Philippine Bank of Communications and Subsidiary

Financial Statements
December 31, 2020 and 2019
and Years Ended December 31, 2020, 2019
and 2018

and

Independent Auditor's Report

SGV

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BOA/PRC Reg. No. 0001,
October 4, 2018, valid until August 24, 2021
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November 6, 2018, valid until November 5, 2021

INDEPENDENT AUDITOR'S REPORT

The Stockholders and the Board of Directors
Philippine Bank of Communications

Report on the Consolidated and Parent Company Financial Statements

Opinion

We have audited the consolidated financial statements of Philippine Bank of Communications and its subsidiary (the Group) and the parent company financial statements of Philippine Bank of Communications (the Parent Company), which comprise the consolidated and parent company statements of financial position as at December 31, 2020 and 2019, and the consolidated and parent company statements of income, consolidated and parent company statements of comprehensive income, consolidated and parent company statements of changes in equity and consolidated and parent company statements of cash flows for each of the three years in the period ended December 31, 2020, and notes to the consolidated and parent company financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated and parent company financial statements present fairly, in all material respects, the financial position of the Group and the Parent Company as at December 31, 2020 and 2019, and their financial performance and their cash flows for each of the three years in the period ended December 31, 2020, in accordance with Philippine Financial Reporting Standards (PFRSs).

Basis for Opinion

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

Key Audit Matters

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

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

Applicable to the Audit of the Consolidated and Parent Company Financial Statements

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

Allowance for credit losses for loans and receivables as of December 31, 2020 for the Group and the Parent Company amounted to ₱2.49 billion. Provision for credit losses of the Group and the Parent Company in 2020 amounted to ₱1.42 billion.

Refer to Notes 3 and 17 of the financial statements for the details of the allowance for credit losses using the ECL model.

Audit response
We obtained an understanding of the board approved methodologies and models used for the Group's and the Parent Company's different credit exposures and assessed whether these considered the requirements of PFRS 9, *Financial Instruments* to reflect an unbiased and probability-weighted outcome, and to consider time value of money and the best available forward-looking information.

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

Further, we checked the data used in the ECL models by reconciling data from source system reports to the data warehouse and from the data warehouse to the loss allowance analysis/models and financial reporting systems.

To the extent that the loss allowance analysis is based on credit exposures that have been disaggregated into subsets of debt financial assets with similar risk characteristics, we traced or re-performed the disaggregation from source systems to the loss allowance analysis. We also assessed the assumptions used where there are missing or insufficient data.

We involved our internal specialist in the performance of the above procedures. We recalculated impairment provisions on a sample basis. We reviewed the completeness of the disclosures made in the financial statements.

Recognition of deferred tax assets
As of December 31, 2020, the gross deferred tax assets of the Group and the Parent Company amounted to ₱690.01 million. The recognition of deferred tax assets is significant to our audit because it requires significant judgment and is based on assumptions such as availability of future taxable income and the timing of the reversal of the temporary differences that are affected by expected future market or economic conditions and the expected performance of the Group and the Parent Company. The estimation uncertainty on the Group's and the Parent Company's expected performance have increased as a result of the uncertainties brought about by the coronavirus pandemic.

The disclosures relating to deferred tax assets are included in Notes 3 and 30 to the financial statements.

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

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

In 2020, the Group and the Parent Company disposed investment securities managed under the hold-to-collect (HTC) business model with total carrying amount of ₱10.44 billion. The disposals resulted in a gain of ₱2.55 million. Investment securities held under a hold-to-collect business model, which are classified as 'Investment securities at amortized cost', are managed to realize cash flows by collecting contractual payments over the life of the instrument.

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

The disclosures related to the disposals of investment securities are included in Notes 3 and 11 to the financial statements.

Audit response

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

We reviewed the disclosures related to the disposals based on the requirements of PFRS 7, *Financial Instruments: Disclosures*, PFRS 9 and Philippine Accounting Standard (PAS 1), *Presentation of Financial Statements*.

Other Information

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

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

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

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

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

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

Those charged with governance are responsible for overseeing the Group's and the Parent Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated and Parent Company Financial Statements

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

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

- Identify and assess the risks of material misstatement of the consolidated and parent company 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 Group's and the Parent Company'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 Group's and the Parent Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated and parent company financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group and the Parent Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated and parent company financial statements, including the disclosures, and whether the consolidated and parent company 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 entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the 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.

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

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

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

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

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The engagement partner on the audit resulting in this independent auditor's report is Ray Francis C. Balagtas.

SYCIP GORRES VELAYO & CO.

Ray Francis C. Balagtas

Ray Francis C. Balagtas
Partner
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SEC Accreditation No. 1510-AR-1 (Group A),
September 18, 2018, valid until September 17, 2021
Tax Identification No. 216-950-288
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November 27, 2020, valid until November 26, 2023
PTR No. 8534218, January 4, 2021, Makati City

May 14, 2021

PHILIPPINE BANK OF COMMUNICATIONS AND SUBSIDIARY
STATEMENTS OF FINANCIAL POSITION

	Consolidated		Parent Company	
	December 31		December 31	
	2020	2019	**2020**	2019
	(Amounts in Thousands)			
ASSETS				
Cash and Other Cash Items	**₱2,467,099**	₱2,698,682	**₱2,467,099**	₱2,698,682
Due from Bangko Sentral ng Pilipinas (Notes 18 and 19)	**20,597,868**	10,213,521	**20,597,868**	10,213,521
Due from Other Banks	**1,495,485**	357,960	**1,495,485**	357,960
Interbank Loans Receivable and Securities Purchased under Resale Agreements (Note 8)	**6,054,454**	717,736	**6,054,454**	717,736
Financial Assets at Fair Value through Profit or Loss (Note 9)	**718,294**	1,667,827	**718,294**	1,667,827
Financial Assets at Fair Value through Other Comprehensive Income (Note 10)	**5,137,816**	8,094,362	**5,137,816**	8,094,362
Investment Securities at Amortized Cost (Note 11)	**2,263,356**	12,849,500	**2,263,356**	12,849,500
Loans and Receivables (Note 12)	**57,623,993**	61,257,040	**57,626,707**	61,259,793
Investments in Subsidiary and an Associate (Note 7)	**14,114**	13,849	**20,252**	20,053
Property and Equipment (Note 13)	**894,617**	974,210	**894,617**	974,210
Investment Properties (Note 14)				
Condominium units for lease	**1,788,559**	1,836,941	**1,788,559**	1,836,941
Foreclosed properties	**610,075**	588,451	**610,075**	588,451
Office units for lease	**2,923**	3,274	**2,923**	3,274
Intangible Assets (Note 15)	**613,526**	673,089	**613,526**	673,089
Deferred Tax Assets - Net (Note 30)	**170,608**	–	**170,608**	–
Other Assets (Note 16)	**777,431**	794,062	**776,034**	792,673
TOTAL ASSETS	**₱101,230,218**	₱102,740,504	**₱101,237,673**	₱102,748,072
LIABILITIES AND EQUITY				
LIABILITIES				
Deposit Liabilities (Notes 18 and 31)				
Demand	**₱30,865,282**	₱27,204,604	**₱30,874,143**	₱27,213,580
Savings	**9,664,945**	9,180,273	**9,664,945**	9,180,273
Time	**40,367,517**	36,594,232	**40,367,517**	36,594,232
Long-term negotiable certificates of deposits	**2,883,668**	2,902,730	**2,883,668**	2,902,730
	83,781,412	75,881,839	**83,790,273**	75,890,815
Bills Payable (Note 19)	**2,182,844**	13,064,824	**2,182,844**	13,064,824
Outstanding Acceptances	**497,813**	91,855	**497,813**	91,855
Manager's Checks	**188,100**	442,811	**188,100**	442,811
Accrued Interest, Taxes and Other Expenses (Note 20)	**802,785**	712,428	**802,637**	712,277
Income Tax Payable	**146,866**	23,441	**146,866**	23,441
Deferred Tax Liabilities - Net (Note 30)	**–**	782	**–**	782
Other Liabilities (Note 21)	**1,100,720**	1,167,323	**1,099,462**	1,166,066
TOTAL LIABILITIES	**88,700,540**	91,385,303	**88,707,995**	91,392,871

(Forward)

	Consolidated		Parent Company	
	December 31		December 31	
	2020	2019	**2020**	2019
	(Amounts in Thousands)			
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY				
Common stock (Note 23)	**₱12,016,129**	₱12,016,129	**₱12,016,129**	₱12,016,129
Additional paid-in capital	**2,262,246**	2,262,246	**2,262,246**	2,262,246
Surplus reserves (Note 23)	**106,418**	105,952	**106,418**	105,952
Deficit (Notes 2 and 23)	**(1,638,621)**	(2,807,067)	**(1,638,621)**	(2,807,067)
Unrealized gain on financial assets carried at fair value through other comprehensive income (Note 10)	**100,093**	87,932	**100,093**	87,932
Cumulative translation adjustment	**(211,464)**	(231,664)	**(211,464)**	(231,664)
Remeasurement losses on retirement liability (Note 27)	**(105,123)**	(78,327)	**(105,123)**	(78,327)
TOTAL EQUITY	**12,529,678**	11,355,201	**12,529,678**	11,355,201
TOTAL LIABILITIES AND EQUITY	**₱101,230,218**	₱102,740,504	**₱101,237,673**	₱102,748,072

See accompanying Notes to Financial Statements.

PHILIPPINE BANK OF COMMUNICATIONS AND SUBSIDIARY
STATEMENTS OF INCOME

	Consolidated			Parent Company		
	Years Ended December 31					
	2020	2019	2018	**2020**	2019	2018
	(Amounts in Thousands, Except Earnings per Share)					
INTEREST INCOME						
Loans and receivables (Notes 12 and 31)	**₱4,325,208**	₱4,468,479	₱3,723,359	**₱4,325,208**	₱4,468,479	₱3,723,359
Investment securities (Note 26)	**363,618**	588,317	709,008	**363,618**	588,317	709,008
Interbank loans receivable and securities purchased under resale agreements (Note 8)	**92,746**	40,246	41,291	**92,746**	40,246	41,291
Financial assets at fair value through profit or loss (Note 26)	**80,007**	159,297	15,810	**80,007**	159,297	15,810
Deposits with other banks	**132,408**	11,981	10,845	**132,408**	11,981	10,845
	4,993,987	5,268,320	4,500,313	**4,993,987**	5,268,320	4,500,313
INTEREST AND FINANCE CHARGES						
Deposit liabilities (Notes 18 and 31)	**921,459**	1,501,587	1,161,819	**921,459**	1,501,587	1,161,819
Bills payable, borrowings and others (Note 19)	**147,034**	561,700	468,685	**147,034**	561,700	468,685
	1,068,493	2,063,287	1,630,504	**1,068,493**	2,063,287	1,630,504
NET INTEREST INCOME	**3,925,494**	3,205,033	2,869,809	**3,925,494**	3,205,033	2,869,809
Rent income (Notes 14, 28 and 31)	**673,414**	736,341	661,017	**673,414**	736,341	661,196
Trading and securities gain (loss) – net (Note 26)	**654,731**	408,413	23,336	**654,731**	408,413	23,336
Service charges, fees and commissions	**389,096**	407,507	342,915	**389,096**	407,507	342,915
Foreign exchange gain - net	**59,185**	49,873	49,953	**59,185**	49,873	49,953
Income from trust operations (Note 25)	**25,689**	21,095	15,707	**25,689**	21,095	15,707
Profit (loss) from assets sold (Notes 13, 14 and 16)	**6,779**	97,739	(9,562)	**6,779**	97,739	(9,562)
Gain (loss) on assets exchange - net (Note 14)	**(3,157)**	(11,850)	13,133	**(3,157)**	(11,850)	13,133
Gain on sale of investment securities at amortized cost (Note 3 and 11)	**2,552**	–	–	**2,552**	–	–
Miscellaneous (Note 29)	**158,402**	137,783	114,176	**158,402**	137,783	114,176
TOTAL OPERATING INCOME	**5,892,185**	5,051,934	4,080,484	**5,892,185**	5,051,934	4,080,663

(Forward)

	Consolidated			Parent Company		
	Years Ended December 31					
	2020	2019	2018	**2020**	2019	2018
	(Amounts in Thousands, Except Earnings per Share)					
OPERATING EXPENSES						
Provision for credit and impairment losses - net (Notes 17)	**₱1,418,228**	₱377,613	₱209,914	**₱1,418,228**	₱377,613	₱209,914
Compensation and fringe benefits (Notes 14, 27 and 31)	**1,009,118**	978,869	1,040,602	**1,009,118**	978,153	1,039,169
Taxes and licenses (Notes 14 and 30)	**640,060**	624,122	542,936	**640,053**	624,115	542,911
Depreciation and amortization (Note 13)	**380,653**	445,979	386,917	**380,653**	445,979	386,917
Insurance	**153,762**	139,771	141,847	**153,762**	139,771	141,847
Management and professional fees	**139,999**	106,543	112,989	**139,944**	106,443	112,889
Entertainment, amusement and recreation	**126,572**	82,483	86,137	**126,572**	82,483	86,137
Occupancy and other equipment-related costs (Notes 14, 28 and 31)	**101,334**	130,220	243,921	**101,334**	130,169	243,769
Loss on sale of a subsidiary (Note 7)	–	–	–	–	171,173	–
Security, clerical, messengerial and janitorial services	**83,426**	97,754	96,210	**83,426**	97,747	96,135
Communications	**47,487**	48,661	53,645	**47,487**	48,661	53,645
Miscellaneous (Notes 14 and 29)	**392,777**	432,394	338,062	**392,772**	432,394	338,047
TOTAL OPERATING EXPENSES	**4,493,416**	3,464,409	3,253,180	**4,493,349**	3,634,701	3,251,380
INCOME BEFORE SHARE IN NET INCOME OF SUBSIDIARY AND AN ASSOCIATE	**1,398,769**	1,587,525	827,304	**1,398,836**	1,417,233	829,283
SHARE IN NET INCOME (LOSS) OF SUBSIDIARY (Note 7)	–	–	–	**(67)**	(58,116)	22,981
SHARE IN NET INCOME OF AN ASSOCIATE (Note 7)	**266**	531	250	**266**	531	250
INCOME BEFORE INCOME TAX	**1,399,035**	1,588,056	827,554	**1,399,035**	1,359,648	852,514
PROVISION FOR INCOME TAX (Note 30)	**230,123**	202,391	226,281	**230,123**	202,391	226,281
NET INCOME FROM CONTINUING OPERATIONS	**1,168,912**	1,385,665	601,273	**1,168,912**	1,157,257	626,233
NET INCOME (LOSS) FROM DISCONTINUED OPERATIONS (Note 7)	–	(228,408)	24,963	–	–	–
NET INCOME	**₱1,168,912**	₱1,157,257	₱626,236	**₱1,168,912**	₱1,157,257	₱626,233
Attributable to:						
Equity holders of the Parent Company	**₱1,168,912**	₱1,157,257	₱626,233			
Non-controlling interests	**–**	–	3			
	₱1,168,912	₱1,157,257	₱626,236			
Basic/Diluted Earnings Per Share Attributable to Equity Holders of the Parent Company (Note 32)	**₱2.43**	₱2.41	₱1.30			

See accompanying Notes to Financial Statements

PHILIPPINE BANK OF COMMUNICATIONS AND SUBSIDIARY
STATEMENTS OF COMPREHENSIVE INCOME

	Consolidated			Parent Company		
	Years Ended December 31					
	2020	2019	2018	**2020**	2019	2018
	(Amounts in Thousands)					
NET INCOME FOR THE YEAR	**₱1,168,912**	₱1,157,257	₱626,236	**₱1,168,912**	₱1,157,257	₱626,233
OTHER COMPREHENSIVE INCOME (LOSS) FOR THE YEAR, NET OF TAX						
Items that may be reclassified to profit or loss in subsequent periods:						
Net unrealized gain (loss) on debt securities at fair value through other comprehensive income (Note 10)	**7,516**	68,516	(114,964)	**7,516**	68,516	(114,964)
Net movement in cumulative translation adjustment	**20,200**	(54,605)	(54,796)	**20,200**	(54,605)	(54,796)
Unrealized gain as a result of reclassification of debt securities from amortized cost to fair value through other comprehensive income (Note 3)	–	–	56,901	–	–	56,901
	27,716	13,911	(112,859)	**27,716**	13,911	(112,859)
Items that may not be reclassified to profit or loss in subsequent periods:						
Unrealized gain on equity securities carried at fair value through other comprehensive income (Note 10)	**4,645**	–	13,029	**4,645**	–	13,029
Change in remeasurement gains on retirement liability (Note 27)	**(71,848)**	(111,505)	97,755	**(71,848)**	(111,505)	94,704
Income tax relating to change in remeasurement gains on retirement liability	**45,052**	8,157	(10,866)	**45,052**	8,157	(9,951)
	(22,151)	(103,348)	99,918	**(22,151)**	(103,348)	97,782
	5,565	(89,437)	(12,941)	**5,565**	(89,437)	(15,077)
TOTAL OTHER COMPREHENSIVE INCOME BEFORE SHARE IN OTHER COMPREHENSIVE INCOME OF SUBSIDIARIESSUBSIDIARY	**1,174,477**	1,067,820	613,295	**1,174,477**	1,067,820	611,156
SHARE IN OTHER COMPREHENSIVE INCOME OF SUBSIDIARIESSUBSIDIARY						
Item that may not be reclassified to profit or loss in subsequent periods:						
Change in remeasurement gains on retirement liability (Note 27)	**–**	–	–	–	–	3,051
Income tax relating to components of other comprehensive income (Note 7)	**–**	–	–	–	–	(915)
	–	–	–	–	–	2,136
TOTAL OTHER COMPREHENSIVE INCOME	**₱1,174,477**	₱1,067,820	₱613,295	**₱1,174,477**	₱1,067,820	₱613,292
Attributable to:						
Equity holders of the Parent Company	**₱1,174,477**	₱1,067,820	₱613,292			
Non-controlling interests	–	–	3			
TOTAL COMPREHENSIVE INCOME	**₱1,174,477**	₱1,067,820	₱613,295			

See accompanying Notes to Financial Statements.

PHILIPPINE BANK OF COMMUNICATIONS AND SUBSIDIARY

STATEMENTS OF CHANGES IN EQUITY

	Consolidated										
	Years Ended December 31, 2020, 2019 and 2018										
	Equity Attributable to Equity Holders of the Parent Company										
	Common Stock (Note 23)	**Subscribed Common Stock – net** (Note 23)	**Additional Paid-in Capital**	**Surplus Reserves** (Note 23)	**Deficit** (Notes 2 and 23)	**Unrealized Gain (Loss) on Financial Assets Carried at Fair Value Through Other Comprehensive Income** (Note 10)	**Cumulative Translation Adjustment**	**Remeasurement Gains (Losses) on Retirement Liability** (Note 27)	**Total**	**Non-Controlling Interests**	**Total Equity**
	(Amounts in Thousands)										
Balances at January 1, 2020	**₱12,016,129**	**₱–**	**₱2,262,246**	**₱105,952**	**(₱2,807,067)**	**₱87,932**	**(₱231,664)**	**(₱78,327)**	**₱11,355,201**	**₱–**	**₱11,355,201**
Transfer to surplus reserves	**–**	**–**	**–**	**466**	**(466)**	**–**	**–**	**–**	**–**	**–**	**–**
Total comprehensive income (loss) for the year	**–**	**–**	**–**	**–**	**1,168,912**	**12,161**	**20,200**	**(26,796)**	**1,174,477**	**–**	**1,174,477**
Balances at December 31, 2020	**₱12,016,129**	**₱–**	**₱2,262,246**	**₱106,418**	**(₱1,638,621)**	**₱100,093**	**(₱211,464)**	**(₱105,123)**	**₱12,529,678**	**₱–**	**₱12,529,678**
Balances at December 31, 2018, as previously reported	₱12,016,129	₱–	₱2,252,826	₱105,893	(₱3,916,336)	₱19,416	(₱177,059)	₱25,021	₱10,325,890	₱24	₱10,325,914
Effect of the adoption of PFRS 16, *Leases* (Note 2)	–	–	–	–	(47,929)	–	–	–	(47,929)	–	(47,929)
Balances at January 1, 2019, as restated	12,016,129	–	2,252,826	105,893	(3,964,265)	19,416	(177,059)	25,021	10,277,961	24	10,277,985
Derecognition of share of PRBI as a result of sale	–	–	9,420	–	–	–	–	–	9,420	(24)	9,396
Transfer to surplus reserves	–	–	–	59	(59)	–	–	–	–	–	–
Total comprehensive income (loss) for the year	–	–	–	–	1,157,257	68,516	(54,605)	(103,348)	1,067,820	–	1,067,820
Balances at December 31, 2019	₱12,016,129	₱–	₱2,262,246	₱105,952	(₱2,807,067)	₱87,932	(₱231,664)	(₱78,327)	₱11,355,201	₱–	₱11,355,201
Balances at January 1, 2018	12,016,129	–	2,252,826	105,824	(4,542,500)	64,450	(122,263)	(61,868)	9,712,598	21	9,712,619
Transfer to surplus reserves	–	–	–	69	(69)	–	–	–	–	–	–
Total comprehensive income (loss) for the year	–	–	–	–	626,233	(45,034)	(54,796)	86,889	613,292	3	613,295
Balances at December 31, 2018	₱12,016,129	₱–	₱2,252,826	₱105,893	(₱3,916,336)	₱19,416	(₱177,059)	₱25,021	₱10,325,890	₱24	₱10,325,914

	Common Stock (Note 23)	Subscribed Common Stock - net (Note 23)	Additional Paid-in Capital	Surplus Reserves (Note 23)	Deficit (Notes 2 and 23)	Unrealized Gain (Loss) on Financial Assets Carried at Fair Value Through Other Comprehensive Income (Note 10)	Cumulative Translation Adjustment	Remeasurement Gains (Losses) on Retirement Liability (Note 27)	Total Equity
	Parent Company								
	Years Ended December 31, 2020, 2019 and 2018								
	(Amounts in Thousands)								
Balances at January 1, 2020	**₱12,016,129**	**₱–**	**₱2,262,246**	**₱105,952**	**(₱2,807,067)**	**₱87,932**	**(₱231,664)**	**(₱78,327)**	**₱11,355,201**
Transfer to surplus reserves	**–**	**–**	**–**	**466**	**(466)**	**–**	**–**	**–**	**–**
Total comprehensive income (loss) for the year	**–**	**–**	**–**	**–**	**1,168,912**	**12,161**	**20,200**	**(26,796)**	**1,174,477**
Balances at December 31, 2020	**₱12,016,129**	**₱–**	**₱2,262,246**	**₱106,418**	**(₱1,638,621)**	**₱100,093**	**(₱211,464)**	**(₱105,123)**	**₱12,529,678**
Balances at December 31, 2018, as previously reported	₱12,016,129	₱–	₱2,262,246	₱105,893	(₱3,916,336)	₱19,416	(₱177,059)	₱25,021	₱10,335,310
Effect of the adoption of PFRS 16, *Leases* (Note 2)	–	–	–	–	(47,929)	–	–	–	(47,929)
Balances at January 1, 2019, as restated	12,016,129	–	2,262,246	105,893	(3,964,265)	19,416	(177,059)	25,021	10,287,381
Derecognition of share of PRBI as a result of sale	–	–	–	–	–	–	–	–	–
Transfer to surplus reserves	–	–	–	59	(59)	–	–	–	–
Total comprehensive income (loss) for the year	–	–	–	–	1,157,257	68,516	(54,605)	(103,348)	1,067,820
Balances at December 31, 2019	₱12,016,129	₱–	₱2,262,246	₱105,952	(₱2,807,067)	₱87,932	(₱231,664)	(₱78,327)	₱11,355,201
Balances at January 1, 2018	12,016,129	–	2,262,246	105,824	(4,542,500)	64,450	(122,263)	(61,868)	9,722,018
Transfer to surplus reserves	–	–	–	69	(69)	–	–	–	–
Total comprehensive income (loss) for the year	–	–	–	–	626,233	(45,034)	(54,796)	86,889	613,292
Balances at December 31, 2018	₱12,016,129	₱–	₱2,262,246	₱105,893	(₱3,916,336)	₱19,416	(₱177,059)	₱25,021	₱10,335,310

See accompanying Notes to Financial Statements.

PHILIPPINE BANK OF COMMUNICATIONS AND SUBSIDIARY
STATEMENTS OF CASH FLOWS

	Consolidated			Parent Company		
	Years Ended December 31					
	2020	2019	2018	**2020**	2019	2018
	(Amounts in Thousands)					
CASH FLOWS FROM OPERATING ACTIVITIES						
Income before income tax from continuing operations	**₱1,399,035**	₱1,588,056	₱827,554	**₱1,399,035**	₱1,359,648	₱852,514
Income before income tax from discontinued operations	–	(226,132)	26,412	–	–	–
Income before income tax	**1,399,035**	1,361,924	853,966	**1,399,035**	1,359,648	852,514
						–
Adjustments to reconcile income before income tax to net cash generated from (used for) operations:						
Depreciation and amortization (Note 13)	**380,653**	445,979	386,915	**380,653**	445,979	386,917
Provision for credit and impairment losses (Note 17)	**1,418,228**	377,613	209,914	**1,418,228**	377,613	209,914
Trading gains on financial assets at FVOCI (Note 26)	**(277,278)**	(309,176)	(32,522)	**(277,278)**	(309,176)	(32,522)
Loss (profit) from assets sold (Notes 13, 14 and 16)	**(6,779)**	(97,739)	9,562	**(6,779)**	(97,739)	9,562
Accretion of interest on unquoted debt securities (Note 12)	**(77,216)**	(88,233)	(94,844)	**(77,216)**	(88,233)	(94,844)
Accretion of interest on lease liability (Note 21)	**17,603**	18,711	–	**17,603**	18,711	–
Loss on sale of a subsidiary (Note 7)	–	–	–	–	171,173	–
Loss (gain) on assets exchange (Note 14)	**3,157**	11,850	(13,133)	**3,157**	11,850	(13,133)
Share in net income of subsidiary and an associate (Note 7)	**(265)**	(531)	(250)	**(199)**	57,584	(23,231)
Unrealized gains on financial assets at fair value through profit or loss	**(478)**	(1,495)	(5,195)	**(478)**	(1,495)	(5,195)
Changes in operating assets and liabilities:						
Decrease (increase) in the amounts of:						
Loans and receivables (Note 33)	**2,137,326**	(3,678,579)	(7,339,515)	**2,137,365**	(3,675,826)	(7,156,411)
Financial assets at fair value through profit or loss	**950,011**	(773,116)	1,852,450	**950,011**	(773,116)	1,852,450
Other assets	**59,546**	(361,667)	(70,826)	**59,556**	(363,056)	(63,370)
Increase (decrease) in the amounts of:						
Deposit liabilities	**7,923,791**	3,546,513	3,292,913	**7,923,676**	3,555,488	3,290,312
Manager's checks	**(254,711)**	345,364	(329,958)	**(254,711)**	345,364	(329,958)
Accrued interest, taxes and other expenses	**90,360**	32,576	263,342	**90,360**	32,425	250,926
Other liabilities	**(93,399)**	421,668	7,918	**(93,399)**	421,677	9,202
Net cash provided by (used in) operations	**13,669,584**	1,251,662	(1,009,263)	**13,669,584**	1,488,871	(856,867)
Income taxes paid	**(233,541)**	(210,254)	(231,355)	**(233,541)**	(207,978)	(227,778)
Net cash provided by (used in) operating activities	**13,436,043**	1,041,408	(1,240,618)	**13,436,043**	1,280,893	(1,084,645)
CASH FLOWS FROM INVESTING ACTIVITIES						
Decrease (increase) in interbank loans receivable	**(3,902,952)**	13,121	49,290	**(3,902,952)**	13,121	49,290
Acquisitions of:						
Financial assets at FVTOCI	**(78,016,514)**	(68,324,130)	(18,623,917)	**(78,016,514)**	(68,324,130)	(18,623,917)
Investment securities at amortized cost	**(191,880)**	–	(41,444)	**(191,880)**	–	(41,444)
Property and equipment (Note 13)	**(49,355)**	(87,133)	(105,732)	**(49,355)**	(87,133)	(109,712)
Software costs (Note 15)	**(15,069)**	(39,172)	(33,583)	**(15,069)**	(39,172)	(32,979)
Investment properties (Notes 13 and 14)	–	–	(423)	–	–	(423)

(Forward)

	Consolidated			Parent Company		
	Years Ended December 31					
	2020	2019	2018	**2020**	2019	2018
	(Amounts in Thousands)					
Proceeds from disposals of:						
Financial assets at FVTOCI	**₱81,263,005**	₱67,695,250	₱13,604,095	**₱81,263,005**	₱67,695,250	₱13,604,095
Investment securities at amortized cost	**10,498,994**	–	–	**10,498,994**	–	–
Investment properties (Note 14)	**20,441**	314,655	30,634	**20,441**	314,655	1,128
Property and equipment (Note 13)	**7,671**	20,532	14,816	**7,671**	20,532	14,293
Chattel mortgage	**18,097**	91,812	154,313	**18,097**	91,812	154,313
Subsidiary	–	500,220	–	–	500,220	–
Proceeds from maturity of investment securities	**250,168**	200,000	405,000	**250,168**	200,000	405,000
Net cash provided by (used in) investing activities	**9,882,606**	385,155	(4,546,951)	**9,882,606**	385,155	(4,580,356)
CASH FLOWS FROM FINANCING ACTIVITIES						
Availments of:						
Bills payable	**58,922,973**	392,583,853	423,360,260	**58,922,973**	392,583,853	423,185,782
Outstanding acceptances	**855,416**	573,187	265,439	**855,416**	573,187	265,440
Marginal deposits	**18,700**	321,701	2,391	**18,700**	321,701	2,391
Settlements of:						
Bills payable	**(69,802,907)**	(397,121,016)	(418,263,661)	**(69,802,907)**	(397,121,016)	(418,156,982)
Outstanding acceptances	**(438,206)**	(522,775)	(285,122)	**(438,206)**	(522,775)	(285,123)
Marginal deposits	**(46,275)**	(287,657)	(2,619)	**(46,275)**	(287,657)	(2,619)
Lease liabilities	**(124,495)**	(119,169)	–	**(124,495)**	(119,169)	–
Net cash provided by (used in) financing activities	**(10,614,794)**	(4,571,876)	5,076,688	**(10,614,794)**	(4,571,876)	5,008,889
EFFECT OF FOREIGN CURRENCY TRANSLATION ADJUSTMENT	**20,200**	(54,605)	(54,796)	**20,200**	(54,605)	(54,796)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**12,724,055**	(3,199,918)	(765,677)	**12,724,055**	(2,960,433)	(710,908)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR						
Cash and other cash items	**2,698,682**	1,389,869	974,207	**2,698,682**	1,357,609	941,823
Due from Bangko Sentral ng Pilipinas	**10,213,521**	15,224,382	15,340,711	**10,213,521**	15,168,302	15,279,084
Due from other banks	**357,960**	379,723	1,166,063	**357,960**	228,578	965,820
Interbank loans receivable (Note 33)	**717,736**	193,843	472,513	**717,736**	193,843	472,513
	13,987,899	17,187,817	17,953,494	**13,987,899**	16,948,332	17,659,240
CASH AND CASH EQUIVALENTS AT END OF YEAR						
Cash and other cash items	**2,467,099**	2,698,682	1,389,869	**2,467,099**	2,698,682	1,357,609
Due from Bangko Sentral ng Pilipinas	**20,597,868**	10,213,521	15,224,382	**20,597,868**	10,213,521	15,168,302
Due from other banks	**1,495,485**	357,960	379,723	**1,495,485**	357,960	228,578
Interbank loans receivable (Note 33)	**2,151,502**	717,736	193,843	**2,151,502**	717,736	193,843
	₱26,711,954	₱13,987,899	₱17,187,817	**₱26,711,954**	₱13,987,899	₱16,948,332

OPERATIONAL CASH FLOWS FROM INTEREST

	Consolidated			Parent Company		
	Years Ended December 31					
	2020	2019	2018	**2020**	2019	2018
	(Amounts in Thousands)					
Interest paid	**₱1,139,197**	₱2,121,862	₱1,514,955	**₱1,139,197**	₱2,103,611	₱1,461,109
Interest received	**4,979,867**	5,547,387	4,678,218	**4,979,867**	5,592,985	4,368,913

See accompanying Notes to Financial Statements.

