100%			9	100%						
*Ma. Rodora E. Banares	12	100%	6	100%	3	100%			13	100%	6	100%
Corazon De Los Santos	12	100%	10	100%			12	86%	11	100%	12	100%
Imelda S. Singzon	12	100%	6	100%			14	100%	24	100%	12	100%
Alfredo P. Pineda	12	100%	10	100%			14	100%	24	100%	6	100%

* Elected as Member of CGC, ROC and RPTC on June 2020 Annual Stockholders Meeting

Orientation and Education Program

Newly appointed Directors, upon on boarding are given Orientation Program to be conducted by a duly recognized private or government institution duly accredited by the Bangko Sentral ng Pilipinas within six (6) months after appointment, subject to exceptions as provided herein. The Bank shall provide all the first time directors with a copy of the general responsibility and specific duties and responsibilities of the board of directors and of a director.

Continuing education is provided through trainings by the Bank and by outside service providers accredited by the BSP and the SEC. The Board members together with Senior Officers attended a continuing Corporate Governance training covering the areas of Corporate Governance Overview, Key Developments in the Code of Corporate Governance.

In addition, the Bank also provides training of employees with efficient adequate and continous AML education program to enable them to fully and consistenly comply with all obligations under AMLA rules.

The Bank also provides training requirements for new hires, staff, officers, senior officers that are customized/tailored fit according to their knowledge and competency needed for their respective positions.

List of Board-Level Committees Including Membership and Function

<table>
<tr><th>Board-Level Committees</th><th>Members</th><th>Functions</th></tr>
<tr><td>1.) Executive Committee (EXCOM)</td><td>
<table>
<tr><th>EXCOM</th><th>Jan 1 – June 30, 2020</th><th>July 1 – Dec 31, 2020</th></tr>
<tr><td>Mr. Ramon B. Manzana</td><td>Chairperson</td><td>Chairperson</td></tr>
<tr><td>Mr. Luis M. Chua</td><td>Member</td><td>Member</td></tr>
<tr><td>Ms. Ma. Rodora E. Banares</td><td>Member</td><td></td></tr>
</table>
</td><td>The Executive Committee is the highest credit decision-making body, below the Board of Directors. The Committee is responsible for the review and approval of the credit proposal and transactions, and works directly with Risk Management Group to ensure the overall credit risk of the Bank are properly managed.</td></tr>
<tr><td>2. Corporate Governance Committee (CGC)</td><td>
<table>
<tr><th>CGC</th><th>Jan 1 – June 30, 2020</th><th>July 1 – Dec 31, 2020</th></tr>
<tr><td>Ms. Corazon S. De los Santos*</td><td>Chairperson</td><td>Chairperson</td></tr>
<tr><td>Atty. Alfredo P. Pineda*</td><td>Member</td><td>Member</td></tr>
<tr><td>Ms. Ma. Rodora E. Banares</td><td></td><td>Member</td></tr>
<tr><td>Ms. Imelda S. Singzon*</td><td>Member</td><td></td></tr>
</table>
</td><td>The Corporate Governance Committee is responsible for the development, implementation and review of the Bank's Corporate Governance program and ensuring effectiveness of its due observance on corporate governance policies and procedures applicable to business.

The Corporate Governance Committee shall also assist the Board in the review and evaluation of the qualifications of all persons nominated to the Board as well as those nominated to other positions requiring appointment by the Board of Directors. The Committee oversees the periodic performance evaluation of the Board and Board Level Committees and Executive Management if it's in accordance to the Committee Charters. The Committee shall make recommendations to the Board regarding the implementation of the policy on continuing education of Directors, succession plan for the members of the Board and Senior Management and remuneration policy linked to the corporate and individual performance.</td></tr>
<tr><td>3. Risk Oversight Committee (ROC)</td><td>
<table>
<tr><th>ROC</th><th>Jan 1 – June 30, 2020</th><th>July 1 – Dec 31, 2020</th></tr>
<tr><td>Ms. Imelda S. Singzon*</td><td>Chairperson</td><td>Chairperson</td></tr>
<tr><td>Atty. Alfredo P. Pineda*</td><td>Member</td><td>Member</td></tr>
<tr><td>Ms. Ma. Rodora E. Banares</td><td></td><td>Member</td></tr>
<tr><td>Ms. Corazon S. De los Santos*</td><td>Member</td><td></td></tr>
</table>
</td><td>The Risk Oversight Committee shall oversee the enterprise risk management framework of the Bank. The Committee shall ensure that the current and emerging risk exposures are consistent with the Bank's strategic direction and overall risk appetite to prevent losses and minimizing the impact of losses when they occur. It shall also ensure that the Risk Management Function has adequate resources and effectively oversees the risk taking activities of the Bank.</td></tr>
<tr><td>4. Audit and Compliance Committee (ACC)</td><td>
<table>
<tr><th>ACC</th><th>Jan 1 – June 30, 2020</th><th>July 1 – Dec 31, 2020</th></tr>
<tr><td>Atty. Alfredo P. Pineda*</td><td>Chairperson</td><td>Chairperson</td></tr>
<tr><td>Ms. Imelda S. Singzon*</td><td>Member</td><td>Member</td></tr>
<tr><td>Ms. Corazon S. De los Santos*</td><td>Member</td><td>Member</td></tr>
</table>
</td><td>The Audit & Compliance Committee (The "AuditCom") is a sub-committee of the Board that provides effective oversight of external and internal audit functions including in sourcing and outsourcing of internal audit activities, ensure transparency and proper reporting with emphasis on the reports integrity, timeliness and compliance with standards. The Committee shall also ensure the Bank is in compliance with Bank policies and applicable laws, rules and regulations and code of conduct and to ensure adequate and effective internal controls are in place.

that reviews internal control and risk management systems, internal and external audits, financial controls and reporting, integrity and compliance with laws and regulations.</td></tr>
<tr><td>5. Related Party transaction Committee (RPTC)</td><td>
<table>
<tr><th>RPTC</th><th>Jan 1 – June 30, 2020</th><th>July 1 – Dec 31, 2020</th></tr>
<tr><td>Ms. Corazon S. De los Santos*</td><td>Chairperson</td><td>Chairperson</td></tr>
<tr><td>Atty. Alfredo P. Pineda*</td><td>Member</td><td></td></tr>
<tr><td>Ms. Imelda S. Singzon*</td><td>Member</td><td>Member</td></tr>
<tr><td>Ms. Ma. Rodora E. Banares</td><td></td><td>Member</td></tr>
</table>
</td><td>The Related Party Transactions Committee is responsible in ensuring that related parties are handled in a sound and prudent manner with integrity and in compliance with applicable laws and regulations to ensure that transactions are conducted at arm's-length terms to protect the interest of the depositor and stakeholders.</td></tr>
</table>

*Independent Director

LIST OF MAJOR STOCKHOLDERS

As of December 31, 2020 the Bank have a total of 58 shareholders. The following are the Bank's top 20 holders of common shares:

	Name of Stockholder	Nationality	Common Share	Percentage of stockholdings	Voting Status
1	Sio Yok C. Ongtenco	Filipino	49,979,379	9.99588%	9.99588%
2	Alex C. Ongtenco	Filipino	49,976,580	9.99532%	9.99532%
3	Thomas C. Ongtenco	Filipino	49,969,958	9.99399%	9.99399%
4	Paulino C. Ongtenco	Filipino	49,967,463	9.99349%	9.99349%
5	Helen C. Ongtenco	Filipino	49,962,053	9.99241%	9.99241%
6	Victor C. Ongtenco	Filipino	49,962,052	9.99241%	9.99241%
7	Christine C. Ongtenco	Filipino	49,962,042	9.99241%	9.99241%
	Teresita O. Sy	Filipino	49,962,042	9.99241%	9.99241%
8	Motortrade Life and Livelihood Assistance Foundation, Inc.	Filipino	47,468,920	9.49378%	9.49378%
9	Ramon B. Manzana	Filipino	25,124,568	5.02491%	5.02491%
10	Lucilla O. Manzana	Filipino	24,847,073	4.96941%	4.96941%
11	Vicente N. Ongtenco	Filipino	2,498,364	0.49967%	0.49967%
12	Amor Fe Lee	Filipino	134,810	0.02696%	0.02696%
13	Desmond Chan	Filipino	134,800	0.02696%	0.02696%
14	Olga Retulin	Filipino	12,894	0.00258%	0.00258%
15	Belen Coronado	Filipino	10,379	0.00208%	0.00208%
16	Esteban Silva	Filipino	5,094	0.00102%	0.00102%
17	Audrea Cabalquinto	Filipino	2,610	0.00052%	0.00052%
18	Carl Anthony Mariano	Filipino	2,273	0.00045%	0.00045%
19	Elizabeth Berber	Filipino	1,294	0.00026%	0.00026%
	Nenita Campo	Filipino	1,294	0.00026%	0.00026%
20	Virgilio Tabora	Filipino	1,126	0.00023%	0.00023%

PERFORMANCE ASSESSMENT PROGRAM

The Board has created an internal self-rating system and procedures to determine and measure compliance with the Corporate Governance vis-à-vis good corporate governance principles and practices: (i) Each Director self–rates and collectively rates the Board, the President and the Chairman, (ii) Corporate Governance, Audit and Compliance, Risk Oversight, Related Party Transactions and other Board-level Committees respectively rate themselves to gauge the performance of the members of the Board of Directors. The assessment covers in compliance with the provisions and requirements of the Bank's Manual of Corporate Governance. The summary of the results of the performance evaluation will be reported to the Board to recognize the strength of the Board and to address the weaknesses of the Board, identifying the individual and collective development needs of the Board.

For Senior Management, Officers and Staff, the Bank utilizes and implements a Performance Management and Development System containing a) Key Results Area (KRAs) or output requirements of major responsibilities or function; b) Behavioral norms or ways to institutionalize the practice of culture and values set by the Bank.

Performance assessment guidelines are continuously enhanced to strengthen the review mechanism and ensure accuracy of performance evaluation

RETIREMENT AND SUCCESSION POLICY

Retirement Policy

The age is not the main factor in determining the qualifications of a Director in fulfilling its duties and responsibilities. The Director's wisdoms, expertise, experience and authority are valuable assets. A director as long as he/she is physically and mentally fit, complies with the qualifications and non of the disqualifications to become a Director, and he/she be able to effectively carry out his/her duties and responsibilities as written in the Corporate Governance Manual Qualifications of a Director.

An independent director of a BSFI may only serve as such for a maximum cumulative term of nine (9) years reckoned from 2012. After which, the independent director shall be perpetually barred from serving as independent director in the same BSFI, but may continue to serve as regular director.

Retirement occurs when the employee voluntarily resigns from the Bank's employment, having given notice of at least 30 days.

Retirement

Normal retirement age is at the age of 55 years while for early retirement is at the age of 50 years. For all employees hired before January 14, 2011, normal retirement is at the age of 60 years while compulsory retirement is at the age of 65 years. The Bank provides retirement benefits to eligible employees who have reached their retirement age as provided in the Bank's policy, in recognition of their contribution, service and loyalty to the Bank.

Succession Policy

The BMI Succession Plan shall create a pool of future officers that will serve as successors of officers who hold critical position in the organization and officers who have reached their retirement age. It shall also identify and tap the potentials of the organization and keep track of their career path while keeping them motivated at work.

In the BMI Succession policy, every November of each year, Management shall meet with Group Heads and Department Heads to discuss, present and review their Department/Group.

Succession Plan in anticipation of possible employee movements or sudden resignations. The BMI Succession Plan shall be included in the Annual Business Plan of each Group and Department.

For the members of the Board, BMI follows the BSP and SEC mandate on the term limit of independent directors.

Remuneration policy

The Board sees to it that remuneration policy and its implementation is regularly reviewed to ensure that it is aligned with the operating and risk culture as well as the strategic and financial interest of the Bank promotes good performance and conveys acceptable risk-taking behavior defined under the code of ethics and complies with legal and regulatory requirements.

The Directors and Officers compensation packages are aligned based on the industry compensation package to motivate, attract and way of retaining highly qualified people. The salary scale of Officers are generally based on the established Salary and Job Classification Framework and Pay Structure which will provide a well-structured job grading and competitive pricing so that each employee is paid in accordance with his/her competencies, responsibility, and the level of contribution to the corporate goals in relation to other jobs within the organization. These are reviewed periodically to ensure its competitiveness in the market. New positions may be added in the Salary and Job Classification Framework only upon proper job analysis, evaluation, and justification of the need for establishing the same and upon approval of the Management.

Our compensation packages for its non-officers/rank-and-file employees are in accordance with Labor Law requirements and our contractual obligation under a collective bargaining agreement.

The Bank grant fixed bonuses, including a 13th month pay in accordance with the Law, and it is give to employees not later than December 24 of every calendar year. Fourteenth (14th) Month Pay as an additional benefit given to all regular employees of the Bank as of November 30th of the current year and a Performance bonus a variable benefit given to regular employees based on the Bank's performance and on individual performance.

As stated in our By-Laws, no compensation shall be paid to any director as such, but the directors of the Bank may be allowed reasonable honoraria for attendance at meetings and also reasonable expenses incurred in connection thereto. The total annual compensation of Directors for their attendance in Board meetings and Board-Level Committee meetings for the period of January to December 2020 was Php 3,755,000.00.

POLICIES AND PROCEDURES ON RELATED PARTY TRANSACTIONS

The Bank's transaction with related parties should be made in the ordinary course of business and not undertaken on more favorable economic terms taking into consideration at a minimum the charge price/interest, commission to be earned, fees, tenor and collateral as those of the non related parties. The Bank acknowledges that related party transactions (RPT) may result to a conflict of interest. Thus, the Board has delegated the Related Party Transaction Committee (RPTC) composed of Independent Directors and Non–Executive Directors. The Committee ensures that the transactions with subsidiaries and affiliates, directors, officers, stockholders and related interest (DOSRI) and related parties are handled in a sound and prudent manner, with integrity and in compliance with applicable laws and regulations to protect the interest of depositors, creditors and other stakeholders.

The RPTC's duties and responsibilities includes evaluation on an on-going basis existing relations between and among business and counterparties, evaluate all RPTs to ensure that these are not undertaken on more favorable economic terms, ensures that appropriate disclosures is made, and/or information is provided to a regulating and supervising authorities relating to the Bank's exposures, and policies on conflict of interest or potential conflict of interest, report to the Board of Directors on a regular basis, the status, aggregate exposures to each related party as well as the total amount of exposures to all related parties, ensure that transactions with related parties including write off of exposures, are subject to periodic independent review or audit process and to oversee the implementation of the identifying, monitoring, measuring, controlling, and reporting RPTs, including periodic review of RPT policies and procedures.

SELF ASSESSMENT FUNCTION

The Bank's internal controls and transparency are conducted by Independent Group composed of Internal Audit Group (IAG) and Compliance Group (CG), who directly report to the Audit and Compliance Committee (ACC), Risk Management Group, who directly report to Risk Oversight Committee (ROC) and Concerned Business Units:

- The Internal Audit Group shall conduct a periodic formal review of the effectiveness of the Bank's system and internal controls to assess consistency with the board-approved policies and procedures. The result of the Audit shall be directly reported to the Audit and Compliance Committee (ACC).

- The Compliance Group shall conduct compliance testing and ensure that the Bank complies with relevant rules and regulations and is informed of regulatory development in areas affecting related parties. It shall also ensure that RPT policy is kept updated and implemented throughout the Bank.

- The Risk Management Group (RMG) shall conduct a periodic review on the effectiveness of the Bank's risk management program, whether decisions are consistent with the board approved policies on risk tolerance and the effectiveness of the corresponding risk mitigation measure. The results of assessment and monitoring shall be reported to the ROC Committee.

- The concerned Business/Support Unit or Project Team shall be accountable and responsible to monitor and managed on a continuing basis the Third Party Service Provider performance review to determine the appropriate Key Performance Indicators (KPI) that shall define the minimum service level requirements and financial condition evaluation. The result of the performance and financial evaluation shall be directly reported to ROC Committee

- Related Party Transaction are being reported to Related Party Transaction Committee to ensure transaction are handled in a sound and prudent manner, with integrity, and in compliance with applicable laws and regulation to protect the interest of the depositors and stakeholders.

- The ROC and ACC conduct periodic meeting to ensure that the directors are consistent with the strategic objectives of the Bank and in compliance with the BSP and other Government agencies.

COMPLIANCE FUNCTION

The role of the Compliance Group is to assist Management in ensuring reasonable basis that bank-wide activities of the Bank and its employees are in conformity with applicable laws and regulations, Code of Ethics, policies and procedures, and generally with sound banking practices.

The Bank constantly enhances the Compliance Program in compliance to the latest BSP guidelines that assist the Management and Board in identifying and mitigating compliance risk.

Compliance Group is independent from the business activities of the bank and is managed by the Chief Compliance Officer. It should carry out its responsibility on its own initiative in all units or departments where compliance risk exist and must be provided with sufficient resources to carry out its responsibilities effectively. Including maintaining a constructive working relationship with BSP and other regulators. They also act as the point of contact of the Bank for compliance queries to the BSP.

Compliance Group provides advise to the Board of Directors and Senior Management on relevant laws, rules and standards, and keeps them informed on developments in the area, and assess the compliance risk associated with the business activities, including new products and business ventures.

Compliance Group must be free to report to the Audit and Compliance Committee and the Board of Directors on any irregularities or breaches of laws, rules and standards without fear of retaliation or disfavor from the management or other affected parties.

DIVIDEND POLICY

The board of directors of a stock corporation may declare dividends out of the unrestricted retained earnings which shall be payable in cash, property, or in stock to all stockholders on the basis of outstanding stock held by them, provided, that any cash dividends due on delinquent stock shall first be applied to the unpaid balance on the subscription plus costs and expenses, while stock dividends shall be withheld from the delinquent stockholders until their unpaid subscription is fully paid. Provided, further, That no stock dividend shall be issued without the approval of stockholders representing at least two-thirds (2/3) of the outstanding capital stock at a regular or special meeting duly called for the purpose.

Declaration of dividends shall be reported by the bank concerned to the appropriate supervising department of the Bangko Sentral within ten (10) business days after date of declaration.

STOCKHOLDER'S RIGHT AND PROTECTION OF THE STOCKHOLDER'S MINORITY INTEREST

The Bank, through its Board of Directors, strongly respects the rights of the Stockholders as provided in the Corporation Code of the Philippines.

CORPORATE SOCIAL RESPONSIBILITY INITIATIVES

It is the Corporate Social Responsibility (CSR) of the Bank to contribute to the economic development and to the upliftment and improvement of people's quality of life in communities with deem are in need of support in the areas of education, health, family life, child care, livelihood, sports development and environmental protection.

The Bank shall undertake its CSR activities which it shall organize on its own or/and in partnership with a foundation or a non-governmental organization. The Bank will also consider undertaking activities and various projects as long as they are related to the Bank's Corporate Social Responsibility objective.

The Bank seeks to make a meaningful presence in the various communities it supports through its Corporate Social Responsibility Program.

RISK OVERSIGHT COMMITTEE

IMELDA S. SINGZON
CHAIRPERSON

The Risk Oversight Committee (ROC) is composed of three Directors, two of whom are Independent Directors. The ROC is chaired by an Independent Director, and holds monthly meetings. In the year 2020, after the government declared a lockdown in view of the corona virus pandemic, the ROC conducted its affairs through virtual meetings.

The year 2020 presented the whole world with challenges never encountered before. The pandemic brought incalculable human suffering, and resulted in extremely deep and widespread business disruptions impacting economies and capacities of governments to effectively respond to various needs of societies.

The challenges were enormous. The Bank's Management and the Board saw the need to quickly formulate response measures to manage the risks that have emerged from the pandemic.

The ROC oversaw the completion of a number of risk management initiatives, spanning all risk areas, and ensuring that all risk threshold commitments were delivered. Root causes of risk incidents continued to be examined, and lessons from such occurrences drawn in order that similar future risk incidents were quickly mitigated and avoided.

Immediate concerns for risk management were the Bank's personnel, IT systems and processes, clients' access to bank services, internal control and information security. Several discussions were also devoted to the business and economic impact of people suddenly losing their jobs, and of severely weakened cash flows of businesses which Management prudentially acknowledged could result to a heightened loan impairment experience for the Bank during the year. Management conducted appropriate ICAAP test exercises, and set aside higher levels of provisions for the Bank's loan assets.

The safety of the staff and officers was first and foremost in the surging pandemic. The ROC would like to acknowledge the excellent handling by Management and the Bank's Human Resource Department of the pandemic situation in 2020, carefully managing the spread of the virus in office premises, while still enabling the Bank to deliver on its commitments for the year. As work productivity was imperilled, the Bank's uninterrupted service to clients remained the primordial goal. The Bank's front liners dutifully touched base with their clients, and updated themselves with how their clients were coping with the new environment. Internally, Management installed safety protocols in all offices of the Bank, and ensured faithful adherence to safety guidelines by both staff and clients. As everyone strived to deliver on his commitment to performance, a work from home option was implemented in the year 2020. In June 2020, the Human Resource Department prepared a guidance document entitled "A Guide on Remote Performance Management".

The pandemic presented possibilities for risks to occur from weakened internal controls. In order to ensure that internal controls continue to be observed even in time of the pandemic, the Internal Audit Group prepared a guidance document entitled "A Report on Strengthening Internal Control Systems in a Remote Performance Environment". The guidelines serve as a tool in ensuring compliances with the Bank's policies, procedures, and regulatory requirements at all times.The ROC saw the need for continuing risk assessments and control at the level of all business units as greater vulnerabilities ensued from the pandemic. The Operations Risk Management Department launched during the year a special Risk and Control Self Assessment to heighten risk awareness especially among frontliners as continuing threats to bank operations hovered in view of increasing new covid 19 infections. Management ensured strict adherence to the the Bank's Information Security guidelines .

The Bank's Business Continuity Plan (BCP) was strengthened to consider risk events and incidents arising from the pandemic. The BCP is expected to be resilient to accommodate prudential changes in operations arising from the effects of a disease that devastated communities and economies.

We ended the year 2020 with the Bank's risk indices for credit, operations, IT and consumer protection all in the low categories. Market and liquidity risks were likewise prudentially managed.

Hope around the world dominated as breakthrough for a vaccine was imminent, and that the pandemic would soon be contained.

The ROC and its members would like to thank the Board for its trust, and the Management including all officers and staff for the cooperation extended to the oversight committee.

RISK MANAGEMENT

Bank of Makati (A Savings Bank), Inc. ("BMI") adopts adequate and effective Risk Management in all its businesses and processes consistent with the standards prescribed by the Bangko Sentral ng Pilipinas (BSP) in promoting sound internal control environment, internal capital adequacy assessment and other risk management processes. It has a robust established risk management policies and capital management framework that enables the Bank to identify, measure, control, and monitor its significant financial and non-financial risk exposures.

BMI risk management is an integral part of good corporate governance and is an active part of the Bank's culture integrated into the organization's philosophy, practices, strategies and business plans

GOVERNANCE STRUCTURE FOR MANAGING RISKS

THE BOARD
• Overall authority and responsibility for business strategies and risk policies
• Provides overall direction and oversight of risk management systems and internal controls
• Understand key risk and approves mitigation plans
• Determines risk appetite and tolerance
• Monitors exposure

RISK OVERSIGHT COMMITTEE
• Reviews and recommends risk strategy and policies
• Oversees risk management system program
• Reviews adequacy and effectiveness of the Bank's risk management framework
• Monitors the implementation of risk mitigation plans

MANAGEMENT COMMITTEE
• Implements risk management framework within all business units and functions

OUR RISK PHILOSOPHY
Our risk philosophy and risk management approach are based on three key principles:

RISK CULTURE	STRONG CORPORATE GOVERNANCE STRUCTURE	PROACTIVE RISK MANAGEMENT PROCESS
•Set the appropriate tone at the top •Promote awareness, ownership and proactive management of key risks •Promote accountability	•Promote good corporate governance •Provide proper segregation of duties •Clearly define risk-taking responsibility and authority •Promote ownership and accountability for risk-taking	•Robust processes and systems to identify, measure, report, monitor, and manage risks •Benchmark against best industry practice

RISK APPETITE

- Our risk appetite is the aggregate level and types of risk that the Bank is willing to assume or to avoid, in pursuit of its goals, objectives, and business plan, consistent with applicable capital and other regulatory requirements and reinforces the risk culture of the Bank.
- The development of risk appetite is driven by top-down Board leadership approach. Successful implementation depends on effective interaction among the Board, ROC, Management Committee, Senior Management and frontline units.
- The Board's role is to review and evaluate the Bank's risk appetite and approve top down risk allocation of limits. The risk appetite is communicated throughout the Bank.
- The ROC, in consultations with the Board and Senior Management develops the risk appetite.
- Risk appetite set for operational risk, as follows:

Impact Category	Operational Risk Appetite Statements
1. Financial Loss Exposure a. Actual Loss b. Potetial Loss	• Individual level ORE with potential or actual financial loss exceeding P250,000 is unacceptable • Aggregate Level Total Financial loss exposure (Potential + Actual) Exceeding 0.2% of previous year's annual gross income is unacceptable Total actual financial loss exceeding 0.1% of previous year's annual gross income is unacceptable.
2. Non - Financial Loss a. Reputational	• ORE that resulted to negative media coverage* is unacceptable. ** Negative media coverage includes negative articles on national or local newspaper, unfavorable news on radio television, and social media post or on-line articles that is detrimental to Bank's image and with 5000 or move views/share.*
b. Legal and Regulatory Compliance	• ORE that resulted to or may result to adverse regulatory sanction to the Bank or its Officer(s) is unacceptable.
c. Occupational Safety and Health	• ORE that resulted to or may result to serious harm or death to employees while performing the job function is unacceptable.

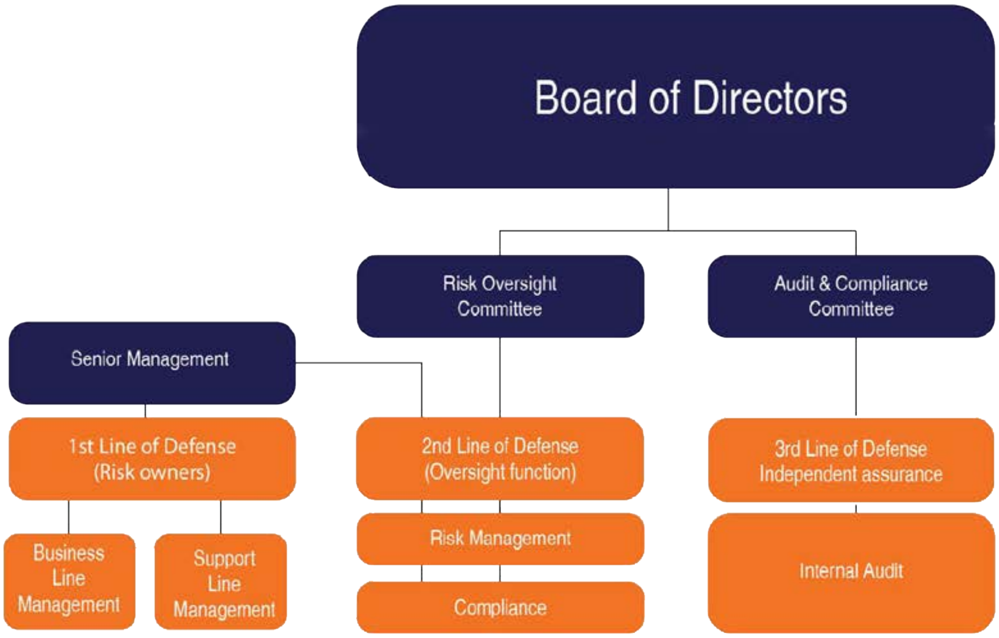
RISK MANAGEMENT

BMI risk management is an integral part of good corporate governance and is an active part of the Bank's culture integrated into the organization's philosophy, practices, strategies and business plans.

We have established a rigorous and systematic risk review process to identify, monitor, manage and report risks throughout the organization based on our risk philosophy. Management is also responsible for ensuring that the risk management framework is effectively implemented within the business units.

Our key risk management activities also include business continuity/disaster recovery management. Close monitoring and control processes, including the use of appropriate key risk and key performance indicators, are implemented to ensure the risk profiles are managed within policy limits

In addition, we have in place a formal program of risk and control self-assessment where line personnel are involved in the risk assessment and improvement of risk management and controls. The effectiveness of our risk management policies and processes is reviewed on a regular basis and improved. Regulatory examination reviews ensure appropriateness of the risk management framework. Overall, the risk management processes facilitate alignment of our strategy and annual business plan with the management of key risks.



The three of defense model delineates management accountabilities and responsibilities for risk management and control environment. By adopting the model, it underpins our approach to risk management by clarifying responsibilities and encouraging collaboration, as well as enabling constant communication of risks and control activities in the workplace. The first line of defense owns the risks, the business and support lines that perform, among others, credit origination and provide support in the overall credit administration, respectively and also responsible for risk identification, reporting, managing and monitoring of risks; the second line of defense performs risk management and oversight function that are independent from the credit origination and administrative functions; the third line of defense is our Internal Audit function, which provides independent assurance that our risk management approach and processes are designed and operating effectively.

The following principles summarized the Bank's overall approach to risk management.

a. The Board through the ROC, provides the overall direction and oversight of the Bank's risk management; approves risk management policies and procedures for the systematic management of risk exposures within the Bank
b. The key risks faced by the Bank (both financial and non-financial) are managed by appropriate functional levels within the organization;
c. The Risk Management Process begins with the identification of business opportunities and normally these opportunities involve risk. The first line of defense are the risk owners (business and support lines);
d. Once opportunities are identified, the risk owner, in consultation with RMG, identifies, quantifies, and analyzes risk in light of its potential effect on his portfolio/daily activities or transactions.
e. Senior Management evaluates the Bank's performance from a risk-adjusted perspective, taking into account the overall and unit specific business plans; and

   RMG monitors and quantifies the inherent and probable risks in every activity/transaction of the Bank through risk measurement tools. Benchmarks and limits are set to serve as red flags in the event of breaches.

RISK MANAGEMENT GROUP

Risk Management Group (RMG) plays a vital role in the oversight of risk management. It reports the risk profile of the bank regularly to the Risk Oversight Committee (ROC). It is tasked to spearhead and oversee the implementation of the risk management framework within the Bank. It serves as the implementing arm of the ROC in all its risk management responsibilities. It is an independent business function within the organization and reports directly to the ROC its risk monitoring and assessment. It is composed of:

- Credit Risk Management Department (which includes Credit Review, Credit Risk Analytics)
- Market and Liquidity Risk Management Department (MLRMD)
- Operations Risk Management Department (ORMD)

The general role of RMG is to develop risk management policies and procedures and ensures that the risk policies and directives of the Board are duly implemented and monitored. Together with the various business units and groups, it is tasked to ensure that the implementation process is complete and comprehensive according to the Board's directives.

Risk Management Structure

BMI identifies risk according to the three major classifications:

Risk Type	Risk Monitoring Tools
Credit Risk	Regulatory limits, SBL, DOSRI Large Exposure Monitoring Loan Portfolio Quality Past Due and NPL Loan Profile Credit Risk Rating Classification and Profiling Ratings Migration Loan Provisioning Credit Risk Stress Testing Loan Deviations and Exceptions Key Risk Indicators (KRIs) Trending and Scoring Credit Risk Policies Credit risk trainings for continuing education
Market (including interest rate) and Liquidity Risks	Mark to Market Valuations Market Risk Limits Market Risk Stress Testing Value at Risk Exposure limits Repricing Gap Interest Rate Gap Maximum Cumulative Outflow Liquidity Ratios KRI Trending Analysis Market and Liquidity Risks Policies Market risk trainings for continuing education
Operational and Information Technology (IT) Risks	Risk and Control Self-Assessment (RCSA) Loss/Incident Event Reporting Risk Mapping Business Continuity Planning and Testing KRI Trending and Scoring Monitoring Information Technology (IT) Risk Management Framework Financial Consumer Protection Framework Outsourcings and Vendor Risk Management Framework Operational risk training for continuing education

Credit risk arises from its core lending activities, market risk due to price movements in trading, liquidity risk from the management of the Bank's balance sheet; and operational and IT risks from inadequate or failed internal processes, people, information technology systems, and external events.

The Bank has established risk management processes and controls and applies various methodologies, metrics, tools and system to identify, measure, control, and monitors its risks exposures. It continuously improves its reporting system to ensure completeness and accuracy of data and timely reporting. The implementation of Qliksense reporting and other risk projects such as automation of loss event reporting are initiatives to render accurate, reliable and timely information and reports.

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.

AUDIT and COMPLIANCE COMMITTEE

ATTY. ALFREDO P. PINEDA
CHAIRPERSON

The Audit and Compliance Committee (ACC) is composed of three Board Members, at least two (2) of whom are independent directors including the Chairperson. The ACC is governed by a board-approved Charter which defines its purpose, authority, responsibilities and meeting requirements.

In accordance with this Charter, the ACC assists the Board of Directors in fulfilling its statutory and fiduciary responsibilities, enhancing shareholder value, and protecting shareholders' interest through (a) effective oversight of internal and external audit functions, (b) transparency and proper reporting, (c) compliance with laws, rules and regulations; and code of conduct, and (d) adequate and effective internal controls.

The ACC has explicit authority to investigate any matter within its terms of reference, full access to and cooperation by management and full discretion to invite any director or executive officer to attend its meetings, and adequate resources to enable it to effectively discharge its functions.

The ACC supervises the Internal Audit Group (IAG) and Compliance Group (CG).

The Internal Audit Group (IAG) reports directly to the ACC and assists in the discharge of its oversight responsibilities. The IAG is also governed by a Charter approved by the ACC. The ACC and IAG Charters are reviewed annually to ensure that the underlying provisions with respect to membership, composition and qualifications, duties and responsibilities of the ACC and IAG are still relevant and updated. The IAG Charter provides a framework for the conduct of the Internal Audit activity within the Bank. It aims to define and establish the purpose, authority, scope and responsibility of the Internal Audit function.

The IAG is committed to assist in the achievement of Bank of Makati's goals and objectives in partnership with Management by providing independent appraisal, analyses, counsel related to the assessment and management of business risks, identification and implementation of internal controls, enhancements that will improve efficiency and effectiveness of business functions, and compliance with existing laws. To provide for independence of the IAG and objectivity of its personnel, the IAG is headed by a Chief Audit Executive (CAE) who reports functionally to the ACC and administratively to the President. The CAE is authorized to lead a comprehensive risk-based audit program of all the Bank's business units. The IAG shall have authority to access all records, documents, personnel and physical properties of the Bank's operating units. The IAG determines whether the Bank's network of risk management, control, and governance processes, as designed and represented by Management, is adequate and functioning in a manner to ensure that:

- Risks are appropriately identified and managed;
- Interaction with the various governance groups occurs as needed;
- Significant financial, managerial, and operating information is accurate, reliable, and timely;
- Employees' actions are in compliance with policies, standards, procedures, and applicable laws and regulations;
- Resources are acquired economically, used efficiently, and adequately protected;
- Programs, plans, and objectives are achieved;
- Quality and continuous improvement are fostered in the Bank's control process; and
- Significant legislative or regulatory issues impacting the Bank are recognized and addressed appropriately.