1. Corporate Information

Philippine Bank of Communications (the Parent Company) is a publicly listed domestic commercial bank organized in the Philippines, primarily to engage in commercial banking services such as deposit products, loans and trade finance, domestic and foreign fund transfers, treasury, foreign exchange and trust services.

The Parent Company's principal place of business is at the PBCom Tower, 6795 Ayala Avenue corner V. A. Rufino Street, Makati City. It has a network of 89 regular branches, 4 branch-lite units and 89 regular branches, 3 branch-lite units to serve its customers, as at December 31, 2020 and 2019, respectively.

The Parent Company's original Certificate of Incorporation was issued by the Securities and Exchange Commission (SEC) on August 23, 1939. On June 21, 1988, the Board of Directors (BOD) of the Parent Company approved the amendment of Article IV of its Amended Articles of Incorporation to extend the corporate life of the Parent Company for another 50 years or up to August 23, 2039. The Amended Articles of Incorporation was approved by the SEC on November 23, 1988.

The Parent Company acquired a license to operate as an expanded commercial bank from the Bangko Sentral ng Pilipinas (BSP) on December 24, 1993. On March 31, 2000, the BSP's Monetary Board approved the amendment of the Parent Company's license to a regular commercial banking.

The Parent Company's subsidiaries and an associate (collectively referred to as the Group) are engaged in the following businesses:

	Effective Percentage of Ownership		Principal Place of Business and Country	
Entity	**2020**	**2019**	of Incorporation	Line of Business
Subsidiaries				
PBCom Rural Bank, Inc. (formerly Banco Dipolog, Inc. A Rural Bank (BDI)) (PRBI)	–	–	Philippines	Rural Bank
PBCom Insurance Services Agency, Inc. (PISAI)	**100.00%**	**100.00%**	Philippines	Insurance Agent
Associate				
PBCom Finance Corporation (PBCom Finance)	**40.00%**	**40.00%**	Philippines	Financing Company

On July 9, 2018, through the approval granted by the SEC, BDI officially changed its corporate name to PBCom Rural Bank, Inc. On July 27, 2018, the BSP authorized the change in the corporate name.

Sale of PRBI

On July 29, 2019, PBCOM sold its stake in PBCom Rural Bank, Inc. as it consolidates its efforts and resources at the parent company level. In 2019, Parent Company and PISAI comprise the consolidated financial statements of the Group (Note 7).

Retirement of Business Operations of PISAI
On January 11, 2021, the BOD of the Parent Company approved the dissolution and retirement of business of PISAI. PISAI, which has been inactive for the past 3 years, has continuously remained inactive but continued to incur operating expenses. The Parent Company does not see any need for the subsidiary and has decided to retire the business operations.

As of May 14, 2021, the Parent Company is in the process of filing the retirement of PISAI's business operations.

Strategic Third Party Investors
On August 5, 2014, the Parent Company signed a subscription agreement with P.G. Holdings Inc. (PGH), for the latter's subscription of the Parent Company's 181,080,608 common shares valued at ₱33.00 per share. These shares were issued out of the unissued portion of the Parent Company's authorized capital stock. On August 6, 2014, in compliance with banking law and regulations, the Parent Company and PGH submitted the Subscription Agreement to the BSP for its approval.

The subscription by PGH to the new shares of the Parent Company amounting to ₱5.98 billion was approved by the BSP on September 23, 2014. The first installment of ₱1.79 billion was paid by PGH on September 25, 2014. Subsequently, on October 1, 2014, VFC Land Resources Inc. (VFC) bought 59.24 million shares at ₱33.00 per share from the ISM Group. PGH and VFC are beneficially owned by the family of Mr. Lucio Co, bringing his total stake in the Parent Company to 49.99%.

On September 22, 2015, June 29, 2016 and September 11, 2017, the Parent Company received the second, third and final installment payments, respectively, each amounting to ₱1.39 billion for the subscribed shares of PGH.

In 2015, both PGH and VFC bought additional 2.40 million shares. The following year, additional 0.49 million shares and 9.49 million shares were acquired by PGH and VFC, respectively. In 2018, PGH bought an additional 2.27 million shares and VFC acquired 0.49 million additional shares in 2019. The Co Family's total stake in the Parent Company is at 53.65% as of December 31, 2020 and 2019.

2. Summary of Significant Accounting and Financial Reporting Policies

Basis of Presentation
The financial statements have been prepared on a historical cost basis, except for financial assets at fair value through profit or loss (FVTPL), financial assets at fair value through other comprehensive income (FVTOCI) and derivatives that are measured at fair value. The financial statements are presented in Philippine peso (PHP or ₱) and all values are rounded to the nearest thousand, unless otherwise stated.

The financial statements of the Parent Company include the accounts maintained in the Regular Banking Unit (RBU) and Foreign Currency Deposit Unit (FCDU). The functional currency of the RBU and the FCDU is the PHP and United States dollar (USD), respectively. For financial reporting purposes, FCDU accounts and foreign currency-denominated accounts in the RBU are translated into their equivalents in PHP, which is the Parent Company's presentation currency (see accounting policy on Foreign Currency Translation). The financial statements individually prepared for these units are combined after eliminating inter-unit accounts and transactions.

Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. The functional currency of the Parent Company's subsidiary is the PHP.

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

Presentation of Financial Statements
The Group and the Parent Company present its statement of financial position in order of liquidity. An analysis regarding recovery or settlement within 12 months after the statement of financial position date (current) and more than 12 months after the statement of financial position date (non-current) is presented in Note 22.

Basis of Consolidation
The consolidated financial statements comprise the financial statements of the Parent Company and its subsidiary. The consolidated financial statements of the Group are prepared for the same reporting year as the Parent Company using consistent accounting policies. The subsidiary is consolidated from the date on which control is transferred to the Parent Company. The Parent Company controls an investee if, and only if, the Parent Company has:

- Power over the investee (that is, existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its involvement with the investee; and
- The ability to use its power over the investee to affect its returns.

Generally, there is a presumption that a majority of voting rights result in control. To support this presumption and when the Parent Company has less than a majority of the voting or similar rights of an investee, the Parent Company considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee;
- Rights arising from other contractual agreements; and
- The Parent Company's voting rights and potential voting rights.

The Parent Company re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Parent Company obtains control over the subsidiary and ceases when the Parent Company loses control of the subsidiary. Assets, liabilities, income, expenses and other comprehensive income (OCI) of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Parent Company gains control until the date the Parent Company ceases to control the subsidiary.

When necessary, adjustments are made to the financial statements of subsidiary to align their accounting policies with the Parent Company's accounting policies. All intra-group assets, liabilities, equity, income, expenses and cash flows relating to transactions between entities in the Group are eliminated in full on consolidation.

A change in ownership interest of a subsidiary, without loss of control, is accounted for within equity as an adjustment to 'Additional paid-in capital'. In such circumstances, the carrying amounts of the controlling and non-controlling interests are adjusted by the Group to reflect the changes in its relative interests in the subsidiary. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to the owners of the Parent Company.

When a change in ownership interest in a subsidiary occurs, which results in loss of control over the subsidiary, the Parent Company:
- Derecognizes the assets (including goodwill) and liabilities of the subsidiary;
- Derecognizes the carrying amount of any non-controlling interest;
- Derecognizes the related OCI recorded in equity and recycle the same to the statement of income or surplus;
- Recognizes the fair value of the consideration received;
- Recognizes the fair value of any investment retained; and
- Recognizes any surplus or deficit in the statement of income.

Non-controlling Interests
Non-controlling interests represent the portion of profit or loss and net assets not owned, directly or indirectly, by the Parent Company.

Non-controlling interests are presented separately in the consolidated statement of income, consolidated statement of comprehensive income, and within equity in the consolidated statement of financial position, separately from equity attributable to the equity holders of the Parent Company. Any losses applicable to the non-controlling interests are allocated against the interests of the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Changes in Accounting Policies and Disclosures
The accounting policies adopted are consistent with those of the previous financial year, except for the adoption of new standards and amendments effective as of January 1, 2020. The Group did not early adopt any other standard, interpretation or amendment that has been issued but is not yet effective.

Unless otherwise indicated, adoption of these new standards did not have an impact on the financial statements of the Group.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Foreign Currency Translation

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

monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

FCDU

As of the statement of financial position date, the FCDU's assets and liabilities are translated into PHP, the Parent Company's presentation currency, at the BAP closing rate prevailing at the statement of financial position date, and income and expenses are translated at BAP weighted average rate. Exchange differences arising on translation are taken directly to the statement of comprehensive income as 'Cumulative translation adjustment'. Upon actual remittance of FCDU profits to RBU, the deferred cumulative amount recognized in the statement of comprehensive income is recognized in the statement of income.

<u>Fair Value Measurement</u>

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

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

The principal or the most advantageous market must be accessible by the Group.

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

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

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

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

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

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

External and internal valuers are involved for the valuation of investment properties. Selection criteria include market knowledge, reputation, independence, relevant accreditation, and whether professional standards are maintained.

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset and liability, and fair value hierarchy as explained above.

Cash and Cash Equivalents

For purposes of reporting cash flows, cash and cash equivalents include cash and other cash items, amounts due from BSP and other banks, and interbank loans receivable and securities purchased under resale agreements (SPURA) with original maturities of three months or less from dates of placements and that are subject to insignificant risks of changes in value. Due from BSP includes the statutory reserves required by the BSP which the Group considers as cash equivalents since withdrawals can be made to meet the Group's cash requirements as allowed by the BSP. The components of cash and cash equivalents are shown in the statement of cash flows. Cash and cash equivalents are carried at amortized cost in the statement of financial position.

SPURA

The Group enters into short-term purchases of securities under resale agreements of identical securities with the BSP. Resale agreements are contracts under which a party purchases securities and resells such securities to the same selling party at a specified future date at a fixed price. The amounts advanced under resale agreements are carried as SPURA in the statement of financial position. SPURA are carried at cost. Interest earned on resale agreements is reported as 'Interest income' in the statement of income.

Financial Instruments - Date of Recognition

The Group recognizes financial instruments when, and only when, it becomes a party to the contractual terms of the instrument. Purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace are recognized on the settlement date. Settlement date accounting refers to:

a. The recognition of an asset on the day it is received by the Group; and
b. The derecognition of an asset and recognition of any gain or loss on disposal on the day that such asset is delivered by the Group.

Any change in fair value of unrecognized financial asset is recognized in the statement of income or in equity, depending on the classification of the financial asset. Loans and receivables are recognized when cash is advanced to the borrowers while financial liabilities are recognized when cash is received by the Group.

Classification, Measurement and Reclassification of Financial Assets

Classification and measurement of financial assets

For purposes of classifying financial assets, an instrument is an 'equity instrument' if it is a non-derivative and meets the definition of 'equity' for the issuer (under PAS 32, *Financial Instruments: Presentation*). All other non-derivative financial instruments are 'debt instruments'.

Financial assets are classified, at initial recognition, as subsequently measured at amortized cost, FVTOCI, and FVTPL. The classification depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them.

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

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

Business model test
The Group determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective.

The Group's business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios and is based on observable factors such as:

- How the performance of the business model and the financial assets held within that business model are evaluated and reported to the Group's key management personnel
- The risks that affect the performance of the business model and the financial assets held within that business model and, in particular, the way those risks are managed
- How managers of the business are compensated (for example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected)
- The expected frequency, value and timing of sales are also important aspects of the Group's assessment

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

SPPI test
As a second step of its classification process, the Group assesses the contractual terms of financial instruments to identify whether they meet the SPPI test.

'Principal' for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset (for example, if there are repayments of principal or amortization of the premium/discount).

The most significant elements of interest within a lending arrangement are typically the consideration for the time value of money and credit risk. To make the SPPI assessment, the Group applies judgment and considers relevant factors such as the currency in which the financial asset is denominated, and the period for which the interest rate is set.

In contrast, contractual terms that introduce a more than de minimis exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are SPPI on the amount outstanding. In such cases, the financial asset is required to be measured at FVTPL.

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

Financial assets meeting these criteria are measured initially at fair value plus transaction costs. These are subsequently measured at amortized cost using the effective interest rate (EIR) method, less allowance for credit losses, with the interest calculated recognized as 'Interest income' in the statement of income. Gains and losses are recognized in the statement of income when the financial assets are derecognized and impaired, as well as through the amortization process. The expected credit losses (ECL) are recognized in the statement of income under Provision for impairment and credit losses - net. The effects of revaluation of foreign currency denominated investments are recognized in statement of income. Gains or losses arising from disposals of these instruments are included in Gain on sale of investment securities at amortized cost in the statement of income.

The Group classified 'Cash and other cash items', 'Due from BSP', 'Due from other banks', 'Interbank loans receivable and SPURA', 'Loans and receivables', 'Investment securities at amortized cost' and certain financial assets under 'Other assets' as financial assets at amortized cost.

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

b. Financial Assets at FVTOCI
Financial assets at FVTOCI include debt and equity securities.

Debt Instruments at FVTOCI
The Group applies the new category under PFRS 9 of debt instruments measured at FVTOCI when both the following conditions are met:

- The instrument is held within a business model, the objective of which is achieved by both collecting contractual cash flows and selling financial assets; and
- The contractual terms of the financial asset meet the SPPI test.

The initial measurement of these financial instruments includes transaction costs. Subsequently, these are measured at fair value with gains or losses arising due to changes in fair value recognized in OCI under 'Unrealized gain on financial assets carried at FVTOCI'. Interest income and foreign exchange gains and losses are recognized in the statement of income in the same manner as for financial assets measured at amortized cost. When the Group holds more than one investment in the same security, these are deemed to be disposed of on a first-in, first-out basis. On derecognition, cumulative gains or losses recognized in OCI are reclassified from OCI to the statement of income.

Equity Instruments at FVTOCI
At initial recognition, the Group can make an irrevocable election (on an instrument-by-instrument basis) to designate equity instruments at FVTOCI. Designation at FVTOCI is not permitted if the investment in equity instrument is held for trading.

Investments in equity instruments at FVTOCI are initially measured at fair value plus transaction costs. Subsequently, these are measured at fair value, with no deduction for sale or disposal costs. Gains and losses arising from changes in fair value are recognized in OCI and accumulated in 'Unrealized gain on financial assets carried at FVTOCI' in the statement of financial position. When the asset is disposed of, the cumulative gain or loss previously recognized in 'Unrealized gain on financial assets carried at fair value through other comprehensive income' is not reclassified to the statement of income, but is reclassified to 'Deficit'.

Dividends earned on these investments in equity instruments are recognized in the statement of income when the Group's right to receive the dividends is established in accordance with PFRS 9, unless the dividends clearly represent recovery of a part of the cost of the investment. Dividends earned are recognized in the statement of income, under 'Miscellaneous income'.

c. Financial Assets at FVTPL

Debt instruments that do not meet the amortized cost or FVTOCI criteria, or that meet the criteria but the Group has chosen to designate as at FVTPL at initial recognition, are measured at FVTPL.

Investments in equity instruments are classified as at FVTPL, unless the Group designates an equity instrument that is not held for trading as at FVTOCI at initial recognition.

The Group's financial assets at FVTPL include government securities held for trading purposes.

As of December 31, 2020 and 2019, the Group has not designated any debt instrument that meets the amortized cost or FVTOCI criteria as at FVTPL.

Financial assets at FVTPL are carried at fair value, with net changes in fair value recognized as 'Trading and securities gain (loss) - net' in the statement of income. Interest earned on these investments is reported as 'Interest income' in the statement of income.

The fair value of financial assets denominated in a foreign currency is determined in that foreign currency and translated at the BAP closing rate prevailing at the statement of financial position date. The foreign exchange component forms part of its fair value gain or loss.

d. Derivative Instruments

Derivative instruments are initially recorded at fair value and carried as financial assets when their fair value is positive and as financial liabilities when their fair value is negative.

Any gains or losses arising from changes in fair value of derivative instruments that do not qualify for hedge accounting are taken directly to the statement of income.

An embedded derivative is a component of a hybrid instrument that also includes a non-derivative host contract with the effect that some of the cash flows of the combined instrument vary in a way similar to a stand-alone derivative. An embedded derivative causes some or all of the cash flows that otherwise would be required by the contract to be modified according to a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided that, in the case of a non-financial variable, it is not specific to a party to the contract. A derivative that is attached to a financial instrument, but is contractually transferable independently of that instrument, or has a different counterparty from that instrument, is not an embedded derivative, but a separate financial instrument. The Group assesses the existence of an embedded derivative on the date it first becomes a party to the contract, and performs re-assessment only when there is a change to the contract that significantly modifies the contractual cash flows.

Reclassification of financial assets

The Group can reclassify financial assets if the objective of its business model for managing those financial assets changes. The Group is required to reclassify as follows:

- From amortized cost or FVTOCI to FVTPL, if the objective of the business model changes so that the amortized cost or FVTOCI criteria are no longer met;

- From FVTPL to amortized cost or FVTOCI, if the objective of the business model changes so that the amortized cost or FVTOCI criteria start to be met and the characteristics of the instrument's contractual cash flows are SPPI; and
- From amortized cost to FVTOCI if the business model changes so that the objective becomes both to collect contractual cash flows and to sell or from FVTOCI to amortized cost if the business model becomes solely for the collection of contractual cash flows.

Reclassification of financial assets designated as at FVTPL or equity financial assets at FVTOCI at initial recognition is not permitted.

A change in the objective of the Group's business model must be effected before the reclassification date. The reclassification date is the beginning of the next reporting period following the change in the business model.

Impairment of Financial Assets

ECL represent credit losses that reflect an unbiased and probability-weighted amount which is based on reasonable and supportable information about past events, current conditions and forecasts of future economic conditions, and the time value of money. The objective is to record lifetime losses on all financial instruments which have experienced a significant increase in credit risk (SICR) since their initial recognition. As a result, ECL allowances are measured at amounts equal to either (i) 12-month ECL or (ii) lifetime ECL for those financial instruments which have experienced a SICR since initial recognition (General Approach). The 12-month ECL is the portion of lifetime ECL that results from default events on a financial instrument that are possible within the next 12 months after the reporting date. Lifetime ECLs are credit losses that result from all possible default events over the expected life of a financial instrument.

Both the 12-month ECL and lifetime ECL are calculated on either an individual basis or a collective basis, depending on the nature of the underlying portfolio of financial instruments.

The Group has established a policy to perform an assessment, at the end of each reporting period, of whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the instrument. Based on this process, the Group categorizes its credit exposures into Stage 1, Stage 2 and Stage 3, as described below:

- Stage 1: When loans are first recognized, the Group recognizes an allowance based on the 12-month ECL. Stage 1 loans also include facilities where the credit risk has improved and the loan has been reclassified from Stage 2.
- Stage 2: When a loan has shown a SICR since origination, the Group records an allowance for lifetime ECL. Stage 2 loans also include facilities, where the credit risk has improved and the loan has been reclassified from Stage 3.
- Stage 3: Loans considered as credit-impaired or non-performing. The Group records an allowance for lifetime ECL.

The major portfolios of financial assets identified upon initial analysis of the Group's credit exposures are loan receivables and treasury accounts. Loan receivables are availed by corporations or specific individuals. Hence, this portfolio is further segmented to corporate and consumer portfolios.

Definition of 'default' and 'cure'
Loan receivables
The Group defines a financial instrument as in default based on the following:
- Loans and receivables which are past due for more than 90 days;
- There is a breach of any key covenants/agreements that will adversely affect the borrower's capacity to pay;
- Weak financial condition and results of operations that leads to the borrower's inability to generate sufficient cash flow for debt servicing; or
- Restructuring of principal and interest or any concession granted by the Group relating to the borrower's difficulty.

A financial instrument is considered to be no longer in default (that is, to have cured) when it no longer meets any of the default criteria and has exhibited a satisfactory track record.

Treasury exposures
Treasury exposures are considered in default upon occurrence of a credit event, such as but not limited to bankruptcy, failure of meeting its obligations to depositors and non-deposit obligations, becoming critically undercapitalized, restructuring of obligations, or request for moratorium.

Credit risk at initial recognition
The Group uses an internal credit assessment and approvals at various levels to determine the credit risk of exposures at initial recognition. Assessment can be quantitative or qualitative and depends on the materiality of the facility or the complexity of the portfolio to be assessed.

SICR
The criteria for determining whether credit risk has increased significantly vary by portfolio and include quantitative changes in probabilities of default and qualitative factors, including a 30-day backstop based on delinquency. The credit risk of a particular exposure is deemed to have increased significantly since initial recognition if, based on the Group's internal credit risk assessment, the borrower or counterparty is determined to require close monitoring or with well-defined credit weaknesses. For exposures without internal grades, if contractual payments are more than 30 days past due, the credit risk is deemed to have increased significantly since initial recognition. Days past due are determined by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received. Due dates are determined without considering any grace period that might be available to the borrower.

For other credit risk exposures such as cash in banks, interbank loans and receivables, and debt securities at amortized cost and at FVTOCI, the Group applies the low credit risk simplification. The Group considers a debt financial asset to have low risk when its credit rating is equivalent to the definition of investment grade. The Group evaluates whether the debt financial asset, on an individual basis, is considered to have low credit risk using all reasonable and supportable information that is available without undue cost or effort.

In subsequent reporting periods, if the credit risk of the financial instrument improves such that there is no longer a SICR since initial recognition, the Group shall revert to recognizing a 12-month ECL:
- For corporate loans, an account under Stage 3 may be reverted back to Stage 2 if it shows collection history of at least six consecutive payments. If an account continuous to shows collection history of another 6 consecutive payments, and other qualitative indicators representing substantial increase in credit risk has abated, the account will be further reverted back to Stage 1.

- For consumer loans, an account under Stage 3 may be reverted back to Stage 2 if at least six consecutive payments are received and days past due bucket improves to 31 to 90. If the status of an account further improves to current, it will be reverted back to Stage 1.
- For treasury exposures, the transfer from Stage 3 to Stage 2 must be evident with payments of interest and/or principal for at least six months. The Group shall transfer credit exposures from Stage 2 to Stage 1 if the rating upgrades and the resulting rating falls under investment grade rating bands.

Restructuring
In certain circumstances, the Group modifies the original terms and conditions of a credit exposure to form a new loan agreement or payment schedule. The modifications can be given depending on the borrower's or counterparty's current or expected financial difficulty. The modifications may include, but are not limited to, change in interest rate and terms, principal amount, maturity date, date and amount of periodic payments and accrual of interest and charges. Distressed restructuring with indications of unlikeliness to pay are categorized as impaired accounts and are moved to Stage 3.

ECL parameters and methodologies
ECL is a function of the probability of default (PD), exposure at default (EAD) and loss given default (LGD), with the timing of the loss also considered, and is estimated by incorporating forward-looking economic information and through the use of experienced credit judgment.

The PD represents the likelihood that a credit exposure will not be repaid and will go into default in either a 12-month horizon for Stage 1 or lifetime horizon for Stage 2. The PD for each individual type of instrument is modelled based on historical data and is estimated based on current market conditions and reasonable and supportable information about future economic conditions. The Group segmented its loan-related credit exposures based on homogenous risk characteristics and developed a corresponding PD methodology for each loan portfolio. The PD methodology for each relevant portfolio is determined based on the underlying nature or characteristic of the portfolio, behavior of the accounts and materiality of the segment as compared to the total portfolio. On the other hand, PD for cash and cash equivalents, interbank loans receivables and SPURA, debt securities at amortized cost and debt securities at FVTOCI are assessed on an individual basis using publicly available information.

EAD is modelled on historical data and represents an estimate of the outstanding amount of credit exposure at the time a default may occur. Two modelling approaches were employed during EAD estimation. A Balance-Based model for on-balance sheet accounts and a Credit Conversion Factor (CCF)-Based model for off-balance sheet accounts.

LGD is the amount that may not be recovered in the event of default and is modelled based on historical cash flow recovery and reasonable and supportable information about future economic conditions, where appropriate. LGD takes into consideration the amount and quality of any collateral held. During LGD estimation, the discounted amounts of potential payments and expected recoveries from sale of the collateral are compared to the discounted amounts of corresponding direct expenses related with obtaining and selling of assets.

Economic overlays
The Group incorporates economic overlays into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL. A broad range of economic overlays is considered as economic inputs, such as gross domestic product (GDP) growth rates, crude oil prices, inflation rates, business confidence index, household final consumption expenditure index, unemployment rates, interest rates and BSP statistical indicators. The inputs and models used for calculating ECL may not always capture all characteristics of the

market at the date of the financial statements. To reflect these, quantitative adjustments or overlays are occasionally made as temporary adjustments when such differences are significantly material.

Debt instruments measured at FVTOCI
The ECLs for debt instruments measured at FVTOCI do not reduce the carrying amount of these financial assets in the statement of financial position, which remains at fair value. Instead, an amount equal to the allowance that would arise if the assets were measured at amortized cost is recognized in OCI as an accumulated impairment amount, with a corresponding charge to the statement of income. The accumulated loss recognized in OCI is recycled to the statement of income upon derecognition of the assets.

Collateral valuation
To mitigate its credit risks on financial assets, the Group seeks to use collateral, if possible. The collateral comes in various forms, such as cash, securities, letters of credit/guarantees, real estate, receivables, inventories, other non-financial assets and credit enhancements. Collateral, unless repossessed, is not recorded on the Group's statement of financial position. However, the fair value of collateral affects the calculation of ECLs. It is generally assessed, at a minimum, at the inception and re-assessed annually.

To the extent possible, the Group uses active market data for valuing financial assets held as collateral. Other financial assets which do not have readily determinable market values are valued using models. Non-financial collateral, such as real estate, is valued based on the data provided by internal and external appraisers.

Write-offs
Financial assets are written off either partially or in their entirety only when the Group has stopped pursuing the recovery.

Undrawn loan commitments
Undrawn loan commitments and letters of credit are commitments under which over the duration of the commitment, the Group is required to provide a loan with pre-specified terms to the customer. The nominal contractual value of undrawn loan commitments, where the loan agreed to be provided is on market terms, are not recorded in the statement of financial position. These contracts are in the scope of the ECL requirements where the Group estimates the expected portion of the undrawn loan commitments that will be drawn over their expected life.

Classification and Measurement of Financial Liabilities
Financial liabilities are classified, at initial recognition, either as financial liabilities at FVTPL or other financial liabilities at amortized cost.

Financial liabilities at amortized cost
These liabilities are classified as such when the substance of the contractual arrangement results in the Group having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares. The components of issued financial instruments that contain both liability and equity elements are accounted for separately, with the equity component being assigned the residual amount after deducting from the instrument as a whole the amount separately determined as the fair value of the liability component on the date of issue.

These financial liabilities are measured initially at fair value, net of directly attributable transaction costs. After initial measurement, these liabilities are subsequently measured at amortized cost using the effective interest method.

Amortized cost is calculated by taking into account any discount or premium on the issue and fees that are an integral part of the EIR.

This accounting policy relates to the statement of financial position captions ‘Deposit liabilities’, ‘Bills payable’, ‘Outstanding acceptances’, ‘Manager’s checks’, and certain financial liabilities under ‘Accrued interest, taxes and other expenses’ and ‘Other liabilities’ which are not designated at FVTPL.

Financial Guarantees, Letters of Credit and Undrawn Loan Commitments
The Group issues financial guarantees, letters of credit and loan commitments.

Financial guarantees are initially recognized in the financial statements at fair value, being the premium received. Subsequent to initial recognition, the Group’s liability under each guarantee is measured at the higher of the amount initially recognized less cumulative amortization recognized in the statement of income, and an ECL provision.

The premium received is recognized in the statement of income in ‘Service charges, fees and commissions’ on a straight line basis over the life of the guarantee.

Undrawn loan commitments and letters of credits are commitments under which, over the duration of the commitment, the Group is required to provide a loan with pre-specified terms to the customer. Similar to financial guarantee contracts, these contracts are in the scope of the ECL requirements.

The nominal contractual value of financial guarantees, letters of credit and undrawn loan commitments, where the loan agreed to be provided is on market terms, are not recorded in the statement of financial position.

Derecognition of Financial Assets and Financial Liabilities

Derecognition due to substantial modification of terms and conditions
The Group derecognizes a financial asset, such as a loan to a customer, when the terms and conditions have been renegotiated to the extent that, substantially, it becomes a new loan, with the difference recognized as a derecognition gain or loss, to the extent that an impairment loss has not already been recorded. The newly recognized loans are classified as Stage 1 for ECL measurement purposes, unless the new loan is deemed to be purchased or originated credit impaired.

When assessing whether or not to derecognize a loan to a customer, amongst others, the Group considers the following factors:
- Change in the currency of the loan;
- Introduction of an equity feature;
- Change in counterparty; or
- If the modification is such that the instrument would no longer meet the SPPI criterion.

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

When the contractual cash flows of a financial asset are renegotiated or otherwise modified and the renegotiation or modification does not result in the derecognition of that financial asset, the Group recalculates the gross carrying amount of the financial asset as the present value of the renegotiated or modified contractual cash flows discounted at the original EIR (or credit-adjusted EIR for purchased or originated credit-impaired financial assets) and recognizes a modification gain or loss in the statement of income.

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

Derecognition other than substantial modification

<u>*Financial Asset*</u>
A financial asset (or, when applicable, a part of a financial asset or part of a group of financial assets) is derecognized (that is, removed from the statement of financial position) when:

- the rights to receive cash flows from the asset have expired;
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement, and either the Group:
  a. Has transferred substantially all the risks and rewards of the asset; or
  b. Has neither transferred nor retained the risks and rewards of the asset, but has transferred the control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Group continues to recognize the transferred asset to the extent of its continuing involvement. In that case, the Group also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to pay.

<u>*Financial Liability*</u>
A financial liability is derecognized when the obligation under the liability is discharged or cancelled or expired. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference between the carrying value of the original financial liability and the consideration paid is recognized in the statement of income.

Exchange or modification of financial liabilities
The Group considers both qualitative and quantitative factors in assessing whether a modification of financial liabilities is substantial or not. The terms are considered substantially different if the present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10% different from the present value of

the remaining cash flows of the original financial liability. However, under certain circumstances, modification or exchange of a financial liability may still be considered substantial, even where the present value of the cash flows under the new terms is less than 10% different from the present value of the remaining cash flows of the original financial liability. There may be situations where the modification of the financial liability is so fundamental that immediate derecognition of the original financial liability is appropriate (e.g., restructuring a financial liability to include an embedded equity component).

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

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

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

Repurchase and reverse repurchase agreements
Securities sold under agreements to repurchase at a specified future date (‘repos’) are not derecognized from the statement of financial position. The corresponding cash received, including accrued interest, is recognized in the statement of financial position as a loan to the Group, reflecting the economic substance of such transaction.

Offsetting of Financial Instruments
Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognized amounts and there is intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. The Group assesses that it has a currently enforceable right of offset if the right is not contingent on a future event, and is legally enforceable in the normal course of business, event of default, and event of insolvency or bankruptcy of the Group and all of the counterparties.

Investments in Subsidiary and an Associate in the Parent Company Financial Statements
Subsidiary
A subsidiary is an entity in which the Parent Company holds more than half of the issued share capital or controls more than 50% of the voting power, or exercises control over the operations and management of the subsidiary.

Associate
An associate is an entity in which the Parent Company has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

The Parent Company’s investments in its subsidiary and an associate and the Group’s investment in an associate are accounted for using the equity method. Under the equity method, the investments in subsidiary and an associate is initially recognized at cost. The carrying amount of the investments in subsidiary and an associate are adjusted to recognize changes in the Group's and the Parent Company's share in the net assets of the subsidiary and an associate since the acquisition date. Goodwill relating to the subsidiary and an associate are included in the carrying value of the investments and is not amortized.

The statement of income reflects the Group's and the Parent Company's share of the results of operations of the subsidiary and an associate. Any change in OCI of the investee is presented as part of the Group's and the Parent Company's OCI. In addition, when there has been a change recognized directly in the equity of the subsidiary or associate, the Group and the Parent Company recognize their share of any changes, when applicable, in the statement of changes in equity. Unrealized gains and losses resulting from transactions between the Group and the subsidiaries and associate are eliminated to the extent of the interest in the subsidiaries and associate. The aggregate of the Group's share in net income (loss) of subsidiary and associate is shown in the statement of income and represents profit or loss after tax and non-controlling interests in the subsidiary and associate.

If the Parent Company's share of losses in a subsidiary or an associate equals or exceeds its interest in the subsidiary or associate, the Parent Company discontinues recognizing its share in further losses.

The financial statements of the subsidiary and an associate are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

Dividends received are treated as a reduction to the carrying amount of the investments.

Post-acquisition changes in the share of net assets of the subsidiaries include the share in the:
a. Income or losses; and
b. Remeasurement losses or gains on retirement liability.

<u>Property and Equipment</u>
Property and equipment, are stated at cost less accumulated depreciation and amortization and any impairment in value, except land, which is carried at cost less impairment in value.

The initial cost of property and equipment consists of its purchase price, including import duties, taxes and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditures incurred after the property and equipment have been put into operation, such as repairs and maintenance, are charged against the statement of income in the year in which the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as an additional cost of property and equipment.

Depreciation on property and equipment is computed using the straight-line method based on the estimated useful life (EUL) of the depreciable assets.

	EUL
Condominium properties	50 years
Buildings and improvements	25 years
Furniture, fixtures and equipment	5
Leasehold improvements	Shorter of 5 years or related lease terms

The residual values, EULs and methods of depreciation and amortization of property and equipment are reviewed at each reporting date and adjusted prospectively, if appropriate.

Fully depreciated property and equipment are retained in the accounts until these are no longer used and no further depreciation and amortization is charged to the statement of income.

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Upon derecognition, the cost and the related accumulated depreciation and amortization and any impairment in value of the asset are removed from the accounts, and any resulting gain or loss (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is reflected as income or loss in the statement of income.

Investment Properties

Investment properties include condominium and office units for lease and foreclosed properties in settlement of loan receivables.

Condominium and office units for lease

Condominium and office units for lease are carried at cost, less accumulated depreciation and impairment in value. All costs that are directly attributable to the acquisition and development of property are capitalized, including borrowing costs incurred to finance the property development. Depreciation is computed on a straight-line basis over 25 to 50 years.

Foreclosed properties

Foreclosed properties consist of land, building and improvements.

Land is carried at cost less impairment in value. Building and improvements are carried at cost, which is the fair value at acquisition date, less accumulated depreciation and accumulated impairment losses. Transaction costs, which include nonrefundable capital gains tax and documentary stamp tax, incurred in connection with foreclosure are capitalized as part of the carrying values of the foreclosed properties.

Foreclosed properties are recorded as 'Investment properties' upon:

a. Entry of judgment in case of judicial foreclosure;
b. Execution of the Sheriff's Certificate of Sale in case of extra-judicial foreclosure; or
c. Notarization of the Deed of Dacion in case of dation in payment (dacion en pago).

The Group applies the cost model in accounting for foreclosed properties. Depreciation is computed on a straight-line basis over the EUL of 10 years for buildings and improvements.

The EUL of investment properties and the depreciation method are reviewed periodically to ensure that the period and the method of depreciation are consistent with the expected pattern of economic benefits from items of investment properties.

The carrying values of the investment properties are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the investment property or cash-generating units (CGUs) it is related to are written down to their recoverable amounts.

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

Investment properties are derecognized when they have either been disposed of or when they are permanently withdrawn from use and no future benefit is expected from its disposal. Any gains or losses on retirement or disposal of investment properties are recognized in the statement of income in the year of retirement or disposal under 'Profit from assets sold'.

Intangible Assets
Intangible assets consist of goodwill, branch licenses and software costs.

Goodwill and branch licenses
Goodwill acquired in a business combination is initially measured at cost being the excess of the cost of the business combination over the Group's interest in the fair value of the acquiree's identifiable assets, liabilities and contingent liabilities. The cost of branch licenses acquired in a business combination is its fair value at the date of acquisition.

Following initial recognition, goodwill and branch licenses are measured at cost less any accumulated impairment losses.

Branch licenses have an indefinite useful life as there is no foreseeable limit to the period over which these assets are expected to generate net cash inflows. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Software costs
Software costs, which are purchased by the Group separately for use in its operations, are measured on initial recognition at cost. Following initial recognition, software costs are carried at cost less accumulated amortization and any accumulated impairment losses.

Software costs are amortized over the economic useful life of 2 to 5 years. The amortization period and method for software costs are reviewed at least at each statement of financial position date. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in this asset is accounted for by changing the amortization period or method, as appropriate, and treated as changes in accounting estimates. The amortization expense on software costs is recognized in the statement of income.

Gains or losses arising from the derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the statement of income when the asset is derecognized.

Impairment of Non-financial Assets
Investments in subsidiary and an associate, property and equipment (including right-of-use assets) and software costs
At each statement of financial position date, the Group assesses whether there is any indication that its non-financial assets may be impaired. When an indicator of impairment exists or when an annual impairment testing for an asset is required, the Group makes a formal estimate of the recoverable amount.

Recoverable amount is the higher of an asset's fair value less costs to sell and its value in use (VIU) and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent from those other assets or groups of assets, in which case, the recoverable amount is assessed as part of the CGU to which it belongs.

When the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing VIU, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss is recognized only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged against the statement of income in the period in which it arises.

A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation and amortization) had no impairment loss been recognized for the asset in prior years. A reversal of an impairment loss is credited to the current statement of income.

Goodwill and branch licenses
Goodwill and branch licenses are reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

Impairment is determined for goodwill and branch licenses by assessing the recoverable amount of the CGU (or group of CGUs) to which the goodwill and branch licenses relate. When the recoverable amount of the CGU (or group of CGUs) is less than the carrying amount of the CGU (or group of CGUs) to which goodwill and branch licenses have been allocated, an impairment loss is recognized immediately in the statement of income. Impairment losses relating to goodwill cannot be reversed for subsequent increases in its recoverable amount in future periods. For branch licenses, a previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of this asset, but not to an amount higher than the carrying amount that would have been determined had no impairment loss been recognized for this asset in prior years.

Common Stock and Additional Paid-in Capital
Common stocks are recorded at par. Proceeds in excess of par value are recognized under equity as 'Additional-paid-in capital' in the statement of financial position. Incremental costs incurred which are directly attributable to the issuance of new shares are shown in equity as a deduction from proceeds, net of tax.

Subscribed Common Stock
Subscribed common stock is recognized at subscribed amount, net of subscription receivable. This will be debited upon full payment of the subscription and issuance of the shares of stock.

Subscription Receivable
Subscription receivable refers to the total amount of subscription to be received. The Parent Company accounted for the subscription receivable as a contra equity account.

Revenue Recognition
Under PFRS 15, revenue from contracts with customers is recognized when control of the services is transferred to the customer at an amount that reflects the consideration to which the Group expects to

be entitled in exchange for those services. The Group exercises judgment, taking into consideration all of the relevant facts and circumstances when applying each step of the five-step model to contracts with customers.

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

Revenue within the scope of PFRS 15

Fees and Commissions
Loan fees that are directly related to the acquisition and origination of loans are included in the initial carrying amount of the loan and are amortized using the effective interest method over the term of the loan. Loan commitment fees are recognized as earned over the term of the credit lines granted to each borrower. Loan syndication fees are recognized upon completion of all syndication activities and where the Group does not have further obligation to perform under the syndication agreement.

Revenue outside the scope of PFRS 15

a. Interest Income
Interest on interest-bearing financial assets at FVTPL are recognized based on contractual rate. Interest on financial instruments measured at amortized cost and debt instruments classified as FVTOCI is recognized based on the EIR method.

The EIR method is a method of calculating the amortized cost of a financial asset or a financial liability and allocating the interest income or interest expense over the relevant period.

The EIR is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

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

b. Trading and Securities Gain (Loss) - Net
Trading and securities gain (loss) - net represents results arising from trading activities, including gains and losses from changes in fair value of financial assets and liabilities at FVTPL. This also represents results arising from sale of debt financial assets at FVOCI.

c. Service Charges and Penalties
Service charges and penalties are recognized only upon collection or accrued when there is reasonable degree of certainty as to its collectability.

d. Dividends
Dividends are recognized when the Group's right to receive the payments is established.

e. Rental
Rental income arising from leased premises is accounted for on a straight-line basis over the lease terms of ongoing leases.

Expense Recognition
Expenses are recognized at the same time as the initial recognition of a liability, or an increase in the carrying amount of a liability, or the derecognition of an asset, or a decrease in the carrying amount of an asset. Expenses are recognized in the statement of income:
- On the basis of a direct association between the costs incurred and the earning of specific items of income;
- On the basis of systematic and rational allocation procedures when economic benefits are expected to arise over several accounting periods and the association can only be broadly or indirectly determined; or
- Immediately when the expenditure produces no future economic benefits or when, and to the extent that, future economic benefits do not qualify or cease to qualify for recognition in the statement of financial position as an asset.

Expenses in the statement of income are presented using the nature of expense method. General and administrative expenses are costs attributable to administrative and other business activities of the Group.

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

Retirement Benefits
Defined benefit plans
The Parent Company maintains defined benefit plans covering all of their respective officers and regular employees.

The net retirement liability is the aggregate of the present value of defined benefit obligation at the statement of financial position date reduced by the fair value of plan assets and adjusted for any effect of limiting a net retirement asset to the asset ceiling. The defined benefit obligation is calculated annually by an independent actuary. The present value of defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates on government bonds that have terms to maturity approximating the terms of the related net retirement. The asset ceiling is the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. The cost of providing benefits under the defined benefit plans is actuarially determined using the projected unit credit method.

Retirement costs comprise of service costs and net interest on the net retirement liability.

Service costs, which include current service costs, past service costs and gains or losses on non-routine settlements, are recognized as expense in the statement of income. Past service costs are recognized when plan amendment or curtailment occurs.

Net interest on the net retirement liability is the change during the period in the net retirement liability that arises from the passage of time, which is determined by applying the discount rate based on government bonds to the net retirement liability. Net interest on the net retirement liability is recognized as expense or income in the statement of income.

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

Plan assets are assets that are held by a long-term employee benefit fund. Plan assets are not available to the creditors of the Group, nor can they be paid directly to the Group. The fair value of plan assets is based on market price information. When no market price is available, the fair value of plan assets is estimated by discounting expected future cash flows using a discount rate that reflects both the risks associated with the plan assets and the maturity or expected disposal date of those assets (or, if they have no maturity, the expected period until the settlement of the related obligations).

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

Defined contribution plans
The Parent Company also contributes to its contributory, defined-contribution type staff provident plan based on a fixed percentage of the employees' salaries as defined in the plan.

Payments to the defined contribution plans are recognized as expenses when employees have rendered service in exchange for these contributions.

Leases
Policy beginning January 1, 2019
The Group assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Group as a lessee
The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognizes lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

i) Right-of-use assets presented under Property and equipment
The Group recognizes right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognized adjusted by lease payments made at or before the commencement date and lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the depreciable assets. The depreciation expense is presented under 'Depreciation and Amortization' in the statement of income.

If ownership of the leased asset transfers to the Group at the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

The right-of-use assets are also subject to impairment. Refer to the accounting policies in Impairment of Nonfinancial Assets.

ii) Lease liabilities
At the commencement date of the lease, the Group recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be

exercised by the Group and payments of penalties for terminating the lease, if the lease term reflects the Group exercising the option to terminate. Variable lease payments that do not depend on an index or a rate are recognized as expenses in the period in which the event or condition that triggers the payment occurs. In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.

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

Group as a lessor
Leases in which the Group does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. Rental income arising from leased properties is accounted for on a straight-line basis over the lease terms and is included in revenue in the statement of income due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as rental income. Contingent rents are recognized as revenue in the period in which they are earned.

Policy prior to January 1, 2019
The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset. A re-assessment is made after inception of the lease only if one of the following applies:

a. There is a change in contractual terms, other than a renewal or extension of the arrangement;
b. A renewal option is exercised or extension granted, unless the term of the renewal or extension was initially included in the lease term;
c. There is a change in the determination of whether fulfillment is dependent on a specified asset; or
d. There is a substantial change to the asset.

Where a re-assessment is made, lease accounting shall commence or cease from the date when the change in circumstances gave rise to the re-assessment for scenarios a, c or d above, and at the date of renewal or extension period for scenario b.

Group as lessee
Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognized as an expense in the statement of income on a straight-line basis over the lease term.

Group as lessor
Leases where the Group does not transfer substantially all the risks and benefits of ownership of the assets are classified as operating leases.

Initial direct costs incurred in negotiating operating leases are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as the rental income. Contingent rents are recognized as revenue in the period in which they are earned.

Income Taxes

Current tax

Current tax assets and current tax liabilities are measured at the amount expected to be recovered from or paid to the tax authority. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the statement of financial position date.

Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred tax

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

Deferred tax assets are recognized for all deductible temporary differences and carryforward of unused tax credits from the excess of Minimum Corporate Income Tax (MCIT) over the Regular Corporate Income Tax (RCIT), to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carryforward of unused tax credits from excess MCIT over RCIT can be utilized. Deferred tax, however, is not recognized on temporary differences that arise from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting income nor taxable income or loss.

The carrying amount of deferred tax assets is reviewed at each statement of financial position date and reduced 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.

Deferred tax liabilities are recognized for all taxable temporary differences, with certain exceptions.

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

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

Provisions

Provisions are recognized when an obligation (legal or constructive) is incurred as a result of a past event and when it is probable that an outflow of assets embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

When the Group expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of income, net of any reimbursement.

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

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

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

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

Dividends on Common Shares
Dividends on common shares are recognized as a liability and deducted from equity when approved by the BOD of the Parent Company. Dividends for the year that are approved after the statement of financial position date are dealt with as an event after the statement of financial position date.

Segment Reporting
The Group's operating businesses are organized and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets. Financial information on business segments are presented in Note 6. No geographical segment information is presented as all of the Group's operations are in the Philippines.

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

Events after the Statement of Financial Position Date
Post year-end events that provide additional information about the Group's financial position at the statement of financial position date (adjusting events) are reflected in the financial statements. Post year-end events that are not adjusting events are disclosed in the notes to financial statements when material to the financial statements.

3. Significant Accounting Judgments, Estimates and Assumptions

The preparation of the financial statements in compliance with PFRS requires the Group to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses and disclosure of contingent assets and contingent liabilities. Future events may occur which will cause the assumptions used in arriving at the estimates to change. The effects of any change in estimates are reflected in the financial statements as these become reasonably determinable.

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

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

Business model test
The Group's business model can be to hold financial assets to collect contractual cash flows even when sales of certain financial assets occur. PFRS 9, however, emphasizes that if more than an infrequent number of sales are made out of a portfolio of financial assets carried at amortized cost, the entity should assess whether and how such sales are consistent with the objective of collecting contractual cash flows. In making this judgment, the Group considers the following, among others:

a. Sales attributable to an anticipated or in reaction to events of systemic proportions that may adversely affect the behavior of customer deposits and/or the Group's creditors. This is particularly important, among others, for securities that are funded principally through repurchase agreements with international banks or foreign currency swaps;
b. Sales made due to occurrence of systemic events affecting the industry that severely curtails access to credit and funding other than the lending facilities of the BSP as lender of last resort in order to forestall the need for the Group to draw on the emergency lending facilities;
c. Sales attributable to the corrective measures of the Asset and Liability Committee (ALCO) to bring the asset-liability structure and regulatory capital within the BOD's risk appetite and targeted ratios;
d. Sales attributable to a unanticipated significant decline in the debt instrument's liquidity characteristics to meet the minimum eligibility criteria of stock of High Quality Liquid Assets (HQLA); and
e. Sales attributable to systemic movements that have been generally accepted to negatively impact economic conditions, credit quality, and/or the liability profile of the Group.

In February 2019, the BOD approved the sale of the Parent Company's dealer generated auto-loan portfolio. The Parent Company assessed the the sale to be infrequent. The disposal was made support the Parent Company's plan to focus its auto-loan business to branch referrals instead of dealer generated auto-loans (Note 12).

On May 27, 2020, the Parent Company's BOD approved the sale of HTC securities. In June 2020, the Parent Company liquidated all of its Peso (RBU) government securities classified under investment securities measured at amortized cost with a total face amount of ₱8.60 billion and carrying value of ₱10.44 billion. The sale resulted in a trading gain of ₱2.55 million presented in the statement of income. Under the Parent Company's Business Model Documentation for Managing debt Securities, a permissible sale of Hold-To-Collect (HTC) includes those attributable to systemic movements that have been generally accepted to negatively impact economic conditions, credit quality and or liability profile of the Parent Company.

The above disposals were assessed by the Parent Company as not inconsistent with the portfolios' business models considering the conditions and reasons for which the disposals were made. Further, these disposals did not result in a change in business model and the remaining securities in the affected portfolios continue to be accounted for at amortized cost (Note 11).

Fair value of financial instruments
Where the fair values of financial instruments cannot be derived from active markets, they are determined using a variety of valuation techniques. The inputs to these valuation models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values.

The carrying values and corresponding fair values of financial instruments, as well as the manner in which fair values were determined, are discussed in more detail in Note 4.

Contingencies
The Group is currently involved in various legal proceedings. The estimate of the probable costs for the resolution of these claims has been developed in consultation with outside counsels handling the Group's defense in these matters and is based upon an analysis of potential results. The Group currently does not believe that these proceedings will have a material adverse effect on its financial position. It is possible, however, that future financial performance could be materially affected by changes in the estimates or in the effectiveness of the strategies relating to these proceedings (Note 24).

Estimates and Assumptions
ECLs on loans and other receivables
The Group's ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies.

Elements of the ECL models that are considered significant accounting judgments and estimates include:
- The segmentation of financial assets when their ECL is assessed on a collective basis;
- The definition of default;
- The Group's internal grading model, which impacts the PDs assigned to the exposures;
- The Group's criteria for assessing if there has been a SICR and so allowances for financial assets should be measured on a lifetime ECL basis and the qualitative assessment;
- Development of ECL models, including the various formulas and the choice of inputs;
- Determination of associations between macroeconomic scenarios and economic inputs, such as Inflation rates, Import growth rates, Interest rates, Gross Domestic Product (GDP) growth rates, business confidence index, household final consumption expenditure index, consumer confidence index, bank average lending rates, unemployment rates and BSP statistical indicators, and the effect on PDs;
- Selection of forward-looking macroeconomic scenario variables; and
- Calculation of expected recoveries from defaulted accounts.

In response to the ongoing COVID-19 pandemic, the Group conducted a re-assessment of all corporate accounts by re-scoring the Borrower Risk Ratings (BRR) using a stressed scenario in order to account for the ongoing and future effects of the pandemic on the borrowers' operations and earnings. Specific impairment was likewise assessed for corporate borrowers with large exposures especially those that were severely affected by the pandemic.

On the other hand, for consumer loans, expert judgment was incorporated by the Group to determine the possible deterioration in the flow rates from one bucket to the next (i.e. current to 1-30 days past due, 1-30 days past due to 31-60 days past due, etc. up to more than 90 days past due bucket). Forecasted figures were assessed with the required additional allowance for credit loss.

The Group revisited weight distribution on Macroeconomic Variables (MEVs) to reflect management's view of the overall business environment. The Group also revisited stages of borrowers that were affected by the pandemic and are expected to remain unable to pay regular amortization. These exercises resulted to changes in account staging and additional loan loss provisioning.

The carrying value of loans and receivables and allowance for credit losses on loans and receivables are disclosed in Notes 12 and 17, respectively.

Realizability of deferred tax assets
Deferred tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based on assumptions that are affected by expected future market or economic conditions and the expected performance of the Group. These assumptions include management's expectations on growth of the Group's loans and deposit portfolios and future operating costs and expenses.

The recognized and unrecognized deferred tax assets are disclosed in Note 30.

Impairment of goodwill and branch licenses
The Group determines whether goodwill and branch licenses are impaired at least on an annual basis. Goodwill and branch licenses are written down for impairment where the net present value of the forecasted future cash flows from the relevant CGU is insufficient to support its carrying value.

The recoverable amount of the CGU has been determined based on a VIU calculation using the CGU's cash flow projections from a strategic plan approved by management covering a 5-year period. Key assumptions in the VIU calculations are most sensitive to the following assumptions:
- Discount rate, which is based on the cost of equity by reference to comparable entities using the capital asset pricing model;
- Loan and deposit portfolios growth rates; and
- Growth rate to project cash flows beyond the budget period.

The carrying values of goodwill and branch licenses and details of the VIU calculations are disclosed in Note 15.

Present value of defined benefit obligation
The cost of defined benefit plans, as well as the present value of defined benefit obligation, is determined using an actuarial valuation. The actuarial valuation involves making various assumptions. These include the determination of the discount rates, salary increase rates, mortality rates and employee turnover rates. Due to the complexity of the actuarial valuation, the underlying assumptions and its long-term nature, defined benefit obligations are highly sensitive to changes in these assumptions. All assumptions are reviewed at each statement of financial position date.

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

Salary increase rates are based on historical annual merit, market and promotional increase and future inflation rates.

Other assumptions, such as mortality rates and employee turnover rates, are based on publicly available mortality tables and the Group's historical experience.

The retirement liability as of December 31, 2020 and 2019 are disclosed in Note 27.

4. Fair Value Measurement

The following tables provide the fair value hierarchy of the Group's and the Parent Company's assets and liabilities measured at fair value and those for which fair values should be disclosed:

	Consolidated and Parent Company				
	2020				
		Fair Value			
	Carrying Value	Total	Quoted Prices in Active Market (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets measured at fair value					
Financial assets at FVTPL:					
Government securities	**₱718,294**	**₱718,294**	**₱718,294**	**₱–**	**₱–**
Financial assets at FVTOCI:					
Debt securities:					
Government securities	**5,027,547**	**5,027,547**	**5,027,547**	**–**	**–**
Private bonds	**–**	**–**	**–**	**–**	**–**
Equity securities	**110,269**	**110,269**	**–**	**71,650**	**38,619**
Currency forwards	**10,598**	**10,598**	**–**	**10,598**	**–**
	5,866,708	**5,866,708**	**5,745,841**	**82,248**	**38,619**
Assets for which fair values are disclosed					
SPURA	**3,902,952**	**3,902,766**	**–**	**–**	**3,902,766**
Investment securities at amortized cost:					
Government securities	**2,263,356**	**2,418,758**	**2,418,758**	**–**	**–**
Loans and receivables:					
Receivables from customers:					
Corporate loans	**50,770,479**	**49,943,881**	**–**	**–**	**49,943,881**
Auto loans	**669,670**	**660,495**	**–**	**–**	**660,495**
Home loans	**4,233,699**	**3,042,175**	**–**	**–**	**3,042,175**
Personal loans	**293,817**	**250,986**	**–**	**–**	**250,986**
Unquoted debt securities	**851,669**	**1,183,439**	**–**	**–**	**1,183,439**
	62,985,642	**61,402,500**	**2,418,758**	**–**	**58,983,742**
Investment properties:					
Condominium units for lease	**1,788,559**	**6,940,697**	**–**	**–**	**6,940,697**
Foreclosed properties	**610,075**	**2,472,750**	**–**	**–**	**2,472,750**
Office units for lease	**2,923**	**45,900**	**–**	**–**	**45,900**
	2,401,557	**9,459,347**	**–**	**–**	**9,459,347**
	₱71,253,907	**₱76,728,555**	**₱8,164,599**	**₱82,248**	**₱68,481,708**
Liability measured at fair value					
Liabilities for which fair value is disclosed					
Financial liabilities at amortized cost:					
Time deposits	**₱40,367,517**	**₱40,366,511**	**₱–**	**₱–**	**₱40,366,511**
LTNCD	**2,883,668**	**3,126,066**	**–**	**3,126,066**	**–**
Bills payable	**2,182,844**	**2,182,670**	**–**	**–**	**2,182,670**
	₱45,434,029	**₱45,675,247**	**₱–**	**₱3,126,066**	**₱42,549,181**

	Consolidated and Parent Company				
	2019				
		Fair Value			
	Carrying Value	Total	Quoted Prices in Active Market (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets measured at fair value					
Financial assets at FVTPL:					
Government securities	₱1,667,827	₱1,667,827	₱1,667,827	₱–	₱–
Financial assets at FVTOCI:					
Debt securities:					
Government securities	5,696,443	5,696,443	5,696,443	–	–
Private bonds	2,292,800	2,292,800	2,292,800	–	–
Equity securities	105,119	105,119	–	73,909	31,210
Currency forwards	8,035	8,035	–	8,035	–
	9,770,224	9,770,224	9,657,070	81,944	31,210
Assets for which fair values are disclosed					
Investment securities at amortized cost:					
Government securities	12,849,500	14,452,873	6,498,711	7,954,162	–
Loans and receivables:					
Receivables from customers:					
Corporate loans	52,527,412	53,759,907	–	–	53,759,907
Auto loans	925,725	1,069,262	–	–	1,069,262
Home loans	4,730,893	4,109,819	–	–	4,109,819
Personal loans	650,253	599,434	–	–	599,434
Unquoted debt securities	1,068,193	1,500,826	–	–	1,500,826
	72,751,976	75,492,121	6,498,711	7,954,162	61,039,248
Investment properties:					
Condominium units for lease	1,836,941	8,416,719	–	–	8,416,719
Foreclosed properties	588,451	772,512	–	–	772,512
Office units for lease	3,274	33,827	–	–	33,827
	2,428,666	9,223,058	–	–	9,223,058
	₱84,950,866	₱94,485,403	₱16,155,781	₱8,036,106	₱70,293,516
Liability measured at fair value					
Liabilities for which fair value is disclosed					
Financial liabilities at amortized cost:					
Time deposits	₱36,594,232	₱36,391,833	₱–	₱–	₱36,391,833
LTNCD	2,902,730	3,123,878	–	3,123,878	–
Bills payable	13,064,824	13,065,561	–	–	13,065,561
	₱52,561,786	₱52,581,272	₱–	₱3,123,878	₱49,457,394

Movements in the fair value measurement of 'Financial assets at FVTOCI' categorized within Level 3 pertain only to the changes in fair value of unquoted equity securities. No additions and disposals were made in 2020 and 2019.