The CAE is responsible in ensuring that an audit report is issued for each audit engagement conducted summarizing significant findings, recommendations and the auditee unit's responses and/or actions taken or to be taken with target dates of resolution/implementation. Audit reports are presented to the ACC (in the monthly ACC meetings) prior to release to the auditee unit and the Management. Minutes of ACC meetings are reported by the ACC Chairperson to the Board of Directors (BOD) during the monthly BOD meetings. The IAG has a monitoring system in place to ensure that the auditee unit's commitments to resolve open observations are carried out accordingly. Status of open observations are reported to the ACC quarterly. Observations which remain unresolved within the committed dates are reported to the Management.

The Compliance Group (CG) is headed by Chief Compliance Officer (CCO) who has the necessary qualifications, experience and professional background and a sound understanding of relevant laws and regulations and their potential impact on the Bank's operations. The CCO oversees the identification and management of the Bank's compliance risk and supervises the compliance function group. The CCO liaises with the Bangko Sentral on compliance-related issues and is responsible for ensuring the integrity and accuracy of all documentary submissions to the Bangko Sentral.

CG is responsible in overseeing the implementation of the risk-based Bank Compliance Program and is committed to assist the Management in ensuring reasonable basis that bank-wide activities of the Bank and its employees are in conformity with applicable laws and regulations, Code of Ethics, policies and procedures, and sound banking practices.

The CG also facilitates effective management of compliance risk by:

a. Providing advice on relevant laws, rules and standards, including updated information of developments in the area of concern
b. Apprises Bank personnel on compliance issues and acting as central point of contact within the Bank for compliance queries from Bank personnel.
c. Establishes written guidance to staff on appropriate implementation of laws, rules and standards through policy and procedures and other documents such as compliance program.
d. Identifies, documents, and assesses compliance risks associated with the Bank's business activities, including new products and business units.
e. Assesses appropriateness of Bank's compliance procedures and guidelines, promptly follows-up any identified deficiencies and where necessary, formulating proposals for amendments.
f. Monitors and tests compliance by performing representative compliance testing.
g. Maintains constructive relationship with BSP and other regulators.

ANTI-MONEY LAUNDERING COMPLIANCE

Within the Office of the Compliance Group, headed by the CCO, is the Anti-Money Laundering Department, which is created to establish and implement the Board-approved Money Laundering and Terrorist Financing Prevention Program (MTPP) that reflects policies on AML areas for compliance.

a. Onboarding Customer Due Diligence

The Bank implements an appropriate customer/ultimate beneficial owner identification, sanctions screening, risk profiling and due diligence that corresponds to the risk profile of the client during on-boarding.

b. On-going Monitoring of Customers, Accounts and Transactions

The Bank has established and implements a mechanism to determine the normal and reasonable account or business activity of customers through branch/unit level-self-assessment approach and through its customer/transaction monitoring system at the Compliance Group Level. This is to ensure that the Bank's first and second line of defense can immediately conclude that accounts and transactions are consistent with the financial or commercial activities, risk profile, and source of funds/wealth of the customers, and that unusual or suspicious patterns of account activity are proactively detected. Additionally, the Bank is continuously enhancing its alert parameters or scenarios, criteria, transaction count analysis; and appropriate threshold amounts are adopted for a particular transaction, customer or activity.

The Bank has also established and implements a mechanism to regularly update customer information and documents gathered during on-boarding and/or on-going due diligence; and the customers' risk profile, both, based on risk and materiality.

c. Covered Transaction Monitoring and Reporting

The Bank maintains and implements policies and procedures and has in place a manual and system-based CTR-generating tool to enable the bank to generate complete and accurate CTRs and to submit the corresponding report to the AMLC within the prescribed period.

d. Suspicious Transaction Monitoring and Reporting

The Bank maintains and implements policies and procedures for identifying, analyzing, investigating, and reporting suspicious transactions to the AMLC within the prescribed period, manner and form, when any of the suspicious circumstances under AML/CFT laws, rules, and regulations exist and as resolved by its Bank Anti-Money Laundering Committee, including manually-identified transactions, such as those referred by the concerned units.

e. Compliance with Freeze Orders and Targeted Financial Sanctions (TFS)

The Bank maintains and implements policies and procedures to effectively implement freeze orders and other similar directives/orders issued by the courts or the AMLC or the ATC; and TFS to comply with relevant laws, rules and regulations.

It has in place an internally designed and developed Bank Risk Assessment System (BRAS) within the AML Compliance System. It is a sanction screening tool that also stores sanctions list, PEP Lists among others for watchlist verification purpose.

f. Record Keeping and Retention

The Bank provides and implements policy on record keeping and retention to ensure that information obtained in the context of Customer Due Diligence is recorded and retained within the required retention period and form as prescribed under AML/CFT laws, rules and regulations manner; to ensure confidentiality and protection of all customer records and transactions; and to ensure the timely submission of required information to the appropriate supervising authority.

g. Continuing Education and Training Program (CETP)

The Bank implements an annual AML/CFT training program with modules and approaches designed for directors, senior management, officers, and employees, to enable them to fully understand and comply with their obligations and responsibilities under AML/CFT laws, regulations and the Bank's MTPP.

Capital Adequacy Ratio

December 31 (in Thousands Php)

	2020	2019
Tier 1 Capital	13,047,668	10,865,629
Tier 2 Capital	1,806	96
Gross Qualifying Capital	**13,049,474**	**10,865,725**
Less: Regulatory Deductions		
Significant minority investment in other financial allied undertakings	1,243,659	1,095,619
TOTAL QUALIFYING CAPITAL	**11,805,815**	**9,770,106**
Credit Risk Weighted Assets	33,487,880	32,297,687
Market Risk Weighted Assets	-	-
Operational Risk Weighted Assets	10,265,074	8,423,518
TOTAL RISK WEIGHTED ASSETS	**43,752,955**	**40,721,205**
TIER 1 CAPITAL RATIO - NET	**26.98%**	**23.99%**
TOTAL CAPITAL ADEQUACY RATIO	**26.98%**	**23.99%**

Total Tier 1 Capital

	2020	2019
Paid-up Common Stock	5,000,000	5,000,000
Retained Earnings	6,884,350	3,977,916
Undivided Profits	1,826,080	2,530,881
GROSS AMOUNT	**13,710,430**	**11,508,797**
Deductions:		
Deferred Tax Asset	662,761	643,168
Net unrealized losses on FVOCI		-
TOTAL DEDUCTIONS	**662,761**	**643,168**
TOTAL TIER 1 CAPITAL	**13,047,668**	**10,865,629**

Total Tier 2 Capital

	2020	2019
Net Unrealized Gains on FVOCI	1,806	96
General Loan Loss Provision	-	-
GROSS AMOUNT	**1,806**	**96**
Deductions:		
TOTAL DEDUCTIONS	**-**	**-**
TOTAL TIER 2 CAPITAL	**1,806**	**96**

the management

Luis M. Chua
President

Gina L. Salud
Business Sector Head

Shirley O. Tan
Corporate Treasurer

Ramon B. Manzana
Managing Director

Board of Directors

Thomas C. Ongtenco

Age	• 64
Nationality	• Filipino
Education	• Bachelor of Science in Electronics and Communications Engineering, University of the East
Current Position in the Bank	• Chairman
Date of First Appointment	• April 8, 2005
Directorship in other Companies	•Director, BMI Finance Corporation •Director, Veradex Development Corporation •Director, HAODENG Holdings, Inc. •Director, Transnational Investors Corp. •Director, Broadvue Traders, Inc. •Director, Moneyline Lending Investors Inc.
Other Current Position	•President, Motorjoy Depot Inc. •President, BMI Finance Corporation •President, Motrotrade Topline, Inc. •President, Monacor, Inc. •President, Transnational Properties, Inc. •Corporate Secretary, OSM Citycars, Inc.
Previous Companies/ Position	•Director, Northpoint Development Bank •Director, Intertrade Credit Corp. •Director, Oiltech Resources, Inc. •Director/Treasurer, Intertrust Finance Corp.

Luis M. Chua

Age	• 50
Nationality	• Filipino
Education	•Bachelor of Science in Commerce Major in Accountancy, University of Santo Tomas •MS Computational Finance, De La Salle University •Master of Business Administration (Underthesis), University of Santo Tomas
Current Position in the Bank	•President and CEO
Date of First Appointment	•June 23, 2017
Directorship in other Companies	•None
Other Current Position	•Faculty Member, UST Alfredo M. Velayo – College of Accountancy, Faculty of Arts and Letters
Previous Companies/ Position	•Faculty Member, St. Paul College of Manila •Audit In Charge, SGV & CO., CPAs •Manager, Diners Card Corporation •Manager, Security Bank Corporation •Reviewer, Center for Training and Development, Inc. •Manager II, United Coconut Planters Bank •Assistant Vice President, Citibank, N.A. •Bank Officer I, Bangko Sentral ng Pilipinas

Ramon B. Manzana

Age	•64
Nationality	•Filipino
Education	•Bachelor of Science in Electronics and Communications Engineering, University of the East •Certificate in Business Economics, University of Asia and Pacific
Current Position in the Bank	•Managing Director
Date of First Appointment	•October 22, 2001
Directorship in other Companies	•Director, Transnational Investors Corporation •Chairman of the Board, Aisen Prime Holdings Inc. •Chairman of the Board, MOS Autosolutions Inc. •Chairman of the Board, Sentai Holdings Inc. •Chairman of the Board, OSM City Cars •Chairman of the Board, Northpoint Development Bank •Chairman of the Board, Motorjoy Depot Inc. •Chairman of the Board, Uplift Cares Movement Foundation Inc. •Chairman of the Board, Tanglaw ng Buhay Foundation •Vice Chairman, CCF Life Academy Inc.
Other Current Position	•President, Honda Prestige Traders Inc. •President, Veradex Development Corporation •Vice President, Christ Commission Foundation Inc. •Corporate Treasurer, The Master's Academy •President, Uplift Movement Foundation Inc.
Previous Companies/ Position	•Trustee, Christ Commission Foundation, Inc. •Trustee, CCF Ministries Inc. •President, Federation of Metro Manila Rural Bank •Treasurer, Rural Bank Association of the Philippines •Executive Assistant to the President, Motortrade Nationwide Corporation •Product Manager/Sales Coordinator, Minitronics Incorporated

Corazon S. Delos Santos

Age	•76
Nationality	•Filipino
Education	•Bachelor of Science in Business Administration, University of the East
Current Position in the Bank	•Independent Director
Date of First Appointment	•April 17, 2015
Directorship in other Companies	•None
Other Current Position	•Chief Operating Officer, Sanvil Inc. •Consultant, Pampanga Development Bank
Previous Companies/ Position	•Comptroller/ Director, Eppie's Garments •Director, Money Market Association of the Philippines •Director, Second Bulacan Development Bank •Director/President, Land Bank Insurance Brokerage Ind., •Director, Millennium Bank •Director, First Provincial Bank •Senior Vice President, Land Bank of the Philippines •Undersecretary, Department of Finance

Atty. Alfredo P. Pineda

Age	•67
Nationality	•Filipino
Education	•AB Communication Arts, Ateneo De Manila University •Bachelor of Laws, Ateneo De Manila University
Current Position in the Bank	•Independent Director
Date of First Appointment	•March 2, 2007
Directorship in other Companies	•None
Other Current Position	•None
Previous Companies/ Position	•Branch Manager/ Legal Officer, Rizal Commercial Banking Corporation •Head, Loans and Remedial Management Department, Equitable Banking Corporation •Head, Legal and Documentation, Asia United Bank

Ma. Rodora E. Bañares

Age	•58
Nationality	•Filipino
Education	•Bachelor of Science in Business Administration, University of the Philippines – Diliman •Master in Business Administration, De La Salle University •Master of Arts in Early Education (units), De La Salle University
Current Position in the Bank	•Director
Date of First Appointment	•June 19, 2010
Directorship in other Companies	•Director, I0T Valley, Inc. •Director, I0T ACH Services, Inc.
Other Current Position	•None
Previous Companies/ Position	•President/ Director- Bank of Makati (A Savings Bank), Inc. (BMI) •Executive Vice President (BMI) •Senior Vice President – Retail Banking Sector, Asiatrust Development Bank •Senior Vice President, Retail Banking Sector, Security Bank •Executive Vice President/ Chief Operating Officer, Federal Savings Bank •Senior Vice President, Asiatrust Development Bank

Imelda S. Singzon

Age	• 70
Nationality	• Filipino
Education	• Bachelor of Science in Statistics, University of the Philippines – Diliman • Master of Arts in Demography (Candidate), University of the Philippines – Diliman • Masteral Certificate in Developmental Economics, University of the Philippines – Diliman jointly with University of Wisconsin
Current Position in the Bank	• Independent Director
Date of First Appointment	• June 23, 2017
Directorship in other Companies	• None
Other Current Position	• None
Previous Companies/ Position	• Independent Director, United Coconut Planters Bank (UCPB) • Chairman, Board Audit Committee and Treasury Oversight Committee, UCPB • Member, Risk Oversight Committee and AMLOC,UCPB • Independent Director, UCPB Savings Bank • Chairman, Board Audit Committee, UCPB Savings Bank • Member, Corporate Governance Committee and Risk Oversight Committee, UCPB Savings Bank • Independent Director, UCPB Leasing and Finance Corporation • Member, Board Audit Committee, UCPB Leasing and Finance Corporation • Independent Director, Philippine Bank of Communication • Member, EXCOM, Board Audit Committee and Risk Oversight Committee, Philippine Bank of Communication • Independent Director, Export Industry Bank • Member, Executive Council, Research and Guidance , Finance and Planning and Asia Pacific Regional Committee of International Association of Deposit Insurers (IADI) • Vice President, First Philippine Fund New York, New York, USA • Director, Provident Fund Insurance Brokerage Co., Inc., • Director, PNB Insurance Brokerage • Executive Vice President, Philippine Deposit Insurance Corporation • First Senior Vice President, Philippine National Bank (PNB) • President, PNB – Retirement Fund, Inc. • Deputy Managing Director, PNB Investment Limited • Director and Treasurer, PNB Republic Bank Ventures Capital Corporation • Senior Vice President, PNB Republic Bank Ventures Capital Corporation • Chief Economic Development Specialist, National Economic & Development Authority

Atty. Generosa R. Jacinto
Corporate Secretary

Florido P. Casuela
Senior Adviser

Executive Officers and Senior Management

Shirley O. Tan

Age	•57
Nationality	•Filipino
Education	•Bachelor of Science in Commerce Major in Accounting, University of Santo Tomas
Current Position in the Bank	•Senior Vice President, Corporate Treasurer
Relevant Experiences	•Treasury Group Head, Bank of Makati (A Savings Bank), Inc. (2003–2014) •Officer, Technoclan Management Corp. (Aug-Dec 2002) • Manager, UOB Philippines (1999-2002) •Accountant, Wesmont/UOB Philippines (1997-1999) •Trainee, JOTP, Westmont Bank (Mar-Dec 1997) •Accountant, Pacific Mills Inc. (1995-1997) •A/P Payroll, Standard Electric MFG (1991-1992) •A/R Inventory Advtsg, Standard Appliances Corporation (1988-1990) •S/A Bookkeeper, PHILTRUST Bank (1985-1988)

Gina L. Salud

Age	•65
Nationality	•Filipino
Education	•Bachelor of Science in Business Administration, University of the Philippines – Diliman
Current Position in the Bank	•Senior Vice President, Head – Business Sector
Relevant Experiences	•FVP / Acting Business Sector Head, Bank of Makati (A Savings Bank), Inc. (BMI) (2013-2014) •Head – Branch Banking Group, BMI (2010-2014) •North Region Head, BMI (2006-2010) •Manager 2, BDO Universal Bank (2006) •AVP/Manager, United Overseas Bank Phil. (1999-2006) •AVP/Manager, Westmont Bank (1997-1999) •AVP/Manager, Phil. Trust Company (1979-1996) • New Accounts Clerk, China Banking Corporation (1977-1979) •Assistant Treasurer, La Suerte Gold Mining Corporation (1976-1977)

Rowell A. Umali

Age	•36
Nationality	•Filipino
Education	•Bachelor of Science in Accountancy, Polytechnic University of the Philippines
Current Position in the Bank	•Vice President, Head-Financial Planning and Control Group
Relevant Experiences	•Acting Head – Controllership Group, Bank of Makati (A Savings Bank), Inc. (BMI) (2012-2014) •Head – Financial and Management Accounting Division, BMI (2012) •Audit Manager in UBIX Corporation (2010-2012) •Audit Senior, Punongbayan and Araullo (2005-2010)

Rosa Maria G. Tumangday

Age	•57
Nationality	•Filipino
Education	•Bachelor of Science in Business Administration Major in Accounting, University of the East
Current Position in the Bank	•Vice President, Chief Audit Executive
Relevant Experiences	•Head-Audit Group, Bank of Makati (A Savings Bank), Inc. (2016-2019) •Asset Management Group Operations Head, BDO Unibank Inc. (2014) •Branch Audit Department Head, Security Bank Corporation (SBC) (2004-2013) •Branch Audit Team Leader, SBC (2001-2004) •Branch Audit Examiner, SBC (1990-2001) •Accountant, VM Management Group of Companies (1987-1990) •Cascade Commercial Corporation (1985-1987)

Irish Janne B. Escio

Age	•38
Nationality	•Filipino
Education	•Bachelor of Science in Accountancy, Ateneo de Naga University
Current Position in the Bank	•First Assistant Vice President, Chief Compliance Officer
Relevant Experiences	•Acting Chief Compliance Officer, Bank of Makati (A Savings Bank), Inc.(BMI) (2018) •Regulatory Department Head, BMI (2018) •Chief Compliance Officer, Citystate Savings Bank, Inc. (2013-2018) •Compliance, MIS and Budget Analyst, BDO Leasing and Finance Corporation (2006- 2011)

Arlene O. Lazarte

Age	•55
Nationality	•Filipino
Education	•Bachelor of Science in Commerce Major in Accounting
Current Position in the Bank	•Vice President, Chief Risk Officer
Relevant Experiences	•Independent Credit Review Officer, Rizal Commercial Banking Corp. (RCBC) (2018-2019) •Head Operational Risk Management, RCBC (2011-2017) •Head Market Risk Management, United Coconut Planters Bank (UCPB) (2008-2011) •Head Operational Risk Management, UCPB (2007-2008) •Operational Risk Management Officer, Philippine National Bank (PNB) (2003-2007) •Treasurer & Compliance Officer, PNB General Insurers Co., Inc. (2000-2003) • Division Chief, PNB (1994-2000) • Sr. Planning Analyst, PNB (1990-1994) •Planning Analyst, PNB (1988-1990) • EDP FX Teller, PNB (1987-1988)

Age	•34
Nationality	•Filipino
Education	•Bachelor of Science in Accountancy, Dr. Filemon C. Aguilar Memorial College of Las Pinas
Current Position in the Bank	•Data Protection Officer
Relevant Experiences	• Operational Risk Management Department Head -Bank of Makati (A Savings Bank Inc) (BMI) (Oct 2018 – January 2019) • Operational Risk Associate - BMI • (July 2013 – Sep 2018) • Associate Auditor - Ramon F. Garcia CPA and Co (Oct 2011 – Apr 2012)

Age	•39
Nationality	•Filipino
Education	•AB Political Science, University of Santo Tomas •Bachelor of Laws, University of Santo Tomas •Master of Business Administration, San Beda College
Current Position in the Bank	•Vice President, Chief Legal Officer
Relevant Experiences	•Legal Officer, Universal Robina Corporation (2013) •Philippine Deposit Insurance Corporation (2012-2013) •Associate Lawyer, De Guzman Dionido Caga Jucaban & Associates Law Office (2007-2012) •Associate Lawyer, Lazaro Law Firm (2006-2007) •Legal Researcher/Legal Intern, Caraan & Associates Law Office (2006)

Age	•61
Nationality	•Filipino
Education	•Business Administration and Management, Adamson University
Current Position in the Bank	•Senior Vice President, Head – Branch Banking Group
Relevant Experiences	•Area Head, Security Bank Corporation (SBC) (2003-2016) •Salesforce Head, SBC (2000-2003) •Branch Manager, Philippine Commercial International Bank (PCIB) (1993-2000) •Project Streamline/ Branch Support, PCIB (1990-1993) •Sales Head, PCIB (1986-1988) •Branch Operation Head, PCIB (1985-1986 & 1988-1990) •LND Foreign Bookkeeper/Branch Accountant, PCIB (1984-1985) •Import Export Processor, PCIB (1983-1984) •General Accounting Clerk, PCIB (1982-1983) •Settling Clerk/ Distributing Clerk, PCIB (1981-1982)

Alda R. Banez

Age	•60
Nationality	•Filipino
Education	•Bachelor of Science in Business Administration Major in Accounting, University of the East •Bachelor of Science in Business Administration Major in Banking and Finance, University of the East •Master of Business Administration, Land Bank– Top Executive Program
Current Position in the Bank	•First Vice President, Head – Treasury Group
Relevant Experiences	•Director and stockholder of Dela Torre and Co. Inc. (2010-Present) •Vice President, Head-Treasury Group, Bank of Makati (A Savings Bank), Inc. (2014-2015) •Vice President, Philippine Postal Savings Bank (2006-2012) •Assistant Vice President, Land Bank of the Philippines (LBP) (1999-2003) •Account Manager, LBP (1994-1999) •Bank Executive Officer, LBP (1992-1994) •Chief of Division III, LBP (1990-1992) •Officer Manager, Laguna Rubber Co. Inc (1987-1990) •Senior Staff – Visitation and Control Group, Asian Bank(1983-1987)

Jo D. Borromeo

Age	•55
Nationality	•Filipino
Education	•Bachelor of Science in Civil Engineering
Current Position in the Bank	•Vice President, Head- ROPA Management and Disposal Group
Relevant Experiences	• Head - Credit Investigation and Collection Group, Bank of Makati (A Savings Bank), Inc. (BMI) (2014-2016) • Head – Credit Collection and Remedial Group (CCRG), BMI (2010-2014) • National Collection Manager, Motortrade Nationwide Corporation (MNC) (2008-2009) • Regional Manager, MNC (2004-2007) • Area Manager, MNC (1995-2004)

Angelito C. Chua

Age	•46
Nationality	•Filipino
Education	•Clinical Psychology, Polytechnic University of the Philippines
Current Position in the Bank	•Vice President, Head – Corporate Services Group
Relevant Experiences	•Concurrent Head – Human Resource Department, Bank of Makati (A Savings Bank), Inc. (since 2010) •Acting Head- Corporate Services Group (2013) •HR Specialist – Compensation and Benefits, Zamil Industrial Investment Co. (2008-2010) •HR and Admin. Manager, Hytech Integrated Prod. (2005-2008) •Human Resource Department Head, Furnimaxx Int'l Co. Ltd. (2003-2005) •Career Management Associate, Philippine Savings Bank (1996-2002)

Sean Ivan Vernier W. Valentin

Age	•54
Nationality	•Filipino
Education	•Business Management, San Beda College
Current Position in the Bank	•Vice President, Head– Loans and Treasury Operations Group
Relevant Experiences	•Group Head -Head Office Operations, Bank of Makati (A Savings Bank), Inc. (BMI) (2015-2018) • Head – Credit Support Group CrSG, BMI (2013-2015) •Acting Head – CSRG, BMI (2012-2013) •Head – Loans Operations Department II, BMI (2010-2012) •Head – Loans Operation Department III, BMI (2010) •Head – Branch Lending Group, BMI (2007-2010) •Head – Business Development Department, BMI (2005-2007) •Consultant, Mayon System Philippines (2002-2005) •Manager, Metropolitan Bank and Trust Company (1988-2002)

Eleanor P. Javier

Age	•45
Nationality	•Filipino
Education	•Bachelor of Science in Mass Communication, Pamantasan ng Lungsod ng Maynila
Current Position in the Bank	•Senior Assistant Vice President, Head – Loans Operations Group (Consumer)
Relevant Experiences	•Head-Lending Center Department, Bank of Makati (A Savings Bank), Inc. (BMI) (2011-2015) •Systems Officer, BMI (2008-2011); •Operations Analyst Rizal Commercial Banking Corporation (RCBC) (2000-2008) •Remittance Processor, RCBC (1999-2000) •New Accounts Processor, RCBC (1996-1999)

Alen Roie T. Tatco

Age	•38
Nationality	•Filipino
Education	•Bachelor of Science in Computer Science, San Sebastian College – Recoletos Manila
Current Position in the Bank	•Assistant Vice President, Head – Information Technology Group
Relevant Experiences	•Acting Head – Information Technology Group, Bank of Makati (A Savings Bank), Inc. (BMI) (2018) •Head - Business Application System Support Department, BMI (2012-2013) •Application Systems Engineer, Business Application System Support Department (BASSD), BMI (2006-2012) •Production Support Engineer BASSD, BMI (2005-2006) •Programmer, BASSD, BMI (2005) •Junior Programmer, Virjen Shipping Corporation (2003-2005) •MIS Assistant, Ever Gotesco and Holdings Inc. (2002-2003) •Technical Support Assistant, Ever Group Stores (2002)

CSR

Corporate Social Responsibility

BMI Feeding program in partnership with Tanglaw Touch Care Foundation (TTCF). Anchored on the value of Concern, we have partnered with TTCF for the Feeding Program of 30 targetted children in Antipolo city. The program started early part of January 2020 and ran until 2nd week of March, prior to COVID-19 outbreak. We had volunteers from various groups in the Bank who shared their time with us during our scheduled visits. The Bank took charge of the program activities as arranged while our partner handled the preparation of the food for all the participants. But each BMI volunteer had the chance to experience serving the most unfortunate children in the municipality even for a short span of time only.


MOVE
PEACE
Care Foundation Inc.
OF MAKATI
Gawing Malusog'
LOVE BEING
Mahal ka ni Hesus!

KNOWLEDGE SKILLS & ATTITUDE

The year 2020 was a different, difficult and demanding year for a lot of people. It was very true also for the Officers and Staff of the Learning & Development Department (L&DD). The year began with several calamities happening in some parts of the country until a virus hit and the whole country became a calamity zone.

L&DD scheduled an Onboarding Session on the week of March 26, 2020. That never happened. The government locked down establishments or at the very most, allowed only 50% of its personnel reporting for duty. L&DD was not exempted from the confusion. All of a sudden, we didn't know how to function. We had some semblance of remote learning by using the Moodle application but that too was inaccessible since it can only be used while at our offices.

During the 1st months of the Pandemic, L&DD concentrated on communication. We set up a for-members-only Facebook Group exclusive to BMI employees only. About 1,300 employees signed up and were immediately able to be informed of messages of encouragement from Senior Management, official information of how things are going on in the Bank, and how the efforts of our own front liner heroes have been in supporting both internal and external customers of BMI.

And then, we started hearing about people meeting virtually via web applications. Suddenly the idea of videoconferencing became part of our everyday life. First, we heard about Zoom. But with its 40-minute limitation to use it for free, we soon migrated to Webex. When Webex started to charge also, we decided it was time to acquire a licensed application. We tried MS Teams for awhile but realized it was quite complicated and was not meeting our needs for a videoconferencing tool.

So we went back to Zoom—a very user friendly videoconferencing tool which by then already had several convenient and affordable plan options available. After that, the rest was history.

L&DD became a major Zoom user. We researched all the possible features that we found useful in our work and have been applying them since then to make the most of our live webinars. Of course, we still did e-learning and pre-recorded webinars, but neither can be as engaging as the real thing. Some lamented that they miss our face-to-face trainings. But sadly, that cannot really be helped at the moment. Though our country's quarantine status is only determined just when the month is winding up, our method of learning remains to be consistent to always be virtual.

However, those changes in training modes did not tie our hands. In fact, never did L&DD become more accessible to BMIers everywhere than in 2020. Unlike before when we used to have considerations ranging from transportation to accommodation, beginning mid-2020, those all became a thing of the past. Before, we used to bring quite a heavy burden to the Bank with each seminar's budgets on logistics, but by the same time in 2020, no one expected them anymore to be part of the learning package. With our e-learning courses, live and pre-recorded webinars, we had participants from Luzon, Vizayas and Mindanao all in the same training course.

As L&DD re-activated our learning sessions, we also were busy promoting our culture building program.

- The On Time Challenge was still very much in the running. This was to encourage all BMIers to always be on time in everything, whether it be in coming to work, or in showing up to a meeting.
- We had the Acts of Kindness Campaign which was to encourage everyone to extend an effort of kindness in every opportunity that arises. It also sought to have the one who received kindness to appreciate the ones who extended such kindness.
- We had the program called BMI Loves "I" (I for Integrity) which was actually a social experiment to see how faithful BMIers responded to instructions.
- We had the Go Get Up Day wherein all BMIers were encouraged to wear a non-uniform corporate attire once a month.

  Having donned his/her corporate attire, he/she was supposed to post his/her picture in FB with a panel of judges eventually deciding on who was the best of them all.

As we launched these culture building programs, we also held our comeback of The Fellowship Continues (TFC). Momentarily discontinued, we began holding our TFC anew in September and every end of the quarter thereafter. Our next one therefore was done in December and like in our September TFC, we held it in Zoom.

And speaking of December, L&DD capped the year with several Christmas Festivities. In place of our usual Appreciation Cocktails wherein we give honor to our Subject Matter Experts, we held the BMI Rise and Shine Zoom event wherein, aside from recognizing our SMEs, we also included the awarding of BBG's performers, the appreciation of the Bank of its Service Awardees, and the winners of BMI's Got Talent (our version of the popular television show) and the Christmas Caroling for A Cause Project.

Like what we said in the beginning, 2020 was different, difficult and demanding. But against all odds, L&DD pulled through. Whether in communication, in special events or in learning and development, we continue considering them all . . . as the BMIers' lifestyle.

CONSUMER PROTECTION PRACTICES

The fundamental philosophy behind the Bank's Financial Consumer Protection Framework is based on the principle that the customer is the driver of business; no business can survive without the patronage of consumers. As such, BMI has kept in place an approved Consumer Protection Risk Management System that includes consumer protection policies and procedures, among others.

The Board and Senior Management ensure that consumer protection practices are embedded in the Bank's business operations. They also ensure that policies and procedures are being reviewed periodically and kept-up-to-date serving as reference for employees in their day-to-day activities of the Bank.

Independent of the compliance function, the Internal Audit Group reviews the consumer protection practices, adherence to internal policies and procedures, and compliance with existing laws, rules and regulations.

The Bank acknowledges the indispensable role of financial consumers in bringing about a strong and stable financial system, their right to be protected in all stages of their transactions, and be given an avenue to air their grievances regarding the Bank's products and services. The Bank has set Consumer Assistance Management System (CAMS) that keeps track and monitors client concerns received by theBank through its communication channels.

The Consumer Assistance Section (CAS) under the Business Development and Marketing Services Department handles consumer concerns received either through the Bank's customer hotline, e-mail or its social media page. It also monitors, supervise and consolidate concerns received by the designated consumer assistance officer in the Bank's branches. CAS also ensures that concerns received by the Bank are properly coordinated to the concerned group/department for appropriate action and/or investigation. All concerns received are acknowledged and resolved within the reasonable time specified in the Bank's policies and procedures. Status of concerns and resolutions are immediately communicated to the client posing the concern.

All monitored concerns, regardless of nature or type are centralized to the Consumer Assistance Section. CAS reports and escalates issues and concerns to Senior Management or the Risk Oversight Committee every month about concerns that have been received, its resolutions and/or recommendations.