There were no transfers between Level 1 and Level 2 fair value measurements and no transfers out of Level 3 fair value measurements in 2020 and 2019.

The methods and assumptions used by the Group in estimating the fair value of its assets and liabilities are as follows:

Investment Securities

Debt securities

Fair values are generally based on quoted market prices. If the market prices are not readily available, fair values are estimated using consensus prices obtained from Bloomberg.

Equity securities - club shares

Fair values of club shares are based on prices published in GG&A Club Shares and G&W Club Shares. GG&A Club Shares and G&W Club Shares are involved in trading and leasing proprietary and non-proprietary club shares.

Unquoted equity securities
Fair values of unquoted equity securities are estimated using the guideline publicly-traded company method, which utilizes publicly available information from publicly-traded comparable companies that are the same or similar to the unlisted company being valued.

Loans and Receivables
Cash and other cash items, amounts due from BSP and other banks, interbank loans receivable and SPURA
Carrying amounts approximate fair values considering that these accounts consist mostly of overnight deposits.

Receivables from customers
Fair values of receivables from customers are estimated using the discounted cash flow methodology that makes use of the Group's current incremental lending rates for similar types of loans and receivables.

Unquoted debt securities
Fair values are estimated based on the discounted cash flow methodology that makes use of interpolated risk-free rates plus spread.

Accrued interest receivable and returned checks and other cash items (RCOCI)
Carrying amounts approximate fair values due to the short-term nature of the accounts, with some items that are due and demandable.

Accounts receivable, sales contracts receivable and refundable security deposits
Quoted market prices are not available for these assets. These are not reported at fair value and are not significant in relation to the Group's total portfolio of financial instruments.

Derivative Assets/Liabilities
Currency forwards under Other Assets/Liabilities
Fair values are calculated by reference to the prevailing interest differential and spot exchange rate as of the statement of financial position date, taking into account the remaining term to maturity of the derivative assets/liabilities.

Financial Liabilities at Amortized Cost
Deposit liabilities (excluding LTNCD)
Fair values of time deposits are estimated based on the discounted cash flow methodology that makes use of the current incremental borrowing rates for similar types of borrowings. The carrying amount of demand and savings deposit liabilities approximate fair value considering that these are due and demandable.

LTNCD
Fair values of LTNCD is determined based on the market yield rate of the Parent Company's LTNCD as provided by the Philippine Dealing and Exchange Corporation (PDEx).

Bills payable
The fair value is estimated using the discounted cash flow methodology that makes use of the Group's current incremental borrowing rates for similar borrowings with maturities consistent with those remaining for the liability being valued. Where the instrument has a relatively short maturity, carrying amounts approximate fair values.

Outstanding acceptances, manager's checks, accrued interest payable, accrued other expenses, accounts payable, refundable security deposits and due to the Treasurer of the Philippines
Carrying amounts approximate fair values due to the short-term nature of these accounts, with some items that are due and demandable.

Investment Properties
Fair values of investment properties are determined based on valuations made by professionally qualified appraisers accredited by the BSP and SEC and internal appraisers. The fair values of foreclosed assets were derived based on market sales comparison approach. Under this approach, recent transactions for similar properties in the same areas as the investment properties were considered, taking into account the economic conditions prevailing at the time the valuations were made. Prices of recent transactions are adjusted to account for differences in a property's size, shape, location, marketability and bargaining allowances. For depreciable properties, other inputs considered in the valuations are the age and remaining life of the buildings.

On the other hand, the fair values of the condominium and office units for lease were determined using the income capitalization approach model. The income capitalization approach model is used since the properties generate revenue from rental income. Income capitalization approach is a method used to convert an estimate of a single year's income expectancy into an indication of value in one direct step – either by dividing the income estimate by an appropriate income rate or by multiplying the income estimate by an appropriate income factor. The rate of interest calculated represents the relationship between income and value observed in the market and is derived through comparable sales analysis. The income from a property, usually the annual net operating income or pre-tax cash flow, is divided by its sale or equity price to obtain the income rate.

The valuation, therefore, is based on the following critical assumptions:
- Rental rates;
- Capitalization rate (income rate), which is based on market rent for similar properties;
- Vacancy rates, which are based on vacancy rates for comparable properties within the area where the Group's properties are located; and
- The floor areas, which are based on the total leasable area.

Significant Unobservable Inputs
Quantitative information about the Group's and the Parent Company's fair value measurements using significant unobservable inputs (Level 3) on unquoted equity securities follows:

Year	Fair Value at December 31	Valuation Technique(s)	Unobservable Input(s)	Range	Reasonably Possible Alternative Assumption	Sensitivity of the Fair Value to the Input
2020	**₱38,619**	**Guideline publicly-traded company method**	**Price to book ratio**	**0.77:1 - 1.01:1**	**+0.10**	**₱116**
					-0.10	**(116)**
			Discount for lack of marketability	**30%**	**+10%**	**103**
					-10%	**(103)**
2019	₱31,210	Guideline publicly-traded company method	Price to book ratio	0.73:1 - 0.92:1	+0.10	₱111
					-0.10	(111)
			Discount for lack of marketability	30%	+10%	92
					-10%	(92)

The Parent Company estimates the fair value of the unquoted equity securities using the 'benchmark multiples' of comparable publicly-traded companies. The identification of comparable companies considers the similarities between the subject company being valued and the guideline companies in terms of industry, market, product line or service type, growth, etc. The Parent Company also determines an appropriate discount adjustment for the lack of marketability of these unquoted equity securities based on empirical evidence gathered from available public market research.

The use of reasonably possible alternative assumptions in the significant unobservable inputs will affect the fair value of the unquoted equity securities and the OCI (before tax) as presented above.

There has been no change in the valuation techniques used from 2019 to 2020.

Description of Significant Unobservable Input to Valuation
The significant unobservable input used in the fair value measurement categorized within Level 3 of the fair value hierarchy:

Loans and receivables at amortized cost
Fair values of loans and receivables are estimated using the discounted cash flow methodology, using the Group's current incremental lending rates for similar types of loans. The significant increase (decrease) in the current increment lending rate would result to a lower (higher) fair value measurement.

Liabilities
The carrying amount of liabilities approximates fair value in view of their relatively short-term maturity except for time deposits whose fair values are estimated using the discounted cash flow methodology using the Bank's incremental borrowing rates for similar borrowings with maturities consistent with those for the liability being valued.

5. Financial Risk Management Objectives and Policies

Introduction
Risk is inherent in the Group's activities but is managed through a continuing and pro-active process of identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the Group's continuing profitability and each individual within the Group is accountable for the risk exposures relating to his or her responsibilities.

The Group is exposed to the following risks from its financial instruments:
a. Credit risk
b. Liquidity risk
c. Market risk
   i. Interest rate risk
   ii. Foreign currency risk
   iii. Equity price risk

Risk management structure
The Group's risk management environment is characterized by a well-defined risk organizational structure, flow of risk information, risk-based audit coverage, and an established compliance system.

BOD
The BOD of the Parent Company is responsible for establishing and maintaining a sound risk management system and is ultimately accountable for identifying and controlling risks; there are, however, separate independent bodies responsible for managing and monitoring risks.

Risk Oversight Committee (ROC)
The ROC has the overall responsibility for the development of the risk strategy and implementing principles, frameworks, policies and limits.

Enterprise Risk Management Group (ERMG)
The ERMG is an independent unit within the Parent Company that directly reports to the ROC. It is the responsibility of the ERMG to identify, analyze and measure risks from the Parent Company's trading, lending, borrowing and other transactional activities. It also recommends control policies and procedures to mitigate risk in identified risk areas in Treasury, Credit, Trust and other areas of operations.

Risk control
The Risk Control function performs the important day-to-day monitoring of risk exposures of the Parent Company against approved limits and reporting of such exposures, and implementation of policies and control procedures.

Treasury segment
The Treasury Segment is responsible for managing the Parent Company's assets and liabilities. It is also primarily responsible for the management of the funding and liquidity risks of the Parent Company.

Compliance Group
Through the Group's Compliance Group, relevant Philippine laws and regulations, as well as pertinent BSP circulars governing the operations of rural banks, are continuously identified for guidelines on implementation. The Compliance Group is also responsible for the systematic and effective communications systems to keep management always conscious of their obligations and legal responsibility as trustee of public funds. It ensures the Group's adherence to the rules and regulations and the provisions of the Manual of Regulations for Banks (MORB) prescribed by the BSP.

Internal Audit Group (IAG)
Risk management processes throughout the Group are audited by the IAG which examines both the adequacy of the procedures and the Group's compliance thereto. The IAG discusses the results of all assessments with management, and reports its findings and recommendations to the Audit Committee.

Risk measurement and reporting systems
The Group's risks are measured using a method which reflects both the expected loss likely to arise in normal circumstances and unexpected losses, which are an estimate of the ultimate actual loss based on statistical models. The models make use of probabilities derived from historical experience, adjusted to reflect the economic environment. The Group adjusted existing models to take into account the probable effects of the ongoing COVID 19 pandemic. This resulted in increased loan provisions in anticipation of increased loan losses that may be brought about by the pandemic

The Group also performed worst case scenarios that would arise in the event that extreme events which are unlikely to occur, happen.

Monitoring and controlling risks are primarily performed based on limits established by the Group. These limits reflect both the business strategy and market environment of the Group, as well as the level of risk that the Group is willing to accept. In addition, the Group monitors and measures the overall risk-bearing capacity in relation to the aggregate risk exposure across all risk types and activities. In response to the ongoing pandemic, the Group implemented stricter approval policies particularly for consumer loans. All consumer loans need to go through a pre-clearance process from the Executive Committee Chair and minimum approval required is from the President & CEO.

Information gathered from all the businesses is evaluated and processed in order to analyze, control and identify risks early. All significant information is presented to the BOD, the ROC, and the head of each business division. The report includes credit exposure to groups and industries, Value-at-Risk (VaR), liquidity ratios and risk profile changes. Senior management assesses the appropriateness of the allowance for credit losses on a monthly basis for prudential and financial reporting.

Credit Risk and Concentration of Assets and Liabilities and Off-Balance Sheet Items

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Group's credit risk arises from its lending and trading of securities and foreign exchange activities. The Group manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual borrowers and groups of borrowers, as well as limits on large lines and industry concentrations. The ERMG monitors exposures in relation to these limits.

The Group obtains security where appropriate, enters into collateral arrangements with counterparties, and limits the duration of exposures. The Group's credit risk management process is guided by policies and procedures established by Corporate & Commercial Banking Group (CCBG), Consumer Finance Group and ERMG and approved by the BOD.

For the corporate loan portfolio, the Group has an internal credit risk rating system (ICRRS) for the purpose of measuring credit risk for every exposure in a consistent manner that is as accurate as possible and uses the risk information for business and financial decision making. The ICRRS shall cover all credit exposures to companies regardless of asset size, except those whose facilities are purely 1:1 which will be given a default Borrower Risk Rating of 1. The system has two components, namely: (a) Borrower Risk Rating (BRR) System, which provides an assessment of credit risk without considering the security arrangements, and (b) Composite Risk Rating (CRR), which is an account rating taking into account the collateral and other credit risk mitigants and the credit facility granted to the borrower. The Borrower Risk Rating consists of 14 grades, ten of which fall under unclassified accounts and the remaining four are classified accounts according to regulatory provisioning guidelines.

The Group uses a set of Minimum Risk Acceptance Criteria for its consumer loan portfolio as part of its credit undertaking. Risks are mitigated by focusing on the accounts with a low PD while exercising prudent judgement on accounts whose risks are higher than normal but remains within the Group's risk appetite.

The Group also has a post approval loan portfolio quality and credit process review in place that allows the Group to continuously identify and assess the risks on credit exposures and take corrective actions. This function is carried out by the Group's Credit Policy and Review Division.

Credit risk at initial recognition

The Group uses internal credit assessment and approvals at various levels to determine the credit risk of exposures at initial recognition. Assessment considers quantitative and qualitative factors and depends on the materiality of the facility or the complexity of the portfolio to be assessed.

Maximum exposure to credit risk
The tables below provide the analysis of the maximum exposure of the Group's and the Parent Company's financial instruments to credit risk, excluding those where the carrying values as reflected in the statements of financial position and related notes already represent the financial instrument's maximum exposure to credit risk, before and after taking into account collateral held or other credit enhancements:

	Consolidated and Parent Company					
	2020			2019		
	Gross Maximum Exposure*	**Net Exposure**	**Financial Effect of Collateral or Credit Enhancement**	Gross Maximum Exposure*	Net Exposure	Financial Effect of Collateral or Credit Enhancement
Receivables from customers:						
Corporate loans	**₱50,770,479**	**₱35,809,872**	**₱14,960,607**	₱52,531,732	₱33,129,545	₱19,402,187
Consumer loans	**5,197,186**	**2,233,187**	**2,963,999**	6,336,761	2,103,673	4,233,088
Credit exposure	**₱55,967,665**	**₱38,043,059**	**₱17,924,606**	₱58,868,493	₱35,233,218	₱23,635,275

** Net of allowance for credit losses and unearned discount*

For sales contracts receivable, the fair value of collaterals and their corresponding financial effect on credit exposure are no longer disclosed since the system does not regularly monitor such information. The carrying value of these sales contracts receivable are disclosed in Note 12.

Risk concentrations by industry
Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Group's performance to developments affecting a particular industry.

Group exposures and risk concentrations to industries are monitored and reported in accordance with the Group's policies on group lending/inter-corporate earmarking and managing large exposure and credit risk concentrations.

Credit-related commitment risks
The Parent Company makes available to its customers guarantees that may require the Parent Company to make payments on their behalf and enters into commitments to extend credit lines to secure their liquidity needs. Letters of credit and guarantees (including standby letters of credit) commit the Parent Company to make payments on behalf of customers in the event of a specific act, generally related to the import or export of goods. Such commitments expose the Parent Company to similar risks to loans and are mitigated by the same control processes and policies.

The industry sector analysis of the maximum exposure of the Group to credit risk concentration follows (amounts in millions):

Consolidated

	2020					2019				
	Loans and Receivables	Loans and Advances to Banks*	Debt Investment Securities	Others**	Total	Loans and Receivables	Loans and Advances to Banks*	Debt Investment Securities	Others**	Total
Government	₱980	₱24,500	₱8,020	₱1	₱ 33,501	₱225	₱10,213	₱20,224	₱–	₱30,662
Construction and real estate	16,528	–	–	421	16,949	17,770	–	251	700	18,721
Wholesale and retail trade	14,047	–	–	864	14,911	13,315	–	–	741	14,056
Manufacturing	13,140	–	–	691	13,831	12,030	–	–	788	12,818
Banks and financial institutions	1,964	3,648	–	–	5,612	2,846	1,076	2,042	–	5,964
Electricity, gas and water supply	3,518	–	–	7	3,525	3,375	–	–	–	3,375
Agriculture, hunting and forestry	1,172	–	–	1	1,173	1,196	–	–	1	1,197
Transportation, storage, communication	1,012	–	–	5	1,017	2,163	–	–	5	2,168
Mining and quarrying	127	–	–	–	127	157	–	–	–	157
Others	7,626	–	–	33	7,659	10,341	–	–	62	10,403
	60,114	28,148	8,020	2,023	98,305	63,418	11,289	22,517	2,297	99,521
Less allowance for ECL	2,490	–	11	–	2,501	2,161	–	11	–	2,172
	₱57,624	₱28,148	₱8,009	₱2,023	₱ 95,804	₱61,257	₱11,289	₱22,506	₱2,297	₱97,349

* *Consist of due from BSP, due from other banks, and interbank loans receivable and SPURA*
** *Consist of RCOCI, refundable deposits, and commitments and contingencies*

Parent Company

	2020					2019				
	Loans and Receivables	Loans and Advances to Banks*	Debt Investment Securities	Others**	Total	Loans and Receivables	Loans and Advances to Banks*	Debt Investment Securities	Others**	Total
Government	₱980	₱24,500	₱8,020	₱1	₱ 33,501	₱225	₱10,213	₱20,224	₱–	₱30,662
Construction and real estate	16,528	–	–	421	16,949	17,770	–	251	700	18,721
Wholesale and retail trade	14,047	–	–	864	14,911	13,315	–	–	741	14,056
Manufacturing	13,140	–	–	691	13,831	12,030	–	–	788	12,818
Banks and financial institutions	1,964	3,648	–	–	5,612	2,846	1,076	2,042	–	5,964
Electricity, gas and water supply	3,518	–	–	7	3,525	3,375	–	–	–	3,375
Agriculture, hunting and forestry	1,172	–	–	1	1,173	1,196	–	–	1	1,197
Transportation, storage, communication	1,012	–	–	5	1,017	2,163	–	–	5	2,168
Mining and quarrying	127	–	–	–	127	157	–	–	–	157
Others	7,629	–	–	33	7,662	10,344	–	–	62	10,406
	60,117	28,148	8,020	2,023	98,308	63,421	11,289	22,517	2,297	99,524
Less allowance for ECL	2,490	–	11	–	2,501	2,161	–	11	–	2,172
	₱57,627	₱28,148	₱8,009	₱ 2,023	₱ 95,807	₱61,260	₱11,289	₱22,506	₱2,297	₱97,352

* *Consist of due from BSP, due from other banks, and interbank loans receivable and SPURA*
** *Consist of RCOCI, refundable deposits, and commitments and contingencies*

Collateral and other credit enhancements
The amount and type of collateral required depend on an assessment of the credit risk of the counterparty. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters.

The main types of collateral obtained are as follows:
- For securities lending and reverse repurchase transactions: cash or securities
- For commercial lending: deposit hold-out, mortgages over real estate properties, machineries, inventories and trade receivables
- For retail lending: mortgages over residential properties and motor vehicles

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

Collaterals obtained by the Group and the Parent Company from settlement of loans and receivables which remain outstanding as of December 31, 2020 and 2019 amounted to ₱63.97 million and ₱210.00 million, respectively (see Note 14).

The Group does not hold collateral on financial assets which it may sell or repledge in the absence of default by the owner of the collateral.

Credit quality per class of financial assets
In compliance with MORB Sec. X178, the Group has developed and continuously reviews and calibrates its internal risk rating system for credit exposures aimed at uniformly assessing its credit portfolio in terms of risk profile. Where appropriate, it obtains security, enters into master netting agreements, and limits the duration of exposures to maintain and even further enhance the quality of the Group's credit exposures.

The credit quality of financial assets is monitored and managed using internal ratings and where available, external ratings.

a. Loans and Receivables

   Receivables from customers
   In 2019, the Parent Company adopted new BRR scorecards by segmenting its portfolio further thus improve on the previous scorecards. The Parent Company employs specific scorecards for each segment of the portfolio and uses specific scorecards for different classes of financial intermediaries. The new scorecards are more flexible and innovatively use more forward-looking elements into the scoring mechanism. making the results more accurate. In 2018, BRR Grade is determined through the use of Moody's Analytics. For purposes of computing allowance, the Parent Company has prepared a transition matrix to bridge the Moody's Analytics rating grades to the new BRR scorecards.

The description and definition of the loan grades or ICRRS used by the Group for corporate loans follow:

BRR Grade	Description	Definition
1	Excellent	Excellent capacity to meet its financial commitments with minimal credit risk
2	Strong	Strong capacity to meet its financial commitments with very low credit risk
3	Good	Good capacity to meet its financial commitments with low credit risk.
4	Fairly Good	An obligor rated 4 differs from rated 3 obligor only to a small degree and has a fairly good capacity to meet its financial commitments with low credit risk.
5	Satisfactory	Satisfactory capacity to meet its financial commitments with moderate credit risk
6	Fairly Satisfactory	Fairly satisfactory capacity to meet its financial commitments with moderate credit risk
7	Acceptable	Acceptable capacity to meet its financial commitments with substantial credit risk
8	Acceptable with Care	A credit, though acceptable, needs care in granting facilities. However, the borrower is still creditworthy.
9	Acceptable with Caution	A credit, though acceptable, needs significant caution to be exercised while granting facilities to the borrower. The borrower is still creditworthy but has problems that need to be addressed.
10	Watch List	An obligor rated 10 is judged to be of poor credit standing and is subject to high default risk.
11	Especially Mentioned	These are loans that have potential weaknesses that deserve management's close attention. If left uncorrected, said weaknesses may affect the repayment of the loan.
12	Substandard	Loans that have well-defined weaknesses that may jeopardize repayment/liquidation in full, either in respect of the business, cash flow, or financial position, which may include adverse trends or developments that affect willingness or repayment ability of the borrower.
13	Doubtful	Loans that exhibit more sever weaknesses than those under "Substandard", whose characteristics on the basis of currently known facts, conditions, and values make collection or liquidation highly improbable, however, the exact amount remains undeterminable as yet.
14	Loss	Loans which are considered uncollectible or worthless and of such little value that their continuance as bankable assets is not warranted.

The credit quality of the Group's corporate loans under receivables from customers, which is based on the ICRRS grade, is grouped as follows:

High Grade (BRR 1 to 7)
Under this category, the borrower has the apparent ability to satisfy its obligations in full and therefore, no loss in ultimate collection is anticipated. These loans or portions thereof are secured by hold-outs on deposits/deposit substitute, margin deposits or government-supported securities, other readily marketable collateral or are supported by sufficient credit and financial information of favorable nature to assure repayment as agreed.

Standard Grade (BRR 8 to 10)
Under this category are accounts not considered adversely classified but require close supervision/monitoring due to some warning signals such as start-up business, substantial changes in the business affecting operation or management, three continuous years of substantial decline in income (exclusive of extraordinary income/losses).

Substandard Grade or Past-Due (BRR 11 to 14)
Under this category are loans which exhibit unfavorable record or unsatisfactory characteristics, or where existing facts, conditions and values, make collection or liquidation in full improbable. The credit quality of the Group's consumer loans under receivables from customers, which is based on the age and status of delinquency of receivables and the credit standing of the counterparties, is grouped as follows:

High Grade
This category is comprised of current receivables with no history of defaults and delayed payments and other financial assets with counterparties that have the apparent ability to satisfy their obligations in full. This rating includes amounts due from the BSP and due from other banks.

Standard Grade
This category is comprised of receivables that are technically past due, with period of default of 1 to 30 days, but are still regarded as good credit quality since the counterparties have the apparent ability to satisfy their obligations in full.

Past Due but not Impaired
These are accounts which are classified as delinquent, with period of default of 31 to 90 days.

Past Due and Impaired
This comprised of receivables and other financial assets which are classified as non-performing, with period of default of more than 90 days.

Positive and vigorous management action is required to avert or minimize loss.

As of December 31, 2020, the credit quality of receivables from customers, net of unearned discount and capitalized interest of the Group and Parent Company follows:

Consolidated and Parent Company	**2020**			
	Stage 1	Stage 2	Stage 3	Total
Corporate loans:				
High grade	**₱ 23,933,062**	**₱–**	**₱–**	**₱23,933,062**
Standard grade	**17,192,044**	**8,800,097**	–	**25,992,141**
Substandard grade	–	**32,300**	–	**32,300**
Past due but not impaired	–	**25,835**	–	**25,835**
Past due and impaired	–	–	**2,729,677**	**2,729,677**
	41,125,106	**8,858,232**	**2,729,677**	**52,713,015**
Consumer loans:				
Auto loans:				
High grade	**477,026**	–	–	**477,026**
Standard grade	**37,898**	**38,961**	–	**76,859**
Past due but not impaired	–	**33,498**	**15,733**	**49,231**
Past due and impaired	–	–	**168,806**	**168,806**
	514,924	**72,459**	**184,539**	**771,922**
Home loans:				
High grade	**3,725,914**	–	–	**3,725,914**
Standard grade	**96,765**	–	–	**96,765**
Past due but not impaired	–	**119,337**	**15,051**	**134,388**
Past due and impaired	–	–	**511,482**	**511,482**
	3,822,679	**119,337**	**526,533**	**4,468,549**
Personal loans:				
High grade	**270,095**	–	–	**270,095**
Standard grade	**35,512**	–	–	**35,512**
Past due but not impaired	–	**18,647**	**2,268**	**20,915**
Past due and impaired	–	–	**113,591**	**113,591**
	305,607	**18,647**	**115,859**	**440,113**
Total consumer loans:				
High grade	**4,473,035**	–	–	**4,473,035**
Standard grade	**170,175**	**38,961**	–	**209,136**
Past due but not impaired	–	**171,482**	**33,052**	**204,534**
Past due and impaired	–	–	**793,879**	**793,879**
	4,643,210	**210,443**	**826,931**	**5,680,584**
Total receivables from customers:				
High grade	**28,406,097**	–	–	**28,406,097**
Standard grade	**17,362,219**	**8,839,058**	–	**26,201,277**
Substandard grade	–	**32,300**	–	**32,300**
Past due but not impaired	–	**197,317**	**33,052**	**230,369**
Past due and impaired	–	–	**3,523,556**	**3,523,556**
	₱45,768,316	**₱9,068,675**	**₱3,556,608**	**₱58,393,599**

Consolidated and Parent Company	2019			
	Stage 1	Stage 2	Stage 3	Total
Corporate loans:				
High grade	₱45,719,910	₱3,215,973	₱–	₱48,935,883
Standard grade	3,513,182	116,937	–	3,630,119
Substandard grade	–	22,249	–	22,249
Past due but not impaired	–	615	–	615
Past due and impaired	–	–	1,171,838	1,171,838
	49,233,092	3,355,774	1,171,838	53,760,704
Consumer loans:				
Auto loans:				
High grade	600,069	–	–	600,069
Standard grade	104,549	–	–	104,549
Past due but not impaired	–	86,645	–	86,645
Past due and impaired	–	–	457,568	457,568
	704,618	86,645	457,568	1,248,831
Home loans:				
High grade	4,226,737	–	–	4,226,737
Standard grade	231,743	–	–	231,743
Past due but not impaired	–	109,941	–	109,941
Past due and impaired	–	–	271,893	271,893
	4,458,480	109,941	271,893	4,840,314
Personal loans:				
High grade	542,093	–	–	542,093
Standard grade	28,104	–	–	28,104
Past due but not impaired	–	22,695	–	22,695
Past due and impaired	–	–	529,920	529,920
	570,197	22,695	529,920	1,122,812
Total consumer loans:				
High grade	₱5,368,899	₱–	₱–	₱5,368,899
Standard grade	364,396	–	–	364,396
Past due but not impaired	–	219,281	–	219,281
Past due and impaired	–	–	1,259,381	1,259,381
	5,733,295	219,281	1,259,381	7,211,957
Total receivables from customers:				
High grade	51,088,809	3,215,973	–	54,304,782
Standard grade	3,877,578	116,937	–	3,994,515
Substandard grade	–	22,249	–	22,249
Past due but not impaired	–	219,896	–	219,896
Past due and impaired	–	–	2,431,219	2,431,219
	₱54,966,387	₱3,575,055	₱2,431,219	₱60,972,661

Movements during 2020 and 2019 for receivables from customers follows:

Consolidated and Parent Company	2020			
	Stage 1	Stage 2	Stage 3	Total
Corporate loans:				
Balance at January 1, 2019	**₱49,233,092**	**₱3,355,774**	**₱1,171,838**	**₱53,760,704**
New assets originated or purchased	**34,365,091**	**–**	**–**	**34,365,091**
Assets derecognized or repaid	**(30,500,160)**	**(4,497,738)**	**(75,189)**	**(35,073,087)**
Transfers to Stage 1	**–**	**–**	**–**	**–**
Transfers to Stage 2	**(10,212,296)**	**10,212,296**	**–**	**–**
Transfers to Stage 3	**(1,720,838)**	**(162,645)**	**1,883,483**	**–**
Accounts written-off	**–**	**–**	**(248,734)**	**(248,734)**
Foreign exchange adjustments	**(39,783)**	**(49,455)**	**(1,721)**	**(90,959)**
Balance at December 31, 2019	**41,125,106**	**8,858,232**	**2,729,677**	**52,713,015**
Consumer loans:				
Auto loans:				
Balance at January 1, 2019	**704,617**	**86,646**	**457,568**	**1,248,831**
New assets originated or Purchased	**179,159**	**–**	**–**	**179,159**
Assets derecognized or repaid	**(253,777)**	**(23,281)**	**(85,547)**	**(362,605)**
Transfers to Stage 1	**–**	**–**	**–**	**–**
Transfers to Stage 2	**(61,503)**	**61,503**	**–**	**–**
Transfers to Stage 3	**(53,572)**	**(52,409)**	**105,981**	**–**
Accounts written-off	**–**	**–**	**(293,463)**	**(293,463)**
Foreign exchange adjustments	**–**	**–**	**–**	
Balance at December 31, 2019	**514,924**	**72,459**	**184,539**	**771,922**
Home loans:				
Balance at January 1, 2020	**₱4,458,480**	**₱109,941**	**₱271,893**	**₱4,840,314**
New assets originated or purchased	**167,766**	**–**	**–**	**167,766**
Assets derecognized or repaid	**(485,833)**	**(3,844)**	**(49,854)**	**(539,531)**
Transfers to Stage 1	**23,482**	**(21,238)**	**(2,244)**	**–**
Transfers to Stage 2	**(118,443)**	**118,443**	**–**	**–**
Transfers to Stage 3	**(222,773)**	**(83,965)**	**306,738**	**–**
Balance at December 31, 2020	**3,822,679**	**119,337**	**526,533**	**4,468,549**
Personal loans:				
Balance at January 1, 2020	**570,199**	**22,695**	**529,918**	**1,122,812**
New assets originated or purchased	**87,234**	**–**	**–**	**87,234**
Assets derecognized or repaid	**(210,768)**	**(7,543)**	**(34,236)**	**(252,547)**
Transfers to Stage 1	**1,800**	**(1,800)**	**–**	**–**
Transfers to Stage 2	**(26,191)**	**14,211**	**11,980**	**–**
Transfers to Stage 3	**(116,667)**	**(8,916)**	**125,583**	**–**
Accounts written-off	**–**	**–**	**(517,386)**	**(517,386)**
Balance at December 31, 2020	**305,607**	**18,647**	**115,859**	**440,113**
Total consumer loans:				
Balance at January 1, 2020	**5,733,296**	**219,282**	**1,259,379**	**7,211,957**
New assets originated or purchased	**434,159**	**–**	**–**	**434,159**
Assets derecognized or repaid	**(950,378)**	**(34,668)**	**(169,637)**	**(1,154,683)**
Transfers to Stage 1	**25,282**	**(23,038)**	**(2,244)**	**–**
Transfers to Stage 2	**(206,137)**	**194,157**	**11,980**	**–**
Transfers to Stage 3	**(393,012)**	**(145,290)**	**538,302**	**–**
Accounts written-off	**–**	**–**	**(810,849)**	**(810,849)**
Balance at December 31, 2020	**4,643,210**	**210,443**	**826,931**	**5,680,584**
Total receivables from customers:				
Balance at January 1, 2019	**54,966,388**	**3,575,056**	**2,431,217**	**60,972,661**
New assets originated or purchased	**34,799,250**	**–**	**–**	**34,799,250**
Assets derecognized or repaid	**(31,450,538)**	**(4,532,406)**	**(244,826)**	**(36,227,770)**
Transfers to Stage 1	**25,282**	**(23,038)**	**(2,244)**	**–**
Transfers to Stage 2	**(10,418,433)**	**10,406,453**	**11,980**	**–**
Transfers to Stage 3	**(2,113,850)**	**(307,935)**	**2,421,785**	**–**
Accounts written-off	**–**	**–**	**(1,059,583)**	**(1,059,583)**
Foreign exchange adjustments	**(39,783)**	**(49,455)**	**(1,721)**	**(90,959)**
	₱45,768,316	**₱9,068,675**	**₱3,556,608**	**₱58,393,599**