SHIRLEY O. TAN
Corporate Treasurer

ALDA R. BANEZ
Treasury Group

TREASURY

SUSAN U. TAN
Treasury Marketing Department

DIANA C. NG
Fund Management Department

BRANCH BANKING

ANGEL G. MUYOT JR.
Branch Banking Group

ALVIN P. DEL PONSO
Metro Manila Branches

SOCORRO R. YABUT
South Luzon Branches

CHARLIE V. MENDOZA
Microfinance Branches

ANGELO MICHAEL C. PLATA
North Luzon Branches

CORPORATE AND RETAIL LENDING

JOHN MARTIN T. VILLANUEVA
Real Estate and Consumer Lending Division

ANA MARIA L. PARAS
Commercial Lending Division

EDWIN I. MAGHIRANG
Commercial Lending Division 3

RANDY B. CARTABIO
Enterprise Department

EILLEN G. BARANDA
Commercial Lending Division 1

JESSICA ANGELA A. NAQUIMEN
Commercial Lending Division 2

ANALIZA K. RAMOS
Real Estate Department

CARLOS LUMBO
Consumer Lending Department

DARYL E. SANDOVAL
Microfinance Department

CONTROLLERSHIP

RAMON CARLO T. QUINTERO
Accounting Division

RODOLFO B. MATI III
Loans and Treasury Accounting Department

OLIVER B. GUINTO
Branch Accounting and Reconcilation Department

ROWELL A. UMALI
Financial Planning and Control Group

ROSEMARIE O. DARBIN
Financial Accounting Department

REYNALD E. TOMAS
Corporate Planning and Regulatory Compliance Department

LOANS OPERATION

ELEANOR P. JAVIER
Loans Operations Group - Consumer

MARISA A. YAP
Reconcillation and Quality Assurance Department

MARIA DOLOR D. REMOLACIO
Lending Center Department

JOMILYN D. OBILLO
Credit Authorization Department

ROSALIE L. SANDOVAL
Loans Operation Department 1

CREDIT

REINA FILIPINA V. DEACOSTA
Consumer Management Division

MARY POPS A. NUESTRO
Credit Investigation Department

RHODERICK N. DELMORO
Credit Appraisal Department

HEAD OFFICE SUPPORT

FERDINAND MARK F. CERDEÑA
Loans Operation Department 2

KATHRYN JOY G. BAUTISTA
Institutional Borrowing Department

LUZ G. VALLEJERA
CRLG Remedial and Disposal Department

SEAN IVAN VERNIER W. VALENTIN
Loans and Treasury Operations Group

BRANCH AND CENTRAL OPERATIONS

ARSENIO V. PIAMONTE
Branch Banking Operations Department

MARIA RAMONA C. FAJARDO
Central Support Operations Department

INFORMATION TECHNOLOGY

SARAH M. CAYABYAB
Business Application System Support Department

ALEN ROIE T.TATCO
Information Technology Group

ALEX S. OPIDA
Desktop, Network and Access Department

ARTEMIO B. CALDERON
System Administration Department

EMMANUEL A. NAVARRO
Data Center Operations Department

REMEDIAL COLLECTION

ABNER Y. FERRER
Legal and External Agency Department

RENE A. CENTENO
Remedial Collection Division

SHERWIN L. OPERIO
Remedial Collection Department

REPO MANAGEMENT AND DISPOSAL

MA. JHOAN G. CRAME
Customer Center Management Department

JO D. BORROMEO
Repo Management and Disposal Group

DARIUS V. ALBARINA
Repo Management and Disposal Department

CORPORATE AFFAIRS

DIOSDADO M. SUBA
Corporate Affairs Department

HELEN S. PASCUA
Corporate Affairs Division

JENNIFER L. SUICO
Systems Development Department

JOSE ENRICO T. SANDOVAL
Business Development and Marketing Services Department

CORPORATE SERVICES

MYLA S. DELA PAZ
General Services Admin Department

EXXON B. SALAS
Safety and Security Department

ANGELITO C. CHUA
Corporate Services Group and Human Resources Department

MICHAEL L. ADAN
Facilities and Property Management Department

DENNIS ACHILLES D.G. AREÑO
Learning and Development Department

LEGAL

ATTY. CARLO CALIXTO D. DUGAYO
Legal Group

ATTY. JAMMELLE MARIE A. GUCO
Legal Advisory and Documentation Department

INFORMATION SECURITY

MA. MELYN B. RAMOS
Information Security Department

RISK MANAGEMENT

ARLENE O. LAZARTE
Risk Management Group

COMPLIANCE

IRISH JANNE B. ESCIO
Compliance Group / Compliance Department

ALMA D. PACULANAN
AML Department

DATA GOVERNANCE AND ANALYTIC

DATA PROTECTION

RAMSE C. OSANO JR.
Data Governance and Analytics Department

JAN ALBERT P. ALCANTARA
Data Protection Officer

AUDIT

ROSA MARIA G. TUMANGDAY
Internal Audit Group

GABRIEL Z. PUNSALAN
IT Audit Department

HECTOR E. VILLA JR.
Head Office Audit Department

JAMES KENNETH V. LLAUNDERES
Field Audit Department

branch managers

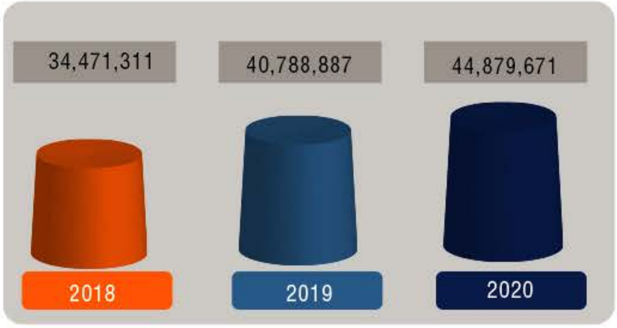
ANTIPOLO	Vacant
AYALA (MAIN)	Giovanni R. Trocio
BACOLOD	Norberto R. Valerio
BALIUAG	Luisito F Santiago
BATAAN	Celeste L. Del Rosario
BATANGAS	Danilo O. Gayeta Jr.
BIÑAN	Maria Lanlet C. Arzola
BUTUAN	Joel C. Cabusao
CABANATUAN	Michael D. Serafica
CAGAYAN DE ORO	Elmer B. Ang
CALAPAN	Darwin C. Zamora
CALOOCAN	Rosal G. Jurado
CALOOCAN GRACE PARK	Christian O. Sevilla
CEBU	Vacant
DAET	Christian P. Enriquez
DAGUPAN	Gina C. Zareno
DASMARIÑAS	Emily M. Dyer
DAVAO	Azineth C. Panga
GENERAL SANTOS	Vacant
ILOILO	Chloe C. David
LA UNION	Vacant
LAOAG	Roletti R. Lucas
LAS PIÑAS	Jogie F. Fabellano
LEGAZPI	Vacant
LIPA	Celeste B. Carig
LUCENA	Sherry Lyn B. Maranan
MALOLOS	Monica Bianca M. Adolfo
MARCOS HIGHWAY	Baby Boy O. Presado
MARIKINA	Jefferson P. Dumandan II
MEYCAUAYAN	Hazell P. Santiago
MUNTINLUPA	Dominador James A. Caluen V
NAGA	Lane Sean M. Ballesteros
PAGADIAN	Reynaldo A. Dehunlay
PAMPANGA	Robin M. Dungo
PUERTO PRINCESA	Gil Bryan M. Chiang
RODRIGUEZ	Ma. Celeste L. Betonio
SAN PABLO	Aloha A. Mangunay
SANTIAGO	Randy U. Valiente
TACLOBAN	Vacant
TAGUM	Donnie T. Yu
TARLAC	Alfred Moises M. Santos
TUGUEGARAO	Maria Victoria L. Español
URDANETA	Sheryl M. Verdeflor
VALENCIA	Vacant
VALENZUELA	Dianne Louie F. Madamba
VIGAN	Gil P. Lazo
ZAMBOANGA	Luis M. Navarro
ZAPOTE	Jeddah Cindy A. Jasmin

microfinance branch

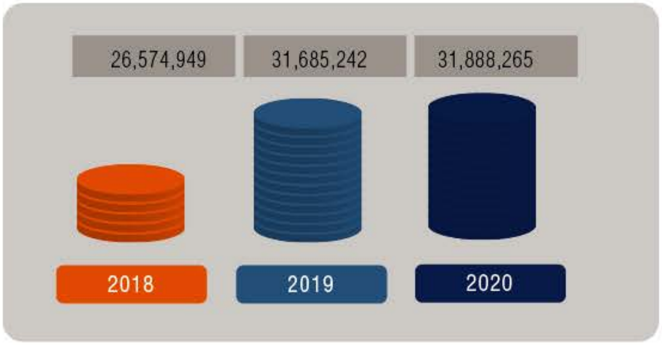
BACLARAN	Katrina M. Lacaba
BLUMENTRITT	Corazon E. Pinero
BUENDIA	Vacant
CAMARIN	Henery Ann I. Estorninos
COMMONWEALTH	Mary Ann H. Dimaapi
CUBAO – P. TUAZON	Vacant
GREENHILLS	Kirby V. Canullas
GUADALUPE	Ethel Marie D. Impelido
KALENTONG	Vacant
MAKATI-EVANGELISTA	Vacant
PASAY- LIBERTAD	Reineir Mora
PASIG-C.RAYMUNDO	Jonathan U. Manglallan
RETIRO	Corazon E. Pinero
ROOSEVELT	Vacant

financial highlights

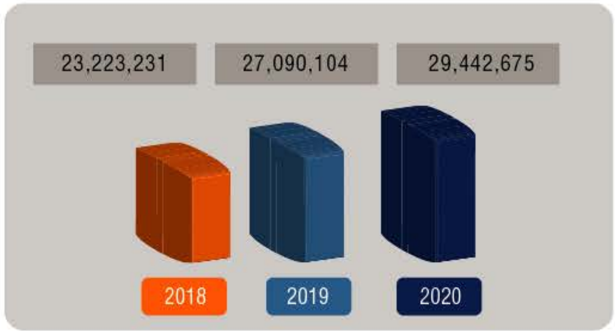
RESOURCES (in thousands)



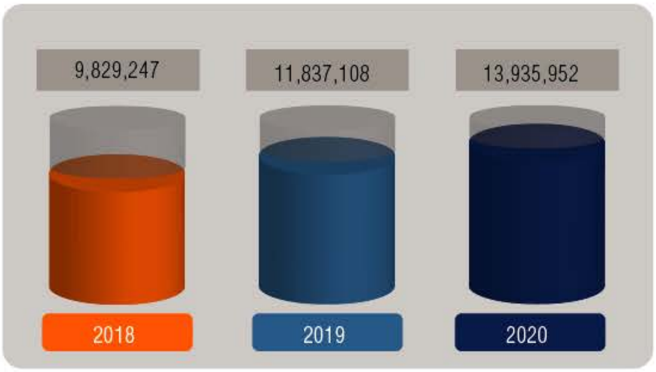
LOANS RECEIVABLES-NET (in thousands)



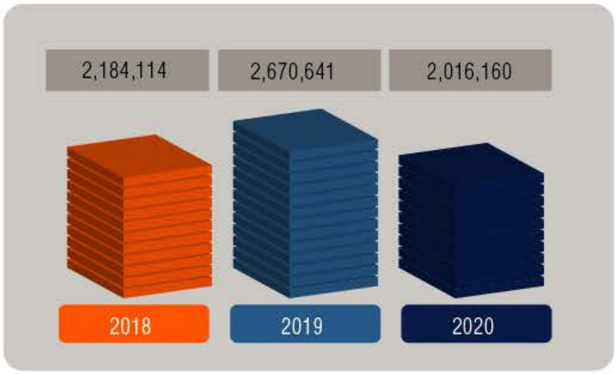
DEPOSIT LIABILITIES (in thousands)



EQUITY (in thousands)



NET INCOME (in thousands)



in thousands	2020	2019	2018
Resources	44,879,671	40,788,887	34,471,311
Loans and Receivables- net	31,888,265	31,685,242	26,574,949
Deposit Liabilities	29,442,675	27,090,104	23,223,231
Equity	13,935,952	11,837,108	9,829,247
Net Income	2,016,160	2,670,641	2,184,114
Total Net Income	2,016,160	2,670,641	2,184,114
Total Revenues	8,810,289	9,368,613	8,002,114
Total Expenses	6,794,129	6,697,971	5,818,000
Return on Resources	4.31%	6.80%	6.64%
Return on Equity	14.49%	23.95%	25.51%
Regular Branches	48	48	48
Microfinance Branches	14	14	14
Branch Lite Units	40	40	0

P&A Grant Thornton

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Report of Independent Auditors

The Board of Directors
Bank of Makati (A Savings Bank), Inc.
Bank of Makati Building
Ayala Avenue near corner Metropolitan Avenue
Makati City

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Bank of Makati (A Savings Bank), Inc. (the Bank), which comprise the statements of financial position as at December 31, 2020 and 2019, and the statements of profit or loss, statements of comprehensive income, statements of changes in equity and statements of cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

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

Basis for Opinion

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

Emphasis of a Matter

We draw attention to Note 1 to the accompanying financial statements, which describes the impact of the business disruption as a result of the COVID-19 pandemic to the Bank's financial condition and performance. Our opinion is not modified in respect to this matter.

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

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with PSA will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, 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 PSA, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the Bank's associate to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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 Other Legal and Regulatory Requirements

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information for the years ended December 31, 2020 and 2019 required by the Bangko Sentral ng Pilipinas, and for the year ended December 31, 2020 by the Bureau of Internal Revenue, as disclosed in Notes 26 and 27 to the financial statements, respectively, are presented for purposes of additional analysis and are not a required part of the basic financial statements prepared in accordance with PFRS. Such supplementary information is the responsibility of management. The supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

PUNONGBAYAN & ARAULLO

By: Maria Isabel E. Comedia
Partner

CPA Reg. No. 0092966
TIN 189-477-563
PTR No. 8533225, January 4, 2021, Makati City
SEC Group A Accreditation
Partner - No. 0629-AR-4 (until Oct. 7, 2022)
Firm - No. 0002 (until Dec. 31, 2024)
BIR AN 08-002511-021-2019 (until Sept. 4, 2022)
Firm's BOA/PRC Cert. of Reg. No. 0002 (until Jul. 24, 2021)

April 27, 2021

BANK OF MAKATI (A SAVINGS BANK), INC.
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2020 AND 2019
(Amounts in Philippine Pesos)

	Notes	2020	2019
RESOURCES			
CASH	7	**P 79,102,342**	P 71,176,434
DUE FROM BANGKO SENTRAL NG PILIPINAS	7	**6,539,156,821**	2,971,517,467
DUE FROM OTHER BANKS	7	**1,549,294,119**	341,976,552
INVESTMENT SECURITIES - Net	8	**2,104,167,814**	2,582,183,171
LOANS AND RECEIVABLES - Net	9	**31,888,264,676**	31,685,242,001
BANK PREMISES, FURNITURE, FIXTURES AND EQUIPMENT - Net	10	**209,542,322**	251,845,585
ASSETS HELD FOR SALE - Net	12, 14	**1,328,549,906**	518,839,911
RIGHT-OF-USE ASSETS - Net	11	**180,565,705**	238,104,594
INVESTMENT PROPERTIES - Net	13	**214,283,383**	216,739,156
INVESTMENT IN AN ASSOCIATE	14	**-**	1,115,009,092
DEFERRED TAX ASSETS - Net	22	**583,185,307**	573,321,153
OTHER RESOURCES - Net	15	**203,558,123**	222,931,851
TOTAL RESOURCES		**P 44,879,670,518**	P 40,788,886,967
LIABILITIES AND EQUITY			
DEPOSIT LIABILITIES	16	**P 29,442,675,379**	P 27,090,103,851
ACCOUNTS PAYABLE AND OTHER LIABILITIES	17	**1,501,042,732**	1,861,675,238
Total Liabilities		**30,943,718,111**	28,951,779,089
EQUITY	18		
Capital stock		**5,000,000,000**	5,000,000,000
Retained earnings		**8,900,510,574**	6,884,350,117
Revaluation reserves		**35,441,833**	(47,242,239)
Total Equity		**13,935,952,407**	11,837,107,878
TOTAL LIABILITIES AND EQUITY		**P 44,879,670,518**	P 40,788,886,967

See Notes to Financial Statements.

BANK OF MAKATI (A SAVINGS BANK), INC.
STATEMENTS OF PROFIT OR LOSS
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019
(Amounts in Philippine Pesos)

	Notes	2020	2019
INTEREST INCOME			
Loans and receivables	9	**P 7,840,708,362**	P 8,224,633,077
Due from Bangko Sentral ng Pilipinas and other banks	7	**122,224,054**	69,848,750
Investment securities	8	**121,859,013**	156,378,209
		8,084,791,429	8,450,860,036
INTEREST EXPENSE			
Deposit liabilities	16	**964,894,054**	1,146,015,861
Lease liabilities	11	**15,052,769**	14,855,912
Bills payable		**-**	20,137,639
Others	20	**6,154,700**	-
		986,101,523	1,181,009,412
NET INTEREST INCOME		**7,098,689,906**	7,269,850,624
IMPAIRMENT LOSSES			
Financial assets	8, 9	**1,747,652,707**	1,230,459,451
Non-financial assets	12	**360,090,984**	427,638,811
		2,107,743,691	1,658,098,262
NET INTEREST INCOME AFTER IMPAIRMENT LOSSES		**4,990,946,215**	5,611,752,362
OTHER OPERATING EXPENSES	19	**(2,870,908,428)**	(2,878,164,442)
OTHER OPERATING INCOME	19	**627,120,680**	701,157,683
SHARE IN PROFIT OF ASSOCIATE	14	**98,377,217**	216,594,980
PROFIT BEFORE TAX		**2,845,535,684**	3,651,340,583
TAX EXPENSE	22	**829,375,227**	980,699,259
NET PROFIT		**P 2,016,160,457**	P 2,670,641,324

See Notes to Financial Statements.

BANK OF MAKATI (A SAVINGS BANK), INC.
STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019
(Amounts in Philippine Pesos)

	Notes	2020	2019
NET PROFIT		**P 2,016,160,457**	P 2,670,641,324
OTHER COMPREHENSIVE INCOME (LOSS)			
Item that will not be reclassified subsequently to profit or loss			
Gain (loss) on remeasurements of defined benefit plan	20	**54,323,600**	(99,474,300)
Share in other comprehensive income of invesment in associate	14	**(1,981,056)**	-
Fair value gain on equity securities classified at fair value through other comprehensive income (FVOCI)	8	**3,799,899**	3,882,816
Tax income (expense)	22	**(16,297,080)**	29,842,290
		39,845,363	(65,749,194)
Item that will be reclassified subsequently to profit or loss			
Fair value gain on debt securities classified at FVOCI	8	**42,915,112**	2,968,268
Expected credit losses on debt securities classified as FVOCI	8	**(76,403)**	-
		42,838,709	2,968,268
Other Comprehensive Income (Loss)		**82,684,072**	(62,780,926)
TOTAL COMPREHENSIVE INCOME		**P 2,098,844,529**	P 2,607,860,398

See Notes to Financial Statements.

BANK OF MAKATI (A SAVINGS BANK), INC
STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019
(Amounts in Philippine Pesos)

		Capital Stock (see Note 18)		Retained Earnings		Unrealized Fair Value Gains (Losses) on Financial Assets (see Note 8)
Balance at January 1, 2020	P	5,000,000,000	P	6,884,350,117	P	213,280
Total comprehensive income (loss) for the year						
Net profit during the year		-		2,016,160,457		-
Other comprehensive gain (loss)		-		-		46,638,608
Balance at December 31, 2020	**P**	**5,000,000,000**	**P**	**8,900,510,574**	**P**	**46,851,888**
Balance at January 1, 2019	P	5,000,000,000	P	4,813,708,793	(P	6,637,804)
Cash dividend paid during the year		-	(	600,000,000)		-
Total comprehensive income (loss) for the year						
Net profit during the year		-		2,670,641,324		-
Other comprehensive gain (loss)		-		-		6,851,084
Balance at December 31, 2019	P	5,000,000,000	P	6,884,350,117	P	213,280

See Notes to Financial Statements.

Revaluation Reserves			
Remeasurements of Defined Benefit Plan (see Note 20)	Share in Other Comprehensive Loss of Investment in Associate (see Note 14)	Total	Total Equity
(P 47,455,519)	P -	(P 47,242,239)	P 11,837,107,878
-	-	-	2,016,160,457
38,026,520	(1,981,056)	82,684,072	82,684,072
(P 9,428,999)	**(P 1,981,056)**	**P 35,441,833**	**P 13,935,952,407**
P 22,176,491	P -	P 15,538,687	P 9,829,247,480
-	-	-	(600,000,000)
-		-	2,670,641,324
(69,632,010)	-	(62,780,926)	(62,780,926)
(P 47,455,519)	P -	(P 47,242,239)	P 11,837,107,878

BANK OF MAKATI (A SAVINGS BANK), INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019
(Amounts in Philippine Pesos)

	Notes	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		P 2,845,535,684	P 3,651,340,583
Adjustments for:			
Interest income	7, 8, 9	(8,084,791,429)	(8,450,860,036)
Interest received		7,817,441,518	8,207,176,433
Impairment losses	8, 9, 12	2,107,743,691	1,658,098,262
Interest paid		171,654,781	(1,703,362,131)
Interest expense	11, 16, 20	(986,101,523)	1,181,009,412
Depreciation and amortization	10, 11, 13, 15	175,168,113	197,355,600
Share in profit of associate	14	(98,377,217)	(216,594,980)
Loss (gain) on sale of properties - net	12, 13, 19	45,164,064	(5,326,881)
Realized gain on investment securities	8, 19	(27,276,306)	(5,673,245)
Operating profit before changes in resources and liabilities		3,966,161,376	4,513,163,017
Increase in loans and receivables		(3,854,695,261)	(4,423,627,832)
Increase in assets held for sale		(245,572,570)	(549,135,507)
Decrease (increase) in investment properties		(14,038,862)	13,252,111
Decrease (increase) in other resources		18,891,745	(113,815,269)
Increase in deposit liabilities		3,182,071,038	3,866,872,633
Increase (decrease) in accounts payable and other liabilities		(90,358,491)	115,008,824
Cash from operations		2,962,458,975	3,421,717,977
Cash paid for income taxes		(1,035,542,349)	(695,772,470)
Net Cash From Operating Activities		1,926,916,626	2,725,945,507
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from disposal of investment securities	8	1,834,770,657	848,918,245
Interest received on investment securities	8	121,859,013	156,378,209
Proceeds from maturities of investment securities at amortized cost	8	57,264,663	61,705,050
Acquisition of financial assets at FVOCI	8	37,825,958	(463,000,000)
Acquisitions of bank premises, furniture, fixtures and equipment	10	(31,180,549)	(40,381,698)
Dividends received	14	-	320,000,000
Acquisitions of investment securities at amortized cost	8	-	(2,289,671)
Net Cash From Investing Activities		2,020,539,742	881,330,135
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayments of lease liabilities	11	(75,891,186)	(83,864,851)
Payment of cash dividends	18	-	(600,000,000)
Repayment of bills payable	17	-	(405,476,499)
Net Cash Used in Financing Activities		(75,891,186)	(1,089,341,350)
NET INCREASE IN CASH AND CASH EQUIVALENTS		3,871,565,182	2,517,934,292
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	7		
Cash		71,176,434	79,075,209
Due from Bangko Sentral ng Pilipinas		2,971,517,467	1,757,148,127
Due from other banks		341,976,552	356,261,356
Receivables arising from reverse repurchase agreement	9	2,965,748,531	1,640,000,000
		6,350,418,984	3,832,484,692
CASH AND CASH EQUIVALENTS AT END OF YEAR	7		
Cash		79,102,342	71,176,434
Due from Bangko Sentral ng Pilipinas		6,539,156,821	2,971,517,467
Due from other banks		1,549,294,119	341,976,552
Receivables arising from reverse repurchase agreement	9	2,054,430,884	2,965,748,531
		P 10,221,984,166	P 6,350,418,984

Supplementary Information on Non-Cash Operating, Investing and Financing Activities:

1) The Bank recognized right-of-use assets and lease liabilities amounting to both P214.5 million as at January 1, 2019 in relation to the adoption of Philippine Financial Reporting Standards (PFRS) 16, *Leases* (see Note 2). Moreover, the Bank recognized additional right-of-use asssets and lease liabilities amounting to P24.9 million and P118.0 million in 2020 and 2019, respectively (see Note 11).

2) Transfers from Loans and Receivables to Assets Held for Sale in 2020 and 2019 amounted to P4.0 billion and P2.4 billion, respectively, as a result of foreclosures (see Notes 9 and 12). On the other hand, transfers from Loans and Receivables to Investment Properties as a result of forecloures amounted to P23.9 million and P21.9 million in 2020 and 2019, respectively (see Notes 9 and 13).

3) In 2020, the Bank reclassified its Investment in Associate amounting to P971.4 million to Assets Held for Sale account in accordance with PFRS 5, *Non-current Assets Held for Sale and Discontinued Operations* (see Notes 12 and 14).

4) In 2020, the Bank reclassified certain investment securities at amortized cost with carrying amount of P1.5 billion to financial assets at FVOCI (see Note 8).

5) In 2020, the Bank's associate declared dividend amounting to P240.0 million. The dividend remains outstanding as of December 31, 2020 and is presented as part of Loans and Receivables accounts in the 2020 statement of financial position (see Note 14).

See Notes to Financial Statements.

BANK OF MAKATI (A SAVINGS BANK), INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019
(Amounts in Philippine Pesos)

1. CORPORATE MATTERS

1.1 Bank Operations

Bank of Makati (A Savings Bank), Inc. (the Bank) was incorporated in the Philippines and registered with the Philippine Securities and Exchange Commission (SEC) on July 20, 1956. On September 22, 1956, the Bangko Sentral ng Pilipinas (BSP) granted approval to the Bank to operate as a rural bank. The extension of the corporate life of another 50 years was subsequently approved by the SEC on April 8, 2005.

The Bank started with a capitalization of P1.0 million at its inception. At the end of 2020, the Bank's total equity reached P13.9 billion and has 62 branches (which includes 48 regular branches and 14 microfinance-oriented branches) and 40 branch-lite units.

As a banking institution, the Bank's operations are regulated and supervised by the BSP. In this regard, the Bank is required to comply with the rules and regulations of the BSP such as those relating to maintenance of reserve requirements and adoption and use of safe and sound banking practices as promulgated by the BSP.

The Bank's registered address, which was also its principal place of business, was at Bank of Makati Building, Ayala Avenue near corner Metropolitan Avenue, Makati City.

1.2 Impact of COVID-19 Pandemic on the Bank's Business

The COVID-19 pandemic started to become widespread in the Philippines in early March 2020. The measures taken by the government to contain the virus have affected economic conditions and the Bank's business operations.

The following are the impact of COVID-19 pandemic to the Bank's business:

- shortened banking hours in some branches from March 2020 up to May 2020;
- extended maturities with the mandatory grace period of loans pursuant to Republic Act (R.A.) No. 11469, *Bayanihan to Head as One (BAHO Act)* and R.A. No 11494, *Bayanihan to Recover as One (BARO Act)*, and provided loan restructuring programs to borrowers;
- decrease in net income by 24% due to an increase in impairment losses,
- decrease in loan releases by 23% and interest income by 4%; and,
- additional administrative expenses were incurred to ensure health and safety of its employees and customers such as the frequent disinfection of facilities and COVID-19 testing for its employees.

In response to this matter, the Bank has taken the following actions:

- implemented initiatives and projects such as the availability of new payment channels, review of risk acceptance criteria on loans, new product variant offerings, among others in order to boost collections and loan releases as well as to improve the quality of loan portfolio; and,
- implemented flexible working arrangements and employee clustering in the Bank's head office and branches.

Based on the above actions and measures taken by management to mitigate the adverse effect of the pandemic, it projects that the Bank would improve results of operations and would remain liquid to meet current obligations as it falls due. Accordingly, management has not determined material uncertainty that may cast significant doubt on the Bank's ability to continue as a going concern.

1.3 Approval of Financial Statements

The financial statements of the Bank as at and for the year ended December 31, 2020 (including the comparative financial statements as at and for the year ended December 31, 2019) were authorized for issue by the Bank's Board of Directors (BOD) on April 27, 2021.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies that have been used in the preparation of these financial statements are summarized below and in the succeeding pages. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of Preparation of Financial Statements

(a) Statement of Compliance with Philippine Financial Reporting Standards

The financial statements of the Bank have been prepared in accordance with Philippine Financial Reporting Standards (PFRS). PFRS are adopted by the Financial Reporting Standards Council (FRSC) from the pronouncements issued by the International Accounting Standards Board and approved by the Philippine Board of Accountancy.

The financial statements have been prepared using the measurement bases specified by PFRS for each type of resource, liability, income and expense. The measurement bases are more fully described in the accounting policies that follow.

(b) Presentation of Financial Statements

The financial statements are presented in accordance with Philippine Accounting Standards (PAS) 1, *Presentation of Financial Statements*. The Bank presents all items of income, expenses and other comprehensive income (loss) in two statements: a "statement of profit or loss" and a "statement of comprehensive income."

The Bank presents a third statement of financial position as at the beginning of the preceding period when it applies an accounting policy retrospectively, or makes a retrospective restatement or reclassification of items that has a material effect on the information in the statement of financial position at the beginning of the preceding period. The related notes to the third statement of financial position are not required to be disclosed.

(c) Functional and Presentation Currency

These financial statements are presented in Philippine pesos, the Bank's functional and presentation currency, and all values represent absolute amounts except when otherwise indicated.

Items included in the financial statements of the Bank are measured using its functional currency. Functional currency is the currency of the primary economic environment in which the Bank operates.

2.2 Adoption of Amended PFRS

(a) Effective in 2020 that are Relevant to the Bank

The Bank adopted for the first time the following pronouncements which are mandatorily effective for annual periods beginning on or after January 1, 2020:

Conceptual Framework	:	Revised Conceptual Framework for Financial Reporting
PAS 1 and PAS 8 (Amendments)	:	Presentation of Financial Statements and Accounting Policies, Changes in Accounting Estimates and Errors – Definition of Material
PFRS 7 and PFRS 9 (Amendments)	:	Financial Instruments: Disclosures and Financial Instruments – Interest Rate Benchmark Reform

Discussed below and in the succeeding pages are the relevant information about these pronouncements.

(i) *Revised Conceptual Framework for Financial Reporting.* The revised conceptual framework will be used in standard-setting decisions with immediate effect. Key changes include (a) increasing the prominence of stewardship in the objective of financial reporting, (b) reinstating prudence as a component of neutrality, (c) defining a reporting entity, which may be a legal entity, or a portion of an entity, (d) revising the definitions of an asset and a liability, (e) removing the probability threshold for recognition and adding guidance on derecognition, (f) adding guidance on different measurement basis, and, (g) 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. The application of the revised conceptual framework had no significant impact on the Bank's financial statements.

(ii) PAS 1 (Amendments), *Presentation of Financial Statements*, and PAS 8 (Amendments), *Accounting Policies, Changes in Accounting Estimates and Errors – Definition of Material*. The amendments provide a clearer definition of 'material' in PAS 1 by including the concept of 'obscuring' material information with immaterial information as part of the new definition, and clarifying the assessment threshold (i.e., misstatement of information is material if it could reasonably be expected to influence decisions made by primary users, which consider the characteristic of those users as well as the entity's own circumstances). The definition of material in PAS 8 has been accordingly replaced by reference to the new definition in PAS 1. In addition, amendment has also been made in other standards that contain definition of material or refer to the term 'material' to ensure consistency. The application of these amendments had no significant impact on the Bank's financial statements.

(iii) PFRS 7 (Amendments), *Financial Instruments: Disclosures*, and PFRS 9 (Amendments), *Financial Instruments – Interest Rate Benchmark Reform*. The amendments clarify that an entity would continue to apply certain hedge accounting requirements assuming that the interest rate benchmark on which the hedged cash flows and cash flows from the hedging instrument are based will not be altered as a result of interest rate benchmark reform. The application of these amendments had no significant impact on the Bank's financial statements.

(b) Effective in 2020 that are not Relevant to the Bank

PFRS 3 (Amendments), *Business Combinations – Definition of a Business*, is mandatorily effective for annual periods beginning on or after January 1, 2020 but is not relevant to the Bank's financial statements.

(c) Effective Subsequent to 2020 but not Adopted Early

There are pronouncements effective for annual periods subsequent to 2020, which are adopted by the FRSC. Management will adopt the following relevant pronouncements in accordance with their transitional provisions; and, unless otherwise stated, none of these are expected to have significant impact on the Bank's financial statements:

(i) PFRS 16 (Amendments), *Leases – COVID-19-Related Rent Concessions* (effective from June 30, 2020). The amendments permit lessees, as a practical expedient, not to assess whether particular rent concessions occurring as a direct consequence of the COVID-19 pandemic are lease modifications and instead to account for those rent concessions as if they are not lease modifications.

(ii) PAS 16 (Amendments), *Property, Plant and Equipment – Proceeds Before Intended Use* (effective from January 1, 2022). The amendments prohibit deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognizes the proceeds from selling such items, and the cost of producing those items, in profit or loss.

(iii) PAS 37 (Amendments), *Provisions, Contingent Liabilities and Contingent Assets – Onerous Contracts – Cost of Fulfilling a Contract* (effective from January 1, 2022). The amendments specify that the 'cost of fulfilling' a contract comprises the 'costs that relate directly to the contract'. Costs that relate directly to a contract can either be incremental costs of fulfilling that contract (examples would be direct labor, materials) or an allocation of other costs that relate directly to fulfilling contracts (an example would be the allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract).

(iv) Annual Improvements to PFRS 2018-2020 Cycle. Among the improvements, the following amendments, which are effective from January 1, 2022, are relevant to the Bank:

- PFRS 9 (Amendments), *Financial Instruments – Fees in the '10 per cent' Test for Derecognition of Liabilities.* The improvements clarify the fees that a company includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability.

- Illustrative Examples Accompanying PFRS 16, *Leases – Lease Incentives.* The improvement merely removes potential for confusion regarding lease incentives.

(v) PAS 1 (Amendments), *Presentation of Financial Statements – Classification of Liabilities as Current or Non-current* (effective from January 1, 2023). The amendments aim to promote consistency in applying the requirements by helping companies determine whether, in the statement of financial position, debt and other liabilities with an uncertain settlement date should be classified as current (due or potentially due to be settled within one year) or non-current.

2.3 Financial Instruments

Financial assets and financial liabilities are recognized when the entity becomes a party to the contractual provisions of the financial instrument.

(a) Financial Assets

For purposes of classifying financial assets, an instrument is considered as an equity instrument if it is non-derivative and meets the definition of equity for the issuer in accordance with the criteria of PAS 32, *Financial Instruments: Presentation.* All other non-derivative financial instruments are treated as debt instruments.

Regular purchases and sales of financial assets are recognized on their trade date (i.e., the date that the Bank commits to purchase or sell the asset).

(i) Classification, Measurement and Reclassification of Financial Assets

The classification and measurement of financial assets is driven by the Bank's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. The classification and measurement of financial assets are described below.

Financial Assets at Amortized Cost

Financial assets are measured at amortized cost if both of the following conditions are met:

- the asset is held within the Bank's business model whose objective is to hold financial assets in order to collect contractual cash flows ("hold to collect"); and,

- the contractual terms of the instrument give rise, on specified dates, to cash flows that are solely payment for principal and interest (SPPI) on the principal amount outstanding.

All financial assets meeting these criteria are measured initially at fair value plus transaction costs. These are subsequently measured at amortized cost using the effective interest method, less allowance for expected credit losses (ECL).

Where the business model is to hold assets to collect contractual cash flows, the Bank assesses whether the financial instruments' cash flows represent SPPI. 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 [see Note 3.1(c)].

The Bank's financial assets at amortized cost are presented in the statement of financial position as Cash, Due from BSP, Due from Other Banks, as part of Investment Securities in respect of Investment securities at amortized cost, Loans and Receivables and as part of Other Resources in respect of Rental and utilities deposits.

For purposes of cash flows reporting and presentation, cash comprise of accounts with original maturities of three months or less, including cash, unrestricted balances of due from BSP, due from other banks and certain loans and receivables. These generally include cash on hand, demand deposits and short-term, highly liquid investments readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value.

Financial Assets at Fair Value through Other Comprehensive Income (FVOCI)

The Bank accounts for financial assets at FVOCI if the assets meet the following conditions:

- they are held under a business model whose objective is to hold to collect the associated cash flows and sell ("hold to collect and sell"); and,

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

At initial recognition, the Bank can make an irrevocable election (on an instrument-by-instrument basis) to designate equity investments as at FVOCI; however, such designation is not permitted if the equity investment is held by the Bank for trading.

Financial assets at FVOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value, with no deduction for any disposal costs. Gains and losses arising from changes in fair value, including the foreign exchange component, are recognized in other comprehensive income, net of any effects arising from income taxes, and are reported as part of Revaluation Reserves account in equity. When the asset is disposed of, the cumulative gain or loss previously recognized in the Revaluation Reserves account is not reclassified to profit or loss but is reclassified directly to Surplus Fees account, except for those debt securities classified as FVOCI wherein cumulative fair value gains or losses are recycled to profit or loss.

Any dividends earned on holding equity instruments are recognized in profit or loss as part of Other Operating Income account, when the Bank's right to receive dividends is established, it is probable that the economic benefits associated with the dividend will flow to the Bank, and the amount of the dividend can be reliably measured, unless the dividends clearly represent recovery of a part of the cost of the investment.

(ii) Effective Interest Rate Method and Interest Income

Interest income on financial assets measured at amortized cost and all interest-bearing debt financial assets classified as at FVOCI, is recognized using the effective interest rate method. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument or, when appropriate, a shorter period, to the net carrying amount of the financial asset.

The effective interest rate is calculated by taking into account any discount or premium on acquisition, fees and costs that are an integral part of effective interest rate. The Bank recognizes interest income using a rate of return that represents the best estimate of a constant rate of return over the expected life of the instrument; hence, it recognizes the effect of potentially different interest rates charged at various stages, and other characteristics of the product life cycle (including prepayments, penalty interest and charges).

If expectations regarding the cash flows on the financial asset are revised for reasons other than credit risk, the adjustment is booked as a positive or negative adjustment to the carrying amount of the asset with an increase or reduction in interest income. The Bank calculates interest income by applying the effective interest rate to the gross carrying amount of the financial assets, except for those that are subsequently identified as credit-impaired and or are purchased or originated credit-impaired assets.

For financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the net carrying amount of the financial assets (after deduction of the loss allowance). If the asset is no longer credit-impaired, the calculation of interest income reverts to gross basis. For financial assets that were credit-impaired on initial recognition, interest income is calculated by applying a credit-adjusted effective interest rate to the amortized cost of the asset. The calculation of interest income does not revert to a gross basis even if the credit risk of the asset subsequently improves.

The interest earned is recognized as part of Interest Income account in the statement of profit or loss.

(iii) Impairment of Financial Assets

The Bank recognizes allowances for ECL on a forward-looking basis associated with its financial assets at amortized cost. The measurement of the ECL reflects: (i) an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes; (ii) the time value of money; and, (iii) 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.

The amount of allowance for ECL is updated at the end of each reporting period to reflect the changes in credit risk of the financial asset since initial recognition. The Bank recognizes lifetime ECL when there has been a significant increase in credit risk (SICR) since initial recognition. However, if the credit risk on the financial instrument has not increased significantly since initial recognition, the Bank measures the loss allowance for that financial instrument at an amount equal to 12-month ECL. Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a financial instrument. In contrast, 12-month ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the end of the reporting period.

The Bank's ECL model follows a three-stage impairment approach, which guide in the determination of the loss allowance to be recognized in the financial statements. The staging of financial assets, definition of default for purposes of determining ECL, and credit risk assessment are further discussed in Note 4.3.1.2.

ECL is a function of the probability of default (PD), loss-given default (LGD), and exposure-at-default (EAD), with the timing of the loss also considered, and is estimated by incorporating forward-looking economic information and through the use of experienced credit judgement. These elements are discussed more fully in Note 4.3.1.3(c).

The Bank calculates ECL either on an individual or a collective basis. For modelling ECL parameters which were carried out on a collective basis, the financial instruments are grouped on the basis of shared credit risk characteristics, such as but not limited to instrument type, credit risk rating, collateral type, product type, historical net charge-offs, industry type, and geographical locations of the borrowers or counterparties.

The Bank recognizes an impairment loss in profit or loss for all financial instruments subjected to ECL impairment assessment with a corresponding adjustment to their carrying amount through a loss allowance account, except for those classified under FVOCI which is recognized in other comprehensive income.

(iv) Derecognition of Financial Assets

Modification of Loans

When the Bank derecognizes a financial asset through renegotiation or modification of contractual cash flows of loans to customers, the Bank assesses whether or not the new terms are substantially different to the original terms. The Bank considers, among others:

- 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;
- whether any substantial new terms are introduced that will affect the risk profile of the loan;
- 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; and/or,
- insertion of collateral, other security or credit enhancements that will significantly affect the credit risk associated with the loan.

If the terms are substantially different, the Bank derecognizes the 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, 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 as gain or loss on derecognition of financial assets in profit or loss. As to the impact on ECL measurement, the expected fair value of the "new" asset is treated as the final cash flow from the existing financial asset at the date of derecognition. Such amount is included in the calculation of cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

If the terms are not substantially different, the renegotiation or modification does not result in derecognition, and the Bank recalculates the gross carrying amount based on the revised cash flows of the financial asset and recognizes a modification gain or loss in profit or loss. The new gross carrying amount is recalculated by discounting the modified cash flows of the original effective interest rate (or credit-adjusted effective interest rate for purchased or originated credit-impaired financial assets). As to the impact on ECL measurement, the derecognition of the existing financial asset will result in the expected cash flows arising from the modified financial asset to be included in the calculation of cash shortfalls from the existing financial asset.

Derecognition of Financial Assets Other than Modification

A financial asset (or where applicable, a part of a financial asset or part of a group of financial assets) is derecognized when the contractual rights to receive cash flows from the financial instruments expire, or when the financial assets and all substantial risks and rewards of ownership have been transferred to another party. If the Bank neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Bank recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Bank retains substantially all the risks and rewards of ownership of a transferred financial asset, the Bank continues to recognize the financial asset and a collateralized borrowing for the proceeds received.

(b) Classification and Measurement of Financial Liabilities

Financial liabilities, which include Deposit Liabilities and Accounts Payable and Other Liabilities (except for tax-related liabilities and retirement benefit obligation), are recognized when the Bank becomes a party to the contractual terms of the instrument. These are recognized initially at their fair value and subsequently measured at amortized cost, using effective interest method for maturities beyond one year, less settlement payments. All interest-related charges incurred on financial liabilities are recognized as an expense in profit or loss under the caption Interest Expense in the statement of profit or loss.

Dividend distributions to shareholders are recognized as financial liabilities when the dividends are declared by the Bank's BOD.

Financial liabilities are derecognized from the statement of financial position only when the obligations are extinguished either through discharge, cancellation or expiration. The difference between the carrying amount of the financial liability derecognized and the consideration paid or payable is recognized in profit or loss.

(c) Offsetting of Financial Instruments

Financial assets and financial liabilities are offset and the resulting net amount, considered as a single financial asset or financial liability, is reported in the statement of financial position when the Bank currently has legally enforceable right to set-off the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously. The right of set-off must be available at the end of the reporting period, that is, it is not contingent on future event. It must also be enforceable in the normal course of business, in the event of default, and in the event of insolvency or bankruptcy; and, must be legally enforceable for both entity and all counterparties to the financial instruments.

2.4 Bank Premises, Furniture, Fixtures and Equipment

Land is stated at cost less any accumulated impairment loss. As no finite useful life for land can be determined, related carrying amount is not depreciated. All other items of bank premises, furniture, fixtures and equipment are carried at acquisition costs less accumulated depreciation and amortization and any impairment in value.

The cost of an asset comprises its purchase price and directly attributable costs of bringing the asset to working condition for its intended use. Expenditures for additions, major improvements and renewals are capitalized while expenditures for repairs and maintenance are charged to expense as incurred.

Depreciation and amortization is computed using the straight-line basis over the estimated useful lives of the assets as follows:

Building and improvements	5 to 15 years
Furniture, fixtures and equipment	3 to 5 years
Computer software	3 to 5 years

Leasehold improvements are amortized over the estimated useful lives of the improvements or remaining term of the lease, whichever is shorter.

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 (see Note 2.13).

The residual values, estimated useful lives and method of depreciation and amortization of bank premises, furniture, fixtures and equipment, and computer software are reviewed and adjusted if appropriate, at the end of each reporting period.

Fully depreciated and amortized assets are retained in the accounts until these are no longer in use and no further charge for depreciation and amortization is made in respect of those assets.

An item of bank premises, furniture, fixtures and equipment, and computer software, including the related accumulated depreciation and amortization and impairment losses, is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in profit or loss in the year the item is derecognized.

2.5 Assets Held for Sale

Assets held for sale include chattels and other moveable properties acquired through repossession or foreclosure that the Bank intends to sell within one year from the date of classification as held for sale and is committed to immediately dispose the assets through an active marketing program, and equity investment in BMI Finance Corporation (BFC) that the Bank intends to sell within one year from the date of classification as held for sale. The Bank classifies a non-current asset (or disposal group) as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. In the event that the sale of the asset is extended beyond one year, the extension of the period required to complete the sale does not preclude an asset from being classified as held for sale if the delay is caused by events or circumstances beyond the Bank's control and there is sufficient evidence that the Bank remains committed to its plan to sell the asset.

The Bank classifies an asset as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through a continuing use. In the event that the sale of the asset is extended beyond one year, the extension of the period required to complete the sale does not preclude an asset from being classified as held for sale if the delay is caused by events or circumstances beyond the Bank's control and there is sufficient evidence that the Bank remains committed to its plan to sell the asset through an active marketing and disposal program.

Assets held for sale are measured at the lower of their carrying amounts immediately prior to their classification as held for sale, and their fair value less costs to sell. The Bank recognizes an impairment loss for any initial or subsequent writedown of the asset to fair value less cost to sell. Gain for any subsequent increase in fair value less cost to sell of an asset is recognized to the extent of the cumulative impairment losses previously recognized. The assets classified as held for sale are not subject to depreciation or amortization.

If the Bank has classified an asset as held for sale, but the criteria for it to be recognized as held for sale are no longer satisfied, the Bank shall cease to classify the asset as held for sale. Any gain or loss on the disposal on the assets classified as held for sale is recognized in profit or loss and is presented as part of Gain (loss) on sale of properties under the Other Operating Income (Expenses) account in the statement of profit or loss.

2.6 Investment Properties

Investment properties pertain to land, buildings and improvements acquired by the Bank, in settlement of loans from defaulting borrowers through foreclosure or dacion in payment. These properties are held by Bank either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the supply of services or for administrative purposes.

The Bank adopted the cost model in measuring its investment properties; hence, these are carried at cost less accumulated depreciation and any impairment in value. The cost of an investment property comprises its purchase price and directly attributable costs incurred. Depreciation and impairment loss are recognized in the same manner as in bank premises, furniture, fixtures and equipment (see Notes 2.4 and 2.13).

Transfers from other accounts (such as bank premises, furniture, fixtures and equipment) are made to investment properties when and only when, there is a change in use, evidenced by ending of owner-occupation or holding the property for capital appreciation, while transfers from investment properties are made when, and only when, there is a change in use, evidenced by commencement of owner-occupation.

Investment properties are derecognized upon disposal or when permanently withdrawn from use and no future economic benefit is expected from their disposal. Any gain or loss on the retirement or disposal of an investment property is recognized in profit or loss and is presented as part of Gain (loss) on sale of properties under the Other Operating Income (Expense) account in the statement of profit or loss in the year of retirement or disposal.

2.7 Intangible Assets

Intangible assets, presented under the Other Resources account, pertain to operating licenses and development costs for the Bank's new application software, which are amortized over three to five years.

The cost of the asset is the amount of cash or cash equivalent paid or the fair value of the other consideration given up to acquire the asset at the time of its acquisition. In addition, intangible assets are subject to impairment testing as described in Note 2.13.

2.8 Investment in an Associate

An associate is an entity over which the Bank has significant influence but which is neither a subsidiary nor an interest in a joint venture.

The investment in an associate is initially recognized at cost and subsequently accounted for using the equity method. Acquired investment in an associate is subject to the purchase method. The purchase method involves the recognition of the acquiree's identifiable assets and liabilities, including contingent liabilities, regardless of whether they were recorded in the financial statements prior to acquisition. All subsequent changes to the ownership interest in the equity of the associate are recognized in the Bank's carrying amount of the investment. Changes resulting from the profit or loss generated by the associate is credited or charged against the Share in Profit of Associate account in the statement of profit or loss.

Impairment loss is provided when there is objective evidence that the investment in an associate will not be recovered (see Note 2.13).

Changes resulting from other comprehensive income of the associate or items recognized directly in the associate's equity are recognized in other comprehensive income or equity of the Bank, as applicable. However, when the Bank's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Bank does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associate. If the associate subsequently reports profits, the investor resumes recognizing its share of those profits only after its share of the profits exceeds the accumulated share of losses that has previously not been recognized.

Distribution received from the associate is accounted for as a reduction of the carrying value of the investment.

2.9 Other Resources

Other resources, that are non-financial assets, pertain to other assets that are controlled by the Bank as a result of past events. These are recognized at cost in the financial statements when it is probable that the future economic benefits will flow to the Bank and the asset has a cost or value that can be measured reliably. These are either amortized and charged to profit or loss as they are utilized or reclassified to another asset account if considered capitalizable.

2.10 Provisions and Contingencies

Provisions are recognized when present obligations will probably lead to an outflow of economic resources and they can be estimated reliably even if the timing or amount of the outflow may still be uncertain. A present obligation arises from the presence of a legal or constructive obligation that has resulted from past events.

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the end of the reporting period, including the risks and uncertainties associated with the present obligation. 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. When time value of money is material, long-term provisions are discounted to their present values using a pretax rate that reflects market assessments and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense. Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate.

In those cases where the possible outflow of economic resource as a result of present obligations is considered improbable or remote, or the amount to be provided for cannot be measured reliably, no liability is recognized in the financial statements. Similarly, possible inflows of economic benefits to the Bank that do not yet meet the recognition criteria of an asset are considered contingent assets; hence, are not recognized in the financial statements. On the other hand, any reimbursement that the Bank can be virtually certain to collect from a third party with respect to the obligation is recognized as a separate asset not exceeding the amount of the related provision.

2.11 Other Income and Expense Recognition

Other income is recognized only when (or as) the Bank satisfies a performance obligation by transferring control of the promised services to the customer. A contract with a customer that results in a recognized financial instrument in the Bank's financial statements may partially be within the scope of PFRS 9 and partially within the scope of PFRS 15, *Revenue from Contract with Customers.* In such case, the Bank first applies PFRS 9 to separate and measure the part of the contract that is in-scope of PFRS 9, and then applies PFRS 15 to the residual part of the contract. Expenses and costs, if any, are recognized in profit or loss upon utilization of the assets or services or at the date these are incurred. All finance costs are reported in profit or loss on accrual basis.

The Bank assesses its revenue arrangement against specific criteria in order to determine if it is acting as a principal or agent. The Bank concluded that it is acting as a principal in all of its revenue arrangements.

The Bank also earns service fees and commissions on various banking services, and gains on sale of properties, which are supported by contracts approved by the parties involved. These income are accounted for by the Bank in accordance with PFRS 15.

For income arising from various banking services, which are to be accounted for under PFRS 15, the following provides information about the nature and timing of satisfaction of performance obligations in contracts with customers, including significant payment terms, and the related revenue recognition policies:

(a) Service charges and fees and commissions – these income arising from loans, deposits, and other banking transactions are recognized as income based on agreed terms and conditions with customers which are generally when the services has been performed.

(b) Penalties – these are billed on late payments of loans and are recognized as income upon occurrence of the late payment event.

For other income outside the scope of PFRS 15 such as gains on sale of asset acquired, these are recognized at the time the control of the assets is transferred to the buyer, when the Bank does not retain either continuing managerial involvement to the degree usually associated with ownership, or effective control over the assets sold, and when the collectability of the entire sales price is reasonably assured.

Collections from accounts, which did not qualify from revenue recognition, are treated as customers' deposits and are included as part of Accounts payable under Other Liabilities account in the statement of financial position.

Costs and expenses are recognized in profit or loss upon utilization of the goods or service or at the date they are incurred. All finance costs are reported in the statement of profit or loss in accordance with the policy, except capitalized borrowing costs which are included or part of the cost of the related qualifying asset (see Note 2.15).

2.12 Leases – Bank as Lessee

The Bank considers whether a contract is, or contains, a lease. A lease is defined as a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration. To apply this definition, the Bank assesses whether the contract meets three key evaluations which are whether:

- the contract contains an identified asset, which is either explicitly identified in the contract or implicitly specified by being identified at the time the asset is made available to the Bank;
- the Bank has the right to obtain substantially all of the economic benefits from use of the identified asset throughout the period of use, considering its rights within the defined scope of the contract; and,
- the Bank has the right to direct the use of the identified asset throughout the period of use. The Bank assesses whether it has the right to direct 'how and for what purpose' the asset is used throughout the period of use.

At lease commencement date, the Bank recognizes a right-of-use asset and a lease liability in the statement of financial position. The right-of-use asset is measured at cost, which is made up of the initial measurement of the lease liability, any initial direct costs incurred by the Bank, an estimate of any costs to dismantle and remove the asset at the end of the lease, and any lease payments made in advance of the lease commencement date (net of any incentives received).

The Bank amortizes the right-of-use asset on a straight-line basis from the lease commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The Bank also assesses the right-of-use asset for impairment when such indicators exist (see Note 2.13).

At the commencement date, the Bank measures the lease liability at the present value of the lease payments unpaid at the commencement date, discounted using the interest rate implicit in the lease if that rate is readily available or the Bank's incremental borrowing rate.

Lease payments included in the measurement of the lease liability are made up of fixed payments (including those determined to be fixed in substance), variable payments based on an index or rate, amounts expected to be payable under a residual value guarantee and payments arising from options reasonably certain to be exercised.

Subsequent to initial measurement, the liability will be reduced for payments made and increased for interest. It is remeasured to reflect any reassessment or modification, or if there are changes in in-substance fixed payments.

When the lease liability is remeasured, the corresponding adjustment is reflected in the right-of-use asset, or profit and loss if the right-of-use asset is already reduced to zero.

The Bank has elected to account for short-term leases and leases of low-value assets using the practical expedients. Instead of recognizing a right-of-use asset and lease liability, the payments in relation to these are recognized as an expense in profit or loss on a straight-line basis over the lease term.

The corresponding right-of-use assets are presented separately while lease liabilities are presented as part of Accounts Payable and Other Liabilities in the statement of financial position.

2.13 Impairment of Non-financial Assets

Bank premises, furniture, fixtures and equipment, assets held for sale, investment properties, intangible assets, investment in an associate, right-of-use assets, and other non-financial assets are subject to impairment testing whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

For purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). As a result, some assets are tested individually for impairment and some are tested at cash-generating unit level.

Impairment loss is recognized in profit or loss for the amount by which the assets or cash-generating unit's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of fair value, reflecting market conditions less costs to sell and value in use, based on an internal evaluation of discounted cash flow. Impairment loss is charged pro-rata to the other assets in the cash-generating unit.

All assets are subsequently reassessed for indications that an impairment loss previously recognized may no longer exist. An impairment loss is reversed if the asset's or cash generating unit's recoverable amount exceeds its carrying amount.

2.14 Employee Benefits

The Bank's employee benefits are recognized and measured as follows:

(a) Post-employment Defined Benefit Plan

A defined benefit plan is a post-employment plan that defines an amount of post-employment benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and salary. The legal obligation for any benefits from this kind of post-employment plan remains with the Bank, even if plan assets for funding the defined benefit plan have been acquired. Plan assets may include assets specifically designated to a long-term benefit fund, as well as qualifying insurance policies. The Bank's defined benefit post-employment plan covers all regular full-time employees. The pension plan is tax-qualified, noncontributory and administered by the Bank's treasury department and a third party fund manager.

The liability recognized in the statement of financial position for a defined benefit plan is the present value of the defined benefit obligation at the end of the reporting period 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 for expected benefit payments using a discount rate derived from the interest rates of a zero coupon government bond as published by Bloomberg using its valuation technology, Bloomberg Valuation (BVAL), that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related post-employment liability.

Remeasurements, comprising of actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions and the return on plan assets (excluding amount included in net interest) are reflected immediately in the statement of financial position with a charge or credit recognized in other comprehensive income in the period in which they arise. Net interest is calculated by applying the discount rate at the beginning of the period, unless there is a plan amendment, curtailment or settlement during the reporting period. The calculation also takes into account any changes in the net defined benefit liability or asset during the period as a result of contributions to the plan or benefit payments. Net interest is reported as part of Interest Income or Interest Expense account in the statement of profit or loss.

Past-service costs are recognized immediately in profit or loss in the period of a plan amendment or curtailment.

(b) Post-employment Defined Contribution Plan

A defined contribution plan is a post-employment plan under which the Bank pays fixed contributions into an independent entity. The Bank has no legal or constructive obligations to pay further contributions after payment of the fixed contribution. The contributions recognized in respect of defined contribution plans are expensed as they fall due. Liabilities and assets may be recognized if underpayment or prepayment has occurred and are included in current liabilities or current assets as they are normally of a short-term nature.

(c) Bonus Plans

The Bank recognizes a liability and an expense for bonuses. The Bank recognizes a provision where it is contractually obliged to pay the benefits, or where there is a past practice that has created a constructive obligation.

(d) Termination Benefits

Termination benefits are payable upon termination of employment by the Bank before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Bank recognizes termination benefits at the earlier of when it can no longer withdraw the offer of scope of PAS 37 and involves the payment of termination benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the end of the reporting period are discounted to their present value.

2.15 Borrowing Costs

Borrowing costs are recognized as expense in the period in which they are incurred, except to the extent that they are capitalized. Borrowing costs that are attributable to the acquisition, construction or production of a qualifying asset (i.e., an asset that takes a substantial period of time to get ready for its intended use or sale) are capitalized as part of cost of such asset. The capitalization of borrowing costs commences when expenditures for the asset and borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalization ceases when substantially all such activities are complete.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

2.16 Income Taxes

Tax expense recognized in profit or loss comprises the sum of deferred tax and current tax not recognized in other comprehensive income or directly in equity, if any.

Current tax assets or current tax liabilities comprise those claims from, or obligations to, fiscal authorities relating to the current or prior reporting period, that are uncollected or unpaid at the end of the reporting period. They are calculated using the tax rates and tax laws applicable to the fiscal periods to which they relate, based on the taxable profit for the year. All changes to current tax assets or current tax liabilities are recognized as a component of tax expense in profit or loss.

Deferred tax is accounted for using the liability method, on temporary differences at the end of the reporting period between the tax base of assets and liabilities and their carrying amounts for financial reporting purposes. Under the liability method, with certain exceptions, deferred tax liabilities are recognized for all taxable temporary differences and deferred tax assets are recognized for all deductible temporary differences and the carryforward of unused tax losses and unused tax credits to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized.

Unrecognized deferred tax assets are reassessed at the end of each reporting period and are recognized to the extent that it has become probable that future taxable profit will be available to allow such deferred tax assets to be recovered.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized.

The measurement of deferred tax assets and deferred tax liabilities reflects the tax consequences that would follow from the manner in which the Bank expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Most changes in deferred tax assets or deferred tax liabilities are recognized as a component of tax expense in profit or loss, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively.

Deferred tax assets and deferred tax liabilities are offset if the Bank has a legally enforceable right to set-off current tax assets against current tax liabilities and the deferred taxes relate to the same entity and the same taxation authority.

2.17 Related Party Transactions and Relationships

Related party transactions are transfer of resources, services or obligations between the Bank and its related parties, regardless whether a price is charged.

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. These parties include: (a) individuals owning, directly or indirectly through one or more intermediaries, control or are controlled by, or under common control with the Bank; (b) associates; (c) individuals owning, directly or indirectly, an interest in the voting power of the Bank that gives them significant influence over the Bank and close members of the family of any such individual; and, (d) the Bank's retirement fund.

In considering each possible related party relationship, attention is directed to the substance of the relationship and not merely on the legal form.

2.18 Equity

Capital stock represents the nominal value of shares of stock that have been issued.

Surplus fees represents all current and prior period results of operations as reported in the statement of profit or loss, reduced by the amounts of dividends declared.

Revaluation reserves pertain to:

(a) Net unrealized fair value gains or losses arising from remeasurements of financial assets at FVOCI;

(b) Share in other comprehensive income of investment in associate; and,

(c) Remeasurements of post-employment defined benefit plan based on the accumulated balances of actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions used in the determination of the defined benefit obligation.

2.19 Events After the End of the Reporting Period

Any post-year-end event that provides additional information about the Bank's financial position at the end of the reporting period (adjusting event) is reflected in the financial statements. Post-year-end events that are not adjusting events, if any, are disclosed when material to the financial statements (see Note 24).

3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

The preparation of the Bank's financial statements in accordance with PFRS requires management to make judgments and estimates that affect the amounts reported in the financial statements and related notes. Judgments and estimates 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. Actual results may ultimately vary from these estimates.

3.1 Critical Management Judgments in Applying Accounting Principles

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

(a) Application of ECL to Financial Assets at FVOCI and Amortized Cost

The Bank uses external benchmarking and historical loss rates to calculate ECL for all debt instruments carried at FVOCI and amortized cost. The allowance for impairment is based on the ECLs associated with the PD of a financial instrument in the next 12 months, unless there has been a significant increase in credit risk since origination of the financial instrument, in such case, a lifetime ECL for the instrument is recognized. This is where significant management judgment is required.

The Bank has established a policy to perform an assessment, at the end of each reporting period, whether a financial instrument's credit risk has significantly increased since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument.

(b) *Evaluation of Business Model Applied in Managing Financial Instruments*

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

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

In determining the classification of a financial instrument, the Bank evaluates in which business model a financial instrument or a portfolio of financial instruments belongs to taking into consideration the objectives of each business model established by the Bank (e.g., held-for-trading, generating accrual income, direct matching to a specific liability) as those relate to the Bank's investment, trading and lending strategies.

In addition, if more than an infrequent sale is made out of a portfolio of financial assets carried at amortized cost, the Bank assesses whether and how such sales are consistent with the objective of collecting contractual cash flows. In making this judgment, the Bank considers certain circumstances documented in its business model manual to assess that an increase in the frequency or value of sales of financial instruments in a particular period is not necessary inconsistent with a held-to-collect business model if the Bank can explain the reasons for those sales and why those sales do not reflect a change in the Bank's objective for the business model.

In 2019, the Bank disposed of certain investment securities at amortized cost in accordance with its investment policy and has applied these evaluation process to ensure that the disposal is consistent with the Bank's held-to-collect business model.

Meanwhile, the Bank has determined that the disposal of certain investment securities at amortized cost in 2020 is no longer consistent with the Bank's held-to-collect business model. Accordingly, the carrying amount of certain investment securities at amortized cost was reclassified to financial assets at FVOCI (see Note 8).

(c) *Testing the Cash Flow Characteristics of Financial Assets and Continuing Evaluation of Business Model*

In determining the classification of financial assets, the Bank assesses whether the contractual terms of the financial assets give rise on specified dates to cash flows that are SPPI on the principal outstanding, with interest representing time value of money and credit risk associated with the principal amount outstanding. The assessment as to whether the cash flows meet the test is made in the currency in which the financial asset is denominated. Any other contractual term that changes the timing or amount of cash flows (unless it is a variable interest rate that represents time value of money and credit risk) does not meet the amortized cost criteria.

In cases where the relationship between the passage of time and the interest rate of the financial instrument may be imperfect, known as modified time value of money, the Banks assesses the modified time value of money feature to determine whether the financial instrument still meets the SPPI criterion. The objective of the assessment is to determine how different the undiscounted contractual cash flows could be from the undiscounted cash flows that would arise if the time value of money element was not modified (the benchmark cash flows). If the resulting difference is significant, the SPPI criterion is not met. In view of this, the Bank considers the effect of the modified time value of money element in each reporting period and cumulatively over the life of the financial instrument.

(d) Distinction Between Investment Properties, Assets Held for Sale, and Owner-occupied Properties

The Bank determines whether a property qualifies as an investment property, assets held for sale or owner-occupied properties. In making its judgment, the Bank considers whether the property generates cash flows largely independent of the other assets held by an entity. Owner-occupied properties generate cash flows that are attributable not only to the property but also to other assets used in the Bank's operations.

The Bank classifies its acquired properties as Bank Premises, Furniture, Fixtures and Equipment if used in operations, as Assets Held for Sale if the Bank expects that the properties will be recovered through sale within one year from the date of classification, or as Investment Properties if the Bank intends to hold the properties for capital appreciation or for rental.

(e) Determination of Lease Term of Contracts

In determining the lease term, management considers all relevant factors and circumstances that create an economic incentive to exercise a renewal option. Renewal options are only included in the lease term if it is enforceable.

The Bank did not include renewal options as part of the lease term as the terms are renewable upon mutual agreement of the parties.

The lease term is reassessed if an option is actually exercised or not exercised or the Bank becomes obliged to exercise or not exercise it. The assessment of reasonable certainty is only revised if a significant event or a significant change in circumstances occurs, which affects this assessment, and that is within the control of the Bank.

(f) Recognition of Provisions and Contingencies

Judgment is exercised by management to distinguish between provisions and contingencies. Policies on recognition of provisions and contingencies are discussed in Note 2.10 and relevant disclosures are presented in Note 23.

3.2 Key Sources of Estimation Uncertainty

The key assumptions presented below concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of resources and liabilities within the next reporting period:

(a) *Determination of Appropriate Discount Rate in Measuring Lease Liabilities*

The Bank measures its lease liabilities at present value of the lease payments that are not paid at the commencement date of the lease contract. The lease payments were discounted using a reasonable rate deemed by management equal to the Bank's incremental borrowing rate. In determining a reasonable discount rate, management considers the term of the leases, the underlying asset and the economic environment. Actual results, however, may vary due to changes in estimates brought about by changes in such factors.

(b) *Estimation of Allowance for ECL on Financial Assets*

The Bank provides ECL for financial instruments that have passed the SPPI test (see Note 2.3). The Bank's ECL calculations are outputs of complex models with a number of underlying assumptions which include: the Bank's criteria for assessing if there has been a SICR; and, development of ECL models, including the choice of inputs relating to macroeconomic variables (MEV). The calculation of credit-impairment provisions also involves expert credit judgement to be applied based upon counterparty information received from various sources including relationship managers and on external market information.

The analysis of the allowance for impairment and the ECL assessed on financial assets are shown in Notes 4.3.1.3, 8 and 9.

(c) *Fair Value Measurement for Financial Instruments*

Management applies valuation techniques to determine the fair value of financial instruments where active market quotes are not available. This requires management to develop estimates and assumptions based on market inputs, using observable data that market participants would use in pricing the instrument. Where such data is not observable, management uses its best estimate. Estimated fair values of financial instruments may vary from the actual prices that would be achieved in an arm's length transaction at the end of the reporting period.

The carrying values of the Bank's financial assets at FVOCI and the amounts of fair value changes recognized on those assets are disclosed in Note 8.2.

(d) *Estimation of Useful Lives of Bank Premises, Furniture, Fixtures and Equipment, Right-of-use Asset, Investment Properties and Intangible Assets*

The Bank estimates the useful lives of bank premises, furniture, fixtures and equipment, right-of-use asset, investment properties and intangible assets based on the period over which the assets are expected to be available for use. The estimated useful lives of these assets are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets.

The carrying amounts of bank premises, furniture, fixtures and equipment, right-of-use assets, investment properties and intangible assets are analyzed in Notes 10, 11.1, 13 and 15, respectively. Based on management's assessment as at December 31, 2020 and 2019, there are no changes in the useful lives of these assets. Actual results, however, may vary due to changes in estimates brought about by changes in factors mentioned above.

(e) Fair Value Measurement of Non-financial Assets

The Bank's investment properties are composed of land and buildings and improvements. In determining the fair value of these assets, the Bank engages the services of professional and independent appraisers. The fair value is determined by reference to market-based evidence, which is the amount for which the assets could be exchanged between a knowledgeable willing buyer and seller in an arm's length transaction as at the valuation date. Such amount is influenced by different factors including the location and specific characteristics of the property (e.g., size, features, and capacity), quantity of comparable properties available in the market, and economic condition and behaviour of the buying parties.

Assets held for sale pertain to repossessed motorcycles when a borrower defaulted on its required payments and investment in an associate (see Note 14). In determining the fair value of the repossessed motorcycles, the Bank refers to the most recent list prices or fair value of the motorcycles less the appropriate cost to sell. For the fair value of the investment in an associate, the Bank used the purchase price stated in the share purchase agreement less any costs to sell. The valuations are based and consistent with its best and highest use.

The fair values of the investment properties and assets held for sale are presented under Note 6.4.

(f) Determination of Realizable Amount of Deferred Tax Assets

The Bank reviews its deferred tax assets at the end of each reporting period and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilized.

The carrying value of deferred tax assets, which management has determined to be fully recoverable as at December 31, 2020 and 2019, is disclosed in Note 22.

(g) Impairment of Non-financial Assets

The Bank's policy on estimating the impairment of non-financial assets is discussed in Note 2.13. Though management believes that the assumptions used in the estimation of fair values reflected in the financial statements are appropriate and reasonable, significant changes in these assumptions may materially affect the assessment of recoverable values and any resulting impairment loss could have a material adverse effect on the results of operations.

Impairment losses recognized on assets held for sale and investment properties are disclosed in Notes 12 and 13, respectively. No impairment losses were recognized for bank premises, furniture, fixtures and equipment, investment in an associate, right-of-use assets, intangible assets, and other non-financial assets based on management's assessment.

(h) *Valuation of Post-employment Defined Benefit*

The determination of the Bank's obligation and cost of post-employment and other retirement benefits is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions are described in Note 20.2 and include, among others, discount rates, expected rate of return on plan asset and salary increase rates. A significant change in any of these actuarial assumptions may generally affect the recognized expense, other comprehensive income or losses and the carrying amount of the post-employment benefit obligation in the next reporting period.

The amounts of post-employment benefit obligation and expense and an analysis of the movements in the estimated present value of post-employment benefit obligation are presented in Note 20.2.

(i) *Determination of Fair Value Less Cost to Sell of Assets Held for Sale*

In determining the fair value less cost to sell of assets held for sale, management takes into account the most reliable evidence available at the time the estimates are made. These estimates include prices at which the repossessed assets are expected to be sold and the necessary cost to be incurred in disposing the assets. The price and cost estimates, however, could change in the future. The above factor is considered key source of estimation uncertainty and may cause significant adjustments to the Bank's assets held for sale within the next reporting period.

4. RISK MANAGEMENT OBJECTIVES AND POLICIES

4.1 Risk Management Framework

The Bank adopts a comprehensive risk management framework, which integrates management of all risk exposures of the Bank. The framework is consistent with risk regulations standards set by the BSP. There were no changes in the Bank's risk management objectives and policies during the year.

4.2 Risk Governance

The BOD directs the Bank's over-all risk management strategy and performs an oversight function on the Bank's implementation of its risk policies through various committees that it has created, as follows:

(a) *Executive Committee*

The Executive Committee approves credit exposures within the limit delegated by the BOD and beyond the limit authorized for the Management Committee, except for directors, officers, stockholders and related interests (DOSRI) loans which are approved by the BOD regardless of amount.

(b) *Risk Oversight Committee*

The Risk Oversight Committee oversees the risk profile and recommends the risk management framework to the BOD.

(c) *Audit and Compliance Committee*

The Audit and Compliance Committee through Internal Audit Department and Compliance Department provides the independent assessment of the over-all effectiveness of, and compliance with the Bank's risk management policies and processes.

(d) *Corporate Governance Committee*

The Corporate Governance Committee (CGC) is primarily responsible for helping the BOD fulfill its corporate governance functions. It advocates and assists the BOD in adopting and implementing sound principles and practices of good corporate governance.

The CGC also recommends corporate governance policies to the BOD based on the regulations of the BSP, SEC and other regulatory bodies, as well as internationally recognized industry best practices.

(e) *Related Party Transactions Committee*

The Related Party Transactions Committee assists the BOD in fulfilling its responsibility to strengthen corporate governance and practices particularly on related party transactions.

4.3 Financial Risk Management

The Bank does not actively engage in the trading of financial assets for speculative purposes nor does it write options. The most significant financial risks to which the Bank is exposed to are described below and in the succeeding pages.

4.3.1 Credit Risk

Credit risk is the risk that a counterparty fails to discharge an obligation to the Bank. It arises from lending, treasury and other activities undertaken by the Bank. Managing credit risk involves defining the principles and parameters governing credit activities at various levels, (i.e. strategic level, portfolio level down to individual transaction or account level).

The following procedures, among others, are performed in identifying, assessing and managing credit risk:

(a) establish credit policies, asset allocations and concentration limits, risk asset acceptance criteria, target market and clearly defined approving authorities;
(b) establish credit scoring system to determine qualification of borrowers and periodic review of parameters to evaluate effectiveness through back testing;
(c) define documentation policies of approved credit lines;
(d) maintain independence of credit control and monitoring functions from the credit risk-taking function;
(e) regular review of the adequacy of valuation reserves; active loan portfolio management to determine the quality of the loan portfolio, including risks associated with particular industry sectors, regions; monitor portfolio growth, collection performance and delinquency trends, trend of nonperforming loans, concentration risk, and other performance indicators; and,
(f) close monitoring of remedial accounts.