Consolidated	2019			
	Stage 1	Stage 2	Stage 3	Total
Corporate loans:				
Balance at January 1, 2019	₱38,771,503	₱5,698,727	₱722,756	₱45,192,986
New assets originated or Purchased	37,382,075	–	–	37,382,075
Assets derecognized or repaid	(26,093,918)	(2,079,284)	(149,177)	(28,322,379)
Transfers to Stage 1	–	–	–	–
Transfers to Stage 2	(1,778)	1,778	–	–
Transfers to Stage 3	(743,322)	(264,246)	1,007,568	–
Accounts written-off	–	–	(408,009)	(408,009)
Foreign exchange adjustments	(81,468)	(1,201)	(1,300)	(83,969)
Balance at December 31, 2019	49,233,092	3,355,774	1,171,838	53,760,704
Consumer loans:				
Auto loans:				
Balance at January 1, 2019	5,158,413	205,062	402,398	5,765,873
New assets originated or purchased	197,813	–	–	197,813
Assets derecognized or repaid	(4,515,468)	(82,331)	(117,056)	(4,714,855)
Transfers to Stage 1	45,810	(40,452)	(5,358)	–
Transfers to Stage 2	(85,045)	86,744	(1,699)	–
Transfers to Stage 3	(96,906)	(82,377)	179,283	–
Balance at December 31, 2019	704,617	86,646	457,568	1,248,831
Home loans:				
Balance at January 1, 2019	5,404,084	171,067	176,120	5,751,271
New assets originated or purchased	596,826	–	–	596,826
Assets derecognized or repaid	(1,359,217)	(47,973)	(100,593)	(1,507,783)
Transfers to Stage 1	26,261	(25,102)	(1,159)	–
Transfers to Stage 2	(91,843)	91,843	–	–
Transfers to Stage 3	(117,631)	(79,894)	197,525	–
Balance at December 31, 2019	4,458,480	109,941	271,893	4,840,314
Personal loans:				
Balance at January 1, 2019	2,479,593	70,110	466,672	3,016,375
New assets originated or purchased	320,122	–	–	320,122
Assets derecognized or repaid	(2,146,405)	(48,131)	(19,149)	(2,213,685)
Transfers to Stage 1	2,807	(2,235)	(572)	–
Transfers to Stage 2	(21,834)	21,915	(81)	–
Transfers to Stage 3	(64,084)	(18,964)	83,048	–
Accounts written-off	–	–	–	–
Balance at December 31, 2019	570,199	22,695	529,918	1,122,812
Total consumer loans:				
Balance at January 1, 2019	13,042,090	446,239	1,045,190	14,533,519
New assets originated or purchased	1,114,761	–	–	1,114,761
Assets derecognized or repaid	(8,021,090)	(178,435)	(236,798)	(8,436,323)
Transfers to Stage 1	74,878	(67,789)	(7,089)	–
Transfers to Stage 2	(198,722)	200,502	(1,780)	–
Transfers to Stage 3	(278,621)	(181,235)	459,856	–
Accounts written-off	–	–	–	–
Balance at December 31, 2019	5,733,296	219,282	1,259,379	7,211,957
Total receivables from customers:				
Balance at January 1, 2018	51,813,593	6,144,966	1,767,946	59,726,505
New assets originated or purchased	38,496,836	–	–	38,496,836
Assets derecognized or repaid	(34,115,008)	(2,257,719)	(385,975)	(36,758,702)
Transfers to Stage 1	74,878	(67,789)	(7,089)	–
Transfers to Stage 2	(200,500)	202,280	(1,780)	–
Transfers to Stage 3	(1,021,943)	(445,481)	1,467,424	–
Accounts written-off	–	–	(408,009)	(408,009)
Foreign exchange adjustments	(81,468)	(1,201)	(1,300)	(83,969)
	₱54,966,388	₱3,575,056	₱2,431,217	₱60,972,661

Parent Company	2019			
	Stage 1	Stage 2	Stage 3	Total
Corporate loans:				
Balance at January 1, 2019	₱38,771,503	₱5,698,727	₱722,756	₱45,192,986
New assets originated or purchased	37,382,075	–	–	37,382,075
Assets derecognized or repaid	(26,093,918)	(2,079,284)	(149,177)	(28,322,379)
Transfers to Stage 1	–	–	–	–
Transfers to Stage 2	(1,778)	1,778	–	–
Transfers to Stage 3	(743,322)	(264,246)	1,007,568	–
Accounts written-off	–	–	(408,009)	(408,009)
Foreign exchange adjustments	(81,468)	(1,201)	(1,300)	(83,969)
Balance at December 31, 2019	49,233,092	3,355,774	1,171,838	53,760,704
Consumer loans:				
Auto loans:				
Balance at January 1, 2019	5,158,413	205,062	402,398	5,765,873
lNew assets originated or purchased	197,813	–	–	197,813
Assets derecognized or repaid	(4,515,468)	(82,331)	(117,056)	(4,714,855)
Transfers to Stage 1	45,810	(40,452)	(5,358)	–
Transfers to Stage 2	(85,045)	86,744	(1,699)	–
Transfers to Stage 3	(96,906)	(82,377)	179,283	–
Balance at December 31, 2019	704,617	86,646	457,568	1,248,831
Home loans:				
Balance at January 1, 2019	5,404,084	171,067	176,120	5,751,271
New assets originated or Purchased	596,826	–	–	596,826
Assets derecognized or repaid	(1,359,217)	(47,973)	(100,593)	(1,507,783)
Transfers to Stage 1	26,261	(25,102)	(1,159)	–
Transfers to Stage 2	(91,843)	91,843	–	–
Transfers to Stage 3	(117,631)	(79,894)	197,525	–
Balance at December 31, 2019	4,458,480	109,941	271,893	4,840,314
Personal loans:				
Balance at January 1, 2019	731,144	23,357	473,217	1,227,718
New assets originated or purchased	320,122	–	–	320,122
Assets derecognized or repaid	(397,956)	(1,378)	(25,694)	(425,028)
Transfers to Stage 1	2,807	(2,235)	(572)	–
Transfers to Stage 2	(21,834)	21,915	(81)	–
Transfers to Stage 3	(64,084)	(18,964)	83,048	–
Accounts written-off	–	–	–	–
Balance at December 31, 2019	570,199	22,695	529,918	1,122,812
Total consumer loans:				
Balance at January 1, 2019	₱11,293,641	₱399,486	₱1,051,735	₱12,744,862
New assets originated or purchased	1,114,761	–	–	1,114,761
Assets derecognized or repaid	(6,272,641)	(131,682)	(243,343)	(6,647,666)
Transfers to Stage 1	74,878	(67,789)	(7,089)	–
Transfers to Stage 2	(198,722)	200,502	(1,780)	–
Transfers to Stage 3	(278,621)	(181,235)	459,856	–
Accounts written-off	–	–	–	–
Balance at December 31, 2019	5,733,296	219,282	1,259,379	7,211,957
Total receivables from customers:				
Balance at January 1, 2018	50,065,144	6,098,213	1,774,491	57,937,848
New assets originated or purchased	38,496,836	–	–	38,496,836
Assets derecognized or repaid	(32,366,559)	(2,210,966)	(392,520)	(34,970,045)
Transfers to Stage 1	74,878	(67,789)	(7,089)	–
Transfers to Stage 2	(200,500)	202,280	(1,780)	–
Transfers to Stage 3	(1,021,943)	(445,481)	1,467,424	–
Accounts written-off	–	–	(408,009)	(408,009)
Foreign exchange adjustments	(81,468)	(1,201)	(1,300)	(83,969)
	₱54,966,388	₱3,575,056	₱2,431,217	₱60,972,661

As of December 31, 2020 and 2019, the credit quality of the Group's and the Parent Company's financial guarantees, letters of credit and loan commitments follows:

	2020			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
High grade	**₱1,316,906**	**₱–**	**₱–**	**₱1,316,906**
Standard grade	**410,820**	**261,085**	**–**	**671,905**
	₱1,727,726	**₱261,085**	**₱–**	**₱1,988,811**

	2019			
	Stage 1	Stage 2	Stage 3	Total
High grade	₱2,231,290	₱–	₱–	₱2,231,290
Standard grade	4,000	–	–	4,000
	₱2,235,290	₱–	₱–	₱2,235,290

Movements during 2020 and 2019 for the Group's and the Parent Company's financial guarantees, letters of credit and loan commitments follows:

	2020			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Balance at January 1	**₱2,235,290**	**₱–**	**₱–**	**₱2,235,290**
New assets originated or purchased	**1,096,182**	**–**	**–**	**1,096,182**
Transfers	**(261,085)**	**261,085**		
Assets derecognized or repaid	**(1,342,661)**	**–**	**–**	**(1,342,661)**
Balance at December 31	**₱1,727,726**	**₱261,085**	**₱–**	**₱1,988,811**

	2019			
	Stage 1	Stage 2	Stage 3	Total
Balance at January 1	₱1,834,080	₱–	₱–	₱1,834,080
New assets originated or purchased	401,210	–	–	401,210
Balance at December 31	₱2,235,290	₱–	₱–	₱2,235,290

As of December 31, 2020 and 2019 the credit quality of other receivables, gross of allowance for credit losses follows:

Consolidated and Parent Company	2020			
	Stage 1	Stage 2	Stage 3	Total
Unquoted debt securities:				
High grade	**₱852,565**	**₱–**	**₱–**	**₱852,565**
Accrued interest receivable:				
High grade	**215,628**	**-**	**–**	**215,628**
Standard grade	**80,698**	**114,206**	**51**	**194,955**
Substandard grade		**48**	**–**	**48**
Past due but not impaired	**–**	**1,219**	**96**	**1,315**
Past due and impaired	**–**	**–**	**56,598**	**56,598**
	296,326	**115,473**	**56,745**	**468,544**
Accounts receivable:				
High grade	**225,401**	**–**	**–**	**225,401**
Standard grade	**66,280**	**–**	**–**	**66,280**
Substandard grade	**–**	**25,189**	**–**	**25,189**
Past due but not impaired	**–**	**5,238**	**–**	**5,238**
Past due and impaired	**–**	**–**	**11,192**	**11,192**
	291,681	**30,427**	**11,192**	**333,300**
Sales contracts receivable:				
High grade	**22,283**	**–**	**–**	**22,283**
Standard grade	**–**	**211**	**–**	**211**
Past due but not impaired	**–**	**8,337**	**–**	**8,337**
Past due and impaired	**–**	**–**	**35,121**	**35,121**
	22,283	**8,548**	**35,121**	**65,952**
Total other receivables:				
High grade	**1,315,877**	**–**	**–**	**1,315,877**
Standard grade	**146,978**	**114,417**	**51**	**261,446**
Substandard grade	**–**	**25,237**	**–**	**25,237**
Past due but not impaired	**–**	**14,794**	**96**	**14,890**
Past due and impaired	**–**	**–**	**102,911**	**102,911**
	₱1,462,855	**₱154,448**	**₱103,058**	**₱1,720,361**

Consolidated	2019			
	Stage 1	Stage 2	Stage 3	Total
Unquoted debt securities:				
High grade	₱1,068,193	₱–	₱–	₱1,068,193
Accrued interest receivable:				
High grade	417,613	62,970	–	480,583
Standard grade	28,014	291	–	28,305
Substandard grade		132	–	132
Past due but not impaired	–	1,402	–	1,402
Past due and impaired	–	–	59,071	59,071
	445,627	64,795	59,071	569,493
Accounts receivable:				
High grade	684,904	–	–	684,904
Standard grade	3,562	–	–	3,562
Past due but not impaired	–	9,692	–	9,692
Past due and impaired	–	–	7,085	7,085
	688,466	9,692	7,085	705,245
Sales contracts receivable:				
High grade	41,642	–	–	41,642
Standard grade	–	16,859	–	16,859
Past due but not impaired	–	20,944	–	20,944
Past due and impaired	–	–	22,763	22,763
	41,642	37,803	22,763	102,208
Total other receivables:				
High grade	2,212,352	62,970	–	2,275,322
Standard grade	31,576	17,150	–	48,726
Substandard grade	–	132	–	132
Past due but not impaired	–	30,636	–	30,636
Past due and impaired	–	–	88,919	88,919
	₱2,243,928	₱112,292	₱88,919	₱2,445,139

Parent Company	2019			
	Stage 1	Stage 2	Stage 3	Total
Unquoted debt securities:				
High grade	₱1,068,193	₱–	₱–	₱1,068,193
Accrued interest receivable:				
High grade	417,613	62,970	–	480,583
Standard grade	28,014	291	–	28,305
Substandard grade		132	–	132
Past due but not impaired	–	1,402	–	1,402
Past due and impaired	–	–	59,071	59,071
	445,627	64,795	59,071	569,493
Accounts receivable:				
High grade	687,658	–	–	687,658
Standard grade	3,562	–	–	3,562
Past due but not impaired	–	4,774	–	4,774
Past due and impaired	–	4,919	7,085	12,004
	₱691,220	₱9,693	₱7,085	₱707,998
Sales contracts receivable:				
High grade	₱41,642	₱–	₱–	₱41,642
Standard grade	–	16,859	–	16,859
Past due but not impaired	–	20,944	–	20,944
Past due and impaired	–	–	22,763	22,763
	₱41,642	₱37,803	₱22,763	₱102,208
Total other receivables:				
High grade	₱2,215,106	₱62,970	₱–	₱2,278,076
Standard grade	31,576	17,150	–	48,726
Substandard grade	–	132	–	132
Past due but not impaired	–	27,120	–	27,120
Past due and impaired	–	4,919	88,919	93,838
	₱2,246,682	₱112,291	₱88,919	₱2,447,892

Movements during 2020 and 2019_for other receivables follows:

Consolidated	2020			
	Stage 1	Stage 2	Stage 3	Total
Unquoted debt securities:				
Balance at January 1, 2019	**₱1,068,193**	**₱–**	**₱–**	**₱1,068,193**
Assets derecognized or repaid	**(215,628)**	–	–	**(215,628)**
Balance at December 31, 2019	**852,565**	–	–	**852,565**
Accrued interest receivable:				
Balance at January 1, 2019	**445,629**	**64,794**	**59,071**	**569,494**
New assets originated or purchased	**340,874**	–	–	**340,874**
Assets derecognized or repaid	**(343,133)**	**(47,511)**	**(7,110)**	**(397,754)**
Transfers to Stage 1	**230**	**(230)**	–	–
Transfers to Stage 2	**(101,743)**	**101,743**	–	–
Transfers to Stage 3	**(45,531)**	**(3,323)**	**48,854**	–
Accounts written-off	–	–	**(44,070)**	**(44,070)**
Balance at December 31, 2019	**296,326**	**115,473**	**56,745**	**468,544**
Accounts receivable:				
Balance at January 1, 2019	**688,467**	**9,692**	**7,085**	**705,244**
New assets originated or purchased	**4,121,822**	–	–	**4,121,822**
Assets derecognized or repaid	**(4,486,953)**	**(3,741)**	**(3,072)**	**(4,493,766)**
Transfers to Stage 1	**(31,655)**	**29,576**	**2,079**	–
Transfers to Stage 2	–	**(5,100)**	**5,100**	–
Transfers to Stage 3	–	–	–	–
Accounts written-off	–	–	–	–
Balance at December 31, 2019	**291,681**	**30,427**	**11,192**	**333,300**
Sales contract receivable:				
Balance at January 1, 2019	**41,640**	**37,804**	**22,764**	**102,208**
New assets originated or purchased	**9,152**	–	–	**9,152**
Assets derecognized or repaid	**(4,370)**	**(2,467)**	**(38,571)**	**(45,408)**
Transfers to Stage 1	–	–	–	–
Transfers to Stage 2	**(10,829)**	**10,829**	–	–
Transfers to Stage 3	**(13,310)**	**(37,618)**	**50,928**	–
Balance at December 31, 2019	**22,283**	**8,548**	**35,121**	**65,952**
Total other receivables:				
Balance at January 1, 2019	**2,243,929**	**112,290**	**88,920**	**2,445,139**
New assets originated or purchased	**4,471,848**	–	–	**4,471,848**
Assets derecognized or repaid	**(5,050,084)**	**(53,719)**	**(48,753)**	**(5,152,556)**
Transfers to Stage 1	**(31,425)**	**29,346**	**2,079**	–
Transfers to Stage 2	**(112,572)**	**107,472**	**5,100**	–
Transfers to Stage 3	**(58,841)**	**(40,941)**	**99,782**	–
Accounts written-off	–	–	**(44,070)**	**(44,070)**
	₱1,462,855	**₱154,448**	**₱103,058**	**₱1,720,361**

Parent Company	2020			
	Stage 1	Stage 2	Stage 3	Total
Unquoted debt securities:				
Balance at January 1, 2019	**₱1,068,193**	**₱–**	**₱–**	**₱1,068,193**
Assets derecognized or repaid	**(215,628)**	–	–	**(215,628)**
Balance at December 31, 2019	**852,565**	–	–	**852,565**
Accrued interest receivable:				
Balance at January 1, 2019	**445,629**	**64,794**	**59,071**	**569,494**
New assets originated or purchased	**340,874**	–	–	**340,874**
Assets derecognized or repaid	**(343,133)**	**(47,511)**	**(7,110)**	**(397,754)**
Transfers to Stage 1	**230**	**(230)**	–	–
Transfers to Stage 2	**(101,743)**	**101,743**	–	–
Transfers to Stage 3	**(45,531)**	**(3,323)**	**48,854**	–
Accounts written-off	–	–	**(44,070)**	**(44,070)**
Balance at December 31, 2019	**296,326**	**115,473**	**56,745**	**468,544**
Accounts receivable:				
Balance at January 1, 2019	**691,221**	**9,692**	**7,085**	**707,998**
New assets originated or purchased	**4,121,822**	–	–	**4,121,822**
Assets derecognized or repaid	**(4,489,708)**	**(3,741)**	**(356)**	**(4,493,805)**
Transfers to Stage 1	**(31,655)**	**29,576**	**2,079**	–
Transfers to Stage 2	–	**(5,100)**	**5,100**	–
Transfers to Stage 3	–	–	–	–
Accounts written-off	–	–	–	–
Balance at December 31, 2019	**291,680**	**30,427**	**13,908**	**336,015**
Sales contract receivable:				
Balance at January 1, 2019	**41,640**	**37,804**	**22,764**	**102,208**
New assets originated or purchased	**9,152**	–	–	**9,152**
Assets derecognized or repaid	**(4,370)**	**(2,467)**	**(38,571)**	**(45,408)**
Transfers to Stage 1	–	–	–	–
Transfers to Stage 2	**(10,829)**	**10,829**	–	–
Transfers to Stage 3	**(13,310)**	**(37,618)**	**50,928**	–
Balance at December 31, 2019	**22,283**	**8,548**	**35,121**	**65,952**
Total other receivables:				
Balance at January 1, 2019	**2,246,683**	**112,290**	**88,920**	**2,447,893**
New assets originated or purchased	**4,471,848**	–	–	**4,471,848**
Assets derecognized or repaid	**(5,052,839)**	**(53,719)**	**(46,037)**	**(5,152,595)**
Transfers to Stage 1	**(31,425)**	**29,346**	**2,079**	–
Transfers to Stage 2	**(112,572)**	**107,472**	**5,100**	–
Transfers to Stage 3	**(58,841)**	**(40,941)**	**99,782**	–
Accounts written-off	–	–	**(44,070)**	**(44,070)**
	₱1,462,854	**₱154,448**	**₱105,774**	**₱1,723,076**

Consolidated	2019			
	Stage 1	Stage 2	Stage 3	Total
Unquoted debt securities:				
Balance at January 1, 2019	₱1,404,422	₱–	₱–	₱1,404,422
Assets derecognized or repaid	(336,229)	–	–	(336,229)
Balance at December 31, 2019	1,068,193	–	–	1,068,193
Accrued interest receivable:				
Balance at January 1, 2019	457,417	37,603	414,459	909,479
New assets originated or purchased	290,786	–	–	290,786
Assets derecognized or repaid	(247,915)	(13,650)	(368,923)	(630,488)
Transfers to Stage 1	342	(341)	(1)	–
Transfers to Stage 2	(42,552)	42,552	–	–
Transfers to Stage 3	(12,449)	(1,370)	13,819	–
Accounts written-off	–	–	(283)	(283)
Balance at December 31, 2019	445,629	64,794	59,071	569,494
Accounts receivable:				
Balance at January 1, 2019	302,475	3,906	26,917	333,298
New assets originated or Purchased	9,870,359	–	–	9,870,359
Assets derecognized or repaid	(9,474,459)	(3,585)	(15,569)	(9,493,613)
Transfers to Stage 1	–	–	–	–
Transfers to Stage 2	(9,672)	9,371	301	–
Transfers to Stage 3	(236)	–	236	–
Accounts written-off	–	–	(4,800)	(4,800)
Balance at December 31, 2019	688,467	9,692	7,085	705,244
Sales contract receivable:	135,630	17,329	23,429	176,388
New assets originated or purchased	9,454	–	–	9,454
Assets derecognized or repaid	(64,066)	(11,364)	(8,204)	(83,634)
Transfers to Stage 1	–	–	–	–
Transfers to Stage 2	(32,480)	32,480	–	–
Transfers to Stage 3	(6,898)	(641)	7,539	–
Balance at December 31, 2019	41,640	37,804	22,764	102,208
Total other receivables:				
Balance at January 1, 2019	2,299,944	58,838	464,805	2,823,587
New assets originated or purchased	10,170,599	–	–	10,170,599
Assets derecognized or repaid	(10,122,669)	(28,599)	(392,696)	(10,543,964)
Transfers to Stage 1	342	(341)	(1)	–
Transfers to Stage 2	(84,704)	84,403	301	–
Transfers to Stage 3	(19,583)	(2,011)	21,594	–
Accounts written-off	–	–	(5,083)	(5,083)
	₱2,243,929	₱112,290	₱88,920	₱2,445,139

Parent Company	2019			
	Stage 1	Stage 2	Stage 3	Total
Unquoted debt securities:				
Balance at January 1, 2019	₱1,404,422	₱–	₱–	₱1,404,422
Assets derecognized or repaid	(336,229)	–	–	(336,229)
Balance at December 31, 2019	1,068,193	–	–	1,068,193
Accrued interest receivable:				
Balance at January 1, 2019	441,948	36,120	404,843	882,911
New assets originated or purchased	290,786	–	–	290,786
Assets derecognized or repaid	(232,446)	(12,167)	(359,307)	(603,920)
Transfers to Stage 1	342	(341)	(1)	–
Transfers to Stage 2	(42,552)	42,552	–	–
Transfers to Stage 3	(12,449)	(1,370)	13,819	–
Accounts written-off	–	–	(283)	(283)
Balance at December 31, 2019	445,629	64,794	59,071	569,494
Accounts receivable:				
Balance at January 1, 2019	293,452	3,776	15,891	313,119
New assets originated or purchased	9,870,359	–	–	9,870,359
Assets derecognized or repaid	(9,462,682)	(3,455)	(4,543)	(9,470,680)
Transfers to Stage 1	(9,672)	9,672	–	–
Transfers to Stage 2	–	(301)	301	–
Transfers to Stage 3	(236)	–	236	–
Accounts written-off	–	–	(4,800)	(4,800)
Balance at December 31, 2019	691,221	9,692	7,085	707,998
Sales contract receivable:				
Balance at January 1, 2019	87,098	17,329	20,699	125,126
New assets originated or purchased	9,454	–	–	9,454
Assets derecognized or repaid	(15,534)	(11,364)	(5,474)	(32,372)
Transfers to Stage 1	(7,340)	1,584	5,756	–
Transfers to Stage 2	(32,038)	32,480	(442)	–
Transfers to Stage 3	–	(2,225)	2,225	–
Balance at December 31, 2019	41,640	37,804	22,764	102,208
Total other receivables:				
Balance at January 1, 2019	2,226,920	57,225	441,433	2,725,578
New assets originated or purchased	10,170,599	–	–	10,170,599
Assets derecognized or repaid	(10,046,891)	(26,986)	(369,324)	(10,443,201)
Transfers to Stage 1	(16,670)	10,915	5,755	–
Transfers to Stage 2	(74,590)	74,731	(141)	–
Transfers to Stage 3	(12,685)	(3,595)	16,280	–
Accounts written-off	–	–	(5,083)	(5,083)
	₱2,246,683	₱112,290	₱88,920	₱2,447,893

As of December 31, 2020 and 2019, the credit quality of other financial assets (RCOCI and refundable security deposits) are as follows:

Consolidated and Parent Company	**2020**			
	Stage 1	Stage 2	Stage 3	Total
High grade	**₱33,387**	**₱–**	**₱–**	**₱33,387**
Standard grade	**1,273**	**–**	**–**	**1,273**
	₱34,660	**₱–**	**₱–**	**₱34,660**

Consolidated and Parent Company	2019			
	Stage 1	Stage 2	Stage 3	Total
High grade	₱62,228	₱–	₱–	₱62,228
Standard grade	128	–	–	128
	₱62,356	₱–	₱–	₱62,356

Movements during 2020 and 2019 for other financial assets follows:

Consolidated and Parent Company	**2020**			
	Stage 1	Stage 2	Stage 3	Total
Balance at January 1	**₱62,356**	**₱–**	**₱–**	**₱62,356**
New assets originated or purchased	**2,785**	**–**	**–**	**2,785**
Assets derecognized or repaid	**(30,481)**	**–**	**–**	**(30,481)**
Balance at December 31	**₱34,660**	**₱–**	**₱–**	**₱34,660**

Consolidated and Parent Company	2019			
	Stage 1	Stage 2	Stage 3	Total
Balance at January 1	₱36,311	₱–	₱–	₱36,311
New assets originated or purchased	35,473	–	–	35,473
Assets derecognized or repaid	(9,428)	–	–	(9,428)
Balance at December 31	₱62,356	₱–	₱–	₱62,356

As of December 31, 2020 and 2019, restructured loans by the Group and the Parent Company which are neither past due nor impaired are as follow:

	2020	2019
Receivables from customers:		
Corporate	**₱513,831**	₱–
Consumer	**214,001**	46,522

a. Due from Banks, Interbank Loans Receivables, Government Securities and Corporate Investments

The Group follows an internally developed risk rating system for local banks and external risk ratings [that is, Standard and Poor's (S&P)] for foreign banks, government securities and corporate investments.

A description of the rating systems for local banks follows:

High Grade (Tier 1)

Tier 1 - Banks categorized under this tier are capable of withstanding very difficult market conditions for 2-3 years without deteriorating to a substandard credit classification by virtue of their size, reputation and ranking in the industry.

Standard Grade (Tier 2 to Tier 3)

These are accounts that have potential weaknesses that deserve management's close attention. These potential weaknesses, if left uncorrected, may affect the repayment of the financial instrument, thus, increase credit risk to the Group.

Tier 2 - Banks categorized under this tier may deteriorate to substandard within 1-2 years under very difficult market conditions.

Tier 3 - Banks categorized under this tier may deteriorate to substandard within one year under very difficult market conditions. These are banks, which fall short relative to size, in view of perceived concern of uncertainty about their portfolio, earnings, or market condition. Banks with total net worth of ₱3.00 billion to less than ₱4.50 billion and net income of ₱200.00 million to less than ₱400.00 million are included in this category.

Substandard Grade (Tier 4)
Tier 4 - These are banks, which fall short relative to size, in view of perceived concern of uncertainty about their portfolio, earnings, or market condition. Banks with total net worth of ₱1.50 billion to less than ₱3.00 billion and net income of ₱70.00 million to less than ₱200.00 million are included in this category.

The following is the credit rating scale applicable for foreign banks, government securities, and corporate investment outlets (aligned with S&P ratings):

AAA - Obligor's capacity to meet its financial commitment is extremely strong.

AA - Obligor's capacity to meet its financial commitment is very strong. It differs from the highest-rated obligors at a minimal degree.

A - Obligor has strong capacity to meet its financial commitments but is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligors rated in higher-rated categories.

BBB and below:

BBB - Obligation rated 'BBB' has adequate protection parameters. However, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity of the obligor to meet its financial commitment on the obligation.

BB - Obligation is less vulnerable to nonpayment than other speculative issues. However, it faces major ongoing uncertainties or exposure to adverse business, financial, or economic conditions which could lead to the obligor's inadequate capacity to meet its financial commitment on the obligation.

B - Obligation rated 'B' is more vulnerable to nonpayment than obligations rated 'BB', but the obligor currently has the capacity to meet its financial commitment on the obligation. Adverse business, financial, or economic conditions will likely impair the obligor's capacity or willingness to meet its financial commitment on the obligation.

CCC - Obligation is currently vulnerable to nonpayment, and is dependent upon favorable business, financial, and economic conditions for the obligor to meet its financial commitment on the obligation. In the event of adverse business, financial, or economic conditions, the obligor is not likely to have the capacity to meet its financial commitment on the obligation.