4.3.1.1 Exposures to Credit Risk

Loan classification and credit risk rating are an integral part of the Bank's management of credit risk. On an annual basis, loans are reviewed, classified and rated based on internal and external factors that affect its performance. On a quarterly basis, loan classifications of impaired accounts are assessed and the results are used as basis for the review of loan loss provisions.

The Bank's definition of its loan classification and corresponding credit risk ratings are as follows:

Unclassified/Current	:	Grade A
Especially Mentioned	:	Grade B
Substandard	:	Grade C
Doubtful	:	Grade D
Loss	:	Grade E

(a) *Unclassified/Current*

These are individual credits that do not have a greater-than-normal risk and do not possess the characteristics of adversely classified loans (as defined in the succeeding paragraphs). These are credits that have the apparent ability to satisfy their obligations in full and therefore no loss in ultimate collection is anticipated. These are adequately secured by readily marketable collateral or other forms of support security or are supported by sufficient credit and financial information of favorable nature to assure repayment as agreed.

Past due or individually impaired financial assets are consisting of accounts under the following risk ratings:

(b) *Especially Mentioned*

Accounts classified as "Especially Mentioned" or Grade B are individual credits that have potential weaknesses particularly on documentation or credit administration that deserve management's close attention. These potential weaknesses, if left uncorrected, may affect the repayment prospects of the loan and thus heighten the credit risk to the Bank.

A credit may also be classified as Especially Mentioned if there is evidence of weakness in the borrower's financial condition or credit worthiness, or the credit is subject to an unrealistic repayment program or inadequate source of funds.

(c) *Substandard*

Accounts classified as Substandard or Grade C are individual credits or portions thereof, which appear to involve a substantial and unreasonable degree of risk to the Bank because of unfavorable record or unsatisfactory characteristics. There exists in such accounts the possibility of future loss to the Bank unless given closer supervision. Those classified as Substandard must have a well-defined weakness or weaknesses that jeopardize their liquidation. Such well-defined weaknesses may include adverse trends or development of financial, managerial, economic or political nature, or a significant weakness in collateral.

(d) Doubtful

Accounts classified as Doubtful or Grade D are individual credits or portions thereof which have the weaknesses inherent in those classified as Substandard, with the added characteristics that existing facts, conditions and values make collection or liquidation in full highly improbable and in which substantial loss is probable. Positive and vigorous action is required to avert or minimize losses.

(e) Loss

Accounts classified as Loss or Grade E are individual credits or portions thereof which are considered uncollectible or worthless and of such little value that their continuance as bankable assets are not warranted although the loans may have some recovery or salvage value. The amount of recovery or salvage value is difficult to measure and it is not practical or desirable to defer writing off the entire amount of these basically worthless assets even though partial recovery may be obtained in the future.

In addition, credit portfolio review is another integral part of the Bank's credit risk management. This activity involves the conduct of periodical post approval review of individual credits with main objective to help monitor and maintain sound and healthy risk asset portfolio. The parameters of the credit portfolio review are structured so as to reflect both sides of the risk management equation such as credit quality and process. This function actuates the philosophy that credit quality is derived from sound risk management process. The credit quality of financial assets is managed by the Bank using internal credit ratings.

4.3.1.2 Credit Risk Measurement

The Bank's credit risk measurement is performed on different segments of financial asset portfolio such as: (a) consumer, which include motorcycle, housing, auto loans, enterprise, and microfinance loans; (b) corporate, which generally are commercial loans; and, (c) investments in debt securities that are measured at amortized cost and at FVOCI.

Loans and receivables, regardless if the accounts have been fully paid, extended or renewed in subsequent year or period, are subjected to evaluation for possible losses. The Bank's estimation of credit exposure for risk management purposes is complex and requires the use of models, as the exposure varies with changes in market conditions, expected cash flows, and the passage of time. The assessment of credit risk of a portfolio of assets requires further estimations as to the PDs occurring, of the associated loss ratios, and of default correlations between counterparties; accordingly, such the credit risk is measured using PD, EAD, and LGD, for purposes of measuring ECL.

The Bank uses the following approaches in PD computation, depending on the type of financial instruments: Net Rollforward Rate for loans and receivables and Bloomberg Default Risk (DRSK) Function for investment in debt securities measured at amortized cost and FVOCI. Net Rollforward Rate shows the percentage of borrowers who become increasingly delinquent on their accounts. For the Bank, Net Rollforward Rate is computed based on the amount of outstanding balance which rolled from one age bracket to another. This procedure was elected to be used for purposes of PD computation for loans since it is more reflective of the behavior of the Bank's borrowers where some may actually default within the life of the loan but will still be paid sometime. This is attributable to the Bank's concentration to consumer loans. On the other hand, Bloomberg's DRSK Function provides transparent and timely quantitative estimates of an issuer's default probabilities and default risk. Estimating likelihood is based on globally calibrated model which also retains region-specific characteristics including the Philippine market.

The DRSK function incorporates fundamental factors with industry risk, market sentiment, and business cycle in a quantitative model to determine the default probability.

(a) Consumer Loans

For consumer loans, risk assessment is performed collectively. The basis of the staging of impairment and related PD, LGD, and ECL is its age brackets (0 or current to as much as more than 5 years), based on loan type.

The groupings of financial instruments into a pool of shared credit quality are subject to the regular review by in order to ensure that credit exposures within a particular group remain appropriately homogenous.

(b) Corporate Loans

The Bank's credit risk assessment for corporate loans are assessed individually based on the number of days of missed payments; however, the Bank will be shifting to an assessment approach through Borrower's Risk Rating (BRR) once the Bank is able to collect sufficient data to arrive at a reasonable probability of default rates. This determines the internal credit rating and the PD.

(c) Debt Securities at Amortized Cost

For the Bank's debt securities at amortized cost, the issuer's specific PD using the Bloomberg DRSK Function is used. The PD associated with each rating is determined based on realized default rates over the previous 12 months, as published by Bloomberg.

4.3.1.3 Expected Credit Loss Measurement

(a) Assessment of Significant Increase in Credit Risk

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Bank assesses the change in the risk of a default occurring over the remaining life of the financial instrument. In making this assessment, the Bank assesses on a periodic basis both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information as appropriate. These may include macroeconomic conditions, economic sector and geographical region relevant to the counterparty or borrower and other factors that are counterparty-specific. As the Bank holds various arrays of financial instruments, the extent of assessment may depend on the materiality of the financial instrument or the complexity of the portfolio being assessed.

The Bank's ECL model follows a three-stage impairment approach in determining the loss allowance to be recognized in the financial statements:

(i) Stage 1 – comprises of all credit exposures that are considered 'performing' and with no observed SICR since initial recognition. These include those financial instruments with low credit risk. For these financial instruments, the loss allowance is determined based on a 12-month ECL.

(ii) Stage 2 – comprises of all financial instruments assessed to have SICR since initial recognition based on the Bank's quantitative and qualitative criteria, though not yet deemed to be credit-impaired. Stage 2 financial instruments may also include those financial instruments where the credit risk has improved and have been reclassified from Stage 3 subject to the Bank's observation period on the creditworthiness of the counterparty. A lifetime ECL is recognized for these financial instruments.

(iii) Stage 3 – comprises credit exposures which are assessed with objective evidence of impairment, thus considered by the Bank as 'non-performing', which is assessed consistently with the Bank's definition of default for each loan portfolio. The Bank recognizes a lifetime ECL for all credit-impaired financial assets.

The Bank considers low credit risk for listed debt security when its credit risk rating is equivalent to a globally understood definition of 'investment grade' (which should be from at least one major rating agency); other debt securities 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.

Financial assets that are credit-impaired on initial recognition are classified as purchased or originated credit-impaired assets. ECL is only recognized or released to the extent that there is a subsequent change in the ECLs.

The criteria for determining whether credit risk has increased significantly vary by portfolio and include quantitative changes in probabilities of default and qualitative factors, including a backstop based on delinquency. The credit risk of a particular exposure is deemed to have increased significantly since initial recognition if, based on the Bank's internal credit assessment, the borrower or counterparty is determined to have well-defined credit weaknesses. For exposures with no internal credit risk rating performed, if contractual payments are more than a specified days past due threshold, the credit risk is deemed to have increased significantly since initial recognition.

Depending on the number of days past due which differ across the various retail products of the Bank, a credit exposure may be transferred to Stage 2 or Stage 3. Days past due are determined by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received. In subsequent reporting periods, if the credit risk of the financial instrument improves such that there is no longer an SICR since initial recognition, the Bank shall revert to recognizing a 12-month ECL. As a general rule, an upgrade or transfer of credit exposure from Stage 3 to Stage 1 is allowed when there is sufficient evidence to support that full collection of principal and interest is probable, consistent with the Bank's definition of curing period.

(b) Definition of Default and Credit-Impaired Assets

Loans and Receivables

Credit impaired assets are those classified as both past due and under Stage 3. The Bank defines a financial asset as in default, which is aligned with the definition of credit-impaired asset, when it meets one or more of the following criteria:

- *Quantitative* – in this criterion, the borrower has more than 90 days of missed contractual payments.

- *Qualitative* – this includes instances where the borrower is unlikely to pay its obligations and is deemed to be in significant financial difficulty, which include cases of long-term forbearance, borrower's death, insolvency, breach of financial covenant/s, disappearance of active market for that financial instrument because of financial difficulties, and bankruptcy.

These criteria 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. Such definition has been consistently applied in determining PD, EAD, and LGD throughout the ECL calculations of the Bank.

An instrument is considered to have cured when it no longer meets any of the default criteria for a consecutive period of six months. The cure period sets the tolerance period wherein the borrowers are allowed to update the payments. This period was determined based on an analysis which considers the likelihood of a financial instrument returning to default status. The Bank considers verifiable collection experience and reasonable judgment that support the likelihood.

Investments in Debt Securities

Investments in debt securities is assessed as credit-impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of an event that occurred after the initial recognition of the security (a "loss event") and that loss event has impact on the estimated future cash flows of the securities. Losses expected as a result of future events, shall also be considered in estimating the ECL. Objective evidence that the security is impaired includes observable data that comes to the attention of the holder of the security about the following loss events:

- significant financial difficulty of the issuer or obligor;
- breach of contract, such as a default or delinquency in interest or principal payments;
- the financial institution, for economic or legal reasons relating to the issuer's financial difficulty, granting to the issuer a concession that the financial institution would not otherwise consider;
- it becoming probable that the issuer will enter bankruptcy or other financial reorganization;
- the disappearance of an active market for that security because of financial difficulties; or,
- observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of securities since the initial recognition of those assets, although the decrease cannot yet be identified with the individual securities in the portfolio, including adverse change in the payment status of issuers in the portfolio; or national or local economic conditions that correlate with defaults on the securities in the portfolio.

The disappearance of an active market because a financial institution's held securities are no longer publicly traded is not an evidence of impairment. A downgrade of an issuer's credit rating is not, by itself, evidence of impairment, although it may be evidence of impairment when considered with other available information. A decline in the fair value of a security below its cost or amortized cost is not necessarily evidence of impairment (for example, a decline in fair value of an investment in debt security that results from an increase in the risk-free interest rate).

In making an assessment of whether an investment in sovereign debt is credit-impaired, the Bank considers the following factors:

- the market's assessment of creditworthiness as reflected in the bond yields;
- the rating agencies' assessment of creditworthiness;
- the country's ability to access the capital markets for new debt issuance;
- the probability of debt being restructured, resulting in holders suffering losses through voluntary or mandatory debt forgiveness; or,
- the internal support mechanism in place to provide the necessary support as 'lender of last resort' to that country, as well as the intention, reflected in public statements, of governments and agencies to use those mechanisms. This includes an assessment of the depth of those mechanisms and, irrespective of the political intent, whether there is the capacity to fulfill the required criteria.

(c) Key Inputs, Assumptions, and Estimation Techniques Used in Measurement of ECL

The ECL is determined by projecting the PD, LGD and EAD for each future month and for each individual exposure or collective segment.

- *Probability of Default*

  This represents an estimate of likelihood of a borrower defaulting on its financial obligation over a given time horizon, either over the next 12 months (12-month PD) or over the remaining lifetime (lifetime PD) of the obligation. PD is calculated based on statistical rating models, and assessed using rating tools tailored to the various categories of counterparties and exposures, which consider both quantitative and qualitative factors. In determining PD, the Bank performs segmentation of its credit exposures based on homogenous characteristics and developed a systematic PD methodology for each portfolio. Generally, if a counterparty or exposure migrates between rating classes, this will lead to a change in the estimate of the associated PD.

- *Loss Given Default*

  This pertains to estimate of loss related to the amount that may not be recovered after the borrower defaults. The Bank estimates LGD parameters based on historical recovery rates of claims against defaulted counterparties, which takes into consideration the realization of any collateral that is integral to the financial asset. For secured credit exposure, the determination of LGD is dependent on the Bank's collateral data which are available at the origination of the instrument which takes into account the amount and timing of the cash inflows (actual recovery) and outflows (actual expenses) and on the time value of money. Recoveries are calculated on a discounted cash flows basis using the effective interest rate as the discounting factor.

- *Exposure at Default*

  This represents the gross carrying amount of the exposure in the event of default which include the amortized cost amount of an instrument and any accrued interest receivable.

These three components are multiplied together and adjusted for the likelihood of survival (i.e., the exposure has not been prepaid or defaulted in an earlier month). This effectively calculates an ECL for each future month, which is then discounted back to and summed at the end of the reporting period. 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 12-month PD. The maturity profile looks at how defaults develop on a portfolio from the point of initial recognition throughout the life of the instrument. 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. Such profile is supported by a historical analysis (i.e., an observation period of three years) which uses, among others the number of rated accounts and ratings of bad accounts at the time of default.

For loans with periodic amortization and one-time full payment at end of the term, EAD is based on the contractual repayments owed by the borrower over a 12-month or lifetime basis. This will also be adjusted for any expected overpayments made by a borrower. Early repayment or refinancing assumptions are also incorporated into the calculation.

The 12-month and lifetime LGDs are determined based on the factors which impact the recoveries made post default, and may vary by loan type. For secured loans, this is primarily based on collateral type and projected collateral values, historical discounts to market or book values due to forced sales, time to repossession and recovery costs observed. For unsecured loans, LGD is typically set at product level due to the limited differentiation in recoveries achieved across different borrowers. The LGD is influenced by collection strategies.

The determination of the 12-month and lifetime PD, LGD, and EAD includes the overlay of forward-looking economic information [see Note 4.3.1.3(d)]. The assumptions underlying the calculation of the ECL – such as how the maturity profile of the PDs and how collateral values change – are monitored and reviewed by the Bank on a periodic basis.

There have been no significant changes in the estimation techniques or significant assumptions made by the Bank in 2020 and 2019.

(d) Overlay Forward-looking Information in the Measurement of ECL

The Bank incorporates forward-looking information (FLI) in its assessment of SICR and calculation of ECL. The Bank has performed historical analysis and has identified the key MEVs affecting credit risk associated with its borrowers and/or counterparties and the ECL for each portfolio of debt instruments.

The Bank has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between MEVs, credit risk, and credit losses.

The significance of the selected MEVs as predictors of default may change over time as historical information is added. As such, the generated macro-economic models are updated at least on an annual basis.

The MEVs and their associated impact on the PD, EAD and LGD vary by financial instrument. To project the MEVs for the full remaining life of each financial instrument, a mean reversion approach has been used, which means that MEVs tend to either a long run average rate (e.g., lending interest rate) or a long run average growth rate (e.g., gross domestic product) over a period of two to five years. The impact of these economic variables on the PD, EAD and LGD has been determined by performing statistical regression analysis to understand the impact changes in these variables have had historically on default rates and on the components of LGD and EAD.

The MEVs considered by the Bank includes economic data and forecasts published by government agencies (e.g., BSP and Philippine Statistics Authority), international organizations (e.g., International Monetary Fund), and certain reputable private and academic organizations involved in forecasting. Accordingly, the Bank has identified key drivers for credit risk for its corporate loans portfolio, which include, among others, gross domestic product, consumer price index, unemployment rates, and growth rates of the total number of existing Micro, small & medium enterprises (mSMEs), and growth rates of real non-agricultural wage rates within and outside the National Capital Region. On the other hand, the key drivers for the Bank's retail loans portfolio include inflation rates and nominal wage rates.

As with any economic forecasts, the projections and likelihoods of occurrence are subject to a high degree of inherent uncertainty, and therefore, the actual outcomes may be significantly different to those projections. The Bank considers these forecasts to represent its best estimate of the possible outcomes and has analyzed the non-linearities and asymmetries within the Bank's different product types to establish that the chosen scenarios are appropriately representative of the range of possible scenarios.

In 2020 and 2019, other growth rates which consists of services sector growth rate, growth rate of the total number of existing mSMEs, growth rate of real non-agricultural wage rates, unemployment rate, economic growth rate and inflation rate, and consumer price index (CPI) and unemployment rates, respectively, were used as macroeconomic variables (MEV) for the loan portfolio, given its significant coefficient or impact on the borrowers' ability to meet contractual repayments (see also Note 4.2.1.9). The change in MEV was due to the availability of information at the time the ECL was computed.

Management has also considered other FLIs such as any regulatory, legislative, or political changes, but are not deemed to have a significant impact on the calculation of ECL. Management reviews and monitors the appropriateness of FLIs at least annually.

4.3.1.4 Credit Risk Exposures and the ECL Allowance

(a) Credit Risk Exposures

Generally, the maximum credit risk exposure of financial assets is the carrying amount of the financial assets as shown in the statements of financial position, as summarized below.

	Notes	**2020**	2019
Cash	7	**P 79,102,342**	P 71,176,434
Due from BSP	7	**6,539,156,821**	2,971,517,467
Due from other banks	7	**1,549,294,119**	341,976,552
Investment securities			
at amortized cost	8	**456,444,540**	2,461,974,891
at FVOCI	8	**1,527,514,993**	-
Loans and receivables – net	9	**31,888,264,676**	31,685,242,001
Rental and utilities deposits	15	**26,499,428**	27,923,961
		P 42,019,561,908	P 37,559,811,306

The credit risk for cash and cash equivalents such as Due from BSP and Due from Other Banks are considered negligible, since the counterparties are reputable banks with high quality external credit ratings.

The tables below show the credit exposures on the above financial assets (particularly loans receivables and investments in debt securities) by stages of impairment as of December 31, 2020 and 2019, shown at their gross and net carrying amounts, with the corresponding allowance for ECL shown in Note 4.3.1.4(c). All instruments, which were not assessed by the Bank for ECL based on individual credit risk rating were evaluated on a collective basis, applying applicable PD and LGD based on the segment of instrument gross carrying amounts of financial instruments by stage as at December 31, 2020 and 2019 is presented below.

	2020			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Loans and Receivables				
Unclassified/Current: Grade A	P 28,025,284,762	P -	P -	P28,025,284,762
Especially mentioned: Grade B	-	883,916,794	310,674,906	1,194,591,700
Sub-standard: Grade C	-	928,720,172	500,218,238	1,428,938,410
Doubtful: Grade D	-	-	719,471,604	719,471,604
Loss: Grade E	-	-	2,971,632,311	2,971,632,311
	28,025,284,762	1,812,636,966	4,501,997,059	34,339,918,787
Allowance for ECL	(380,928,742)	(40,205,409)	(2,030,519,960)	(2,451,654,111)
Carrying amount	**P27,644,356,120**	**P1,772,431,557**	**P2,471,477,099**	**P31,888,264,676**
Investments in Debt Securities				
At amortized cost –				
Unclassified/Current: Grade A	P 1,937,533,953	P -	P -	P 1,937,533,953
Allowance for ECL	(289,431)	-	-	(289,431)
Carrying amount	**P 1,937,244,522**	**P -**	**P -**	**P 1,937,244,522**

	2019			
	Stage 1	Stage 2	Stage 3	Total
Loans and Receivables				
Unclassified/Current: Grade A	P24,900,450,802	P -	P -	P24,900,450,802
Especially mentioned: Grade B	-	3,633,262,347	187,144,455	3,820,406,802
Sub-standard: Grade C	-	2,176,659,966	750,586,287	2,927,246,253
Doubtful: Grade D	-	-	500,642,752	500,642,752
Loss: Grade E	-	-	1,470,288,616	1,470,288,616
	24,900,450,802	5,809,922,313	2,908,662,110	33,619,035,225
Allowance for ECL	(315,433,734)	(49,458,379)	(1,568,901,111)	(1,933,793,224)
Carrying amount	P24,585,017,068	P5,760,463,934	P1,339,760,999	P31,685,242,001
Investments in Debt Securities				
At amortized cost –				
Unclassified/Current: Grade A	P 2,462,403,015	P -	P -	P 2,462,403,015
Allowance for ECL	(428,124)	-	-	(428,124)
Carrying amount	P 2,461,974,891	P -	P -	P 2,461,974,891

The information on how the significant changes in the gross carrying amount of the financial instruments contributed to the changes in allowance for ECL are presented in Note 4.3.1.4(b).

The Bank's maximum exposure to credit risk is equal to the carrying value of its financial assets, except for certain secured loans and receivables from customers.

(b) Significant Changes in Gross Carrying Amount Affecting Allowance for ECL

The table below provides information how the significant changes in the gross carrying amount of loans and receivables in 2020 and 2019 contributed to the changes in the allowance for ECL (amounts in millions of Philippine pesos).

	Stage 1	**Stage 2**	**Stage 3**	**Total**
Balance at January 1, 2020	P 24,900	P 5,810	P 2,909	P 33,619
Transfers:				
From Stage 1 to Stage 2	(583)	583	-	-
From Stage 1 to Stage 3	(1,545)	-	1,545	-
From Stage 2 to Stage 1	305	(305)	-	-
From Stage 2 to Stage 3	-	(626)	626	-
From Stage 3 to Stage 1	62	-	(62)	-
From Stage 3 to Stage 2	-	17	(17)	-
New financial assets originated:				
Remained in Stage 1	16,990	-	-	16,990
Moved to Stages 2 and 3	-	207	1,581	1,788
Financial assets derecognized or repaid during the year	(9,804)	(722)	(1,004)	(11,531)
Write-offs	-	-	(881)	(881)
Others	(2,300)	(3,151)	(195)	(5,645)
	3,125	(3,997)	1,593	721
Balance at December 31, 2020	**P 28,025**	**P 1,813**	**P 4,502**	**P 34,340**

	Stage 1	Stage 2	Stage 3	Total
Balance at January 1, 2019	P 20,554	P 5,712	P 1,770	P 28,036
Transfers:				
From Stage 1 to Stage 2	(1,235)	1,235	-	-
From Stage 1 to Stage 3	(1,096)	-	1,096	-
From Stage 2 to Stage 1	83	(83)	-	-
From Stage 2 to Stage 3	-	(433)	433	-
From Stage 3 to Stage 1	23	-	(23)	-
From Stage 3 to Stage 2	-	6	(6)	-
New financial assets originated:				
Remained in Stage 1	19,771	-	-	19,771
Moved to Stages 2 and 3	-	768	624	1,392
Financial assets derecognized or repaid during the year	(7,249)	(795)	(626)	(8,670)
Write-offs	-	-	(513)	(513)
Others	(5,951)	(600)	154	(6,397)
	4,346	98	1,139	5,583
Balance at December 31, 2019	P 24,900	P 5,810	P 2,909	P 33,619

The gross carrying amounts of the Bank's investments in debt securities at amortized cost and at FVOCI are disclosed in Note 8. These are classified in Stage 1 due to low credit risk.

(c) Allowance for Expected Credit Loss

The following table show the reconciliation of the loss allowance for ECL on loans and receivables at the beginning and end of 2020 and 2019 (amounts in millions of Philippine pesos).

	Stage 1	**Stage 2**	**Stage 3**	**Total**
Balance at January 1, 2020	P 316	P 49	P 1,569	P 1,934
Transfers:				
From Stage 1 to Stage 2	(29)	29	-	-
From Stage 1 to Stage 3	(663)	-	663	-
From Stage 2 to Stage 1	4	(4)	-	-
From Stage 2 to Stage 3	-	(363)	363	-
New financial assets originated:				
Remained in Stage 1	222	-	-	222
Moved to Stages 2 and 3	-	6	458	464
Financial assets derecognized or repaid during the year	(80)	(15)	(570)	(665)
Write-offs	-	-	(898)	(898)
Others	611	338	446	1,395
	65	(9)	462	518
Balance at December 31, 2020	**P 381**	**P 40**	**P 2,031**	**P 2,452**
Balance at January 1, 2019	P 300	P 58	P 1,103	P 1,461
Transfers:				
From Stage 1 to Stage 2	(32)	32	-	-
From Stage 1 to Stage 3	(567)	-	567	-
From Stage 2 to Stage 1	1	(1)	-	-
From Stage 2 to Stage 3	-	(249)	249	-
New financial assets originated:				
Remained in Stage 1	202	-	-	202
Moved to Stages 2 and 3	-	15	165	180
Financial assets derecognized or repaid during the year	(76)	(28)	(238)	(342)
Write-offs	-	-	(537)	(537)
Others	488	222	260	970
	16	(9)	466	473
Balance at December 31, 2019	P 316	P 49	P 1,569	P 1,934

For the Bank's investments in debt securities at amortized cost, the Bank has recognized ECL of P0.4 million both as of December 31, 2019. As of December 31, 2020, ECL amounting to P0.3 million was transferred to other comprehensive income (loss) as part of Revaluation Reserves as a result of the reclassification of certain investments in debt securities at amortized cost to financial assets as FVOCI (see Note 8). These are all classified in Stage 1 due to low credit risk.

Post-model adjustments made in estimating the reported ECL as at December 31, 2020 to reflect the impact of COVID-19 situation are set out in Note 4.3.1.8.

4.3.1.5 Collateral Held as Security and Other Credit Enhancements

The Bank holds collateral against loans and other receivables from customers in the form of mortgage interests over property, hold-out deposits, other registered securities over assets and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of borrowing and generally are not updated except when a loan is individually assessed as impaired. Collateral generally is not held over due from other banks, interbank loans and investment securities, except when securities are held as part of reverse repurchase and securities borrowing activity.

The estimated fair value of collateral and other security enhancements held against the loan portfolio as of December 31, 2020 and 2019 are presented below:

	2020	2019
Hold out deposits	**P 277,256,049**	P 217,967,088
Real estate mortgage	**271,273,258**	677,375,717
Others	**445,432,285**	1,094,274,025
	P 993,961,592	P 1,989,616,830

4.3.1.6 Write-offs

The Bank writes off financial assets, in whole or in part, when it has exhausted all practical recovery efforts and has concluded that there is no reasonable expectation of recovery of the financial asset. Indicators that there is no reasonable expectation of recovery include: cessation of enforcement activity; and, where the Bank's recovery method is through foreclosure of collateral and the value of the collateral is less than the outstanding contractual amounts of the financial assets to be written-off.

The Bank may write off financial assets that are still subject to enforcement activity. The Bank still seeks to recover amounts legally owed in full, but which have been written off due to no reasonable expectation of full recovery. The outstanding amounts of such assets written off in 2020 and 2019 amounted to P898.1 million and P536.7 million, respectively (see Note 9).

4.3.1.7 Concentration of Credit Risk

The Bank monitors concentrations of credit risk by sector. An analysis of concentrations of credit risk (gross of allowance) at the reporting date is shown below.

	2020			2019		
	Cash and Cash Equivalents	**Receivables from Customers**	**Investment Securities**	Cash and Cash Equivalents	Receivables from Customers	Investment Securities
Concentration by sector:						
Financial and insurance activities	**P10,221,984,166**	**P 12,163,593**	**P 456,444,540**	P 6,350,418,984	P 16,329,822	P 507,242,505
Consumption	**-**	**22,797,950,146**	**356,739,477**	-	21,427,837,500	524,250,402
Real estate activities	**-**	**1,694,785,459**	**915,035,338**	-	1,928,906,455	1,090,632,507
Wholesale and retail trade	**-**	**1,282,559,513**	**-**	-	1,646,847,529	-
Agriculture, hunting and forestry	**-**	**1,206,907,535**	**-**	-	1,368,577,778	-
Transportation, storage	**-**	**569,488,776**	**47,676,303**	-	8,577,416	110,272,601
Electricity, gas and water and communication	**-**	**540,898,936**	**204,263,975**	-	644,794,521	230,005,000
Manufacturing	**-**	**506,418,289**	**-**	-	533,664,907	-
Construction	**-**	**338,862,345**	**-**	-	289,946,641	-
Education	**-**	**245,051,482**	**-**	-	220,208,033	-
Accommodation and food service	**-**	**200,422,686**	**-**	-	258,449,446	-
Human health and social service activities	**-**	**167,809,635**	**-**	-	229,448,320	-
Private household	**-**	**17,961,866**	**-**	-	18,613,777	-
Mining and quarrying	**-**	**1,161,308**	**-**	-	1,181,739	-
Other community, social and personal services	**-**	**375,669,830**	**-**	-	1,072,828,304	-
	P10,221,984,166	**P29,958,111,399**	**P 1,980,159,633**	P 6,350,418,984	P29,666,212,188	P 2,462,403,015

4.3.1.8 Impact of COVID-19 on Measurement of ECL

In response to the COVID-19 situation and the Bank's expectations of economic impacts, the key conditions and assumptions utilized in the Bank's calculation of ECL have been revisited and recalibrated. The economic scenarios and forward-looking macroeconomic assumptions underpinning the ECL calculation are outlined in Note 4.3.1.2. As of December 31, 2020, the expected impacts of COVID-19 have been reasonably captured using the Bank's business-as-usual (BAU) ECL methodology (i.e., the ECL methodology used in the prior years) and post-model adjustments (or the "COVID-19 overlay").

The BAU ECL methodology have been structured and calibrated using historical trends and correlations as well as forward-looking economic scenarios. The severity of the current macroeconomic projections and the added complexity caused by the various support schemes and regulatory guidance could not be reliably modelled for the time being. Therefore, the BAU ECL model may generate results that are either overly conservative or overly optimistic depending on the specific portfolio or segment. As a result, post-model adjustments are needed to reflect the considerable uncertainty in BAU ECL methodology given the unprecedented impacts of COVID-19. Given that the BAU ECL model changes take a significant amount of time to develop and validate and the data limitation in respect of lagging credit information and granular behavior analysis of customers, the Bank expects that post-model adjustments will be applied for the foreseeable future.

Notwithstanding that the measurement inputs and assumptions, including forward-looking macroeconomic assumptions, were recalibrated in response to the COVID-19 situation, the fundamental ECL mechanics and methodology underpinning the Bank's measurement of ECL have remained consistent with the prior periods.

The Bank focused on supporting customers who are experiencing and about to experience financial difficulties as a result of the COVID-19 situation and has offered a range of financial assistance measures including temporary loan repayment deferrals (principal and interest). In accordance with regulatory guidance, the Bank implemented mandatory payment holidays to all eligible loan accounts (see also Note 4.3.1.9).

The following are the considerations in measuring ECL under the COVID-19 situation:

(a) *Significant Increase in Credit Risk*

The offer or uptake of COVID-19 related repayment deferrals (i.e., government mandated reliefs) do not itself constitute SICR event unless the exposure is considered to have experienced a SICR based on other available information. SICR has been reassessed with reference to the Bank' internal borrower risk rating which considers industry or segment assessment under COVID-19 situation, financial performance indicators, historical credit information of the borrower and other modifiers. The Bank's reassessment is to determine if changes in the customers' circumstances were sufficient to constitute SICR.

(b) *COVID-19 Overlay*

COVID-19 overlay represents adjustments in relation to data and model limitations as a result of the COVID-19 economic disruption. The adjustments are based on a combination of portfolio level credit risk analysis and an evaluation of ECL coverage at an exposure level. This also includes the effect of government and other support programs. Considerations included the potential severity and duration of the economic disruption and the heightened credit risk of specific sectors and loan classes or segments.

The impact of post-model adjustments made in estimating the reported ECL as at December 31, 2020 are disclosed below.

	BAU ECL	COVID-19 Overlay	Total ECL
Motorcycle loans	P 1,362,207,042	P 142,775,461	P 1,504,982,503
Corporate loans	643,948,797	83,421,345	727,370,142
Consumer loans	44,520,483	2,024,978	46,545,461
Enterprise loans	153,989,468	(640,715)	153,348,753
Microfinance loans	19,744,849	(337,597)	19,407,252
	P 2,224,410,639	P 227,243,472	P 2,451,654,111

4.3.1.9 Sensitivity Analysis on ECL Measurement

Set out below are the changes to the Bank's ECL as of December 31, 2020 and 2019 that would result from reasonably possible changes in these parameters from the actual assumptions used in the Bank's economic variable assumptions:

	Impact on ECL Allowance		
	Change in MEV assumption +/ - 1%	Increase in assumption	Decrease in assumption
December 31, 2020:			
Motorcycle loans	(a), (b), (c)	P 1,504,982,503	(P 1,504,982,503)
Corporate loans	(a), (b), (c), (d)	727,370,142	(727,370,142)
Consumer loans	(a), (b), (c), (d)	46,545,461	(46,545,461)
Enterprise loans	(a), (b), (c), (e), (f)	153,348,753	(153,348,753)
Microfinance loans	(b), (c)	19,407,252	(19,407,252)

(a) Services sector growth rate
(b) Growth rate of the total number of existing mSMEs
(c) Growth rate of real non-agricultural wage rates
(d) Unemployment rate
(e) Economic growth rate
(f) Inflation rate

		Impact on ECL Allowance	
	Change in MEV assumption +/ - 1%	Increase in assumption	Decrease in assumption
December 31, 2019:			
Motorcycle loans	(a), (b)	P 1,120,256,432	(P 1,120,256,432)
Corporate loans	(a), (b)	623,743,602	(623,743,602)
Consumer loans	(a), (b)	23,464,119	(23,464,119)
Enterprise loans	(a), (b)	150,819,997	(150,819,997)
Microfinance loans	(a), (b)	13,275,005	(13,275,005)

(a) Unemployment rate
(b) CPI

4.3.1.10Modifications of Financial Assets

(a) Financial Reliefs Provided by the Bank

In certain cases, the Bank modifies the terms of the loans provided to the borrowers due to commercial renegotiations, or for distressed loans, with a view of maximizing recovery of the contractual amount of obligation that the Bank is owed to. Restructuring policies and practices are based on indicators or criteria which, in the management's judgment, indicate that payment will most likely continue. Such policies are continuously reviewed and updated as necessary.

Restructured loans amounted to P780.2 million and P626.9 million as of December 31, 2020 and 2019, respectively (see Note 9). The related allowance for credit loss of such loans amounted to P111.8 million and P120.5 million as of the same dates, respectively.

(b) Financial Reliefs Mandated by the Government

In compliance with R.A. No. 11469, BAHO Act, the Bank implemented a minimum 30-day grace period on all loans with principal and interests falling due within the period of the Enhanced Community Quarantine (ECQ), which started on March 17, 2020 up to April 30, 2020, which was extended until May 31, 2020.

In compliance with R.A. No. 11494, BARO Act, the Bank granted one-time 60-day grace period for payments and/or maturity periods of all existing, current and outstanding loans as of September 15, 2020, falling due, or any part thereof, on or before December 31, 2020, subject to compliance with regulatory requirements.

During the grace period or payment holiday, there were no interests on interests, penalties, or other charges but accrued interests at contractual rate for grace periods were charged based on the outstanding principal balance of loan at the time of application of the grace periods.

As of December 31, 2020, the total outstanding balance of loans modified under BAHO and BARO Acts amounts to P18,649.4 million and P727.0 million, respectively.

	BAHO Act	BARO Act
Motorcycle loans	P 15,930,781,603	P 527,839
Corporate loans	2,264,800,956	697,205,015
Enterprise loans	246,658,465	5,762,405
Consumer loans	185,505,609	23,473,461
Microfinance loans	21,605,584	59,570
	P 18,649,352,217	**P 727,028,290**

Financial reliefs mandated by the Government under the BAHO and BARO Acts have not resulted in modification loss as the present value of the original cash flows and the present value of the revised cash flows were equivalent.

(c) Assessment of SICR

The risk of default of such assets after modification is assessed at the reporting date and compared with the risk under the original terms at initial recognition, when the modification is not substantial and so does not result in derecognition of the original asset. The Bank monitors the performance of the financial asset subsequent to its modification.

The Bank may determine that the credit risk has significantly improved after restructuring (in accordance with the new terms for six consecutive months or more), so that the assets are moved from Stage 2 or Stage 3.

The Bank continues to monitor if there is a subsequent SICR in relation to such modified assets through the use of specific models for modified assets [see also Note 4.3.1.8(a)].

4.3.2 Market Risk

The Bank is exposed to market risk through its use of financial instruments and specifically to interest rate risk which result from both its operating and investing activities.

(a) Interest Rate Risk

The Bank's policy is to minimize interest rate cash flow risk exposures. As of December 31, 2020 and 2019, the Bank is exposed to changes in market interest rates through its short-term placements which form part of amounts due from other banks and debt securities, which are subject to variable interest. All other financial assets and financial liabilities either have fixed interest rates or are non interest-bearing.

The following table illustrates the sensitivity of the Bank's profit before tax and equity to a reasonably possible change in interest rates of its short-term placements and debt securities, with all other variables held constant.

	2020				
	+/- %		Profit Before Tax		Equity
Due from other banks	0.45%	P	6,971,824	P	5,577,459
Financial assets at FVOCI	0.49%		7,824,394		6,259,515
Investment securities at amortized cost	0.49%		2,236,578		1,789,263
		P	**17,032,796**	**P**	**13,626,237**

	2019				
	+/- %		Profit Before Tax		Equity
Due from other banks	1.40%	P	4,787,869	P	3,830,295
Investment securities at amortized cost	2.69%		66,146,065		52,916,852
		P	70,933,934	P	56,747,147

The changes in interest rates used in the analysis of short-term placements are based on the volatility of the BSP's compilation of domestic rates on short-term placements computed using standard deviation. The changes in interest rates used in the analysis of trading and investment securities have been determined based on the average volatility in interest rates of the said investments in the past 12 months.

(b) Other Price Risk

The Bank's market price risk arises from its investments carried at fair value (i.e., financial assets at FVOCI). The Bank manages exposures to price risk by monitoring the changes in the market price of the investments and at some extent, diversifying the investment portfolio in accordance with the limit set by management.

For financial assets at FVOCI held by the Bank, an average volatility of 5.00% and 16.66%, has been observed during 2020 and 2019, respectively. If quoted price for these securities increased or decreased by that amount, equity would have changed by P6.0 million and P19.3 million in 2020 and 2019, respectively.

The investments in listed equity securities are considered long-term strategic investments. In accordance with the Bank's policies, no specific hedging activities are undertaken in relation to these investments. The investments are continuously monitored.

4.3.3 Liquidity Risk

Liquidity risk is the risk that funds available may not be adequate to meet the credit demands of the Bank's customers and repay deposits when these become due. The Bank manages liquidity risk by holding sufficient liquid assets of appropriate quality to ensure short-term funding requirements are met and by maintaining a loan portfolio with evenly-spaced maturities and cash flows. In addition, the Bank seeks to maintain sufficient liquidity to take advantage of interest rate opportunities when they arise.

The analysis of the maturity groupings of the Bank's financial assets and financial liabilities (at gross amounts) as at December 31, 2020 and 2019 is presented below.

	2020			
	Due Within One Year	**Due Beyond One Year but Within Five Years**	**Due Beyond Five Years**	**Total**
Financial Resources:				
Cash	P 79,102,342	P -	P -	P 79,102,342
Due from BSP	6,539,156,821	-	-	6,539,156,821
Due from other banks	1,549,294,119	-	-	1,549,294,119
Investment securities:				
At FVOCI	-	1,647,723,274	-	1,647,723,274
At amortized cost	12,720,872	211,060,805	232,662,863	456,444,540
Loans and receivables	9,143,124,771	23,829,770,611	1,367,023,403	34,339,918,785
Rental and utilities deposits	-	-	26,499,428	26,499,428
Total	17,323,398,925	25,688,554,690	1,626,185,694	44,638,139,309
Financial Liabilities:				
Deposit liabilities	21,198,027,516	7,850,360,261	394,287,602	29,442,675,379
Accounts payable and other liabilities	881,099,718	103,126,557	22,875,900	1,007,102,175
Total	22,079,127,234	7,953,486,818	417,163,502	30,449,777,554
Periodic Surplus (Gap)	(4,755,728,309)	17,735,067,872	1,209,022,192	14,188,361,755
Cumulative Total Surplus (Gap)	**(P 4,755,728,309)**	**P 12,979,339,563**	**P 14,188,361,755**	**P 14,188,361,755**

	2019			
	Due Within One Year	Due Beyond One Year but Within Five Years	Due Beyond Five Years	Total
Financial Resources:				
Cash	P 71,176,434	P -	P -	P 71,176,434
Due from BSP	2,971,517,467	-	-	2,971,517,467
Due from other banks	341,976,552	-	-	341,976,552
Investment securities:				
At FVOCI	-	120,208,280	-	120,208,280
At amortized cost	2,433,883	2,166,106,359	293,862,773	2,462,403,015
Loans and receivables	9,801,441,332	22,149,834,529	1,667,759,364	33,619,035,225
Rental and utilities deposits	-	-	27,923,961	27,923,961
Total	13,188,545,668	24,436,149,168	1,989,546,098	39,614,240,934
Financial Liabilities:				
Deposit liabilities	17,023,013,356	9,109,843,795	957,246,700	27,090,103,851
Accounts payable and other liabilities	999,616,101	152,928,626	22,875,900	1,175,420,627
Total	18,022,629,457	9,262,772,421	980,122,600	28,265,524,478
Periodic Surplus (Gap)	(4,834,083,789)	15,173,376,747	1,009,423,498	11,348,716,456
Cumulative Total Surplus (Gap)	(P 4,834,083,789)	P 10,339,292,958	P 11,348,716,456	P 11,348,716,456

The Bank expects that a substantial portion of the deposit liabilities with maturity of one year will be rolled over upon maturity.

4.3.4 Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.

The management of operational risk has two key objectives: (a) minimize the impact of losses – financial and non-financial – both in the normal course of business and from extreme events; (b) improve the effective management of the Bank and strengthen its brand and external reputation.

The Bank uses the following operational risk management tools to properly identify and assess operational risk:

(a) Loss Event Reporting

Internal operational loss data provides meaningful information for assessing exposure to operational risk and effectiveness of internal control. Business units are required to report their loss events within 24 hours.

(b) Key Risk Indicator (KRI)

KRIs provide an insight into emerging risk exposure that contribute to early detection of operational risk.

(c) Risk and Control Self-Assessment (RCSA)

RCSA evaluates residual risk (the risk exposure after controls are considered) and the effectiveness of the controls.

4.3.5 Anti-Money Laundering Controls

The R.A. No. 9160 of 2001 also known as the Anti-Money Laundering Act (AMLA), as amended by R.A. 9194 (March 2003), R.A. 10167 (June 2012), R.A. 10365 (March 2013) & R.A. 10927 (July 2017) is an act defining crime of money laundering, providing penalties therefore and for other purpose. Pursuant to AMLA, it is the policy of the state to protect and preserve the integrity and confidentiality of bank accounts to ensure that the Philippines shall not be used as a money laundering site for the proceeds of any unlawful activity.

Adopting a comprehensive and risk-based Money Laundering and Terrorist Financing Prevention Program, a Board-approved manual was created in compliance with BSP Circular no. 706, as amended by Circulars 950 and 1022; and Anti-Money Laundering Council (AMLC) and Anti-Money Laundering (AML) related SEC Issuances.

As a minimum, the Bank implements rules in accordance with the four (4) major areas for compliance as follows:

(a) Customer Identification and Due Diligence

The Bank implements appropriate due diligence that corresponds to the risk profile of the client during on-boarding and all throughout the existence of business relationship with its customers.

The Bank performs appropriate due diligence based of the resultant risk profile of the customer using the Bank's AML Risk Score Sheet. In particular, due diligence is done when the Bank establishes business relations with any customer; there is suspicion of ML or TF; or there is doubt about the veracity or adequacy of previously obtained customer information data.

(b) Covered and Suspicious Transaction Monitoring and Reporting

The Bank implements monitoring and timely, complete and accurate reporting of covered and suspicious transactions of all customers across all products.

The Bank, being a covered person under the supervision of BSP is mandated by the AMLC to monitor and submit covered transaction reports and suspicious transaction reports.

For bank compliance, the former covers a transaction in cash or other equivalent monetary instrument exceeding P500,000 while the latter refers a report on suspicious transaction, regardless of amount, where any of the suspicious circumstances as defined in the 2018 Revised Implementing Rules and Regulations (RIRR), as amended, is determined, based on suspicions or, if available, reasonable grounds, to be existing.

(c) Record Keeping and Retention

The Bank provides and implements Policy on Record Keeping and Retention to ensure confidentiality and protection of all customer records and transactions.

For Identification Records, it is maintained and safely stored as long as the account is active; for Transaction Records, these are maintained and safely stored for five years from the date of transactions; and for Closed Accounts, records on customer identification, account files and business correspondences are preserved and safely stored for at least five years from date of closure. In the event that there will be money laundering case filed in court, the Bank's policy provides that records should be retained beyond five years until confirmed that the case has been terminated by the court.

(d) AML Training Program

All Bank officers and staff are provided with effective training and continuing education programs to enable them to fully comply with all their obligations under the AMLA, the RIRR, and other AMLC issuance.

In coordination with the Bank's Lending and Development Department, the BOD, Officers and Staff are provided modularized AML Training Program commensurate to their duties responsibilities.

The Audit and Compliance committee composed of three independent directors oversees the implementation of the Bank's compliance program, money laundering prevention program and ensuring regulatory compliance issues are resolved expeditiously. At the forefront of the implementation of its mandate is the Compliance Group, headed by the Chief Compliance Officer (CCO).

The CCO regularly reports to the Audit and Compliance Committee and to the BOD, relevant regulatory updates and results of its monitoring of AMLA compliance.

5. CATEGORIES AND OFFSETTING OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

5.1 Carrying Amounts and Fair Values by Category

The carrying amounts and fair values of the categories of financial assets and financial liabilities presented in the statements of financial position are shown below.

	Notes	2020 Carrying Amounts	2020 Fair Values	2019 Carrying Amounts	2019 Fair Values
Financial Assets:					
At amortized cost:					
Cash	7	**P 79,102,342**	**P 79,102,342**	P 71,176,434	P 71,176,434
Due from BSP	7	**6,539,156,821**	**6,539,156,821**	2,971,517,467	2,971,517,467
Due from other banks	7	**1,549,294,119**	**1,549,294,119**	341,976,552	341,976,552
Investment securities at amortized cost - net	8	**456,444,540**	**989,860,977**	2,461,974,891	2,475,830,598
Loans and receivables	9	**31,888,264,676**	**33,165,305,300**	31,685,242,001	33,224,679,117
Rental utilities and deposits	15	**26,499,428**	**26,499,428**	27,923,961	27,923,961
		40,538,761,926	**42,349,218,887**	37,559,811,306	39,113,104,129
At fair value –					
Investment securities at FVOCI	8	**1,647,723,274**	**1,647,723,274**	120,208,280	120,208,280
		P42,143,570,089	**P44,017,896,650**	P37,680,019,586	P 39,233,312,409
Financial Liabilities:					
At amortized cost:					
Deposit liabilities	16	**P29,442,675,379**	**P 30,690,460,155**	P 27,090,103,851	P 28,654,278,745
Accounts payable and other liabilities	17	**1,007,102,175**	**1,007,102,175**	1,175,420,627	1,175,420,627
		P30,449,777,554	**P31,697,562,330**	P 28,265,524,478	P 29,829,699,372

5.2 Offsetting of Financial Assets and Financial Liabilities

The following financial assets in the statements of financial position are subject to offsetting, enforceable master netting arrangements or similar agreements (amounts in thousands of Philippine pesos):

	Gross amounts recognized in the statement of financial position: Financial instruments	Gross amounts recognized in the statement of financial position: Amount set-off	Net amount presented in statement of financial position	Related amounts not set-off in the statement of financial position: Financial instruments	Related amounts not set-off in the statement of financial position: Collateral received	Net amount
December 31, 2020						
Financial assets:						
Loans and receivables	**P 31,922,506**	**(P 34,241)**	**P 31,888,265**	**P 31,888,265**	**(P 277,256)**	**P 31,611,009**
Financial liabilities:						
Deposit liabilities	P 29,442,675	P -	P 29,442,675	P 29,442,675	(P 277,256)	P 29,165,419
Accounts payable and other liabilities	1,535,284	(34,241)	1,501,043	1,501,043	-	1,501,043
Deposit liabilities	**P 30,977,959**	**(P 34,241)**	**P 30,943,718**	**P 30,943,718**	**(P 277,256)**	**P 30,666,462**
December 31, 2019						
Financial assets –						
Loans and receivables	P 31,746,720	(P 61,478)	P 31,685,242	P 31,685,242	(P 217,967)	P 31,467,275
Financial liabilities:						
Deposit liabilities	P 27,090,104	P -	P 27,090,104	P 27,090,104	(P 217,967)	P 26,872,137
Accounts payable and other liabilities	1,562,521	(61,478)	1,501,043	1,501,043	-	1,501,043
	P 28,652,625	(P 61,478)	P 28,591,147	P 28,591,147	(P 217,967)	P 28,373,180

For purposes of presenting this information, the related amounts set-off in the statements of financial position pertains to the receivable of the Bank from its associate which is netted against its payable to the latter.

On the other hand, the related amounts not set-off in the statements of financial position pertains to hold-out deposits which serve as the Bank's collateral enhancement for certain loans and receivables.

For financial assets subject to enforceable master netting arrangements or similar arrangements between the Bank and counterparties allows for net settlement of the relevant financial assets and financial liabilities when both elect to settle on a net basis. In the absence of such election, financial assets and financial liabilities will be settled on a gross basis, however, each party to the master netting agreement or similar agreement will have the option to settle all such amounts on a net basis in the event of default of the other party.

6. FAIR VALUE MEASUREMENT AND DISCLOSURE

6.1 Fair Value Hierarchy

In accordance with PFRS 13, *Fair Value Measurement*, the fair value of financial assets and liabilities and non-financial assets which are measured at fair value on a recurring or non-recurring basis and those assets and liabilities not measured at fair value but for which fair value is disclosed in accordance with other relevant PFRS, are categorized into three levels based on the significance of inputs used to measure the fair value. The fair value hierarchy has the following levels:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities that an entity can access at the measurement date;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and,
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The level within which the asset or liability is classified is determined based on the lowest level of significant input to the fair value measurement.

For purposes of determining the market value at Level 1, a market is regarded as active 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.

6.2 Financial Instruments Measured at Fair Value

The table below shows the fair value hierarchy of the Bank's classes of financial assets and financial liabilities measured at fair value in the statements of financial position on a recurring basis as at December 31, 2020 and 2019.

	December 31, 2020			
	Level 1	Level 2	Level 3	Total
Financial assets at FVOCI:				
Debt securities	P 1,535,715,094	P -	P -	P 1,535,715,094
Equity securities	124,008,181	-	-	124,008,181
	P1,647,723,274	**P -**	**P -**	**P1,647,723,274**

	December 31, 2019			
	Level 1	Level 2	Level 3	Total
Financial assets at FVOCI:				
Equity securities	P 120,208,280	P -	P -	P 120,208,280

Described below are the information about how the fair values of the Bank's classes of financial assets and financial liabilities were determined.

(a) Corporate Debt Securities

Corporate papers with fair value categorized within Level 1 is determined based on the prices of benchmark government securities which are also quoted in an active market or bond exchange (i.e., BVAL).

(b) Equity Securities

The fair values of equity securities classified as financial assets at FVOCI as of December 31, 2020 and 2019 were valued based on their market prices quoted in the Philippine Stock Exhange at the end of each reporting period; hence, categorized within Level 1.

There were neither transfers between Levels 1 and 2 nor changes to Level 3 instruments in both years.

6.3 Financial Instruments Measured at Amortized Cost for which Fair Value is Disclosed

The tables below summarize the fair value hierarchy of the Bank's financial assets and financial liabilities which are not measured at fair value in the statements of financial position but for which fair value is disclosed.

	Level 1	Level 2	Level 3	Total
December 31, 2020				
Financial assets:				
Cash	P 79,102,342	P -	P -	P 79,102,342
Due from BSP	6,539,156,821	-	-	6,539,156,821
Due from other banks	1,549,294,119	-	-	1,549,294,119
Investment securities at amortized cost – net	854,362,889	135,497,988	-	989,860,877
Loans and receivables – net	-	-	33,165,305,300	33,165,305,300
Rental and utilities deposits	-	-	26,499,428	26,499,428
	P 9,021,916,171	**P 135,497,988**	**P 33,191,804,728**	**P 42,349,218,887**
Financial liabilities:				
Deposit liabilities	P -	P -	P 30,690,460,155	P 30,690,460,155
Accounts payable and other liabilities	-	-	1,007,102,175	1,007,102,175
	P -	**P -**	**P 31,697,562,330**	**P 31,697,562,330**
December 31, 2019				
Financial assets:				
Cash	P 71,176,434	P -	P -	P 71,176,434
Due from BSP	2,971,517,467	-	-	2,971,517,467
Due from other banks	341,976,552	-	-	341,976,552
Investment securities at amortized cost – net	2,289,122,682	186,707,916	-	2,475,830,598
Loans and receivables – net	-	-	33,224,679,117	33,224,679,117
Rental and utilities deposits	-	-	27,923,961	27,923,961
	P 5,673,784,135	P 186,707,916	P 33,252,603,078	P 39,113,104,129
Financial liabilities:				
Deposit liabilities	P -	P -	P 28,654,278,745	P 28,654,278,745
Accounts payable and other liabilities	-	-	1,175,420,627	1,175,420,627
	P -	P -	P 29,829,699,372	P 29,829,699,372

The fair values of financial assets and financial liabilities not presented at fair value in the statements of financial position are determined as follows:

(a) Cash, Due from BSP and Other Banks

Due from BSP pertains to deposits made by the Bank to BSP for clearing and reserve requirements. Due from other banks includes interbank deposits and items in the course of collection. The fair value of floating rate placements and overnight deposits is their carrying amount. 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, which for short-term deposits approximates the nominal value.

(b) Loans and Receivables

Loans and other receivables are net of impairment losses. The estimated fair value of loans and other receivables represents the discounted amount of estimated future cash flows expected to be received. Long term interest-bearing loans are periodically repriced at interest rates equivalent to the current market rates, to determine fair value.

(c) Investments at Amortized Cost

Investment securities at amortized cost consist of securities issued by the government-owned-and-controlled corporations with fair value included in Level 2, which fair values determined based on their discounted amount of estimated future cash flows expected to be received or paid, or based on their cost which management estimates to approximate their fair values, while corporate debt securities are included in Level 1, which was determined based on prices quoted in BVAL representing prices of benchmark debt securities at the end of the reporting period.

(d) Other Financial Assets

Other financial assets pertain to security deposits which are included in the Other Resources account. Management ascertained that the carrying amounts of these items in the statements of financial position are considered to be reasonable approximation of their fair values.

(e) Deposits Liabilities and Bills Payable

The estimated fair value of demand deposits with no stated maturity, which includes non-interest-bearing deposits, is the amount repayable on demand. The estimated fair value of long-term fixed interest-bearing deposits and bills payable without quoted market price is based on discounted cash flows using interest rates for new debts with similar remaining maturity. The carrying amount of short term bills payable approximate their fair values.

(f) Accounts Payable and Other Liabilities

Accounts payable and other liabilities classified as financial liabilities are recognized initially at their fair value and subsequently measured at amounts to which they are to be paid. Due to their short-duration, management ascertained that the fair values of these short-term liabilities approximate their carrying values.

6.4 Fair Value Measurement for Non-financial Assets

(a) Determining Fair Value of Investment Properties

The table below and in the succeeding page shows the levels within the hierarchy of investment properties measured at fair value on a recurring basis as at December 31, 2020 and 2019.

	2020			
	Level 1	**Level 2**	**Level 3**	**Total**
Land	P -	P 416,847,599	P 5,052,600	P 421,900,199
Buildings and improvements	-	195,074,919	88,596,020	283,670,939
	P -	**P 611,922,518**	**P 93,648,620**	**P 705,571,138**

	2019			
	Level 1	Level 2	Level 3	Total
Land	P -	P 282,653,200	P 5,052,600	P 287,705,800
Buildings and improvements	-	27,515,790	79,157,660	106,673,450
	P -	P 310,168,990	P 84,210,260	P 394,379,250

The fair value of the Bank's investment properties is determined on the basis of the appraisals performed by various internal and external appraiser with appropriate qualifications and recent experience in the valuation of similar properties in the relevant locations. To some extent, the valuation process was conducted by the appraiser in discussion with the Bank's management with respect to the determination of the inputs such as the size, age, and condition of the land and buildings, and the comparable prices in the corresponding property location.

In estimating the fair value of these properties, management takes into account the market participant's ability to generate economic benefits by using the assets in their highest and best use. Based on management assessment, the best use of the Bank's non-financial assets indicated above is their current use.

The fair value of these non-financial assets were determined based on the following approaches:

(i) Fair Value Measurement for Land

The Level 2 fair value of land was derived using the market comparable approach that reflects the recent transaction prices for similar properties in nearby locations. Under this approach, when sales prices of comparable land in close proximity are used in the valuation of the subject property with no adjustment on the price, fair value is included in Level 2. On the other hand, if the observable recent prices of the reference properties were adjusted for differences in key attributes such as property size, zoning, and accessibility, the fair value is included in Level 3. The most significant input into this valuation approach is the price per square foot, hence, the higher the price per square foot, the higher the fair value.

(ii) Fair Value Measurement for Buildings and Improvements

The Level 2 fair value of the buildings under the Investment Properties account was determined under the market comparable approach that reflects the recent transaction prices for similar properties in nearby locations.

The Level 3 fair value of the buildings under the Investment Properties account was determined using the cost approach that reflects the cost to a market participant to construct an asset of comparable usage, construction standards, design and layout, adjusted for obsolescence. The more significant inputs used in the valuation include direct and indirect costs of construction such as but not limited to, labor and contractor's profit, materials and equipment, surveying and permit costs, electricity and utility costs, architectural and engineering fees, insurance and legal fees. These inputs were derived from various suppliers and contractors' quotes, price catalogues, and construction price indices. Under this approach, higher estimated costs used in the valuation will result in higher fair value of the properties.

(b) Determining Fair Value of Assets Held for Sale

The fair value of the Bank's assets held for sale for repossessed motorcycles amounting to P489.4 million and P568.7 million in 2020 and 2019, respectively, are determined based on the recent experience in the valuation of similar properties. Meanwhile, the fair value of the Bank's investment in an associate classified as held for sale amounting to P1.04 billion as of December 31, 2020 is based on the purchase price stated in the share purchase agreement relating to the divestment of BFC. The fair values, determined under Level 3 measurement, were derived using the market data approach that reflects the recent transaction prices for similar properties, adjusted for differences in property age and condition.

There has been no change to the valuation techniques used by the Bank during the year for its non-financial assets. Also, there were no transfer into or out of Level 3 fair value hierarchy in 2020 and 2019.

7. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include the following components as at December 31:

	Note	**2020**	2019
Cash		**P 79,102,342**	P 71,176,434
Due from BSP		**6,539,156,821**	2,971,517,467
Due from other banks		**1,549,294,119**	341,976,552
Receivables arising from reverse repurchase agreement	9	**2,054,430,884**	2,965,748,531
		P 10,221,984,166	P 6,350,418,984

Cash accounts with other banks generally earn interest based on daily bank deposit rates. Short-term placements, which are included as part of Due from Other Banks, are made for varying periods between seven and 30 days and earn annual effective interest at rates ranging from 0.25% to 3.5% in 2020 and 5.0% to 6.5% in 2019.

The Bank maintains account with the BSP for regular reserve requirement and a special depository account. Due from BSP, excluding mandatory reserves, which has no interest, bears annual interest rate of 1.50% to 4.13% in 2020 and 3.50% to 5.17% in 2019.

Interest income from Due from Other Banks amounted to P9.5 million and P13.6 million in 2020 and 2019, respectively; while interest income from Due from BSP amounted to P112.8 million and P56.2 million in 2020 and 2019, respectively. Both are presented as Interest Income from Due from BSP and Other Banks in the statements of profit or loss.

In accordance with BSP regulations, the Bank is required to maintain regular reserves against savings, time deposits and demand deposits at 8.00% and 4.00% of the outstanding balance thereof in 2020 and 2019, respectively. The Bank has satisfactorily complied with the reserve requirements of the BSP as at December 31, 2020 and 2019 (see Note 16).

Receivables arising from reverse purchase agreement arise from BSP's purchases of government securities from the Bank with a commitment to sell it back at a specified future date. In the case of the Bank, the receivables arising from reverse purchase agreement mature within one week, hence, classified as cash equivalents with interest rates ranging from 2.00% to 4.00% in 2020 and 4.00% to 4.75% in 2019. Since the BSP's purchase will be reversed subsequently, the government securities sold amounting to P2.1 billion and P3.0 billion in 2020 and 2019, respectively, are considered collateralized securities.

8. INVESTMENT SECURITIES

This account is comprised of:

	2020	2019
Financial assets at FVOCI	**P 1,647,723,274**	P 120,208,280
Investment securities at amortized cost	**456,444,540**	2,461,974,891
	P 2,104,167,814	P 2,582,183,171

8.1 Investment Securities at Amortized Cost

Investment securities at amortized cost as at December 31, 2020 consist of:

	2020	2019
Government securities (quoted)	**P 320,946,552**	P 321,562,457
Corporate debt securities		
Quoted	**-**	1,952,442,715
Unquoted	**135,497,988**	187,969,719
	P 456,444,540	P 2,461,974,891

Interest rates per annum on government securities range from 3.25% to 6.13% both in 2020 and 2019 while interest rates per annum on corporate debt securities range from 5.00% to 6.60% in 2020 and 4.52% to 6.60% in 2019. The total interest earned amounted to P116.3 million and P153.2 million in 2020 and 2019, respectively, and are presented as part of Interest Income on Investment Securities in the statements of profit or loss.

The reconciliation of the carrying amounts of these financial assets are as follows:

	2020	2019
Balance at beginning of year	**P2,461,974,890**	P 2,840,243,042
Transfer to FVOCI classification	**(1,481,089,413)**	-
Disposals	**(466,196,000)**	(319,745,000)
Redemption	**(57,264,663)**	(61,705,050)
Amortization of premium	**(1,408,398)**	781,433
Transfer of impairment	**289,431**	-
Impairment loss	**138,693**	110,794
Additions	**-**	2,289,671
Balance at end of year	**P 456,444,540**	P 2,461,974,890

In 2019, the Bank disposed of certain corporate debt securities with aggregate carrying amount of P269.7 million. The disposals were in line with the Bank's objective to improve its liquidity coverage ratio in compliance with the requirements of BSP Circular 996, *Amendments to the Liquidity Coverage Ratio Framework and Minimum Prudential Liquidity Requirements for Stand-Alone Thrift Banks, Rural Banks, Cooperative Banks and Quasi-Banks*. The Bank assessed that the disposals of the investment securities at amortized cost under the HTC portfolio are consistent with the Bank's hold to collect business model with the objective of collecting contractual cash flows and have qualified under the permitted sale events set forth in the Bank's business model in managing financial assets manual and the requirements of PFRS 9.

In 2020, the Bank also disposed of certain corporate debt securities amounting to P466.2 million. The Bank assessed that the disposal of certain investment securities at amortized cost under the HTC portfolio in 2020 is no longer consistent with the Bank's held-to-collect business model. Accordingly, on December 1, 2020, the carrying amount of corporate debt securities amounting to P1.5 billion was reclassified to financial assets at FVOCI, with unrealized fair value gains transferred amounting to P42.9 million.

The total realized gain recognized by the Bank from the disposal of investment securities at amortized cost amounted to P5.6 million and P2.2 million in 2020 and 2019, respectively, and are presented as part of Realized gain on investment securities under Other Operating Income in the statement of profit or loss (see Note 19.1).

8.2 Financial Assets at FVOCI

The Bank classified certain equity securities amounting to P124.0 million and P120.2 million as at 2020 and 2019, respectively, as at FVOCI. The FVOCI classification was made because the investments are expected to be held for the long term for strategic purposes.

The reconciliation of the carrying amounts of these financial assets are as follows:

	2020	2019
Balance at the beginning of year	**P 120,208,281**	P 173,972,022
Transfer from HTC	**1,481,089,413**	-
Additions	**1,341,298,351**	463,000,000
Disposals	**(1,341,298,351)**	(523,500,000)
Fair values gains – net	**46,715,011**	6,851,084
Transfer of impairment	**(289,431)**	-
Amortization of premium	**-**	(114,826)
Balance at end of year	**P 1,647,723,274**	P 120,208,280

The fair value changes in the Bank's financial assets at FVOCI amounted to P46.7 million and P6.9 million for equity securities and corporate debt securities in 2020 and 2019, respectively, which are recognized as an adjustment in other comprehensive income and presented in the statements of comprehensive income under items that will not be reclassified subsequently (equity securities) and will be reclassified subsequently (debt securities) to profit or loss, respectively.

The total interest earned from financial assets at FVOCI amounted to P5.6 million and P3.2 million in 2020 and 2019, respectively, and are presented as part of Interest Income on Investment Securities in the statements of profit or loss. The total realized gain recognized by the Bank from the disposal of financial assets at FVOCI amounted to P21.7 million and P3.5 million in 2020 and 2019, respectively and are presented as part of Realized gain on investment securities under Other Operating Income in the statements of profit or loss (see Note 19.1).

Dividends earned from financial assets at FVOCI amounting to P6.5 million and P6.6 million in 2020 and 2019, respectively, and are presented as Dividend income under Other Operating Income in the statements of profit or loss (see Note 19.1).

9. LOANS AND RECEIVABLES

This account consists of the following:

	Notes	2020	2019
Receivables from customers:			
Motorcycle loans		**P 24,144,678,279**	P23,365,679,915
Commercial loans		**4,118,864,418**	4,459,075,540
Consumption loans		**920,875,580**	981,504,418
mSME loans		**635,934,980**	778,660,765
Microfinance loans		**137,758,142**	206,771,022
		29,958,111,399	29,791,691,660
Other receivables:			
Receivables arising from reverse repurchase agreement	7	**2,054,430,884**	2,965,748,531
Capitalized loan origination costs		**1,314,941,800**	574,820,883
Accrued interest receivable		**846,018,072**	700,527,174
Accounts receivable		**242,394,885**	266,629,090
Dividend receivable		**240,000,000**	-
Sales contracts receivable		**29,170,064**	19,918,242
		4,726,955,705	4,527,643,920
Allowance for impairment		**(2,451,654,111)**	(1,933,793,224)
Unearned interest		**(345,148,317)**	(700,300,355)
	21.1	**P 31,888,264,676**	P31,685,242,001

The annual effective interest rates on these loans range from 3.82% to 68.02% and 4.00% to 61.00% in 2020 and 2019, respectively. Total interest earned amounted to P7.8 billion and P8.2 billion in 2020 and 2019, respectively, and is presented as Interest Income on Loans and Receivables in the statements of profit or loss.

All of the Bank's loans and receivables have been reviewed for impairment. Certain loans and receivables were found to be impaired; hence, adequate amounts of allowance for impairment have been recognized.

The changes in the allowance for impairment are summarized below.

	2020	2019
Balance at beginning of year	**P 1,933,793,224**	P 1,461,356,298
Impairment losses during the year	**1,747,867,804**	1,230,348,657
Write-off	**(898,149,642)**	(536,729,720)
Derecognition due to foreclosure:		
Motorcycle and consumer loans	**(301,612,583)**	(209,922,568)
Business loan	**(30,244,692)**	(11,259,443)
Balance at end of year	**P 2,451,654,111**	P 1,933,793,224

10. BANK PREMISES, FURNITURE, FIXTURES AND EQUIPMENT

The gross carrying amounts and accumulated depreciation and amortization of bank premises, furniture, fixtures and equipment at the beginning and end of 2020 and 2019 are shown below.

	Building and Improvements	**Furniture, Fixtures and Equipment**	**Land**	**Computer Software**	**Total**
December 31, 2020					
Cost	P 277,728,371	P 335,500,062	P 63,005,278	P 212,166,548	P 888,400,259
Accumulated depreciation and amortization	(211,869,657)	(323,682,263)	-	(143,306,017)	(678,857,937)
Net carrying amount	**P 65,858,714**	**P 11,817,799**	**P 63,005,278**	**P 68,860,531**	**P 209,542,322**
December 31, 2019					
Cost	P 265,451,167	P 322,132,122	P 63,005,278	P 206,631,143	P 857,219,710
Accumulated depreciation and amortization	(186,321,768)	(304,764,662)	-	(114,287,695)	(605,374,125)
Net carrying amount	P 79,129,399	P 17,367,460	P 63,005,278	P 92,343,448	P 251,845,585
January 1, 2019					
Cost	P 239,211,044	P 307,990,547	P 63,005,278	P 206,631,143	P 816,838,012
Accumulated depreciation and amortization	(162,109,937)	(283,446,928)	-	(78,756,613)	(524,313,478)
Net carrying amount	P 77,101,107	P 24,543,619	P 63,005,278	P 127,874,530	P 292,524,534

A reconciliation of the carrying amounts at the beginning and end of 2020 and 2019 of bank premises, furniture, fixtures and equipment is shown below.