CC - Obligation is currently highly vulnerable to nonpayment.

C - Obligation is currently highly vulnerable to nonpayment, payment arrearages allowed by the terms of the documents, and subject of a bankruptcy petition or similar action which have not experienced a payment default.

Among others, the 'C' rating may be assigned to subordinated debt, preferred stock or other obligations on which cash payments have been suspended in accordance with the instrument's terms or when preferred stock is the subject of a distressed exchange offer, whereby some or all of the issue is either repurchased for an amount of cash or replaced by other instruments having a total value that is less than par.

D - Obligation is in payment default. Payments on an obligation are not made on the due date even if the applicable grace period has not expired. The ‘D’ rating also will be used upon the filing of a bankruptcy petition or the taking of similar action if payments on an obligation are jeopardized. An obligation’s rating is lowered to ‘D’ upon completion of a distressed exchange offer, whereby some or all of the issue is either repurchased for an amount of cash or replaced by other instruments having a total value that is less than par.

As of December 31, 2020 and 2019, the credit quality of loans and advances to banks and investment securities, gross of allowance for ECL follows:

Consolidated and Parent Company	**2020**			
	Stage 1	Stage 2	Stage 3	Total
Due from BSP:				
High grade	**₱20,597,868**	**₱–**	**₱–**	**₱20,597,868**
Due from other banks:				
High grade	**1,106,389**	–	–	**1,106,389**
Standard grade	**387,427**	–	–	**387,427**
Unrated	**1,669**	–	–	**1,669**
	1,495,485	–	–	**1,495,485**
Interbank loans receivable and SPURA:				
High grade	**6,054,454**	–	–	**6,054,454**
Total loans and advances to banks:				
High grade	**27,758,711**	–	–	**27,758,711**
Standard grade	**387,427**	–	–	**387,427**
Unrated	**1,669**	–	–	**1,669**
	28,147,807	–	–	**28,147,807**
Government securities:				
High grade	**5,027,547**	–	–	**5,027,547**
Total debt securities at FVTOCI:				
High grade	**5,027,547**	–	–	**5,027,547**
Standard grade	**-**	–	–	–
	5,027,547	–	–	**5,027,547**
Government securities:				
High grade	**2,273,872**	–	–	**2,273,872**
Total investment securities at amortized cost:				
High grade	**₱2,273,872**	**₱–**	**₱–**	**₱2,273,872**

Consolidated and Parent Company	2019			
	Stage 1	Stage 2	Stage 3	Total
Due from BSP:				
High grade	₱10,213,521	₱–	₱–	₱10,213,521
Due from other banks:				
High grade	135,673	–	–	135,673
Standard grade	216,345	–	–	216,345
Unrated	5,942	–	–	5,942
	357,960	–	–	357,960
Interbank loans receivable:				
High grade	717,736	–	–	717,736
Total loans and advances to banks:				
High grade	11,066,930	–	–	11,066,930
Standard grade	216,345	–	–	216,345
Unrated	5,942	–	–	5,942
	₱11,289,217	₱–	₱–	₱11,289,217
Government securities:				
High grade	₱1,667,827	₱–	₱–	₱1,667,827
Private bonds:				
High grade	4,027,892	–	–	4,027,892
Standard grade	2,293,524	–	–	2,293,524
	6,321,416	–	–	6,321,416
Total debt securities at FVTOCI:				
High grade	5,695,719	–	–	5,695,719
Standard grade	2,293,524	–	–	2,293,524
	₱7,989,243	₱–	₱–	₱7,989,243
Government securities:				
High grade	₱12,860,065	₱–	₱–	₱12,860,065
Total investment securities at amortized cost:				
High grade	₱12,860,065	₱–	₱–	₱12,860,065

Aging analysis of past due but not impaired loans per class of financial assets

As of December 31, 2020 and 2019, the aging analysis of past due but not impaired financial assets are shown below:

	2020					
	Consolidated and Parent					
	Up to 1 Month	1 to 3 Months	3 to 6 Months	6 to 12 Months	Greater than 1 Year	Total
Receivables from customers:						
Corporate loans	₱–	₱–	**₱25,835**	₱–	₱–	**₱25,835**
Consumer loans	**31,673**	**172,861**	–	–	–	**204,534**
Accrued interest receivable	**178**	**915**	**222**	–	–	**1,315**
Accounts Receivable	–	–	–	**5,238**	–	**5,238**
Sales contracts receivable	–	–	**8,337**	–	–	**8,337**
	₱31,851	**₱173,776**	**₱34,394**	**₱5,238**	**₱-**	**₱245,259**

	2019					
	Consolidated and Parent					
	Up to 1 Month	1 to 3 Months	3 to 6 Months	6 to 12 Months	Greater than 1 Year	Total
Receivables from customers:						
Corporate loans	₱–	₱615	₱–	₱–	₱–	₱615
Consumer loans	–	219,280	–	–	–	219,280
Accrued interest receivable	–	1,402	–	–	–	1,402
Accounts Receivable	159	1,418	2,037	1,160	–	4,774
Sales contracts receivable	–	–	20,944	–	–	20,944
	₱159	₱222,715	₱22,981	₱1,160	₱–	₱247,015

Total credit risk exposure

The tables below show the different credit risk exposures of the Group and of the Parent Company by risk weight applied in accordance with BSP Circular No. 538 as reported to the BSP:

Consolidated and Parent Company	**2020**						
	Net	**Risk Weights[b]**					
	Exposures[a]	**0%**	**20%**	**50%**	**75%**	**100%**	**150%**
On-balance sheet assets[c]	**₱101,535**	**₱28,787**	**₱81**	**₱10,214**	**₱–**	**₱60,834**	**₱1,765**
Credit risk weighted on-balance sheet assets (d = b x c)	**68,605**	**–**	**16**	**5,107**	**–**	**60,834**	**2,648**
Off-balance sheet assets[e]	**1,368**	**–**	**256**	**–**	**–**	**1,112**	
Credit risk weighted off-balance sheet assets (f = b x e)	**14**	**–**	**–**	**–**	**–**	**14**	**–**
Banking Book[g]	**1,368**	**–**	**256**	**–**	**–**	**1,112**	
Counter party risk-weighted assets in Banking Books (h = b x g)	**14**	**–**	**–**	**–**	**–**	**14**	**–**
Total Credit Risk Weighted Assets[d + f + h]	**₱69,987**	**₱–**	**₱272**	**₱5,107**	**₱–**	**₱61,960**	**₱2,648**

(a) *Net of specific provisions*

Consolidated and Parent Company	2019						
	Net	Risk Weights[b]					
	Exposures[a]	0%	20%	50%	75%	100%	150%
On-balance sheet assets[c]	₱101,535	₱27,508	₱25	₱6,764	₱–	₱65,646	₱1,592
Credit risk weighted on-balance sheet assets (d = b x c)	71,421	–	5	3,382	–	65,646	2,388
Off-balance sheet assets[e]	11,869	9,642	886	–	–	1,341	–
Credit risk weighted off-balance sheet assets (f = b x e)	1,518	–	177	–	–	1,341	
Banking Book[g]	12	–	–	–	–	12	–
Counter party risk-weighted assets in Banking Books (h = b x g)	12	₱–	₱–	₱–	₱–	₱12	₱–
Total Credit Risk Weighted Assets[d + f + h]	₱72,951	₱–	₱182	₱3,382	₱–	₱66,999	₱2,388

(a) *Net of specific provisions*

Liquidity Risk and Funding Management
Liquidity risk is the risk that the Parent Company will be unable to meet its payment obligations when they fall due under normal and stress circumstances. To limit this risk, management has arranged diversified funding sources in addition to its core deposit base, manages assets with liquidity in mind and monitors future cash flows and liquidity on a daily basis.

This incorporates an assessment of expected cash flows and the availability of high grade collateral which could be used to secure additional funding, if required. In addition, the Parent Company makes use of a monthly system generated Liquidity Gap Report in analyzing its liquidity position where the difference between the Group's maturing assets and liabilities is captured. A Maximum Cumulative Outflow limit is likewise established to control the liquidity gap for each currency. The ALCO meets weekly to discuss, among others, the liquidity state of the Parent Company.

The Parent Company maintains a portfolio of highly marketable and diverse assets that can be easily liquidated in the event of an unforeseen interruption of cash flows. The Parent Company also has committed lines of credit that it can access to meet liquidity needs. In addition, the Parent Company maintains a statutory deposit with the BSP equal to 12.00% and 14% of customer deposits in December 31, 2020 and 2019, respectively.

In managing intraday liquidity, the Parent Company has an internal buffer fund called "Secondary Reserve" for Deposit Liabilities, Deposit Substitutes, and Repurchase Agreements. The buffer fund serves to manage potential substantial liability outflows and the demand and supply of funds for new loans.

This will allow the Parent Company to readily support its new business strategies and direction and management of liquidity risk. The daily movement of Secondary Reserve serves as a primary indicator of liquidity condition of the Parent Company. In addition, the Parent Company monitors the liquidity characteristics of its portfolio of assets that will provide necessary liquidity support during periods of liquidity stress as required by BSP Circular No. 905.

Analysis of financial instruments by remaining contractual maturities
The tables below summarize the maturity profile of the Group's and the Parent Company's financial instruments as of December 31, 2020 and 2019, based on undiscounted contractual payments, except for financial assets at FVTPL. Repayments which are subject to notice are treated as if notices are to be given immediately. However, the Group and the Parent Company expect that many customers will not request repayment on the earliest date the Group and the Parent Company could be required to pay and the tables do not reflect the expected cash flows indicated by the Group's and the Parent Company's deposit retention history (amounts in millions):

Consolidated and Parent Company	**2020**					
	On Demand	**Less than 3 Months**	**12-Mar Months**	**1-2 Years**	**Beyond 2 Years***	**Total**
Financial assets						
Financial assets at FVTPL	**₱-**	**₱8**	**₱35**	**₱42**	**₱963**	**₱1,048**
Financial assets at FVTOCI	–	**122**	**229**	**351**	**6,567**	**7,269**
Investment securities at amortized cost:						
Government securities	–	**65**	**101**	**241**	**2,704**	**3,111**
Loans and receivables:						–
Due from BSP	**20,598**	–	–	–	–	**20,598**
Due from other banks	–	**1,495**	–	–	–	**1,495**
Interbank loans receivable	–	**6,054**	–	–	–	**6,054**
Receivables from customers:						–
Corporate	**1,676**	**26,355**	**5,648**	**5,406**	**18,769**	**57,854**
Consumer	**994**	**127**	**448**	**743**	**6,999**	**9,311**
	23,268	**34,226**	**6,461**	**6,783**	**36,002**	**106,740**

(Forward)

Consolidated and Parent Company	**2020**					
	On Demand	**Less than 3 Months**	**12-Mar Months**	**1-2 Years**	**Beyond 2 Years***	**Total**
Financial liabilities						
Deposit liabilities:						
Demand	**₱30,865**	**₱–**	**₱–**	**₱–**	**₱–**	**₱30,865**
Savings	**9,665**	–	–	–	–	**9,665**
Time	–	**34,131**	**3,999**	**1,298**	**1,173**	**40,601**
LTNCD	–	**40**	**123**	**163**	**3,110**	**3,436**
Bills payable:						**-**
Private firms and individuals	–	**1,956**	**30**	–	–	**1,986**
Banks and other financial institutions	–	**198**	–	–	–	**198**
Outstanding acceptances	**498**	–	–	–	–	**498**
Manager's checks	**188**	–	–	–	–	**188**
Accrued interest payable	–	**105**	–	–	–	**105**
Accrued other expenses	–	**516**	–	–	–	**516**
Other liabilities:						**-**
Accounts payable	**205**	–	–	–	–	**205**
Refundable security deposits	–	**57**	**88**	**7**	**34**	**186**
Due to the Treasurer of the Philippines	–	**41**	–	–	–	**41**
	₱41,421	**₱37,044**	**₱4,240**	**₱1,468**	**₱4,317**	**₱88,490**

**Including non-performing loans and receivables*

Consolidated and Parent Company	2019					
	On Demand	Less than 3 Months	12-Mar Months	1-2 Years	Beyond 2 Years*	Total
Financial assets						
Financial assets at FVTPL	₱–	₱2,180	₱–	₱–	₱–	₱2,180
Financial assets at FVTOCI	–	205	542	484	9,877	11,108
Investment securities at amortized cost:						
Government securities	–	247	575	861	21,523	23,206
Loans and receivables:						
Due from BSP	10,214	–	–	–	–	10,214
Due from other banks	–	358	–	–	–	358
Interbank loans receivable	–	718	–	–	–	718
Receivables from customers:						
Corporate	1,622	20,605	7,483	4,350	23,516	57,576
Consumer	1,443	190	559	995	8,451	11,638
	13,279	24,503	9,159	6,690	63,367	116,998
Financial liabilities						
Deposit liabilities:						
Demand	27,205	–	–	–	–	27,205
Savings	9,180	–	–	–	–	9,180
Time	–	33,147	1,912	441	1,094	36,594
LTNCD	–	41	123	163	3,274	3,601
Bills payable:						
Private firms and individuals	–	9,788	10	–	–	9,798
Banks and other financial institutions	–	3,172	–	120	–	3,292
Outstanding acceptances	92	–	–	–	–	92
Manager's checks	443	–	–	–	–	443
Accrued interest payable	–	194	–	–	–	194
Accrued other expenses	–	383	–	–	–	383
Other liabilities:						
Accounts payable	224	–	–	–	–	224
Refundable security deposits	–	8	10	105	75	198
Due to the Treasurer of the Philippines	–	41	–	–	–	41
	₱37,144	₱46,774	₱2,055	₱829	₱4,443	₱91,245

**Including non-performing loans and receivables*

The tables below show the contractual expiry of the Group's and the Parent Company's commitments and contingent liabilities as of December 31, 2020 and 2019 (amounts in millions):

	2020				
	On Demand	**Less than 3 Months**	**3 to 12 Months**	**Beyond 1 Year**	**Total**
Unused Commercial LC:					
Standby LC	**₱231**	**₱98**	**₱784**	**₱–**	**₱1,112**
Sight LC outstanding	**44**	**674**	**74**	**–**	**792**
Usance LC outstanding	**51**	**33**	**–**	**–**	**84**
Outstanding shipping guarantees	**–**	**–**	**404**	**–**	**404**
Spot exchange:					
Sold	**1,300**	**–**	**–**	**–**	**1,300**
Bough	**1,461**	**–**	**–**	**–**	**1,461**
	₱3,087	**₱805**	**₱1,262**	**₱–**	**₱5,153**

	2019				
	On Demand	Less than 3 Months	3 to 12 Months	Beyond 1 Year	Total
Unused Commercial LC:					
Standby LC	124	375	770	72	1,341
Sight LC outstanding	7	115	473	–	595
Usance LC outstanding	35	44	2	–	81
Outstanding shipping guarantees	–	–	219	–	219
Spot exchange:					
Bought	1,052	–	–	–	1,052
Sold	928	–	–	–	928
	2,146	534	1,464	72	4,216

Liquidity Position and Leverage

Liquidity Coverage Ratio

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

As of December 31, 2020 and 2019, LCR of the Parent Company is shown in the table below (amounts, except ratios, are expressed in millions):

	2020	2019
Total Stock of High-Quality Liquid Assets	**₱34,554**	₱21,165
Total Net Cash Outflows	**12,147**	13,470
LCR	**284.46%**	157.12%

Net Stable Funding Ratio
Pursuant to BSP Circular No. 1007 issued in 2018, The Group is required to compute its Net Stable Funding Ratio (NSFR). The NSFR is aimed at strengthening the Group's long-term resilience by maintaining a stable funding in relation to its assets and off-balance sheet items. The NSFR is expressed as the ratio of available stable funding and the required stable funding and complements the LCR as it takes a longer view of the Group's liquidity risk profile.

As of December 31, 2020 and 2019, NSFR of the Parent Company is shown in the table below (amounts, except ratios, are expressed in millions):

	2020	2019
Available stable funding	**₱78,143**	₱70,749
Required stable funding	**49,282**	53,088
NSFR	**158.56%**	133.27%

Both LCR and NSFR should be maintained no lower than 100.00% on a daily basis under normal situations.

Market Risk Management
Market risk is the risk of loss to future earnings, fair values or future cash flows that may result from changes in the price of a financial instrument. The value of a financial instrument may change as a result of changes in interest rates, foreign currency exchange rates, commodity prices, equity prices and other market changes. The Parent Company's market risk originates from the Parent Company's holdings of foreign exchange instruments, debt securities, equity securities and derivatives.

Value-at-Risk (VaR)
VaR is a statistical estimate of potential loss given prevailing market price trends, correlations and volatilities. VaR estimates the potential decline in the value of a portfolio, under normal market conditions, a given "confidence level" over a specified time horizon. VaR is used to alert senior management whenever the potential for losses in the Parent Company's portfolios exceeds the VaR limit. This allows management to react quickly and adjust its portfolio strategies in different market conditions in accordance with the Parent Company's risk philosophy and appetite.

In 2020 and 2019, Parent Company uses Historical VaR Model using 99% confidence level, and a 1-day defeasance period.

The Market Risk and Capital Oversight Division runs VaR on a daily basis, monitors the VaR against the BOD approved VaR limit and submits Daily VaR Reports to concerned division/group/segment heads.

To verify the validity of the VaR model used, the Treasury Operations Division performs quarterly back testing to examine how frequently actual daily losses exceeds the daily VaR. Backtesting results are reviewed by the head of Treasury Operations Division. Exceptions, if any, are reported to the ROC and the BOD.

A summary of the VaR position of USD fixed income exposures of the Parent Company to changes in market conditions is as follows:

	Interest Rate and Foreign Exchange	
	USD Bonds from January to December 2020 (in ₱ millions)	USD Bonds from January to December 2019 (in ₱ millions)
31 December	**93.66**	8.64
Average Daily	**43.71**	12.15
Highest	**119.46**	27.62
Lowest	**5.43**	2.04

A summary of the VaR position of PHP fixed income exposures of the Parent Company to changes in market conditions is as follows:

	Interest Rate	
	Peso Bonds 2020 (in ₱ millions)	Peso Bonds 2019(in ₱ millions)
31 December	**19.71**	21.62
Average Daily	**15.31**	35.47
Highest	**135.36**	141.27
Lowest	**0.02**	1.49

Stress testing

Since VaR is designed to describe risk in normal market conditions (that is, 99.00% of the time), it may not capture potential losses in the extreme that occur following movements outside the prevailing market trend. Stress testing is done to address extreme market conditions.

The Parent Company performs stress testing on its foreign currency trading position and on its outstanding investment portfolios. Stress testing is a technique used to determine the impact on earnings of above position/portfolios from conditions or scenarios deemed “extreme” but plausible. Stress testing is used to inform senior management as to where vulnerabilities in the Parent Company’s portfolio actually lie.

This helps the Parent Company to evaluate its tolerance for risks and understand the combinations of risks that can produce large losses.

Unlike VaR, which reflects price behavior in everyday markets, stress tests simulate portfolio performance during abnormal market periods. Accordingly, these provide information about risks falling outside those typically captured by the VaR framework. Hence, losses resulting from stress tests are larger than the losses predicted by the VaR model.

The Parent Company performs the stress testing of its Bond portfolios and open FX position using internally developed stress test assumptions as well as the uniform set of market stress shocks as prescribed by the BSP under their Uniform Stress Testing Program for Banks. The stress testing using internal assumptions are conducted monthly while BSP uniform stress testing are conducted semiannually. Results of the stress tests are reported to the ROC and BOD.

To identify possible episodes of stress in the domestic financial market, MLRMU employs the Citi Early Warning Signal Risk Index – Philippines that measures stress in economic and financial variables with a view of predicting weakness in local currencies. A reading above 0.5 means that stress is above average and a reading below 0.5 means that stress is below average. The risk index level is part of the market risk assessment conducted quarterly and is reported to the ROC.

Interest Rate Risk Management

Interest rate risk arises from the possibility that changes in the interest rates will affect future cash flows or the fair value of financial instruments. The Parent Company follows a prudent policy on managing its assets and liabilities so as to ensure that the exposure to fluctuations in interest rates is kept within acceptable limits.

As of December 31, 2020 and 2019, 85.59% and 54.90%, respectively, of the Bank's total loan portfolio comprised floating rate loans which are repriced periodically by reference to the transfer pool rate that reflects the Bank's internal cost of funds. As a result of these factors, the Bank's exposure to interest rate fluctuations, and other market risks, is significantly reduced.

The Bank, in keeping with banking industry practice, aims to achieve stability and lengthen the term structure of its deposit base, while providing adequate liquidity to cover transactional banking requirements of customers. Interest is paid on substantial portion of demand accounts which constituted 36.84% and 35.86%, respectively, of total deposits of the Parent Company as of December 31, 2020 and 2019, respectively, and pays a variable interest rate of 0.10% to 0.50% and fixed rate of 0.10%, respectively. Rates on savings accounts and time deposit accounts, which constituted 11.54% and 48.18%, respectively, of total deposits as of December 31, 2020 and 12.10% and 48.24%, respectively, of total deposits as of December 31, 2019, are set by different criteria. Savings account rates are set by reference to prevailing market rates, while rates on time deposits and special savings accounts are usually priced by reference to rates applicable to prevailing rates on Philippine Treasury Bills and other money market instruments or, in the case of foreign currency deposits, Singapore Interbank Offer Rate and other benchmark dollar deposit rates in the Asian and international money markets with similar maturities.

The following tables provide for the average EIR by period of maturity or repricing of the Group and the Parent Company as of December 31, 2020 and 2019:

	Consolidated and Parent Company					
	2020			2019		
	Less than 3 Months	**3 Months to 1 Year**	**Greater than 1 Year**	Less than 3 Months	3 Months to 1 Year	Greater than 1 Year
Peso-denominated assets						
Due from banks	**0.10%**	–	–	0.09%	–	–
Interbank loans	**0.03%**	–	–	–	–	–
Loans and receivables	**9.25%**	**18.82%**	**17.14%**	12.43%	15.83%	20.48%
Peso-denominated liabilities						
Deposit liabilities	**0.16%**	**3.21%**	**3.21%**	0.09%	2.49%	3.50%
Bills payable	**0.94%**	**0.50%**		3.43%	3.26%	4.50%
Foreign currency-denominated assets						
Due from banks	**0.16%**	–	–	0.19%	–	–
Interbank loans	**0.03%**	–	–	1.60%	–	–
Loans and receivables	**4.99%**	**5.06%**	**3.97%**	4.08%	3.89%	6.48%
Foreign currency-denominated liability						
Deposit liabilities	**0.42%**	**1.80%**	**1.48%**	0.22%	1.04%	2.20%

The Parent Company also monitors its exposure to fluctuations in interest rates by measuring the impact of interest rate movements on its interest income. This is done by modeling the impact of various changes in interest rates to the Parent Company 's interest-related income and expenses.

The method by which the Parent Company measures the sensitivity of its assets and liabilities to interest rate fluctuations is by way of interest rate analysis. This analysis provides the Parent Company with a measure of the impact of changes in interest rates on the actual portfolio, that is, the risk exposure of future accounting income. The repricing gap is calculated by distributing the financial assets and financial liabilities into tenor buckets according to the time remaining to maturity or next repricing date and then obtaining the difference between the total of the repricing (interest rate sensitive) assets and repricing (interest rate sensitive) liabilities.

A gap is considered negative when the amount of interest rate sensitive liabilities exceeds the amount of interest rate sensitive assets. A gap is considered positive when the amount of interest rate sensitive assets exceeds the amount of interest rate sensitive liabilities. Accordingly, during a period of rising interest rates, a bank with a positive gap would be better positioned than one with a negative gap to invest in or hold higher yielding assets more quickly than it would need to refinance its interest-bearing liabilities. During a period of falling interest rates, a bank with a positive gap would tend to see its assets repricing at a faster rate than one with a negative gap, which may restrain the growth of its net income or result in a decline in net interest income.

The following tables set forth the asset-liability gap position of the Group and the Parent Company as of December 31, 2020 and 2019 (amounts in millions):

	Consolidated					
	2020					
	Up to 1 Month	**More than 1 Month to 3 Months**	**More than 3 to 12 Months**	**More than 1 Year but less than 2 Years**	**Beyond 2 Years**	**Total**
Assets						
Due from other banks	**₱1,495**	**₱–**	**₱–**	**₱–**	**₱–**	**₱1,495**
Interbank loans receivable	**6,054**	**–**	**–**	**–**	**–**	**6,054**
Financial assets at FVTPL	**–**	**–**	**718**	**–**	**–**	**718**
Financial assets at FVTOCI	**–**	**–**	**–**	**–**	**5,028**	**5,028**
Investment securities at amortized cost	**–**	**–**	**–**	**75**	**2,199**	**2,274**
Loans and receivables	**1,799**	**25,195**	**6,312**	**4,461**	**19,857**	**57,624**
	9,348	**25,195**	**7,030**	**4,536**	**27,084**	**73,193**
Liabilities						
Deposit liabilities	**61,653**	**12,957**	**3,941**	**1,239**	**3,991**	**83,781**
Bills payable	**1,759**	**394**	**30**	**–**	**–**	**2,183**
	63,412	**13,351**	**3,971**	**1,239**	**3,991**	**85,964**
Asset-liability gap	**(₱54,064)**	**₱11,844**	**₱3,059**	**₱3,297**	**₱23,093**	**(₱12,771)**

	Consolidated					
	2019					
	Up to 1 Month	More than 1 Month to 3 Months	More than 3 to 12 Months	More than 1 Year but less than 2 Years	Beyond 2 Years	Total
Assets						
Due from other banks	₱358	₱–	₱–	₱–	₱–	₱358
Interbank loans receivable	718	–	–	–	–	718
Financial assets at FVTPL	–	1,668	–	–	–	1,668
Financial assets at FVTOCI	–	–	251	–	7,738	7,989
Investment securities at amortized cost	–	–	250	–	12,600	12,850
Loans and receivables	2,433	8,811	21,398	544	28,071	61,257
	3,509	10,479	21,899	544	48,409	84,840
Liabilities						
Deposit liabilities	72,018	518	1,855	399	1,092	75,882
Bills payable	–	11,207	1,738	120	–	13,065
	72,018	11,725	3,593	519	1,092	88,947
Asset-liability gap	(₱68,509)	(₱1,246)	₱18,306	₱25	₱47,317	(₱4,107)

	Parent Company					
	2020					
	Up to 1 Month	**More than 1 Month to 3 Months**	**More than 3 to 12 Months**	**More than 1 Year but less than 2 Years**	**Beyond 2 Years**	**Total**
Assets						
Due from other banks	₱1,495	₱–	₱–	₱–	₱–	₱1,495
Interbank loans receivable	6,054	–	–	–	–	6,054
Financial assets at FVTPL	–	–	–	–	718	718
Financial assets at FVTOCI	–	–	–	–	5,028	5,028
Investment securities at amortized cost	–	–	–	75	2,199	2,274
Loans and receivables	1,802	25,195	6,312	4,461	19,857	57,627
	9,351	25,195	6,312	4,536	27,802	73,196
Liabilities						
Deposit liabilities	61,662	12,957	3,941	1,239	3,991	83,790
Bills payable	1,759	394	30	–	–	2,183
	₱63,421	₱13,351	₱3,971	₱1,239	₱3,991	₱85,973
Asset-liability gap	(₱54,070)	₱11,844	₱2,341	₱3,297	₱23,811	(₱12,777)

	Parent Company					
	2019					
	Up to 1 Month	More than 1 Month to 3 Months	More than 3 to 12 Months	More than 1 Year but less than 2 Years	Beyond 2 Years	Total
Assets						
Due from other banks	₱358	₱–	₱–	₱–	₱–	₱358
Interbank loans receivable	718	–	–	–	–	718
Financial assets at FVTPL	–	1,668	–	–	–	1,668
Financial assets at FVTOCI	–	–	251	–	7,738	7,989
Investment securities at amortized cost	–	–	250	–	12,600	12,850
Loans and receivables	2,436	8,811	21,398	544	28,071	61,260
	3,512	10,479	21,899	544	48,409	84,843
Liabilities						
Deposit liabilities	72,026	518	1,855	399	1,092	75,890
Bills payable	–	11,207	1,738	120	–	13,065
	72,026	11,725	3,593	519	1,092	88,955
Asset-liability gap	(₱68,514)	(₱1,246)	₱18,306	₱25	₱47,317	(₱4,112)

The following tables demonstrate the sensitivity of the cumulative net position of risk-sensitive assets and risk-sensitive liabilities to a reasonable change in interest rates, with all other variables held constant (amounts in millions):

	2020			
	Changes in Interest Rates (in Basis Points)			
Changes in interest rates (in basis points)	**+50**	**-50**	**+100**	**-100**
Change in annualized net interest income	**₱157.72**	**(₱157.72)**	**₱315.44**	**(₱315.13)**

	2019			
	Changes in Interest Rates (in Basis Points)			
Changes in interest rates (in basis points)	+50	-50	+100	-100
Change in annualized net interest income	₱51.65	(₱51.65)	₱103.30	(₱103.30)

The table below shows the Group's and the Parent Company's different market risk-weighted assets, as reported to BSP, using the standardized approach in accordance with BSP Circular No. 538:

Type of Market Risk Exposure	**2020**	2019
Interest rate exposures	**₱108,108**	₱767,101
Foreign exchange exposures	**74,345**	499,225
	₱182,453	₱1,266,326

Foreign Currency Risk Management

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. Foreign currency liabilities generally consist of foreign currency-deposits in the Parent Company's FCDU account made in the Philippines or which are generated from remittances to the Philippines by Filipino expatriates and overseas Filipino workers who retain for their own benefit or for the benefit of a third party, foreign currency deposit accounts with the Parent Company and foreign currency-denominated borrowings appearing in the regular books of the Parent Company.

Foreign currency deposits are generally used to fund the Parent Company's foreign currency-denominated loan and investment portfolio in the FCDU. Banks are required by the BSP to match the foreign currency assets with the foreign currency liabilities held through FCDUs. In addition, the BSP requires a 30.00% liquidity reserve on all foreign currency liabilities held through FCDUs.