	Building and Improvements	Furniture, Fixtures and Equipment	Land	Computer Software	Total
Balance at January 1, 2020, net of accumulated depreciation and amortization	P 79,129,399	P 17,367,460	P 63,005,278	P 92,343,448	P 252,845,585
Additions	12,277,204	13,367,940	-	5,535,405	31,180,549
Depreciation and amortization charges for the year (see Note 19.2)	(25,547,889)	(18,917,601)	-	(29,018,322)	(73,483,812)
Balance at December 31, 2020, net of accumulated depreciation and amortization	**P 65,858,714**	**P 11,817,799**	**P 63,005,278**	**P 68,860,531**	**P 209,542,322**
Balance at January 1, 2019, net of accumulated depreciation and amortization	P 77,101,107	P 24,543,619	P 63,005,278	P127,874,530	P 292,524,534
Additions	26,240,123	14,141,575	-	-	40,381,698
Depreciation and amortization charges for the year (see Note 19.2)	(24,211,831)	(21,317,734)	-	(35,531,082)	(81,060,647)
Balance at December 31, 2019, net of accumulated depreciation and amortization	P 79,129,399	P 17,367,460	P 63,005,278	P 92,343,448	P 251,845,585

Under BSP rules, investments in bank premises, furniture, fixtures and other equipment should not exceed 50% of a bank's unimpaired capital. As of December 31, 2020 and 2019, the Bank has satisfactorily complied with this BSP requirement.

As at December 31, 2020 and 2019, the total cost of fully depreciated bank premises, furniture, fixtures and equipment that is still currently being used by the Bank in operations amounts to P550.4 million and P454.3 million, respectively.

11. LEASES

The Bank has leases for its head office, branches and warehouses. With the exception of short-term leases and leases of low-value underlying assets, each lease is reflected on the statement of financial position as a right-of-use assets and in respect of the related obligation, as lease liability under Accounts Payable and Other Liabilities (see Note 17). Leases have terms ranging from one to 20 years with renewal options and annual escalation rates from 4.0% to 10.0%.

Each lease imposes a restriction that the right-of-use assets can only be used by the Bank. Leases are either non-cancellable or may only be cancelled by incurring a substantive termination fee. Some leases contain an option to extend the lease for a further term. The Bank is prohibited from selling or pledging the underlying leased assets as security. The Bank must keep those premises in a good state of repair and return the properties in their original condition at the end of the lease. Further, the Bank must insure the leased assets and incur maintenance fees on such items in accordance with the lease contracts.

The use of extension and termination options gives the Bank added flexibility in the event it has identified more suitable premises in terms of cost and/or location or determined that it is advantageous to remain in a location beyond the original lease term. An option is only exercised when consistent with the Banks business expansion units strategy and the economic benefits of exercising the option exceeds the expected overall cost.

11.1 Right-of-use Assets

The carrying amounts of the Bank's right-of-use assets as at December 31, 2020 and December 31, 2019, and the movements during the periods are shown below.

	Head Office	Branches	Warehouses	Total
Balance at January 1, 2020 of year	P 48,529,984	P 177,625,783	P 11,948,827	P 238,104,594
Additions	-	24,173,155	720,737	24,893,892
Amortization	(18,198,744)	(56,896,804)	(7,337,233)	(82,432,781)
Balance at end of year	**P 30,331,240**	**P 144,902,134**	**P 5,332,331**	**P 180,565,705**
Balance at January 1, 2019 of year	P 66,728,728	P 124,243,242	P 23,503,169	P 214,475,139
Additions	-	103,942,009	14,032,859	117,974,868
Amortization	(18,198,744)	(50,559,468)	(25,587,201)	(94,345,413)
Balance at end of year	P 48,529,984	P 177,625,783	P 11,948,827	P 238,104,594

Depreciation and amortization of right-of-use assets is presented as part of Depreciation and amortization under Other Operating Expenses account in the statements of profit or loss (see Note 19.2).

11.2 Lease Liabilities

The reconciliation of the Bank's lease liabilities arising from financing activities is presented below.

	2020	2019
Balance at the beginning of year	**P 248,585,156**	P -
Effect of adoption of PFRS 16	**-**	214,475,139
	248,585,156	214,475,139
Cash flows from financing activities:		
Additional lease liabilities	**24,893,892**	117,974,868
Payment of principal portion of lease liabilities	**(75,891,186)**	(83,864,851)
Balance at end of year (see Note 17)	**P 197,587,862**	P 248,585,156

The total interest expense in relation to lease liabilities amounted to P15.1 million and P14.9 million in 2020 and 2019, respectively, and are presented under Interest Expense on Lease Liabilities in the statements of profit or loss.

As at December 31, 2020 and 2019, the Bank has no committed leases which have not yet commenced.

The lease liabilities are secured by the related underlying assets. The undiscounted maturity analysis of lease liabilities as at December 31, 2020 and 2019 is as follows:

	Within 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	More than 5 years	Total
2020:							
Lease payments	P82,751,321	P57,069,225	P35,914,611	P17,224,656	P 8,148,113	P25,963,966	P227,071,892
Finance charges	(11,165,915)	(6,872,596)	(4,188,535)	(2,457,360)	(1,711,558)	(3,088,066)	(29,484,030)
Net present values	**P71,585,406**	**P50,196,629**	**P31,726,076**	**P14,767,296**	**P 6,436,555**	**P22,875,900**	**P197,587,862**
2019:							
Lease payments	P86,709,125	P75,177,914	P50,739,110	P30,081,391	P12,670,088	P32,410,988	P287,788,616
Finance charges	(13,928,495)	(9,433,247)	(5,625,306)	(3,388,683)	(2,081,101)	(4,746,628)	(39,203,460)
Net present values	P72,780,630	P65,744,667	P45,113,804	P26,692,708	P10,588,987	P27,664,360	P248,585,156

11.3 Lease Payments Not Recognized as Liabilities

The Bank has elected not to recognize lease liabilities for short-term leases or for leases of low value assets. Payments made under such leases are expensed on a straight-line basis. There are no lease commitments related to short-term leases.

In 2020 and 2019, the expenses relating short-term leases and low-value assets amounted to P9.2 million and P14.9 million, respectively, and are presented as Rentals under Other Operating Expenses in the statements of profit or loss (see Note 19.2).

12. ASSETS HELD FOR SALE

Assets held for sale include repossessed motor vehicles and investment in an associate (see Note 14) that the Bank intends to sell within one year from the date these were classified as held for sale and is committed to immediately dispose the assets through an active marketing program. The breakdown of assets held for sale is shown below.

	2020	2019
Investment in BFC	**P 971,405,253**	P -
Repossessed motor vehicles	**357,144,653**	518,839,911
	P 1,328,549,906	P 518,839,911

The breakdown of repossessed motor vehicles is shown below.

	2020	2019
Cost	**P 489,932,228**	P 697,758,021
Allowance for impairment	**(132,787,575)**	(178,918,110)
	P 357,144,653	P 518,839,911

The Bank recognized loss of P47.2 million and P12.0 million in 2020 and 2019, respectively, from the sale of assets held for sale and is presented as part of Gain on sale of properties under the Other Operating Income in the statements of profit or loss (see Notes 19.1 and 19.2).

The reconciliation of allowance for impairment losses is summarized as follows.

	2020	2019
Balance at beginning of year	**P 178,918,110**	P 138,251,888
Derecognition due to disposal	**(406,221,519)**	(386,972,589)
Impairment losses	**360,090,984**	427,638,811
Balance at end of year	**P 132,787,575**	P 178,918,110

13. INVESTMENT PROPERTIES

Investment properties include land and buildings and improvements acquired by the Bank through foreclosure or dacion of outstanding loans by the borrowers held for capital appreciation.

The gross carrying amounts and accumulated depreciation and impairment of investment properties at the beginning and end of 2020 and 2019 are presented below.

	Land	Buildings and Improvements	Total
December 31, 2020			
Cost	P 106,253,922	P 184,472,417	P 290,726,339
Accumulated depreciation	-	(73,130,491)	(73,130,491)
Allowance for impairment	(2,751,598)	(560,867)	(3,312,465)
Net carrying amount	**P 103,502,324**	**P 110,781,059**	**P 214,283,383**
December 31, 2019			
Cost	P 92,015,532	P 187,121,831	P 279,137,363
Accumulated depreciation	-	(59,085,742)	(59,085,742)
Allowance for impairment	(2,751,598)	(560,867)	(3,312,465)
Net carrying amount	P 89,263,934	P 127,475,222	P 216,739,156
January 1, 2019			
Cost	P 92,858,984	P 188,800,627	P 281,659,611
Accumulated depreciation	-	(46,521,348)	(46,521,348)
Allowance for impairment	(2,751,598)	(560,867)	(3,312,465)
Net carrying amount	P 90,107,386	P 141,718,412	P 231,825,798

A reconciliation of the carrying amounts at the beginning and end of 2020 and 2019 of investment properties is shown below.

	Land	Buildings and Improvements	Total
Balance at January 1, 2020 net of accumulated depreciation and impairment	P 89,263,934	P 127,475,222	P 216,739,156
Additions	17,544,184	6,305,884	23,850,068
Disposal	(3,305,794)	(4,492,632)	(7,798,426)
Depreciation charges for the year	-	(18,507,415)	(18,507,415)
Balance at December 31, 2020, net of accumulated depreciation and impairment	**P 103,502,324**	**P 110,781,059**	**P 214,283,383**

	Land		Buildings and Improvements		Total
Balance at January 1, 2019, net of accumulated depreciation and impairment	P 90,107,386		P 141,718,412		P 231,825,798
Additions	8,250,744		13,649,499		21,900,243
Disposal	(9,094,196)		(8,760,458)		(17,854,654)
Depreciation charges for the year	-		(19,132,231)		(19,132,231)
Balance at December 31, 2019, net of accumulated depreciation and impairment	P 89,263,934		P 127,475,222		P 216,739,156

The Bank sold certain investment properties which resulted in a gain of P2.0 million and P17.3 million in 2020 and 2019, respectively, and is presented as part of Gain on sale of properties under the Other Operating Income in the statements of profit or loss (see Note 19.1). Additions in 2020 and 2019 include real and other properties acquired through foreclosure of assets amounting to P23.9 million and P21.9 million, respectively (see Note 9). Other information about the fair value measurement and disclosures related to investment properties are presented in Note 6.4.

14. INVESTMENT IN AN ASSOCIATE

On September 15, 2015, the BSP approved the proposed P800.0 million equity investment of the Bank in BFC representing 40% of the latter's common stock. The approved amount represents that maximum amount that can be invested by the Bank in compliance with 40% limit set by the BSP for thrift bank's equity investment in allied undertaking. Also, the approved investment is consistent with the Manual of Regulations for Banks (MORB) prescribed equity investments not exceeding 15% of the Bank's net worth.

BFC is incorporated on March 28, 2016 and is engaged in general financing business by extending credit facilities to consumers and to industrial, commercial, or agricultural enterprises. Its place of incorporation which is similar with the place of operation is at Rm. 808, Tower 2 Cityland, No. 10 Valero St., H.V. Dela Costa, Brgy. Bel-Air, Makati City, Metro Manila.

In 2020, the Bank started negotiations with certain third parties for the disposal of the Bank's investment. In May 2021, the sale has been finalized with the third parties. In accordance with PFRS 5, *Non-current Assets Held for Sales and Discontinued Operations,* the Bank has classified its investment in BFC as held for sale as of December 31, 2020 since its carrying amount will be recovered principally through a sale transaction rather than through continuing use (see Note 12). The fair value less costs to sell is determined to be higher than the carrying value of the investment, hence, no loss on remeasurement was recorded on the transaction. The carrying amount of the equity investment, which was accounted for under equity method is shown below.

	2020	2019
Acquisition cost	**P 800,000,000**	P 800,000,000
Accumulated share in undistributed profit	**173,386,309**	315,009,092
Share in other comprehensive loss	**(1,981,056)**	-
Reclassification from investment in associate to asset held for sale	**(971,405,253)**	-
	P -	P 1,115,009,092

The movements in the carrying amount of investment in an associate is summarized below.

	2020	2019
Balance at beginning of year	**P 1,115,009,092**	P 1,218,414,112
Share in profit of associate for the year	**98,377,217**	216,594,980
Share in other comprehensive loss of associate for the year	**(1,981,056)**	-
Dividends	**(240,000,000)**	(320,000,000)
Reclassification from investment in associate to asset held for sale	**(971,405,253)**	-
Balance at end of year	**P -**	P 1,115,009,092

The financial information of BFC as of and for the year ended December 31, 2020 and 2019 are shown below.

	2020	2019
Financial information:		
Assets:		
Current	**P 1,376,740,867**	P 1,204,257,376
Non-current	**4,015,651,418**	3,747,058,481
Liabilities:		
Current	**928,490,162**	504,464,383
Non-current	**2,000,687,770**	1,620,000,000
Revenues	**1,997,255,494**	2,249,109,192
Operating expenses	**1,578,616,528**	1,436,463,457
Net profit	**241,315,519**	541,487,448
Other comprehensive income	**4,952,640**	-
Reconciliation:		
Net asset of BFC	**P 2,463,214,353**	P 2,826,851,474
Proportion	**40%**	40%
Carrying amount of investment	**P 985,285,741**	P 1,130,740,590

The carrying amount of investment approximates the share in net assets of BFC.

15. OTHER RESOURCES

This account consists of:

		2020		2019
Prepaid expenses	**P**	**57,712,261**	P	59,247,606
Cost of ongoing software development		**55,326,555**		46,202,391
Rental and utilities deposits		**26,499,428**		27,923,961
Documentary stamps on hand		**26,169,705**		14,072,016
Intangible assets – net		**4,253,667**		4,788,072
Advances to suppliers		**3,014,781**		2,791,605
Others		**30,581,726**		67,906,200
	P	**203,558,123**	P	222,931,851

Prepaid expenses includes prepaid taxes, supplies, and life insurance of the employees.

Cost of ongoing software development pertains to accumulated costs incurred in constructing the Bank's new loans management system.

Amortization of the Bank's licenses classified as intangible assets amounted to P0.8 million and P2.8 million in 2020 and 2019, respectively, and are presented as part of Depreciation and amortization under Other Operating Expenses account in the statements of profit or loss (see Note 19.2). In 2020, additions to Computer Software classified as intangible assets amounted to P0.2 million.

Others includes various deposits, employees' car plans, and other assets.

16. DEPOSIT LIABILITIES

This account consists of:

		2020		2019
Time	**P**	**26,621,734,725**	P	24,262,210,809
Savings		**1,234,100,525**		1,441,974,583
Demand		**1,586,840,129**		1,385,918,459
	P	**29,442,675,379**	P	27,090,103,851

Interest rates on deposit liabilities range between 0.75% and 6.30% per annum both in 2020 and 2019. Interest expense on deposit liabilities amounted to P1.0 billion and P1.1 billion in 2020 and 2019, respectively, and is presented as Interest Expense on Deposit Liabilities in the statements of profit or loss. The deposit liabilities are inclusive of accrued interest payable amounting to P2.6 billion and P1.2 billion as at December 31, 2020 and 2019, respectively.

Per BSP's MORB, the Bank is required to maintain reserve requirements (both for regular and liquidity reserves) with the BSP. The required reserves per deposit are as follows:

	2020	2019
Time	**P 2,129,738,778**	P 970,488,432
Savings	**98,728,042**	57,678,983
Demand	**126,947,210**	55,436,739
	P 2,355,414,030	P 1,083,604,154

The BSP's reserve requirement is composed of regular reserve and liquidity reserve requirement equivalent to 8.00% and 4.00% in 2020 and 2019, respectively (see Note 7).

Currently, the Bank's reserves are maintained in the form of amounts due from BSP. As of December 31, 2020 and 2019, the Bank's deposit liabilities are adequately covered by reserves as required by the BSP (see Note 7).

17. ACCOUNTS PAYABLE AND OTHER LIABILITIES

Accounts payable and other liabilities consist of:

	Notes	**2020**	2019
Accounts payable		**P 773,631,063**	P 877,594,970
Income tax payable		**210,604,738**	390,610,626
Lease liabilities	11	**197,587,862**	248,585,156
Retirement benefit obligation	20.2	**155,169,800**	169,241,200
Other taxes payable		**98,490,187**	99,392,940
Due to Philippine Deposit Insurance Corporation		**29,675,832**	27,009,844
Manager's checks		**21,770,791**	28,862,283
Others		**14,112,459**	20,378,219
		P 1,501,042,732	P 1,861,675,238

Accounts payable mainly pertains to amounts due to the Bank's accredited dealers arising from the sale of motorcycles through financing loans granted to the buyers.

Other taxes payable includes withholding taxes and gross receipt taxes.

Others include payables to Social Security System and accrued fringe benefit taxes, among others.

18. EQUITY

18.1 Capital Stock

The details of the Banks's capital stock as at December 31, 2020 and 2019 are as follows:

	Number of shares	Amount
Common shares – P10 par value		
Authorized	600,000,000	P 6,000,000,000
Issued and outstanding	500,000,000	P 5,000,000,000

The Bank has 54 and 55 stockholders as at December 31, 2020 and 2019, respectively, owning 100 or more shares each of the Bank's capital stock.

18.2 Cash Dividends Declared

On August 13, 2019, the BOD approved the declaration of cash dividend on common shares amounting to P600.0 million (P1.2 per share) to stockholders of record as of July 31, 2019 which was fully paid on August 31, 2019. No cash dividend was declared in 2020.

18.3 Capital Management and Regulatory Capital

The BSP, as a lead regulator, sets and monitors capital requirements for the Bank. In implementing current capital requirements, the BSP requires the Bank to maintain a prescribed ratio of qualifying capital to risk-weighted assets.

Under current banking regulations, the qualifying capital accounts of the Bank should not be less than an amount equal to ten percent of its risk-weighted assets. The qualifying capital of the Bank for purposes of determining the capital-to-risk assets ratio is total capital funds excluding:

(a) unbooked valuation reserves and other capital adjustments as may be required by the BSP;
(b) total outstanding unsecured credit accommodations to DOSRI;
(c) investment in associate;
(d) deferred tax asset;
(e) goodwill, if any;
(f) sinking fund for redemption of redeemable preferred shares; and,
(g) other regulatory deductions.

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

Under the relevant BSP regulations, the regulatory capital is analyzed into two tiers which are Tier 1 Capital plus Tier 2 Capital less allowable deductions from the total of Tier 1 and Tier 2 capital.

Tier 1 Capital and Tier 2 Capital are defined as follows:

a. Tier 1 Capital includes the following:

   i. paid-up common stock,
   ii. surplus,
   iii. surplus reserves, and,
   iv. undivided profits (for domestic banks only)

   Subject to deductions for:

   i. outstanding unsecured credit accommodations, both direct and indirect, to DOSRI, and,
   ii. deferred income tax.

b. Tier 2 Capital includes:

   i. perpetual and cumulative preferred stock,
   ii. net unrealized gains on underwritten listed equity securities purchased, and,
   iii. general loan loss provision.

The Bank's regulatory capital position as at December 31 is presented as follows (in thousand Philippine pesos):

		2020		2019
Tier 1 Capital	**P**	**11,805,815**	P	9,770,106
Tier 2 Capital		**-**		-
Total Regulatory Qualifying Capital	**P**	**11,805,815**	P	9,770,106
Total Risk Weighted Assets	**P**	**33,487,880**	P	40,721,205
Capital Ratios:				
Total regulatory capital expressed as percentage of total risk weighted assets		**26.98%**		23.99%
Total Tier 1 expressed as percentage of total risk weighted assets		**26.98%**		23.99%

As at December 31, 2020 and 2019, the Bank's capital adequacy ratios are 26.98% and 23.99%, respectively, which are higher than the BSP minimum requirement of 10.00% on the ratio of capital accounts against the risk weighted assets.

The amount of surplus funds available for dividend declaration is determined also on the basis of regulatory net worth after considering certain adjustments.

18.4 Minimum Capital Requirement

Under existing BSP regulations, the determination of the Bank's compliance with regulatory requirements and ratios is based on the amount of the Bank's "unimpaired capital" (regulatory net worth) reported to the BSP, determined on the basis of regulatory accounting policies, which differ from PFRS in some aspects (mainly in the recognition of deferred tax assets).

As of December 31, 2020 and 2019, the Bank's unimpaired capital, after considering the adjustments mentioned, is in compliance with the minimum capital requirement of the BSP of P2.0 billion.

18.5 Minimum Liquidity Ratio

On February 8, 2018, the BSP issued Circular No. 996, *Amendments to the Liquidity Coverage Ratio Framework for Stand-Alone Thrift Banks, Rural Banks, Cooperative Banks and Quasi-Banks*, which provide guidance on and prescribes the prudential requirement for covered institutions to maintain eligible stock of liquid assets proportionate to the level of total qualifying liabilities (i.e., both on and off-balance sheet liabilities). Eligible liquid assets shall include cash and other liquid assets that are immediately liquefiable and free from encumbrances.

The Bank's Minimum Liquidity Ratio (MLR) as at December 31, 2020 and 2019 are analyzed below (amounts in millions except MLR figure).

	2020	2019
Eligible stock of liquid assets	**P 10,555**	P 6,669
Total qualifying liabilities	**30,608**	27,988
	34.49%	P 23.83%

The Bank complies with the MLR requirement of 20% effective January 1, 2019 and is expected to be compliant consistently and on an ongoing basis.

19. OTHER OPERATING INCOME AND EXPENSES

19.1 Other Operating Income

This account is composed of the following:

	Notes	**2020**	2019
Other interest charges		**P 503,851,650**	P 527,785,586
Recovery of written off accounts		**37,148,153**	71,129,207
Processing fees		**34,669,095**	16,445,562
Realized gain on disposal of investment securities	8.1, 8.2	**27,276,306**	5,673,245
Dividend income	8.2	**6,529,027**	6,565,480
Gain on sale of Properties – net	12, 13	**-**	5,326,881
Miscellaneous		**17,646,449**	68,231,722
		P 627,120,680	P 701,157,683

Late payment fees (presented as other interest charges) are charged by the Bank to borrowers upon default. These charges are integral part of the Bank's core lending activities. Miscellaneous income includes foreign currency gains and service charges on ATMs, among others.

19.2 Other Operating Expenses

This account is composed of the following:

	Notes	2020	2019
Outside services	21	**P 849,374,395**	P 786,756,777
Employee benefits	21.1, 21.10,20.1	**665,227,768**	703,368,989
Taxes and licenses		**591,454,087**	592,296,115
Depreciation and amortization	10, 11.1, 13, 15	**175,168,113**	197,355,600
Advertising and publicity		**117,992,085**	158,983,169
Insurance		**63,291,547**	53,855,178
Communication		**51,992,552**	51,406,497
Loss on sale of properties – net	12, 13	**45,164,064**	-
Security services		**39,093,024**	40,556,940
Fees and commissions	21	**27,219,099**	48,861,600
Management and other professional fees		**22,842,261**	25,107,525
Janitorial and messengerial services		**21,954,500**	23,553,301
Supplies		**20,105,681**	37,372,016
Power, light and water		**18,407,164**	25,855,100
Information technology		**14,095,079**	6,414,228
Supervision fees		**12,463,506**	10,833,190
Donations and charitable contributions		**12,000,000**	-
Seminars and trainings		**11,212,696**	13,933,049
Transportation and travel		**9,478,277**	19,864,265
Rentals	11.3	**9,243,079**	14,908,992
Repairs and maintenance		**5,632,256**	7,039,242
Fuel		**4,259,095**	5,852,405
Litigation/assets acquired expenses		**4,044,140**	4,964,680
Directors' fees		**2,939,841**	3,755,000
Representation and entertainment		**2,499,457**	5,223,366
Freight		**943,301**	4,368,793
Miscellaneous	20.2	**72,811,361**	35,678,425
		P 2,870,908,428	P 2,878,164,442

Miscellaneous expense includes basic deficiency taxes and interest, outsourcing fees on ATM, guarantee fees, recruitment fees, bank service charges, and fines and penalties, among others.

20. EMPLOYEE BENEFITS

20.1 Employee Benefits Expense

Expenses recognized for employee benefits are presented below (see Note 19.2).

	2020	2019
Short-term employee benefits	**P 631,130,268**	P 677,795,889
Post-employment defined benefit	**34,097,500**	25,573,100
	P 665,227,768	P 703,368,989

20.2 Post-employment Benefits

(a) Characteristics of the Post-employment Defined Benefit Plan

The Bank maintains a noncontributory post-employment defined benefit plan that is being administered by the Bank's Treasury Department and a third party fund manager. The post-employment plan covers all regular full-time employees.

The normal retirement age is 60 for employees hired before January 4, 2011; while, the normal retirement age is 55 with a minimum of ten years of credited service for employees hired on or after January 14, 2011. The plan also provides for an early retirement at age 50 with a minimum of five years of credited service and late retirement after age 65, both subject to the approval of the Bank's BOD. Normal retirement benefit is an amount equivalent to 100% of the final monthly salary for every year of credited service.

(b) Explanation of Amounts Presented in the Financial Statements

Actuarial valuations are made annually to update the retirement benefit costs and the amount of contributions. All amounts presented below are based on the actuarial valuation report obtained from an independent actuary in 2020 and 2019.

The amounts of retirement benefit obligation recognized in the statements of financial position are determined as follows (see Note 17.2):

	2020	2019
Present value of the obligation	**P 206,841,300**	P 224,769,700
Fair value of plan assets	**(51,671,500)**	(55,528,500)
	P 155,169,800	P 169,241,200

The movements in the present value of the retirement benefit obligation are as follows:

	2020	2019
Balance at beginning of year	**P 224,769,700**	P 102,940,300
Current service costs	**34,097,500**	25,573,100
Interest expense	**8,628,400**	3,972,200
Benefits paid	**(5,792,800)**	(6,666,800)
Remeasurements –		
Actuarial losses (gains) arising from:		
Changes in financial assumptions	**(54,372,000)**	101,932,400
Experience adjustments	**(489,500)**	(2,981,500)
Balance at end of year	**P 206,841,300**	P 224,769,700

The movements in the fair value of plan assets are presented below.

	2020	2019
Balance at beginning of year	**P 55,528,500**	P 58,704,300
Benefits paid	**(5,792,800)**	(6,666,800)
Interest income	**2,473,700**	4,014,400
Actuarial losses on plan asset	**(537,900)**	(523,400)
Balance at end of year	**P 51,671,500**	P 55,528,500

The composition of the fair value of plan assets at the end of the reporting period by category and risk characteristics is shown below.

	2020	2019
Time deposit accounts	**P 40,203,015**	P 50,481,227
Savings accounts	**6,891,668**	691,620
Mutual fund investments	**4,576,817**	4,355,653
	P 51,671,500	P 55,528,500

The fair values of the mutual fund investments are determined based on quoted market prices of the underlying assets in active markets (classified as Level 2 of the fair value hierarchy).

Actual return on plan assets was P1.9 million in 2020 and P3.5 million in 2019.

The components of amounts recognized in profit or loss and in other comprehensive income in respect of the defined benefit post-employment plan are as follows:

	2020	2019
Reported in profit or loss		
Current service cost	**P 34,097,500**	P 25,573,100
Net interest expense (income)	**6,154,700**	(42,200)
	P 40,252,200	P 25,530,900

	2020	2019
Reported in other comprehensive income (loss)		
Actuarial gains (losses) arising from changes in:		
Financial assumptions	**P 54,372,000**	(P 101,932,400)
Experience adjustments	**489,500**	2,981,500
Return on plan assets (excluding amounts included in net interest expense)	**(537,900)**	(523,400)
	P 54,323,600	(P 99,474,300)

The net interest expense in 2020 is presented as Others under the Interest Expense account in the 2020 statement of profit or loss while the net interest income earned in 2019 is netted against of Miscellaneous under Other Operating Expenses account in the 2019 statement profit or loss.

Amounts recognized in other comprehensive income were included within items that will not be reclassified subsequently to profit or loss.

In determining the amounts of the defined benefit post-employment obligation, the following significant actuarial assumptions were used:

	2020	2019
Discount rates	**3.50%**	4.70%
Expected rate of salary increases	**3.00%**	5.75%

Assumptions regarding future mortality experience are based on published statistics and mortality tables. The average remaining working lives of an individual retiring at the age of 55 is 15 years. These assumptions were developed by management with the assistance of an independent actuary. Discount factors are determined close to the end of each reporting period by reference to the interest rates of a zero coupon government bond with terms to maturity approximating to the terms of the post-employment obligation. Other assumptions are based on current actuarial benchmarks and management's historical experience.

(c) Risks Associated with the Retirement Plan

The plan exposes the Bank to actuarial risks such as investment risk, interest rate risk, longevity risk and salary risk.

(i) Investment and Interest Risks

The present value of the defined benefit obligation is calculated using a discount rate determined by reference to market yields of government bonds. Generally, a decrease in the interest rate of a reference government bonds will increase the plan obligation. However, this will be partially offset by an increase in the return on the plan's investments in debt securities and if the return on plan asset falls below this rate, it will create a deficit in the plan. Currently, the plan is composed of investment in time deposit accounts and mutual fund investments. Due to the long-term nature of the plan obligation, a combination of time deposit accounts and mutual fund investments is an appropriate element of the Bank's long-term strategy to manage the plan efficiently.

(ii) Longevity and Salary Risks

The present value of the defined benefit obligation is calculated by reference to the best estimate of the mortality of the plan participants both during and after their employment, and to their future salaries. Consequently, increases in the life expectancy and salary of the plan participants will result in an increase in the plan obligation.

(d) Other Information

The information on the sensitivity analysis for certain significant actuarial assumptions, the Bank's asset-liability matching strategy, and the timing and uncertainty of future cash flows related to the retirement plan are described below.

(i) Sensitivity Analysis

The following table summarizes the effects of changes in the significant actuarial assumptions used in the determination of the defined benefit obligation as at December 31, 2020 and 2019:

	Impact on Post-employment Benefit Obligation		
	Change in Assumption	Increase in Assumption	Decrease in Assumption
December 31, 2020			
Discount rate	**+/-1.00%**	**(P 181,265,100)**	**P 238,121,800**
Salary growth rate	**+/-1.00%**	**237,958,200**	**(181,600,700)**
December 31, 2019			
Discount rate	+/- 1.00%	(P 197,538,000)	P 258,126,100
Salary growth rate	+/- 1.00%	257,404,700	(197,560,900)

The sensitivity analysis is based on a change in an assumption while holding all other assumptions constant. This analysis may not be representative of the actual change in the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated. Furthermore, in presenting the above sensitivity analysis, the present value of the defined benefit obligation has been calculated using the projected unit credit method at the end of the reporting period, which is the same as that applied in calculating the defined benefit obligation recognized in the statements of financial position.

(ii) Asset-liability Matching Strategies

The Bank and trustee bank have no specific matching strategy between the plan assets and the plan obligation.

(iii) Funding Arrangements and Expected Contributions

The plan is currently underfunded by P155.2 million based on the latest actuarial valuation. While there are no minimum funding requirement in the country, the size of the underfunding may pose a cash flow risk in about five to ten years' time when the current fair value of plan assets is not enough to cover the expected retirement benefit payments.

The Bank expects to make contribution of P25.0 million to the plan during the next reporting period.

The maturity profile of undiscounted expected benefit payments for the next ten years from the plan follows:

	2020	2019
Within one year	P 26,422,508	P 22,502,656
More than one year to five years	20,029,574	19,022,449
More than five years to ten years	69,863,838	37,058,093
	P 116,315,920	P 78,583,198

The weighted average duration of the defined benefit obligation at the end of the reporting period is 13 years.

21. RELATED PARTY TRANSACTIONS

The Bank's related parties include its associate, entities under common ownership, key management personnel and others as described in Note 2.17.

A summary of the Bank's transactions and outstanding balances with its related parties is presented below.

Related Party Category	Notes	2020 Amount of Transaction	2020 Outstanding Balance	2019 Amount of Transaction	2019 Outstanding Balance
Associate					
Collection fees	21.4	P 527,076,282	(P 24,134,906)	P 485,768,947	(P 43,896,585)
Deposit liabilities	21.9	311,328,029	(311,328,029)	12,796,087	(12,796,087)
Dividend received	14	240,000,000	240,000,000	320,000,000	-
Share in net profit	14	98,377,217	173,386,309	216,594,980	315,009,092
support services	21.5	95,075,300	(1,830,346)	125,138,000	(12,376,500)
Accounts payable	21.8	63,381,703	(63,381,703)	152,564,013	(152,564,013)
Credit investigation					
Accounts receivable	21.7	34,240,813	34,240,813	37,910,553	61,478,121
Leases	11	(396,185)	-	(569,478)	-
Investment	14	-	800,000,000	-	800,000,000
Related Parties Under Common Ownership					
DOSRI loans	21.1	504,000,000	195,000,000	503,100,000	173,012,024
Referral commission	21.2	751,721,752	(89,005,027)	618,354,725	(228,878,427)
Collection fees	21.4	169,543,482	(40,308,440)	148,726,667	(39,613,538)
Selling commission	21.3	93,458,517	(7,907,647)	79,044,688	(15,981,662)
Interest income	21.1	9,961,807	-	10,239,092	-
Leases	11	319,400	-	38,522,815	-
Key Management Personnel					
Compensation	21.10	62,813,487	-	59,285,943	-
DOSRI loans	21.1	22,000,000	2,693,139	42,000,000	48,256,763
Interest income	21.1	868,236	-	925,968	-

Following are the details of the foregoing transactions:

21.1 DOSRI Loans

The Bank grants loans to DOSRI. The General Banking Act and BSP regulations limit the amount of the loans granted by the Bank to a single borrower to 25.00% of equity. The amount of individual loans to DOSRI, of which 70.00% must be secured, should not exceed the amount of their deposits and the book value of their investments in the Bank. In aggregate, loans to DOSRI generally should not exceed the total capital funds or 15.00% of the total loan portfolio of the Bank, whichever is lower. The Bank complied with the restrictions on DOSRI loans as of December 31, 2020 and 2019.

The total DOSRI loans amounted to P197.7 million and P221.3 million as of December 31, 2020 and 2019, respectively and presented as part of the Loans and Receivables account in the statements of financial position (see Note 9). These loans bear annual interest ranging from 3.81% to 6.45% and 3.81% to 9.75% for 2020 and 2019, respectively, are fully secured, and have terms ranging from one month to five years. The percentage of DOSRI to total loans in 2020 and 2019 is 0.66% and 0.75%, respectively. There were no past due and nonperforming DOSRI loans in 2020 and 2019; hence, no impairment loss on them have been recognized in both years.

21.2 Referral Commission

The Bank entered into financing agreements with certain accredited dealers that are related parties under common ownership whereby the Bank shall provide qualified motorcycle buyers of the accredited dealers with necessary funds for the purchase of motorcycle units. In consideration for the referrals made by the related parties, the Bank pays a commission for each approved motorcycle loan application based on certain percentage of amount financed and achievement of predetermined sales volume.

The total fees are either capitalized as loan origination costs or expensed outright and shown as part of Fees and commissions under the Other Operating Expenses in the statements of profit or loss (see Note 19.2). The outstanding payable on referral commission is presented as part of Accounts payable under the Accounts Payable and Other Liabilities account in the statements of financial position, and is noninterest-bearing, unsecured payable in cash and due to be settled within 30 days from the end of the reporting period (see Note 17.2).

21.3 Selling Commission

The Bank entered into agreements with certain accredited dealers that are considered as related parties under common ownership whereby the accredited dealers shall provide assistance in the selling of the Bank's repossessed motorcycles. In consideration for the services performed, the Bank pays a fixed fee for each repossessed motorcycle sold. The total fees recognized related to these agreements are shown as part of Outside services under the Other Operating Expenses in the statements of profit or loss (see Note 19.2). The outstanding payable on selling commission as of December 31, 2020 and 2019 is presented as part of Accounts payable under Accounts Payable and Other Liabilities account in the statements of financial position, and is noninterest-bearing, unsecured payable in cash and due to be settled within 30 days from the end of the reporting period (see Note 17.2).

21.4 Collection Fees

The Bank entered into service agreement with a related party under common ownership and its associate whereby the latter shall accept loan payments from the Bank's borrowers. In consideration for the services performed by such related party, the Bank pays a service fee equivalent to a certain percentage on all monies collected.

The total fees arising from these service agreements are shown as part of Outside services under the Other Operating Expenses account in the statements of profit or loss (see Note 19.2). The outstanding liability arising from this transaction is presented as part of Accounts payable under the Accounts Payable and Other Liabilities account in the statements of financial position, and is noninterest-bearing, unsecured payable in cash and due to be settled within 30 days from the end of the reporting period (see Note 17.2).

21.5 Credit Investigation Support Services

The Bank entered into an agreement with its associate where the latter shall provide credit investigation services using its manpower complement and necessary equipment for all loan application endorsed by the Bank. The credit investigation includes identity and character validation, residency verification, and employment and source of income validation. The total fees arising from these service agreements are either capitalized as loan origination costs or expensed outright and shown as part of Outside services under the Other Operating Expenses in the statements of profit or loss (see Note 19.2).

The outstanding liability arising from this transaction is presented as part of Accounts payable under the Accounts Payable and Other Liabilities in the statements of financial position, and is noninterest-bearing, unsecured payable in cash and due to be settled within 30 days from the end of the reporting period (see Note 17.2).

21.6 Retirement Fund

Time deposit accounts amounting to P40.2 million and P50.5 million as at December 31, 2020, and 2019, respectively, were established by the Bank as plan assets for the retirement plan. Interest income earned by these time deposits amounted to P2.5 million, and P3.1 million in 2020 and 2019, respectively. These bank accounts are included as part of the Bank's deposit liabilities and are accounted for separately from the cash accounts of the Bank. The retirement fund is managed by the Bank's Treasury Department. The composition of the plan assets is presented under Note 20.2.

The retirement fund neither provides any guarantee or surety for any obligation of the Bank nor its investments covered by any restrictions or liens.

21.7 Accounts Receivable

This mainly pertains to assets held for sale of the Bank which were subsequently sold and refinanced by its associate. This is presented and netted against Accounts payable presented under the Accounts Payable and Other Liabilities account and non-interest bearing, due and demandable in cash upon demand (see Note 17).

21.8 Accounts Payable

This pertains to collections of the Bank's associate deposited to the account of the Bank. These have the same terms as that of third parties. This is presented as part of Accounts payable presented under the Accounts Payable and Other Liabilities account (see Note 17).

21.9 Deposit Liabilities

The Bank has deposit liabilities to its associate amounting to P311.3 million and P12.8 million as at December 31, 2020 and 2019, respectively, and is presented as part of Deposit Liabilities in the statements of financial position (see Note 16).

Deposit liabilities transactions with its associate have similar terms with other counterparties (see Note 16). Annual interest rates is 0.75% both in 2020 and 2019.

Moreover, in the ordinary course of business, the Bank has deposit transactions with certain related parties and with outstanding deposit balance amounting to P12.3 billion and P11.8 billion as at December 31, 2020 and 2019, respectively.

21.10 Key Management Personnel Compensation

Salaries and short-term benefits received by key management personnel are summarized below.

	2020	2019
Short-term benefits	**P 37,240,387**	P 42,159,343
Post-employment benefits	**25,573,100**	17,126,600
	P 62,813,487	P 59,285,943

22. TAXES

22.1 Current and Deferred Taxes

The components of tax expense as reported in profit or loss and other comprehensive income are as follows:

	2020	2019
Profit or loss		
Current tax expense:		
Regular corporate income tax (RCIT) at 30%	**P 799,489,577**	P 1,035,295,359
Final taxes	**56,046,884**	60,898,041
	855,536,461	1,096,193,400
Deferred tax income relating to origination and reversal of temporary differences	**(26,161,234)**	(115,494,141)
	P 829,375,227	P 980,699,259
Other comprehensive income		
Deferred tax expense (income) relating to origination and reversal of temporary differences	**P 16,297,080**	(P 29,842,290)

A reconciliation of tax on pretax profit computed at the applicable statutory rates to tax expense reported in profit or loss is presented below.

	2020	2019
Tax on pre-tax profit at 30%	**P 853,660,705**	P 1,095,402,175
Adjustments for income subjected to final tax	**(17,178,037)**	(64,010,278)
Tax effects of:		
Non-taxable income	**(42,254,403)**	(73,093,657)
Non-deductible expenses	**35,146,962**	22,401,019
Tax expense	**P 829,375,227**	P 980,699,259

The deferred tax assets as of December 31 relates to the following:

	2020	2019
Deferred tax assets:		
Allowance for impairment	**P 776,390,153**	P 634,935,577
Lease liabilities	**59,276,359**	74,575,546
Retirement benefit obligation	**46,550,880**	50,772,300
Unrealized loss on repossession	**24,136,524**	39,189,649
Depreciation of investment properties	**21,939,147**	17,725,723
	928,293,063	817,198,795
Deferred tax liabilities:		
Deferred loan origination costs	**(290,938,045)**	(172,446,264)
Right-of-use asset	**(54,169,711)**	(71,431,378)
	(345,107,756)	(243,877,642)
Net deferred tax assets	**P 583,185,307**	P 573,321,153

The effect of the movements in deferred tax assets in profit and loss and other comprehensive income for the years ended December 31 is as follows:

	2020	2019
Profit or loss:		
Allowance for impairment losses	**(P 141,454,576)**	(P 154,090,064)
Amortized loan origination costs	**118,491,781**	71,392,246
Amortization of right-of-use asset	**(17,261,667)**	7,088,837
Lease liabilities	**15,299,187**	(10,233,005)
Unrealized loss on repossession	**15,053,125**	(18,199,251)
Retirement benefit obligation	**(12,075,660)**	(7,659,270)
Depreciation of investment properties	**(4,213,424)**	(3,769,318)
Unamortized past service cost	**-**	(24,316)
Deferred tax income	**(P 26,161,234)**	(P 115,494,141)
Other comprehensive income –		
Retirement benefit obligation	**P 16,297,080**	(P 29,842,290)

The Bank is subject to the minimum corporate income tax (MCIT) which is computed at 2% of gross income, as defined under the tax regulations, or RCIT, whichever is higher.

No MCIT was reported in 2020 and 2019 as the RCIT was higher than MCIT in both years.

The Bank opted to claim itemized deductions in 2020 and 2019 in the computation of its income tax due.

22.2 Gross Receipts Tax

On January 29, 2004, RA No. 9238 reverted the imposition of gross receipt tax (GRT) on banks and financial institutions. This law is retroactive from January 1, 2004. Further, on May 24, 2005, the amendments on RA No. 9337 was approved imposing the following rates to be collected on gross receipts derived from sources in the Philippines by all banks and non-bank financial intermediaries:

(a) On interest, commissions and discounts from lending activities as well as income from financial leasing, on the basis of remaining maturities of instruments from which such receipts are derived:

With maturity period of five years or less	5%
With maturity period of more than five years	1%

(b) On dividends and equity shares in the net income of subsidiaries	0%
(c) On royalties, rentals of property, real or personal, profits from exchange and all other items treated as gross income under Section 32 of the National Internal Revenue Code	7%
(d) On net trading within the taxable year on foreign currency, debt securities, derivatives, and other similar financial instruments	7%

Provided, however, that in case the maturity period referred to in paragraph (a) is shortened thru pretermination, then the maturity period shall be reckoned to end as of the date of pretermination for purposes of classifying the transaction and the correct rate of tax shall be applied accordingly.

22.3 Documentary Stamp Tax

Documentary stamp tax (DST) at rates ranging from P0.30 to P2 on each P200 of the face value of the certificate or document are imposed on the following (amounts herein are expressed in absolute value):

(a) Bank checks, drafts, or certificate of deposit not bearing interest, and other instruments;

(b) Bonds, loan agreements, promissory notes, bills of exchange, drafts, instruments and securities issued by the Government or any of its instrumentalities, deposit substitute debt instruments, certificates of deposits bearing interest and other not payable on sight or demand;

(c) Acceptance of bills of exchange and letters of credit; and,

(d) Bills of lading or receipt.

On February 7, 2004, RA No. 9243 was passed amending the rates of DST, the significant provisions of which are summarized as follows.

(a) On every issue of debt instruments, there shall be collected a DST of P1 on each P200 or fractional part of the issue price of any such debt instrument;

(b) On all sales or transfer of shares or certificates of stock in any corporation, there shall be collected a DST of P0.75 on each P200, or fractional part, of the par value of such stock;

(c) On all bills of exchange or drafts, there shall be collected DST of P0.30 on each P200, or fractional part, of the face value of any such bill of exchange or draft; and,

(d) The following instruments, documents and papers shall be exempt from DST:

- Borrowings and lending of securities executed under the Securities Borrowing and Lending Program of a registered exchange, or in accordance with regulations prescribed by the appropriate regulatory authority;
- Loan agreements or promissory notes, the aggregate of which do not exceed P250 thousand or any such amount as may be determined by the Secretary of Finance, executed by an individual for his purchase on instalment for his personal use;
- Sale, barter or exchange of shares of stock listed and traded through the local stock exchange for a period of five years from the effectivity of RA No. 9243;
- Fixed income and other securities traded in the secondary market or through an exchange;
- Derivatives including repurchase agreements and reverse repurchase agreements;
- Bank deposit accounts without a fixed term or maturity; and,
- Interbank call loans with maturity of not more than seven days to cover deficiency in reserve against deposit liabilities.

23. COMMITMENTS AND CONTINGENCIES

There are commitments, guarantees and contingent liabilities that arise in the normal course of the Bank's operations that are not reflected in the financial statements. The Bank recognizes in its books any losses and liabilities incurred in the course of its operations as soon as these become determinable and quantifiable. As at December 31, 2020 and 2019, management is of the opinion that losses, if any, from the foregoing items will not have a material effect on the Bank's financial statements.

24. EVENT AFTER THE END OF THE REPORTING PERIOD

On March 26, 2021, R.A. No. 11534, *Corporate Recovery and Tax Incentives for Enterprises* (CREATE) Act, amending certain provisions of the National Internal Revenue Code (NIRC) of 1997, as amended, was signed into law with veto on certain provisions and shall be effective 15 days after its publication. The CREATE Act has several provisions with retroactive effect beginning July 1, 2020. The following are the major changes brought about by the CREATE Act that are relevant to the Bank:

a. RCIT decreased from 30% to 25% starting July 1, 2020;
b. MCIT decreased from 2% to 1% starting July 1, 2020 until June 30, 2023;
c. the imposition of 10% tax on improperly accumulated retained earnings is repealed; and,
d. the allowable deduction for interest expense is reduced to 20% (from 33%) of the interest income subjected to final tax.

Given that the CREATE Act was signed after the end of the current reporting period, the Bank determined that this event is a non-adjusting subsequent event. Accordingly, its impact was not reflected in the Bank's financial statements as of and for the year ended December 31, 2020, and instead, will be taken up prospectively in the next applicable reporting period. The Bank used the prevailing tax rates as of December 31, 2020 in determining its current and deferred taxes in its 2020 financial statements.

As a result of the application of the lower RCIT rate of 25% starting July 1, 2020, the current income tax expense and income tax payable, as presented in the 2020 annual income tax return (ITR) of the Bank, would be lower than the amount presented in the 2020 financial statements.

Presented below is the reconciliation of the impact of the application of CREATE Act between the Bank's 2020 financial statements and 2020 annual ITR.

	Amounts per 2020 Financial Statements	Impact of CREATE Act	Amount per 2020 ITR
RCIT	P 799,489,577	(P 70,987,116)	P 728,502,461
Income tax payable	210,604,738	(70,987,116)	139,617,622

In addition, the recognized net deferred tax assets as of December 31, 2020 would be remeasured to 25% in the 2021 financial statements. This will result in a decline in the recognized deferred tax asset in 2020 by P97.2 million and will be charged to 2021 profit or loss, unless it can be recognized in other comprehensive income (loss) as provided in the applicable financial reporting standard.

25. CURRENT AND NON-CURRENT CLASSIFICATION OF RESOURCES AND LIABILITIES

	Current	Non-current	Total
December 31, 2020			
Cash	P 79,102,342	P -	P 79,102,342
Due from BSP	6,539,156,821	-	6,539,156,821
Due from other banks	1,549,294,119	-	1,549,294,119
Investment securities - net	12,720,872	2,091,446,942	2,104,167,814
Loans and other receivables - net	9,143,124,771	22,745,139,905	31,888,264,676
Assets held-for-sale - net	1,328,549,906	-	1,328,549,906
Bank premises, furniture, fixtures and equipment - net	-	209,542,322	209,542,322
Right-of-use assets-net	-	180,565,705	180,565,705
Investment properties - net	-	214,283,383	214,283,383
Deferred tax assets - net	-	583,185,306	583,185,306
Other resources - net	114,463,693	89,094,431	203,558,124
Total Resources	**P 18,766,412,524**	**P 26,113,257,994**	**P 44,879,670,518**
Deposit liabilities	P 21,198,027,516	P 8,244,647,863	P 29,442,675,379
Accounts payable and other liabilities	1,219,870,476	281,172,256	1,501,042,732
Total Liabilities	**P 22,417,897,992**	**P 8,525,820,119**	**P 30,943,718,111**
December 31, 2019			
Cash	P 71,176,434	P -	P 71,176,434
Due from BSP	2,971,517,467	-	2,971,517,467
Due from other banks	341,976,552	-	341,976,552
Investment securities - net	2,433,882	2,579,749,289	2,582,183,171
Loans and other receivables - net	6,003,756,499	25,681,485,502	31,685,242,001
Bank premises, furniture, fixtures and equipment - net	-	251,845,585	251,845,585
Assets held-for-sale - net	518,839,911	-	518,839,911
Right-of-use assets - net	-	238,104,594	238,104,594
Investment properties - net	-	216,739,156	216,739,156
Investment in an associate	-	1,115,009,092	1,115,009,092
Deferred tax assets - net	-	573,321,153	573,321,153
Other resources - net	142,465,566	80,466,285	222,931,851
Total Resources	P 10,052,166,311	P 30,736,720,656	P 40,788,886,967
Deposit liabilities	P 17,023,013,356	P 10,067,090,495	P 27,090,103,851
Accounts payable and other liabilities	1,516,629,512	345,045,726	1,861,675,238
Total Liabilities	P 18,539,642,868	P 10,412,136,221	P 28,951,779,089

26. SUPPLEMENTARY INFORMATION REQUIRED BY THE BSP

Presented below are the supplementary information required by the BSP under Section 174 (Appendix 55) of the BSP MORB to be disclosed as part of the notes to financial statements based on BSP Circular 1074, *Amendments to Regulations on Financial Audit of Banks*.

(a) Selected Financial Performance Indicators

The following are some indicators of the Bank's financial performance.

	2020	2019
Return on average equity		
Net profit / Average total capital accounts	**14.49%**	23.95%
Return on average resources		
Net profit / Average total resources	**4.31%**	6.80%
Net interest margin		
Net interest income / Average interest earning resources	**19.57%**	22.73%

(a) Capital Instruments Issued

The significant information related to the capital instrument issued by the Bank is described in more detail in the respective note.

Type of Instrument	Note	**2020**	2019
Common share (CET 1)	18.1	**P5,000,000,000**	P5,000,000,000

(b) Significant Credit Exposures for Loans

Under the BSP guidelines, the Bank is required to disclose concentration of credit as to industry or economic sector where concentration is said to exist. The Bank's concentration of credit as to economic activity for its loans gross of allowance for ECL follows:

	2020		2019	
	Amount	**Percentage**	Amount	Percentage
Consumption	**P 22,797,950,146**	**76.10%**	P 21,427,837,500	72.23%
Real estate, renting and other related activities	**1,694,785,459**	**5.66%**	1,928,906,455	6.50%
Wholesale and retail trade	**1,282,559,513**	**4.28%**	1,646,847,529	5.55%
Agriculture, hunting and forestry	**1,206,907,535**	**4.03%**	1,368,577,778	4.61%
Electricity, gas and water	**569,488,776**	**1.90%**	8,577,416	0.02%
Transportation, storage and communication	**540,898,936**	**1.81%**	644,794,521	2.17%
Manufacturing	**506,418,289**	**1.69%**	533,664,907	1.80%
Construction	**338,862,345**	**1.13%**	289,946,641	0.98%
Education	**245,051,482**	**0.82%**	220,208,033	0.74%
Accommodation and food service	**200,422,686**	**0.67%**	258,449,446	0.87%
Human health and social service activities	**167,809,635**	**0.56%**	229,448,320	0.77%
Private household	**17,961,866**	**0.06%**	18,613,777	0.06%
Financial and insurance activities	**12,163,593**	**0.04%**	16,329,822	0.06%
Mining and quarrying	**1,161,308**	**0.00%**	1,181,739	0.01%
Other community, social and personal services	**375,669,830**	**1.25%**	1,072,828,304	3.62%
	P 29,958,111,399	**100%**	P 29,666,212,188	100%

The BSP considers that loan concentration exists when the total loan exposure to a particular industry exceeds 30% of the total loan portfolio plus the outstanding interbank loans receivable or 10% of Tier 1 capital.

(c) Analysis of Loan Portfolio as to Type of Security

The breakdown of receivable from customers, gross of allowance and unearned interests or discounts, as to security are disclosed in Note 9.

As to security, loans are classified into:

	2020	2019
Secured:		
Real estate mortgage	**P 345,114,482**	P 564,479,764
Hold out deposits	**277,256,049**	320,530,519
Others	**445,432,285**	991,710,595
	1,067,802,816	1,876,720,878
Unsecured	**28,890,308,583**	27,789,491,310
	P 29,958,111,399	P29,666,212,188

(d) Credit Status of Loans

The breakdown of receivable from customers as to status is shown below.

	2020		
	Performing	**Non-performing**	**Total Loan Portfolio**
Gross carrying amount:			
Consumption loans	P24,119,770,077	P 945,783,782	P25,065,553,859
Commercial loans	3,478,080,807	640,783,611	4,118,864,418
mSME loans	426,148,130	209,786,850	635,934,980
Microfinance loans	80,807,969	56,950,173	137,758,142
	28,104,806,983	1,853,304,416	29,958,111,399
Allowance for ECL	(1,193,931,358)	(1,110,273,119)	(2,304,204,477)
Net carrying amount	**P26,910,875,625**	**P 743,031,297**	**P27,635,906,922**

	2019		
	Performing	Non-performing	Total Loan Portfolio
Gross carrying amount:			
Consumption loans	P22,297,478,362	P 1,924,226,499	P24,221,704,861
Commercial loans	3,905,506,028	553,569,512	4,459,075,540
mSME loans	532,178,698	246,482,067	778,660,765
Microfinance loans	123,581,509	83,189,513	206,771,022
	26,858,744,597	2,807,467,591	29,666,212,188
Allowance for ECL	(366,741,679)	(1,409,865,810)	(1,776,607,489)
Net carrying amount	P26,492,002,918	P 1,397,601,781	P27,889,604,699

As at December 31, 2020 and 2019, the nonperforming loans (NPLs) not fully covered by allowance for credit losses follow:

	2020	2019
Gross NPLs	**P 1,853,304,415**	P2,807,467,591
NPLs fully covered by allowance for impairment	**(823,969,134)**	(1,409,865,810)
	P 1,029,335,281	P1,397,601,781

(e) *Information on Related Party Loans*

In the ordinary course of business, the Bank has loan transactions with each other, their other affiliates, and with certain DOSRI. Under existing policies of the Bank, these loans are made substantially on the same terms as loans to other individuals and businesses of comparable risks.

Under the current BSP regulations, the amount of individual loans to a DOSRI, 70% of which must be secured, should not exceed the amount of the encumbered deposit and book value of the investment in the Bank and/or any of its lending and nonbank financial subsidiaries. In the aggregate, loans to DOSRIs, generally, should not exceed the total equity or 15% of the total loan portfolio of the Bank. However, non-risk loans are excluded in both individual and aggregate ceiling computation.

The table shows the information relating to the loans, other credit accommodations and guarantees granted to DOSRI as of December 31 in accordance with BSP reporting guidelines:

	DOSRI Loans		Related Party Loans (inclusive of DOSRI)	
	2020	2019	**2020**	2019
Total outstanding loans	**P 196,742,304**	P220,178,865	**P197,693,139**	P221,268,788
% of loans to total loan portfolio	**0.7%**	0.8%	**0.7%**	0.7%
% of unsecured loans to total DOSRI/related party loans	**0.0%**	0.0%	**0.0%**	0.0%
% of past due loans to total DOSRI/related party loans	**0.0%**	0.0%	**0.0%**	0.0%
% of non-performing loans to total DOSRI/ related party loans	**0.0%**	0.0%	**0.0%**	0.0%

Secured DOSRI loans are collateralized by hold-out on deposits and are payable within three months to five years.

There were no past due and nonperforming related party loans in 2020 and 2019; hence, no impairment loss on them have been recognized in both years.

(f) *Secured Liabilities and Assets Pledged as Security*

The Bank did not have any secured liabilities nor assets pledged as security as at December 31, 2020 and 2019.

(g) Contingencies and Commitments Arising from Off-balance Sheet Items

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

27. SUPPLEMENTARY INFORMATION REQUIRED BY THE BUREAU OF INTERNAL REVENUE

Following is the supplementary information on taxes, duties and license fees paid or accrued during the taxable year which is required by the BIR under Revenue Regulations (RR) No. 15-2010 to be disclosed as part of the notes to financial statements. This supplementary information is not a required disclosure under PFRS.

(a) GRT

In lieu of the value-added tax, the Bank is subject to the GRT imposed on all banks and non-bank financial intermediaries performing quasi-banking function pursuant to Section 121 of the Tax Code, as amended.

In 2020, the Bank reported total gross receipts tax amounting to P435,036,411 as shown under Taxes and Licenses [see Note 26(d)], in which P430,539,285 was paid during the year.

The breakdown of the GRT is shown below.

	Gross Receipts	GRT
Income derived from lending activities	P 8,682,824,386	P 430,508,973
Other income	64,677,686	4,527,438
	P 8,747,502,072	**P 435,036,411**

(b) DST

The movements in unused DST are summarized below.

Balance at beginning of year	P 14,072,016
Purchased	140,400,000
Affixed	(128,302,311)
Balance at end of year	**P 26,169,705**

The Bank is enrolled under the Electronic Documentary Stamp Tax System. In general, the Bank's DST transactions arise from the execution of loan documents, debt instruments, security documents, and bills of exchange.

Of the total documentary stamp affixed, P5,511,161 was charged to clients, while P122,791,150 was for the account of the Bank and accordingly charged to profit or loss [see Note 27(d)].

(c) *Withholding Taxes*

The details of total withholding taxes for the year ended December 31, 2020 are shown below.

Final	P 31,127,705
Expanded	152,177,896
Compensation and benefits	46,577,719
	P 229,883,320

(d) *Taxes and Licenses*

The details of taxes and licenses in 2020 are as follows:

	Notes	
GRT	27(a)	P 435,036,411
DST	27(b)	122,791,150
Local taxes and business permit		28,723,980
Fringe benefits tax		2,917,994
Real property taxes		1,917,283
Miscellaneous		67,269
		P 591,454,087

(e) *Excise Taxes*

The Bank did not have any transactions in 2020 subject to excise tax.

(f) *Taxes on Importation*

The Bank has not paid or accrued any customs duties and tariff fees as it has no importation for the year ended December 31, 2020.

(g) *Deficiency Tax Assessment and Tax Cases*

In 2020, the Bank paid deficiency taxes amounting to P60,395,646, including interest amounting to P23,752,920 related to taxable years 2007 to 2009 and 2016 to 2017.

As of December 31, 2020, the Bank does not have any other final deficiency tax assessments with the BIR or tax cases outstanding or pending in courts or bodies outside of the BIR in any of the open taxable years.

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MICROFINANCE

OUR NETWORK

METRO MANILA

MAKATI CITY (Main Branch)
Ayala Avenue near corner
Metropolitan Avenue, Makati City
02) 8816-138 / (0920) 971.1069

BACLARAN (Microfinance)
397 Quirino Avenue
Baclaran, Parañaque City
(0920) 971.1053

BLUMENTRITT (Microfinance)
One Albert Place
2557 P. Guevarra Street, corner
Tecson Street, Sta. Cruz, Manila
(02) 3493-5949 / (0920) 971.1056

BUENDIA (Microfinance)
44 Sentor Gil Puyat Avenue
Barangay San Isidro, Makati City
(02) 8886-3696 / (0920) 971.1057

CALOOCAN
Aurelio Bldg. III, 11th Avenue corner
Rizal Avenue Extension
Grace Park, Caloocan City
((02) 8364-9039 / (0949) 883.2180

CAMARIN (Microfinance)
Blk. 2 Lot 20 Almar Subdivision
Caloocan City
(02) 8294-1768 / (0949) 883.1497

COMMONWEALTH (Microfinance)
Unit 3 & 4 Mount Sinai Heights Building
71-B Commonwealth Avenue
East Fairview, Quezon City
(0920) 971.1059

CUBAO - P. TUAZON (Microfinance)
Metrolane Complex
P. Tuazon Boulevard corner 20th Avenue
Cubao, Quezon City
(02) 3438-3303 / (0920) 971.1060

GRACE PARK
VSP Condominium
1607-C Rizal Avenue Extension
Grace Park, Caloocan City
(02) 8288-3206 / (0949) 883.1496

GREENHILLS (Microfinance)
Medecor Bldg. 222 Ortigas Avenue
Greenhills, San Juan City
8997-3944 / (0917) 834.7225

GUADALUPE (Microfinance)
Unit MFA 8, G/F, Guadalupe
Commercial Center, Guadalupe
Makati City
(02) 8478-3403 / (0949) 883.1503

KALENTONG (Microfinance)
576 New Panaderos Street
Barangay Pag-asa, Mandaluyong City
((02) 8477-2568 / (0949) 883.1435

LAS PIÑAS
Unit 3, Star Arcade, CV Starr Avenue
Philamlife Village, Pamplona 2
Las Piñas City
(02) 8877-8129 / (0920) 971.1067

MAKATI - EVANGELISTA (Microfinance)
NSR Building, 1837 Evangelista Street
corner Dallas Street, Barangay Pio del Pilar
Makati City
(02) 8845-1201 / (0920) 971.1064

MUNTINLUPA
Presnedi Building
305 National Road,Putatan
Muntinlupa
(02) 8777-3098 / (0920) 971.1072

PASAY - LIBERTAD (Microfinance)
Liberty Commercial Complex
Libertad Street corner F.B. Harrison Street
Pasay City
(02) 8804-2696/ (0917) 835.1988

PASIG - RAYMUNDO (Microfinance)
G/F JG Building
C. Raymundo Avenue, Barangay Rosario
Pasig City
(02) 8650-2970/ (0920) 971.1076

RETIRO (Microfinance)
270 Unit-C, N.S. Amoranto Street
Quezon City
(02) 3411-3512/ (0949) 883.1502

ROOSEVELT (Microfinance)
336 Roosevelt Avenue
Quezon City
(02) 3415 1732 / (0920) 971.1078

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238 McArthur Highway
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4 Senator Lorenzo Sumulong
Memorial Circle
Barangay San Roque, Antipolo City
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BALIUAG
Benigno S. Aquino Avenue
Poblacion, Baliuag, Bulacan
(044) 798-8281 / (0920) 971.1054

BATAAN
G/F L&R Building
Don Manuel Banzon Avenue
Balanga City, Bataan
(047) 237-6625 / (0949) 883.1433

BATANGAS
Unit 4, Mayvel Center
Pallocan Avenue, Pallocan West
Batangas City
(043) 702-2384 / (0920) 971.1055

BIÑAN
A. Bonifacio Street
Biñan, Laguna
(049) 511.9299 / (0949) 883.1495

CABANATUAN
333 B-3 Burgos Street
Sangitan, Cabanatuan City
Nueva Ecija
(044) 463.3967 / (0949) 883.1500

CALAPAN
Unit 1 Roxas Drive, Lumangbayan
Calapan City, Oriental Mindoro
(043) 288.2228 / (0949) 883.1508

DAET
TPI Building, Vinzons Avenue
Barangay IV, Mantagbac
Daet, Camarines Sur
(054) 887.9997 / (0920) 971.1061

DAGUPAN
One Grande Building, Arellano Street
Dagupan City
(075) 522.5072 / (0920) 971.1062

DASMARIÑAS
B55 L7 Golden Miles Molino
Paliparan Road, Barangay Salawag
Dasmariñas City, Cavite
(046) 438 1863 / (0949) 883.1507

LAOAG
Enrico's Building
General Luna Avenue corner General Siazon Road
Laoag City, Ilocos Norte
(077) 771.5385 / (0949) 883.1438

LA UNION
Nera Building, Quezon Avenue
San Fernando, La Union
(072) 687.1519 / (0949) 883.1436

LEGAZPI
Imperial Shopping Plaza
Los Baños Avenue, Capantawan
Legazpi City, Albay
(0949) 883.1439

LIPA
C.M. Recto Avenue (in front of Cathedral)
Barangay 9, Lipa City
Batangas
(043) 756.3481 / (0949) 883.2181

LUCENA
G/F Emperor Building
Merchan Street corner Evangelista Street
Lucena City
(042) 710.9168 / (0920) 971.1068

MALOLOS
Lot 698-A. Paseo Del Congreso Road
Malolos City, Bulacan
(044) 791.7513 / (0920) 971.1070

MARCOS HIGHWAY
Units 3 & 4 Park Place Building
Marcos Highway corner Vermont Park Main Gate
Barangay Mayamot, Antipolo City
(02) 212.2521 / (0920) 971.1071

MARIKINA
19 Bayan-Bayanan Avenue
Concepcion I, Marikina City
(02) 721.8238 / (0949) 883.1505

MEYCAUAYAN
G/F Mancon Building
MacArthur Highway Barangay Calvario
Meycauyan City, Bulacan
(044) 769.6064 / (0917) 834.8281

NAGA
89 Elias Angeles Street
Naga City, Camarines Sur
(054) 473.9898 / (0917) 835.0123

PAMPANGA
Diamond Building
MacArthur Highway
Dolores San Fernando, Pampanga
(045) 961.1354 / (0920) 971.1075

PUERTO PRINCESA
Prime One Properties Building
Km.1 National Highway Barangay
San Miguel Puerto Prinsesa City, Palawan
(048) 434.2052 / (0949) 883.1442

RODRIGUEZ
137 Rodriguez Highway
Manggahan, Rodriguez Rizal
(02) 8470.3581 / (0920) 9711077

SAN PABLO
52 Colago Avenue, Barangay VI-E
San Pablo City, Laguna
(049) 562.0646 / (0933) 828.5136

SANTIAGO
Villarica Building
Purok 4 City Road corner Quezon Street
Centro West, Santiago City
(078) 305.2082 / (0917) 835.3237

TARLAC
1048 F. Tañedo Street
San Nicolas,Tarlac City
Tarlac
(045) 982.1404 / (0920) 971.1079

TUGUEGARAO
Rizal corner Gomez Street
Tuguegarao City, Cagayan
(078) 844.8577 / (0949) 883.1506

URDANETA
National Highway, Nancayasan
Urdaneta City, Pangasinan
(075) 653.0847 / (0949) 883.1443

VIGAN
VQR Building
Quezon Avenue corner Mabini Street
Vigan, Ilocos Sur
(077) 632.0911 / (0922) 876.6018

ZAPOTE
Addio Building
Aguinaldo Highway
Talaba Bacoor, Cavite
(046) 417.7527 / (0920) 971.1080

BACOLOD
Sun-in Building
Lacson Street
Bacolod City, Negros Occidental
(034) 434.9411 / (0949) 883.1431

CEBU
S & L Tanchan Building
51 Colon Street
Parian, Cebu City
(032) 255.6982 / (0949) 883.1434

ILOILO
John Tan Building
Iznart Street, Iloilo City
Iloilo
(033) 335.8853 / (0920) 971.1066

TACLOBAN
Oscar Dy Building
Real Street, Sagkahan District
Tacloban City, Leyte
(053) 832.3064 / (0945) 536.3556

BUTUAN
Lucibenino Building, JC Aquino Avenue
Butuan City, Agusan Del Norte
(085) 225.0406 / (0920) 971.1058

CAGAYAN DE ORO
J.V. Serena Street corner Vamenta Boulevard
Carmen, Cagayan De Oro City
Misamis Oriental
(088) 233.2159 / (0949) 883.1498

DAVAO
CV REALTY Building, Quimpo Boulevard,
Ecoland, Matina, Davao City
(082) 285.2608 / (0920) 971.1063

GENERAL SANTOS
RD Building, Santiago Boulevard
General Santos City, South Cotabato
(083) 552.0876 / (0920) 971.1065

PAGADIAN
ZMS Building, Rizal Avenue
Pagadian City, Zamboanga Del Sur
(062) 925.2879 / (0920) 971.1073

TAGUM
Cacayorin Building
Circumferential Road New Public Market
Tagum City, Davao
(084) 216.3219 / (0917) 836.0676

VALENCIA
Larstel Building 2
1924 Fortich Street, Lavina Avenue
Barangay Poblacion, Valencia City, Bukidnon
(088) 828.5294 / (0917) 836.3996

ZAMBOANGA
G/F RHW Building
Mayor Jaldon Street, Barangay Cañelar
Zamboanga City, Zamboanga Del Sur
(062) 955.0655 / (0917) 836.3340

BRANCH LITE UNITS

ANGELES, PAMPANGA
BACOLOD CITY, NEGROS OCCIDENTAL
BATANGAS CITY, BATANGAS
BINANGONAN, RIZAL
BOAC, MARINDUQUE
BONGABONG, ORIENTAL MINDORO
CALAMBA, LAGUNA
CALBAYOG, SAMAR
CALINAN, DAVAO DEL SUR
DAET, CAMARINES NORTE
DIGOS, DAVAO DEL SUR
DUMAGUETE, NEGROS ORIENTAL
GAPAN, NUEVA ECIJA
GUMACA, QUEZON
ILIGAN CITY, LANAO DEL NORTE
IMUS, CAVITE
IPIL, ZAMBOANGA
IRIGA CITY, CAMARINES SUR
KABANKALAN, NEGROS OCCIDENTAL
KALIBO, AKLAN
KIDAPAWAN CITY, DAVAO DEL SUR
LEMERY, BATANGAS
MALABON, METRO MANILA
MANDAUE, CEBU
MASBATE CITY, MASBATE
NARRA, PALAWAN
OLONGAPO, PAMPANGA
RODRIGUEZ, RIZAL
ROXAS, ISABELA
SAN FRANCISCO, AGUSAN DEL SUR
SAN JOSE DEL MONTE, BULACAN
SAN JOSE, NUEVA ECIJA
SORSOGON, BICOL
T. MARTIRES, CAVITE
TAGBILARAN, BOHOL
TAGUIG CITY, METRO MANILA
TAGUM CITY, DAVAO DEL NORTE
TANAUAN, BATANGAS
TAYTAY, RIZAL
VIRAC, CATANDUANES