The Parent Company 's policy is to maintain foreign currency exposure within acceptable limits and within existing regulatory guidelines. The Parent Company believes that its profile of foreign currency exposure on its assets and liabilities is within limits for a financial institution engaged in the type of business in which the Parent Company is engaged in.

The ERMG uses VaR, Foreign Exchange Sensitivity Testing, and Foreign Exchange Stress Testing to measure risk inherent to the Parent Company 's foreign currency net exposures. In assessing the foreign currency risk, the Parent Company employs a pre-defined key risk indicator under Market Risk Assessment Matrix to determine the level of risk (for example, Low Risk, Moderate Risk, High Risk) the results of which are reported to the ROC on a quarterly basis.

The table summarizes the Group's and the Parent Company's exposure to foreign exchange risk as of December 31, 2020 and 2019. Included in the table are the Group's and the Parent Company's assets and liabilities at carrying amounts, categorized by currency (amounts in '000s):

	2020			2019		
	USD	**Others***	**Total**	USD	Others*	Total
Assets						
Cash on hand	**₱2,836**	**₱170**	**₱3,006**	₱4,594	₱165	₱4,759
Due from other banks	**14,727**	**3,189**	**17,916**	9,651	3,515	13,166
Interbank loans receivable	**94,556**	**–**	**94,556**	64,849	–	64,849
Financial assets at amortized cost	**–**	**234,740**	**234,740**	–	226,639	226,639
Loans and receivables:						
Corporate loans	**632,524**	**–**	**632,524**	252,332	–	252,332
Accrued interest receivable	**555**	**3,399**	**3,954**	480	3,275	3,755
Other assets	**–**	**127**	**127**	77	122	199
	745,198	**241,625**	**986,823**	331,983	233,716	565,699
Liabilities						
Deposit liabilities	**–**	**39,694**	**39,694**	–	30,054	30,054
Outstanding acceptances	**497,813**	**–**	**497,813**	91,855	–	91,855
Other liabilities:						
Others	**36**	**75**	**111**	3,124	7,200	10,324
	497,849	**39,769**	**537,618**	94,979	37,254	132,233
Net exposure	**₱247,349**	**₱201,856**	**₱449,205**	₱237,004	₱196,462	₱433,466

**Includes Euro, Australian Dollar, Japanese Yen, Swiss Franc, Canadian Dollar, Singapore Dollar*

The tables below indicate the exposure of the Group (excluding the Parent Company's FCDU) to USD on its non-trading monetary assets and liabilities. The analysis calculates the effect of a reasonably possible movement of the base currency rate against the USD, with all other variables held constant, on the statement of income and statement of comprehensive income. A negative amount in the tables reflects a potential net reduction in income, while a positive amount reflects a potential net increase.

	2020			
	Changes in Foreign Exchange Rates			
Changes in foreign exchange rates	**+3.00%**	**-3.00%**	**+4.00%**	**-4.00%**
Change in annualized net income	**₱13.48**	**(₱13.48)**	**₱17.97**	**(₱17.97)**

	2019			
	Changes in Foreign Exchange Rates			
Changes in foreign exchange rates	+3.00%	-3.00%	+4.00%	-4.00%
Change in annualized net income	₱13.00	(₱13.00)	₱17.34	(₱17.34)

Operational Risk

The Parent Company uses the Basic Indicator Approach in computing Operational Risk in accordance with BSP Circular No. 538 as reported to the BSP (amounts in millions):

	2020	2019
Average Gross Income (Previous 3 Years)	**₱4,045**	₱3,643
Capital Charge (Average Gross Income times 18.75%[(a)])	**758**	683
Risk Weighted Asset (Capital Charge times 10)	**₱7,585**	₱6,830

(a) Equivalent to adjusted capital charge of 15% of 125% to be consistent with required minimum Capital Adequacy Ratio of 10%

6. Segment Information

The Group's operating businesses are organized and managed separately according to the nature of services provided and the different markets served with each segment representing a strategic business unit. The Group's business segments are as follow:

Branch Banking Group – handles the individual customers' deposits, and provides overdrafts and fund transfer facilities;

Corporate Banking Group – manages the relationship with the corporate and institutional clients of the Parent Company with loans and credit facilities as the primary product;

Treasury Segment – is responsible for the management of the Group's balance sheet and liquidity position. It also handles the Group's investments in securities, both local and abroad, as well as placements and acceptances with other banks;

Consumer Finance Segment – provides the retail client's credit requirements for the purchase of auto, home and personal loan requirements; and

Trust and Wealth Management Segment – is the segment that functions as the Trustee or Investment Manager for both individual and corporate accounts.

Segment's resources, both assets and liability are those operating resources that are employed by a segment in its operating activities and that are either directly attributable to the segment or can be allocated to the segment on a reasonable basis.

Interest income is reported net of interest expense as management primarily relies on net interest revenue as a performance measure, not the gross interest income and expense.

No revenue from transactions with a single external customer or counterparty amounted to 10.00% or more of the Group's total revenue for 2020, 2019 and 2018.

The Group’s revenue-producing assets are located in one geographical location, which is the Philippines, therefore, geographical segment information is no longer presented.

The following tables present income and profit and certain asset and liability information regarding the Group’s operating segments as of and for the years ended December 31, 2020, 2019 and 2018:

	Consolidated						
	2020						
	Branch Banking Group	Corporate Banking Group	Treasury Segment	Consumer Finance Segment	Trust and Wealth Management Segment	Head office and Rental	Total
Revenue							
Revenue, net of interest expense							
Third party	(₱864,759)	₱3,701,429	₱1,251,051	₱481,609	₱3,109	₱10,338	₱4,582,777
Intersegment	2,661,504	(1,759,023)	(522,140)	(206,669)	(4,156)	(169,516)	–
	1,796,745	1,942,406	728,911	274,940	(1,047)	(159,178)	4,582,777
Other operating income	89,435	278,215	53,073	18,991	25,689	844,005	1,309,408
Total operating income	1,886,180	2,220,621	781,984	293,931	24,642	684,827	5,892,185
Compensation and fringe benefits	576,227	183,807	67,298	134,561	16,067	31,158	1,009,118
Taxes and licenses	271,732	207,399	100,398	30,220	1,973	28,338	640,060
Depreciation and amortization	220,423	41,230	15,349	25,752	3,598	74,301	380,653
Provision for (reversal of) credit and impairment losses	-	982,336	-	447,412	-	(11,520)	1,418,228
Occupancy and other equipment-related costs	77,858	8,549	2,771	10,827	363	966	101,334
Other operating expenses	480,610	153,410	158,856	82,455	16,333	52,359	944,023
Net operating income (loss) before income tax	259,330	643,890	437,312	(437,296)	(13,692)	509,225	1,398,769
Segment results							
Net interest income (loss)	₱1,796,745	₱1,942,406	₱71,628	₱274,941	(₱1,048)	(₱159,178)	₱3,925,494
Rent income	–	–	–	–	–	673,414	673,414
Trading and securities gain (loss) - net	–	–	657,283	–	–	–	657,283
Service charges, fees, and commissions	78,094	247,845	–	18,991	–	44,166	389,096
Profit (loss) from assets sold	–	–	–		–	6,779	6,779
Foreign exchange gain - net	7,440	6,148	45,597	-	-	-	59,185
Income from trust operations	–	–	–	–	25,689	–	25,689
Loss on assets exchange - net	–	–	–		–	(3,157)	(3,157)
Miscellaneous	3,901	24,221	7,477	–	–	122,803	158,402
Total operating income	1,886,180	2,220,620	781,985	293,932	24,641	684,827	5,892,185
Compensation and fringe benefits	576,227	183,807	67,298	134,561	16,067	31,158	1,009,118
Taxes and licenses	271,732	207,399	100,398	30,220	1,973	28,338	640,060
Depreciation and amortization	220,423	41,230	15,349	25,752	3,598	74,301	380,653
Provision for (reversal of) credit and impairment losses	-	982,336	–	447,412	-	(11,520)	1,418,228
Occupancy and other equipment-related costs	77,858	8,549	2,771	10,827	363	966	101,334
Other operating expenses	480,610	153,410	158,856	82,455	16,333	52,359	944,023
Total operating expenses	1,626,850	1,576,731	344,672	731,227	38,334	175,602	4,493,416
Segment profit (loss)	259,330	643,889	437,313	(37,295)	(13,693)	509,225	1,398,769
Provision for income tax	(47)	(8,794)	(136,821)	–	-	(84,461)	(230,123)
Share in net income of associate	–	–	–	–	–	266	266
Net income (loss) from continuing operations	259,283	635,095	300,492	(437,295)	(13,693)	425,030	₱1,168,912
Net loss from discontinued operations	-	-	-	–	-	-	–
	₱259,283	₱635,095	₱300,492	(₱437,295)	(₱13,693)	₱425,030	1,168,912
Segment assets							
Property and equipment	₱231,265	₱–	₱–	₱–	₱–	₱663,352	₱894,617
Investment properties	–	–	–	–	–	2,401,557	2,401,557
Unallocated assets	9,456,803	51,117,485	28,471,664	5,214,873	71,977	3,601,242	97,934,044
Total segment assets	₱9,688,068	₱51,117,485	₱28,471,664	₱5,214,873	₱72,075	₱6,666,151	₱101,230,218
Total segment liabilities	₱82,186,805	₱546,583	₱4,357,647	₱37,806	₱–	₱1,571,699	₱88,700,540

	Consolidated						
	2019						
	Branch Banking Group	Corporate Banking Group	Treasury Segment	Consumer Finance Segment	Trust and Wealth Management Segment	Head office and Rental	Total
Revenue							
Revenue, net of interest expense							
Third party	(₱1,732,332)	₱3,500,897	₱1,037,762	₱794,190	₱2,176	₱10,753	₱3,613,446
Intersegment	3,299,719	(2,524,770)	(667,721)	(503,892)	(5,333)	401,997	–
	1,567,387	976,127	370,041	290,298	(3,157)	412,750	3,613,446
Other operating income	99,175	300,294	31,656	42,923	21,095	943,345	1,438,488
Total operating income	1,666,562	1,276,421	401,697	333,221	17,938	1,356,095	5,051,934
Compensation and fringe benefits	538,269	172,413	71,505	137,736	20,472	38,474	978,869
Taxes and licenses	233,965	175,035	80,663	34,033	3,212	97,214	624,122
Depreciation and amortization	288,787	47,510	11,763	30,856	3,997	63,066	445,979
Provision for (reversal of) credit and impairment losses	-	607,603	2,972	(6,421)	-	(226,541)	377,613
Occupancy and other equipment-related costs	87,336	18,551	6,156	14,889	2,051	1,237	130,220
Other operating expenses	503,023	139,909	117,438	93,820	10,618	42,798	907,606
Net operating income (loss) before income tax	15,182	115,400	111,200	28,308	(22,412)	1,339,847	1,587,525
Segment results							
Net interest income (loss)	₱1,567,387	₱976,126	(₱38,372)	₱290,298	(₱3,157)	₱412,751	₱3,205,033
Rent income	–	–	–	–	–	736,341	736,341
Trading and securities gain (loss) - net	–	–	408,413	–	–	–	408,413
Service charges, fees, and commissions	88,803	261,470	7	42,940	-	14,287	407,507
Profit (loss) from assets sold	–	–	–		–	97,739	97,739
Foreign exchange gain - net	10,077	8,407	31,389	-	-	-	49,873
Income from trust operations	–	–	–	–	21,095	–	21,095
Loss on assets exchange - net	–	–	–		–	(11,850)	(11,850)
Miscellaneous	295	30,418	261	(17)	–	106,826	137,783
Total operating income	1,666,562	1,276,421	401,698	333,221	17,938	1,356,094	5,051,934
Compensation and fringe benefits	538,269	172,413	71,505	137,736	20,472	38,474	978,869
Taxes and licenses	233,965	175,035	80,663	34,033	3,212	97,214	624,122
Depreciation and amortization	288,787	47,510	11,763	30,856	3,997	63,066	445,979
Provision for (reversal of) credit and impairment losses	-	607,603	2,972	(6,421)	-	(226,541)	377,613
Occupancy and other equipment-related costs	87,336	18,551	6,156	14,889	2,051	1,237	130,220
Other operating expenses	503,023	139,909	117,438	93,820	10,618	42,798	907,606
Total operating expenses	1,651,380	1,161,021	290,497	304,913	40,350	16,248	3,464,409
Segment profit (loss)	15,182	115,400	111,201	28,308	(22,412)	1,339,846	1,587,525
Provision for income tax	(372)	(21,256)	(158,513)	(537)	-	(21,713)	(202,391)
Share in net income of associate	-	-	-	-	-	531	531
Net income (loss) from continuing operations	14,810	94,144	(47,312)	27,771	(22,412)	1,318,664	1,385,665
Net loss from discontinued operations	-	-	-	(228,408)	-	-	(228,408)
	₱14,810	₱94,144	(₱47,312)	(₱200,637)	(₱22,412)	₱1,318,664	₱1,157,257
Segment assets							
Property and equipment	₱256,010	₱–	₱–	₱–	₱–	₱718,200	₱974,210
Investment properties	–	–	–	–	–	2,428,666	2,428,666
Unallocated assets	12,221,371	52,971,841	24,901,964	6,393,682	72,075	2,752,477	99,313,410
Total segment assets	₱12,477,381	₱52,971,841	₱24,926,182	₱6,393,682	₱72,075	₱5,899,343	₱102,740,504
Total segment liabilities	₱82,248,910	₱227,974	₱7,412,992	₱936	₱–	₱1,494,491	₱91,385,303

	Consolidated						
	2018						
	Branch Banking Group	Corporate Banking Group	Treasury Segment	Consumer Finance Segment	Trust and Wealth Management Segment	Head Office and Rental	Total
Revenue							
Revenue, net of interest expense							
Third party	(₱988,674)	₱2,513,210	₱341,054	₱1,013,027	₱ 1,808	₱12,720	₱2,893,145
Intersegment	2,208,026	(1,782,882)	(126,582)	(590,548)	(4,314)	296,300	–
	1,219,352	730,328	214,472	422,479	(2,506)	309,020	2,893,145
Other operating income	116,686	228,565	12,828	50,582	15,707	762,971	1,187,339
Total operating income	1,336,038	958,893	227,300	473,061	13,201	1,071,991	4,080,484
Compensation and fringe benefits	535,156	179,838	67,765	208,114	16,618	33,111	1,040,602
Taxes and licenses	217,948	125,502	89,679	53,038	1,040	55,729	542,936
Depreciation and amortization	201,135	58,311	12,193	42,116	3,574	69,588	386,917
Provision for (reversal of) credit and impairment losses	-	75,654	5,734	127,654	-	872	209,914
Occupancy and other equipment-related costs	206,712	14,394	4,037	14,488	938	3,352	243,921
Other operating expenses	449,733	122,772	81,240	120,032	9,132	45,981	828,890
Net operating income (loss) before income tax	(₱274,646)	₱382,422	(₱33,348)	(₱92,381)	(₱18,101)	₱863,358	₱827,304
Segment results							
Net interest income (loss)	₱1,219,352	₱730,328	₱191,136	₱422,479	(₱2,506)	₱309,020	₱2,869,809
Rent income	-	-	-	-	-	661,017	661,017
Trading and securities gain - net	-	-	23,336	-	-	-	23,336
Service charges, fees, and commissions	81,845	206,380	3	50,526	-	4,161	342,915
Loss from assets sold	-	-	-	-	-	(9,562)	(9,562)
Foreign exchange gain - net	13,125	9,521	27,307	-	-	-	49,953
Income from trust operations	-	-	-	-	15,707	-	15,707
Gain on assets exchange - net	-	-	-	-	-	13,133	13,133
Miscellaneous	21,716	12,663	(14,482)	56	-	94,223	114,176
Total operating income	1,336,038	958,892	227,300	473,061	13,201	1,071,992	4,080,484
Compensation and fringe benefits	535,156	179,838	67,765	208,114	16,618	33,111	1,040,602
Taxes and licenses	217,948	125,502	89,679	53,038	1,040	55,729	542,936
Depreciation and amortization	201,135	58,311	12,193	42,116	3,574	69,588	386,917
Provision for (reversal of) credit and impairment losses	-	75,654	5,734	127,654	-	872	209,914
Occupancy and other equipment-related costs	206,712	14,394	4,037	14,488	938	3,352	243,921
Other operating expenses	449,733	122,772	81,240	120,032	9,132	45,981	828,890
Total operating expenses	1,610,684	576,471	260,648	565,442	31,302	208,633	3,253,180
Segment profit (loss)	(274,646)	382,421	(33,348)	(92,381)	(18,101)	863,359	827,304
Provision for income tax	-	(29,589)	(143,547)	(2,027)	-	(51,118)	(226,281)
Share in net income of associate	-	-	-	-	-	250	250
Net income (loss) from continuing operations	(274,646)	352,832	(176,895)	(94,408)	(18,101)	812,491	601,273
Net loss from discontinued operations	-	-	-	24,963	-	-	24,963
	(₱274,646)	₱352,832	(₱176,895)	(₱69,445)	(₱18,101)	₱812,491	₱626,236
Segment assets							
Property and equipment	₱368,664	-	-	₱98,406	-	₱554,279	₱1,021,349
Investment properties	-	-	-	159,891	-	2,448,884	2,608,775
Unallocated assets	10,365,171	44,484,187	28,010,379	13,713,147	60,497	3,456,486	100,089,867
Total segment assets	₱10,733,835	₱44,484,187	₱28,010,379	₱13,971,444	₱60,497	₱6,459,649	₱103,719,991
Total segment liabilities	₱63,993,630	₱405,662	₱25,880,990	₱1,883,241	-	₱1,230,554	₱93,394,077

7. Investments in Subsidiary and an Associate

This account consists of investments in:

	% of Ownership			Consolidated			Parent Company		
	2020	2019	2018	**2020**	2019	2018	**2020**	2019	2018
Subsidiaries:									
Cost:									
PRBI	**–**	–	99.99	**₱–**	₱–	₱–	**₱–**	₱–	₱918,296
PISAI	**100.00**	100.00	100.00	**–**	–	–	**10,000**	10,000	10,000
				–	–	–	**10,000**	10,000	928,296
Accumulated share in net income									
Balance at January 1				**–**	–	–	**(3,796)**	71,097	48,116
Share in net income				**–**	–	–	**(67)**	(58,116)	22,981
Sale of subsidiary							**–**	(16,777)	
Balance at December 31				**–**	–	–	**(3,863)**	(3,796)	71,097
Accumulated share in OCI									
Balance at January 1				**–**	–	–	**–**	2,582	446
Share in change in remeasurement gains (losses) on defined benefit liability, net of tax				**–**	–	–	**–**	(2,582)	2,136
Balance at December 31				**–**	–	–	**–**	–	2,582
Accumulated dividends received				**–**	–	–			
Balance at January 1				**–**	–	–	**–**	(25,067)	(25,067)
Sale of subsidiary				**–**	–	–	**–**	25,067	–
Balance at December 31				**–**	–	–	**–**	–	(25,067)
				–	–	–	**6,138**	6,204	976,908
Associate - PBCom Finance									
Acquisition cost				**2,000**	2,000	2,000	**2,000**	2,000	2,000
Accumulated equity in net income									
Balance at January 1				**11,849**	11,318	11,068	**11,849**	11,318	11,068
Share in net income				**266**	531	250	**266**	531	250
Balance at December 31				**12,115**	11,849	11,318	**12,115**	11,849	11,318
				14,115	13,849	13,318	**14,115**	13,849	13,318
				₱14,115	₱13,849	₱13,318	**₱20,252**	₱20,053	₱990,226

The movements in the cost of investments in subsidiary are as follows:

	PRBI		PISAI	
	2020	2019	**2020**	2019
Balance at January 1	**₱–**	₱918,296	**₱10,000**	₱10,000
Sale of subsidiary	**–**	(918,296)	**–**	–
Balance at December 31	**₱–**	₱–	**₱10,000**	₱10,000

<u>PRBI</u>
The investment cost amounting to ₱918.30 million includes the consideration for the acquisition in 2014 of ₱494.54 million, additional investment of ₱25.07 million in 2016 in the form of re-invested dividends, acquisition of non-controlling interests of ₱0.94 million in 2016 and reclassification in 2017 of investments in RBNI and RBKI aggregating to ₱397.74 million as a result of the merger of PRBI, RBNI and RBKI, with PRBI as the surviving entity in 2017.

<u>Sale of PRBI</u>
On July 25, 2019, the BSP approved the sale of 100 percent voting shares of PRBI to Producers Savings Bank Corporation (PROSBI) for ₱555.68 million. Based on the deed of sale, 10% of the purchase price or ₱55.56 million shall be withheld by PROSBI and shall be paid to the Parent Company upon presentation of the Certificate of Authorizing Registration issued by the Bureau of Internal Revenue (BIR)while capital gains and any documentary stamp taxes arising from the sale of the shares shall be paid by the Parent Company.

The sale of PRBI was meant to consolidate the efforts and resources to the Parent Company which has set its strategy to focus on its core businesses and expand market to the ecosystem of its major shareholders. Loss on sale amounted to ₱171.17 million. The carrying amount of the investment in PRBI sold by the Parent Company excluded branch licenses amounting to ₱726.85 million. These branch licenses were granted to the Parent Company in 2014 as a result of its acquisition of RBNI (subsequently merged to PRBI) in 2017. In 2019, the branch licenses were reclassified from the investment account as a result of the Parent Company 's divestment of PRBI. No new asset was recognized because the branch licenses have always been recognized as an asset of the Parent Company since its acquisition of RBNI (Note 15).

In prior years, the results of operation of PRBI that were discontinued are as follows:

	2018
Interest income on:	
Loans and receivable	₱304,909
Deposits with other banks	501
	305,410
Interest and finance charges	
Deposit liabilities	57,109
Bills payable, borrowings and others	3,721
	60,830
	244,580
Other income	
Service charges, fees and commissions	40,167
Gain on assets exchange	9,979
Profit from assets sold	22,325
Miscellaneous	12,540
	329,591
Operating Expenses	
Compensation and fringe benefits	112,782
Taxes and licenses	32,601
Occupancy and other equipment- related costs	16,596
Depreciation and amortization	17,437
Provision for impairment losses	57,822
Miscellaneous	65,942
	303,180
Results from Operating activities	26,411
Provision for income tax	1,448
Net income from discontinued operations	₱24,963

PISAI
The investment cost of ₱10.00 million represents the initial equity investment as approved by the BSP on May 2, 2014.

Retirement of Business Operations of PISAI
On January 11, 2021, the BOD of the Parent Company approved the dissolution and retirement of business of PISAI. PISAI, which has been inactive for the past 3 years, has continuously remained inactive but continued to incur operating expenses. The Parent Company does not see any need for the subsidiary and have decided to retire the business operations.

As of May 14, 2021, the Parent Company is in the process of filing the retirement of PISAI's business operations.

8. Interbank Loans Receivable and Securities Purchased under Resale Agreements (SPURA)

Interbank loans receivable of the Group and the Parent Company is comprised of USD-denominated loans of ₱2.15 billion ($44.80 million) and ₱717.74.million ($14.17 million) as of December 31, 2020 and 2019, respectively, net of allowance for ECL (see Note 17).

As of December 31, 2020 and 2019, outstanding SPURA is ₱3.90 billion and nil, respectively.

Interest income on the Group's and the Parent Company's interbank loans receivable and SPURA follows:

	2020	2019	2018
SPURA	**₱88,043**	₱22,974	₱23,870
Interbank loans receivable	**4,703**	17,272	17,421
	₱92,746	₱40,246	₱41,291

Interbank loans receivable bears nominal annual interest rates ranging from 1.81% to 3.94% in 2020, 0.60% to 5.09% in 2019, and 0.60% to 3.00% in 2018 while SPURA bears nominal annual interest rates ranging from 2.00% to 4.00% in 2020, 4.00% to 4.75% in 2019, and 2.21% to 3.00% in 2018.

The Parent Company is not permitted to sell or repledge the related collateral on SPURA in the absence of default by the counterparty.

9. Financial Assets at Fair Value Through Profit or Loss (FVTPL)

Financial assets at FVTPL of the Group and the Parent Company consist of government securities amounting to ₱718.29 million and ₱1.67 billion as of December 31, 2020 and 2019, respectively.

As of December 31, 2020 and 2019, financial assets at FVTPL include net unrealized gain amounting to ₱0.48 million and ₱1.50 million, respectively. Net fair value gain or loss on financial assets at FVTPL is included in 'Trading and securities gain (loss) - net' in the statements of income (see Note 26).

10. Financial Assets at Fair Value Through Other Comprehensive Income (FVTOCI)

As of December 31, 2020 and 2019, the Group's and the Parent Company's financial assets at FVTOCI consists of the following:

	2020	2019
Debt securities:		
Government	**₱5,027,547**	₱5,696,443
Private bonds	**–**	2,292,800
	5,027,547	7,989,243
Equity securities:		
Quoted	**71,650**	74,210
Unquoted	**38,619**	30,909
	110,269	105,119
	₱5,137,816	₱8,094,362

The Parent Company has designated the above equity investments as at FVTOCI as these are held for long-term strategic purpose rather than for trading.

In 2020 and 2019, no dividends were declared on these equity investments and no cumulative gain or loss was transferred within equity.

The movements in net unrealized gain on debt and equity securities recognized in OCI follow:

	2020	2019
Balance at January 1	**₱87,932**	₱19,416
Items that may be reclassified to profit or loss in subsequent periods		
Fair value changes during the year - debt securities	**277,980**	5,290
Gains (losses) taken to profit or loss upon sale of FVTOCI debt securities	**(270,501)**	63,794
Provision for (recoveries from) credit losses (Note 17)	**37**	(568)
Items that may not be reclassified to profit or loss in subsequent periods		
Fair value changes during the year - equity securities	**4,645**	–
Balance at December 31	**₱100,093**	₱87,932

Reclassification of Financial Assets
On January 1, 2018, the Parent Company reclassified debt securities with aggregate face amount of ₱1,623.47 million from the hold-to-collect portfolio to the FVTOCI portfolio. The reclassification of these debt securities resulted in recognition of unrealized gain of ₱56.90 million.

In October 2020, certain debt securities in FVOCI matured and the unrealized gain previously recognized from reclassification from hold-to-collect to FVTOCI portfolio in 2018 was recognized as realized gain.

11. Investment Securities at Amortized Cost

As of December 31, 2020 and 2019, the Group's and the Parent Company's investment securities at amortized cost consist of the following:

	2020	2019
Government securities	**₱2,273,872**	₱12,860,065
Less: Allowance for ECL (Note 17)	**(10,516)**	(10,565)
	₱2,263,356	₱12,849,500

As of December 31, 2020, investment securities at amortized cost are comprised of the Parent Company's investment in peso-denominated securities amounting to ₱80.55 million and investment in foreign currency-denominated securities amounting to ₱2.19 billion ($40.78 million and €3.99 million).

As of December 31, 2019, investment securities at amortized cost are comprised of the Parent Company's investment in peso-denominated securities amounting to ₱10.81 billion and investment in foreign currency-denominated securities amounting to ₱2.05 billion ($35.92 million and €3.99 million).

Peso-denominated government bonds have effective interest rates ranging from 3.50% to 8.00%, 3.63% to 8.13%, and 2.93% to 4.75% in 2020, 2019 and 2018, respectively. Foreign currency-denominated bonds have effective interest rates ranging from 2.63% to 10.63%, 2.63% to 10.63%, and 2.54% to 3.03% in 2020, 2019 and 2018, respectively.

On May 27, 2020, the Parent Company's BOD approved the sale of HTC securities. In June 2020, the Parent Company liquidated all of its Peso (RBU) government securities classified under investment securities measured at amortized cost with a total face amount of ₱8.60 billion and carrying value of ₱10.44 billion. The sale resulted in a trading gain of ₱2.55 million presented in the statement of income. Under the Parent Company's Business Model Documentation for Managing debt Securities, a permissible sale of Hold-To-Collect (HTC) includes those attributable to systemic movements that have been generally accepted to negatively impact economic conditions, credit quality and or liability profile of the Parent Company.

The above disposals were assessed by the Parent Company as not inconsistent with the portfolios' business models considering the conditions and reasons for which the disposals were made. Further, these disposals did not result in a change in business model and the remaining securities in the affected portfolios continue to be accounted for at amortized cost.

12. **Loans and Receivables**

This account consists of:

	Consolidated		Parent Company	
	2020	2019	**2020**	2019
Receivables from customers:				
Corporate loans	**₱52,764,271**	₱53,848,877	**₱52,764,271**	₱53,848,877
Consumer loans:				
Home loans	**4,473,549**	4,841,249	**4,473,549**	4,841,249
Auto loans	**771,922**	1,248,832	**771,922**	1,248,832
Personal loans	**435,113**	1,122,812	**435,113**	1,122,812
	58,444,855	61,061,770	**58,444,855**	61,061,770
Unearned discounts and capitalized interest	**(51,256)**	(89,109)	**(51,256)**	(89,109)
	58,393,599	60,972,661	**58,393,599**	60,972,661
Unquoted debt securities	**852,565**	1,068,193	**852,565**	1,068,193
Accrued interest receivable	**468,544**	569,493	**468,544**	569,493
Accounts receivable	**333,300**	705,245	**336,015**	707,998
Sales contracts receivable	**65,952**	102,208	**65,952**	102,208
	60,113,961	63,417,800	**60,116,675**	63,420,553
Less Allowance for ECL (Note 17)	**(2,489,967)**	(2,160,760)	**(2,489,967)**	(2,160,760)
	₱57,623,993	₱61,257,040	**₱57,626,707**	₱61,259,793

Sale of Dealer Generated Auto Loans Portfolio

On February 27, 2019, the BOD approved the sale of the Parent Company's dealer generated auto-loan portfolio to a local bank. On June 18, 2019, the Philippine Competition Commission approved the request of the Parent Company to to sell its auto-loan portfolio. The selling price amounted to ₱3.55 billion which is the sum of the face value of all current outstanding loan principal balance as well as the related accrued interest and unamortized incentives of dealer generated auto loans. On June 27, 2019, the local bank has fully paid the Parent Company. No gain or loss on sale was recognized by the Parent Company on this transaction.

The Parent Company has no other plans of disposing its remaining branch referred auto loans or other loans.

Bayanihan to Heal as One Act
On March 25, 2020, Republic Act No. 11469, otherwise known as the Bayanihan to Heal as One Act ("Bayanihan 1 Act") was enacted. Bayanihan 1 Act provides that all covered institutions shall implement a 30-day grace period for all loans with principal and/or interest and lease amortization falling due within the ECQ Period without incurring interest on interest, penalties, fees and other charges. Subsequently, on September 11, 2020, Republic Act No. 11494, otherwise known as the Bayanihan to Recover as One Act ("Bayanihan 2 Act"), was enacted. Under Bayanihan 2 Act, a one-time sixty (60)-day grace period is granted for the payment of all existing, current and outstanding loans falling due, or any part thereof, on or before December 31, 2020, without incurring interest on interests, penalties, fees, or other charges and thereby extending the maturity of the said loans. Furthermore, a minimum 30-day grace period shall also be granted by covered institutions to all payments due within the period of community quarantine on rent and utility-related expenditures without incurring penalties, interest and other charges.

In 2020, the Group, in addition to the reliefs provided under Bayanihan 1 Act and Bayanihan 2 Act, has offered financial reliefs to its borrowers/counterparties as a response to the effect of the COVID-19 pandemic. These relief measures included the following:

- Lenders were allowed to renegotiate terms of existing loan agreements either via restructuring of loan terms, extension of maturities, or moratorium on payments/amortizations among others on a case-to-case basis depending on financial status, cash flow, and security position of each borrower.
- Restructuring of existing receivables including extension of payment terms
- Relief for principal and interest repayments

Based on the Group's assessment, the modifications in the contractual cash flows as a result of the above reliefs are not substantial and, therefore, do not result in the derecognition of the affected financial assets but would require the recognition of modification losses. The total modification losses did not have a material impact on the financial statements.

Unquoted Debt Securities
As of December 31, 2020 and 2019, unquoted debt securities of the Group and the Parent Company consist of Metro Rail Transit (MRT) bonds with the gross amount of ₱852.57 million and ₱1,068 million in 2020 and 2019, respectively, and an allowance for credit losses amounting to ₱0.89 million and ₱0.94 million in 2020 and 2019, respectively.

The accretion of interest on unquoted debt securities amounted to ₱77.22 million, ₱88.23 million and ₱94.84 million in 2020, 2019 and 2018, respectively, which is included under 'Interest income - Loans and receivables' in the statements of income.

Interest Income

Interest income on loans and receivables consists of interest income on:

	Consolidated			Parent Company		
	2020	**2019**	2018	**2020**	2019	2018
Continuing operations:						
Receivables from customers:						
Corporate	**₱3,713,692**	₱3,510,142	₱2,466,544	**₱ 3,713,692**	₱3,510,142	₱2,466,544
Consumer	**473,247**	795,194	1,024,694	**473,247**	795,194	1,024,694
Unquoted debt securities	**126,794**	154,002	220,656	**126,794**	154,002	220,656
Others	**11,475**	9,141	11,465	**11,475**	9,141	11,465
	4,325,208	4,468,479	3,723,359	**4,325,208**	4,468,479	3,723,359
Discontinued operations:						
Receivables from customers:						
Consumer	–	–	301,661	–	–	–
Others	–	–	3,247	–	–	–
	₱4,325,208	₱4,468,479	₱4,028,267	**₱ 4,325,208**	₱4,468,479	₱3,723,359

Of the total receivables from customers of the Group as of December 31, 2020, 2019 and 2018, 85.59%, 54.90% and 48.49%, respectively, are subject to periodic interest repricing. The remaining peso-denominated receivables from customers earn annual fixed interest rates ranging from 1.99% to 42.00% in 2020, 1.50% to 42.00% in 2019, and 3.00% to 59.88% in 2018, while foreign currency-denominated receivables from customers earn annual fixed interest rates ranging from 4.00% to 9.13% in 2020 and 3.50% to 9.82% in 2019 and 4.00% to 9.82% in 2018.

Unquoted debt securities have EIRs of 11.90% in 2020, from 6.52 % to 11.90% in 2019 and from 5.47 % to 11.90% in 2018. Sales contracts receivable bears interest rates ranging from 7.00% to 12.00% in 2020, 7.00% to 14.00% in 2019, and 5.55% to 14.50% in 2018.

13. Property and Equipment

The composition of and movements in property and equipment of the Group and the Parent Company follow:

	Consolidated and Parent Company						
	2020						
	Land	**Condominium Properties**	**Buildings and Improvements**	**Furniture, Fixtures and Equipment**	**Leasehold Improvements**	**Right of Use Assets (Office Premises)**	**Total**
Cost							
Balance at January 1	**₱117,678**	**₱481,162**	**₱402,244**	**₱889,460**	**₱418,178**	**₱341,284**	**₱2,650,006**
Additions	–	–	**9,034**	**37,961**	**2,360**	**76,116**	**125,471**
Disposals	–	–	–	**(18,515)**	**(13,489)**	**(30,644)**	**(62,648)**
Transfers (Note 16)	–	**18,436**	**(20,740)**	**11,508**	**15,026**	–	**24,230**
Balance at December 31	**117,678**	**499,598**	**390,538**	**920,414**	**422,075**	**386,756**	**2,737,059**
Accumulated depreciation and amortization							
Balance at January 1	–	**173,608**	**302,479**	**736,849**	**370,047**	**92,813**	**1,675,796**
Depreciation	–	**11,918**	**14,323**	**56,315**	**24,061**	**107,525**	**214,142**
Disposal	–	–	–	**(15,013)**	**(9,319)**	**(30,644)**	**(54,976)**
Transfers (Note 16)	–	–	–	**7,480**	–	–	**7,480**
Balance at December 31	–	**185,526**	**316,802**	**785,631**	**384,789**	**169,694**	**1,842,442**
Net book value	**₱117,678**	**₱314,072**	**₱73,736**	**₱134,783**	**₱37,286**	**₱217,062**	**₱894,617**

	Consolidated and Parent Company						
	2019						
	Land	Condominium Properties	Buildings and Improvements	Furniture, Fixtures and Equipment	Leasehold Improvements	Right of use assets(Office Premises)	Total
Cost							
Balance at January 1	₱164,881	₱552,090	₱456,380	₱1,099,843	₱429,488	₱183,605	₱2,886,287
Additions	–	11,545	29,435	44,799	1,354	178,209	265,342
Disposals	–	–	–	(217,169)	(15,612)	(20,530)	(253,311)
Transfers (Note 14 and 16)	–	(82,473)	(34,347)	12,310	28,732	–	(75,778)
Derecognition due to sale of subsidiary	(47,203)	–	(49,224)	(50,323)	(25,784)	–	(172,534)
Balance at December 31	117,678	481,162	402,244	889,460	418,178	341,284	2,650,006
Accumulated depreciation and amortization							
Balance at January 1	–	192,328	306,363	888,721	341,850	–	1,729,262
Depreciation	–	10,259	15,402	83,192	53,524	113,343	275,720
Disposals	–	–	–	(204,346)	(7,904)	(20,530)	(232,780)
Transfers (Note 14 and 16)	–	(28,979)	–	6,700	–	–	(22,279)
Derecognition due to sale of subsidiary	–	–	(19,286)	(37,418)	(17,423)	–	(74,127)
Balance at December 31	–	173,608	302,479	736,849	370,047	92,813	1,675,796
Net book value	₱117,678	₱307,554	₱99,765	₱152,611	₱48,131	₱248,471	₱974,210

In May 2019, the 4th floor of Parent Company's PBCOM tower building was converted from bank premises to Condominium units for lease.

The Group recognized gain (loss) on disposal of furniture, fixtures, and equipment, which is included under 'Profit (loss) from assets sold' in the statements of income, amounting to (₱3.01 million), ₱0.27 million, and ₱1.07 million in 2020, 2019 and 2018, respectively. The Parent Company recognized gain (loss) on disposal of furniture, fixtures, and equipment amounting to (₱3.01 million), ₱0.27 million, and ₱1.06 million in 2020, 2019 and 2018, respectively.

Depreciation and Amortization

Details of this account are as follows:

	Consolidated			**Parent Company**		
	2020	2019	2018	**2020**	2019	2018
Continuing operations:						
Property and equipment	**₱106,617**	₱162,377	₱187,977	**₱106,617**	₱162,377	₱187,977
Investment properties (Note 14)	**81,788**	80,902	81,133	**81,788**	80,902	81,133
Software costs (Note 15)	**74,632**	68,666	73,429	**74,632**	68,666	73,429
Right-of-use assets	**107,525**	113,343	–	**107,525**	113,343	–
Chattel mortgage (Note 16)	**10,091**	20,691	44,378	**10,091**	20,691	44,378
	₱380,653	₱445,979	₱386,917	**₱380,653**	₱445,979	₱386,917
Discontinued operations:						
Property and equipment	–	–	15,982	–	–	–
Investment properties	–	–	879	–	–	–
Software costs	–	–	558	–	–	–
Chattel mortgage	–	–	17	–	–	–
	₱380,653	₱445,979	₱404,353	**₱380,653**	₱445,979	₱386,917

As of December 31, 2020 and 2019, the cost of fully depreciated furniture, fixtures and equipment still in use by the Group and Parent Company amounted to ₱658.24 million and ₱343.97 million , respectively.

14. Investment Properties

The composition of and movements in this account follow:

	Consolidated				
	2020				
	Foreclosed Properties				
	Land	Building and Improvements	Total	Office Units for Lease	Condominium Units for Lease
Cost					
Balance at January 1	**₱397,348**	**₱399,393**	**₱796,741**	**₱39,274**	**₱2,644,075**
Additions	**58,004**	**5,965**	**63,969**	**–**	**–**
Disposals	**(6,309)**	**(6,232)**	**(12,541)**	**–**	**–**
Balance at December 31	**449,043**	**399,126**	**848,169**	**39,274**	**2,644,075**
Accumulated depreciation and amortization					
Balance at January 1	**–**	**139,255**	**139,255**	**36,000**	**807,134**
Depreciation	**–**	**33,055**	**33,055**	**351**	**48,382**
Disposals	**–**	**(1,295)**	**(1,295)**	**–**	**–**
Balance at December 31	**–**	**171,015**	**171,015**	**36,351**	**855,516**
Accumulated impairment losses					
Balance at January 1	**32,801**	**36,234**	**69,035**	**–**	**–**
Disposals	**(1,703)**	**(253)**	**(1,956)**	**–**	**–**
Balance at December 31	**31,098**	**35,981**	**67,079**	**–**	**–**
Net book value	**₱417,945**	**₱192,130**	**₱610,075**	**₱2,923**	**₱1,788,559**

	Consolidated				
	2019				
	Foreclosed Properties				
	Land	Building and Improvements	Total	Office Units for Lease	Condominium Units for Lease
Cost					
Balance at January 1	₱567,878	₱564,289	₱1,132,167	₱39,274	₱2,561,602
Additions	141,441	68,562	210,003	–	–
Transfers (Note 13)	–	–	–	–	82,473
Disposals	(157,227)	(205,267)	(362,494)	–	–
Derecognition due to sale of subsidiary	(154,744)	(28,191)	(182,935)	-	-
Balance at December 31	397,348	399,393	796,741	39,274	2,644,075
Accumulated depreciation and amortization					
Balance at January 1	–	145,296	145,296	35,650	728,876
Depreciation	–	31,273	31,273	350	49,279
Transfer (Note 13)	–	–	–	–	28,979
Disposals	–	(27,529)	(27,529)	–	–
Derecognition due to sale of subsidiary	-	(9,785)	(9,785)	-	-
Balance at December 31	–	139,255	139,255	36,000	807,134
Accumulated impairment losses					
Balance at January 1	110,745	103,701	214,446	–	–
Provisions	–	(3,613)	(3,613)	–	–
Disposals	(65,166)	(63,372)	(128,538)	–	–
Derecognition due to sale of subsidiary	(12,778)	(482)	(13,260)	-	-
Balance at December 31	32,801	36,234	69,035	–	–
Net book value	₱364,547	₱223,904	₱588,451	₱3,274	₱1,836,941

	Parent Company 2020				
	Foreclosed Properties				
	Land	**Building and Improvements**	**Total**	**Office Units for Lease**	**Condominium Units for Lease**
Cost					
Balance at January 1	**₱397,348**	**₱399,393**	**₱796,741**	**₱39,274**	**₱2,644,075**
Additions	**58,004**	**5,965**	**63,969**	**–**	**–**
Transfer (Note 13)	**–**	**–**	**–**	**–**	**–**
Disposals	**(6,309)**	**(6,232)**	**(12,541)**	**–**	**–**
Balance at December 31	**449,043**	**399,126**	**848,169**	**39,274**	**2,644,075**
Accumulated depreciation and amortization					
Balance at January 1	**–**	**139,255**	**139,255**	**36,000**	**807,134**
Depreciation	**–**	**33,055**	**33,055**	**351**	**48,382**
Transfer (Note 13)	**–**	**–**	**–**	**–**	**–**
Disposals	**–**	**(1,295)**	**(1,295)**	**–**	**–**
Balance at December 31	**–**	**171,015**	**171,015**	**36,351**	**855,516**
Accumulated impairment losses					
Balance at January 1	**32,801**	**36,234**	**69,035**	**–**	**–**
Provisions	**–**	**–**	**–**	**–**	**–**
Disposals	**(1,703)**	**(253)**	**(1,956)**	**–**	**–**
Balance at December 31	**31,098**	**35,981**	**67,079**	**–**	**–**
Net book value	**₱417,945**	**₱192,130**	**₱610,075**	**₱2,923**	**₱1,788,559**

	Parent Company 2019				
	Foreclosed Properties				
	Land	Building and Improvements	Total	Office Units for Lease	Condominium Units for Lease
Cost					
Balance at January 1	₱413,134	₱536,098	₱949,232	₱39,274	₱2,561,602
Additions	141,441	68,562	210,003	–	–
Transfer (Note 13)	–	–	–	–	82,473
Disposals	(157,227)	(205,267)	(362,494)	–	–
Balance at December 31	397,348	399,393	796,741	39,274	2,644,075
Accumulated depreciation and amortization					
Balance at January 1	–	135,511	135,511	35,650	728,876
Depreciation	–	31,273	31,273	350	49,279
Transfer (Note 13)	–	–	–	–	28,979
Disposals	–	(27,529)	(27,529)	–	–
Balance at December 31	–	139,255	139,255	36,000	807,134
Accumulated impairment losses					
Balance at January 1	97,967	103,219	201,186	–	–
Provisions	–	(3,613)	(3,613)	–	–
Disposals	(65,166)	(63,372)	(128,538)	–	–
Balance at December 31	32,801	36,234	69,035	–	–
Net book value	₱364,547	₱223,904	₱588,451	₱3,274	₱1,836,941

Condominium units for lease represents the contributed cost of developing the Parent Company's Ayala Avenue property, originally consisting of land and fully depreciated building, into a 52-storey building (the PBCom Tower) under a joint development agreement with Filinvest Asia Corporation (Filinvest Asia).

The agreement provided for equal sharing of the cost of the project and, correspondingly, of the net usable area of the building, which was converted into a condominium property. Under the agreement, the Parent Company's share in such cost included its land along Ayala Avenue, which was given an appraised value of ₱900.00 million in 1995. The related appraisal increment was closed to surplus, net of applicable deferred tax liability, upon completion of the project in 2000.

In November 2007, by virtue of condominiumization, various condominium certificates of title under the name of the Parent Company were derived from transfer certificate of title (TCT) No. 134599 where the declaration of restrictions and scope of coverage were annotated on October 23, 2007.

In May 2019, the 4th floor of Parent Company's PBCOM tower building was converted from bank premises to Condominium units for lease.

As of December 31, 2020 and 2019, about 87.14% of the usable area that the Parent Company acquired from the PBCom Tower project is held for lease, with the balance used for the Parent Company's operations. Accordingly, the cost allocable to the areas available for lease is carried as investment properties, while the remaining balance is carried as condominium properties and included in 'Property and equipment' (see Note 13).

As of December 31, 2020 and 2019, the aggregate fair value of investment properties amounted to ₱9.46 billion and ₱9.23 billion, respectively, for the Group and Parent Company, which has been determined based on valuations made by professionally qualified appraisers accredited by the BSP and SEC.

The Parent Company recognized rental income (included under 'Rent income' in the statements of income) amounting to ₱655.29 million, ₱691.92 million, and ₱607.92 million in 2020, 2019 and 2018, respectively, on condominium properties leased out under operating leases. In 2020, 2019 and 2018, the Parent Company also recognized rental income from office units for lease amounting to ₱4.57 million, ₱4.42 million and ₱5.71 million, respectively.

The Group and Parent recorded gain (loss) from foreclosure of loan collaterals amounting to (₱3.16 million), (₱11.85 million) and ₱13.13 million in 2020, 2019, and 2018, respectively. This is presented as 'Gain (loss) on assets exchange - net' in the statements of income.

The Group and Parent recorded gain (loss) on disposal of certain foreclosed properties amounting to ₱12.21 million, ₱107.95 million and ₱19.87 million in 2020, 2019, and 2018, respectively. This is included under 'Profit (loss) from assets sold' in the statements of income.

Direct operating expenses (included under 'Compensation and fringe benefits', 'Occupancy and other equipment-related costs', 'Taxes and licenses' and 'Miscellaneous') arising from investment properties that generated rental income amounted to ₱99.63 million, ₱92.06 million and ₱95.97 million in 2020, 2019, and 2018, respectively.

Direct operating expenses (included under 'Compensation and fringe benefits', 'Occupancy and other equipment-related costs', 'Taxes and licenses' and 'Miscellaneous') arising from investment properties that did not generate rental income amounted to ₱68.82 million, ₱80.60 million and ₱47.65 million in 2020, 2019, and 2018, respectively.

15. **Goodwill and Intangible Assets**

Goodwill

Goodwill represents the excess of the acquisition costs over the fair value of the identifiable assets and liabilities of the entities acquired by the Group.

As of December 31, 2018, PRBI as the surviving entity from the three-way merger (see Note 7) is the identified CGU for purposes of impairment testing of the goodwill from the acquisitions of RBNI, BDI and RBKI aggregating to ₱182.23 million.

Management assessed that no impairment losses shall be recognized in 2018.

In 2019, the Group derecognized goodwill as a result of the sale of PRBI (see Note 7).

Intangible Assets

The Group and Parent Company's account consists of:

	2020	2019
Branch licenses	**₱364,700**	₱364,700
Software costs	**248,826**	308,389
	₱613,526	₱673,089

Branch licenses

Branch licenses of the Group arose from the acquisitions of Consumer Savings Bank (CSB) and PRBI. As of December 31, 2020 and 2019, details of branch licenses follow:

Branch licenses from the acquisition of:	
PRBI	₱262,600
CSB	102,100
	₱364,700

The branch license incentives given to the Parent Company for its acquisition of RBNI (which was eventually merged with PRBI) was measured at fair value on September 1, 2014, the acquisition date, consistent with the requirements of PFRS 3, *Business Combination*. PFRS 3 requires that the identifiable assets and liabilities arising from a business combination be measured at fair value. The fair value of the branch licenses was based on the provisions of the Manual of Regulations for Banks (MORB) that was in effect at that time, which sets a licensing fee and processing fee per branch of ₱20.00 million and ₱200.00 thousand, respectively.

On July 25, 2019, the BSP approved the sale of 100 percent voting shares of PRBI to PROSBI (see Note 7). Accordingly, the branch licenses granted to the Parent Company's acquisition of RBNI were reclassified from the investment account to intangible assets in the Parent Company's separate financial statements. No new asset was recognized because the branch licenses have always been recognized as an asset of the Parent Company since its acquisition of RBNI.

As of December 31, 2020 and 2019, the individual branches were identified as the CGU for purposes of impairment testing on the branch licenses for CSB. For the impairment testing on the branch licenses arising from the acquisition of RBNI, the Parent Company's branch banking group was identified as the CGU as the branch banking group would benefit from the synergies of the additional branches in obtaining fresh funds from depositors for deployment.

In 2020, 2019 and 2018, the Parent Company's impairment assessment indicates no impairment.

Key assumptions used in the VIU calculations

As of December 31, 2020 and 2019, the recoverable amounts of the CGUs have been determined based on VIU calculations that use cash flow projections based on financial budgets approved by management covering a 5-year period. The significant assumptions used in computing for the recoverable amount for PRBI and CSB branches in 2020 and 2019 as follows:

Significant Assumptions	2020	2019
Deposit growth rates	**6.00%**	7.40%
Discount rate	**13.34%**	12.04%
Terminal value growth rate	**4.81%**	5.59%

Deposit growth rates were based on experiences and strategies developed by the Parent Company. The discount rate used for the computation of the present value of the projected cash flows is the cost of equity and was determined by reference to comparable entities. The terminal value growth rate has been determined to reflect the long-term view on the CGU's business.

Sensitivity to changes in assumptions
Management believes that no reasonably possible change in any of the above key assumptions would cause the carrying value of the CGU to exceed its recoverable amount.

Software
The movements of software costs follow:

	Consolidated		Parent Company	
	2020	2019	**2020**	2019
Balance at January 1	**₱308,389**	₱338,475	**₱308,389**	₱337,883
Additions	**15,069**	39,172	**15,069**	39,172
	323,458	377,647	**323,458**	377,055
Amortization (Note 13)	**(74,632)**	(68,666)	**(74,632)**	(68,666)
Derecognition due to sale of subsidiary	–	(592)	–	–
Balance at December 31	**₱248,826**	₱308,389	**₱248,826**	₱308,389

16. Other Assets

Other assets consist of:

	Consolidated		Parent Company	
	2020	2019	**2020**	2019
Tax credits	**₱443,671**	₱391,906	**₱442,473**	₱390,708
Nostro floats	–	206,414	–	206,414
Receivable from BIR	**15,570**	181,684	**15,570**	181,684
Prepaid expenses	**144,104**	134,654	**143,938**	134,488
Chattel mortgage	**45,004**	22,645	**45,004**	22,645
RCOCI	**1,273**	128	**1,273**	128
Miscellaneous	**130,382**	193,080	**130,349**	193,055
	780,004	1,130,511	**778,607**	1,129,122
Less allowance for impairment losses (Note 17)	**(2,573)**	(336,449)	**(2,573)**	(336,449)
	₱777,431	₱794,062	**₱776,034**	₱792,673

Receivable from BIR
This account includes creditable withholding tax, tax credits that are already with certificates issued by BIR and tax credit cases that are still pending SC decision. As of December 31, 2020 and 2019, the balance of allowance for impairment losses on receivable from BIR amounted to nil and ₱125.53 million, respectively.

Nostro Floats
Nostro floats account are fully provided with allowance for impairment and are written-off as of December 31, 2020.

Chattel Mortgage
The movements in chattel mortgage of the Group and the Parent Company follow:

	2020	2019
Cost		
Balance at January 1	**₱26,608**	₱45,649
Additions	**58,211**	112,024
Disposals	**(23,414)**	(123,885)
Transfers (Note 13)	**(6,468)**	(7,180)
Balance at December 31	**54,937**	26,608
Accumulated depreciation and amortization		
Balance at January 1	**3,963**	5,364
Depreciation	**10,091**	20,691
Disposals	**(2,900)**	(21,531)
Transfers (Note 13)	**(1,221)**	(561)
Balance at December 31	**9,933**	3,963
Net book value	**₱45,004**	₱22,645

In 2020, 2019 and 2018, gain (loss) recognized by the Group and the Parent Company from the disposal of certain chattel mortgage amounted to (₱2.42 million), (₱10.48 million) and (₱8.17 million) , respectively. This is included under 'Profit (loss) from assets sold' in the statements of income.

Miscellaneous
As of December 31, 2020 and 2019, the Group's and the Parent Company's miscellaneous other assets consist of the following:

	Consolidated		Parent Company	
	2020	2019	2020	2019
Documentary stamp taxes (DST)	**₱29,172**	₱62,228	**₱29,172**	₱62,228
Refundable security deposits	**33,387**	34,771	**33,387**	34,771
Advance rentals	**17,730**	13,535	**17,730**	13,535
Stationery and supplies	**6,587**	6,783	**6,587**	6,783
Others	**43,506**	75,763	**43,473**	75,738
	₱130,382	₱193,080	**₱130,349**	₱193,055

"Others" of the Group and the Parent Company include trust fee receivables, shortages, derivatives, interoffice floats and other investments.

17. **Allowance for Credit and Impairment Losses**

As of December 31, 2020 and 2019, the analyses of changes in the allowance for ECL follow:

Interbank loans receivable and SPURA

Allowance for credit losses of interbank loans receivable and SPURA amounted to nil for the Consolidated and Parent Company in 2020 and 2019.

Investment securities at FVTOCI

Consolidated and Parent Company		**2020**		
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Allowance for ECL, January 1, 2020	**₱5,508**	**₱–**	**₱–**	**₱5,508**
Newly originated assets that remained in Stage 1 as at December 31, 2020	**37**	**–**	**–**	**37**
Allowance for ECL, December 31, 2020	**₱5,545**	**₱–**	**₱–**	**₱5,545**

Investment securities at amortized cost

Consolidated and Parent Company		**2020**		
	Stage 1	Stage 2	Stage 3	Total
Allowance for ECL, January 1, 2020	₱10,565	₱–	₱–	₱10,565
Impact on ECL of exposures that did not transfer between stages	(49)	–	–	(49)
Allowance for ECL, December 31, 2020	₱10,516	₱–	₱–	₱10,516

Receivables from customers

Consolidated and Parent Company		**2020**		
	Stage 1	Stage 2	Stage 3	Total
Corporate loans:				
Allowance for ECL, January 1, 2020	₱574,595	₱69,961	₱583,480	₱1,228,036
Newly originated assets that remained in Stage 1 as at December 31, 2020	342,271	–	–	342,271
Newly originated assets that moved to Stage 2 and Stage 3 as at December 31, 2020	1,124,179	–	–	1,124,179
Effect of collections and other movements (excluding write-offs and transfers to ROPA)	(447,783)	(45,868)	(16,597)	(510,248)
Transfers to ROPA	–	–	(14,957)	(14,957)
Transfers to Stage 2	(133,072)	133,072	–	–
Transfers to Stage 3	(1,081,239)	–	1,081,239	–
Impact on ECL of exposures transferred between stages	(5)	–	21,770	21,765
Impact on ECL of exposures that did not transfer between stages	–	862	1,571	2,433
Accounts written-off	–	–	(248,510)	(248,510)
Foreign exchange adjustments	–	(862)	(1,571)	(2,433)
Allowance for ECL, December 31, 2020	378,946	157,165	1,406,425	1,942,536
Consumer loans:				
Auto loans				
Allowance for ECL, January 1, 2020	11,291	15,933	294,183	321,407
Newly originated assets that remained in Stage 1 as at December 31, 2020	68,566	–	–	68,566
Newly originated assets that moved to Stage 2 and Stage 3 as at December 31, 2020	26,162	–	–	26,162
Effect of collections and other movements (excluding write-offs and transfers to ROPA)	(7,509)	(1,728)	(25,788)	(35,025)
Transfers to ROPA	(29)	(469)	–	(498)
Transfers to Stage 1	4,079	(3,927)	(152)	–
Transfers to Stage 2	(6,262)	6,262	–	–
Transfers to Stage 3	(83,499)	(14,300)	97,799	–
Impact on ECL of exposures transferred between stages	–	–	(1,843)	(1,843)
Impact on ECL of exposures that did not transfer between stages	–	7,062	5,923	12,985
Accounts written-off	–	–	(289,502)	(289,502)
Allowance for ECL, December 31, 2020	12,799	8,833	80,620	102,252

(Forward)

Consolidated and Parent Company	**2020**			
	Stage 1	Stage 2	Stage 3	Total
Home loans:				
Allowance for ECL, January 1, 2020	₱25,260	₱13,973	₱69,637	₱108,870
Newly originated assets that remained in Stage 1 as at December 31, 2020	56,895	–	–	56,895
Newly originated assets that moved to Stage 2 and Stage 3 as at December 31, 2020	15,517	–	–	15,517
Effect of collections and other movements (excluding write-offs and transfers to ROPA)	(7,579)	(75)	(6,850)	(14,504)
Transfers to ROPA	–	–	(5,901)	(5,901)
Transfers to Stage 2	(14,462)	14,462	–	–
Transfers to Stage 3	(35,108)	(11,104)	46,212	–
Impact on ECL of exposures transferred between stages	96	–	64,125	64,221
Impact on ECL of exposures that did not transfer between stages	–	30	14,722	14,752
Allowance for ECL, December 31, 2020	40,619	17,286	181,945	239,850
Personal loans:				
Allowance for ECL, January 1, 2020	27,866	9,936	408,053	445,855
Newly originated assets that remained in Stage 1 as at December 31, 2020	226,145	–	–	226,145
Newly originated assets that moved to Stage 2 and Stage 3 as at December 31, 2020	7,182	–	–	7,182
Effect of collections and other movements (excluding write-offs and transfers to ROPA)	(12,825)	–	(7,067)	(19,892)
Transfers to Stage 1	688	(688)	–	–
Transfers to Stage 2	(8,162)	8,162	–	–
Transfers to Stage 3	(212,422)	(9,174)	221,597	–
Impact on ECL of exposures transferred between stages	–	–	3,526	3,526
Accounts written-off	–	–	(521,520)	(521,520)
Allowance for ECL, December 31, 2020	28,471	8,236	104,589	141,296
Total receivables from customers:				
Allowance for ECL, January 1, 2020	639,012	109,803	1,355,353	2,104,168
Newly originated assets that remained in Stage 1 as at December 31, 2020	693,877	–	–	693,877
Newly originated assets that moved to Stage 2 and Stage 3 as at December 31, 2020	1,173,040	–	–	1,173,040
Effect of collections and other movements (excluding write-offs and transfers to ROPA)	(475,696)	(47,671)	(56,302)	(579,669)
Transfers to ROPA	(29)	(469)	(20,858)	(21,356)
Transfers to Stage 1	4,767	(4,615)	(152)	–
Transfers to Stage 2	(161,958)	161,958	–	–
Transfers to Stage 3	(1,412,269)	(34,578)	1,446,847	–
Impact on ECL of exposures transferred between stages	91	–	87,578	87,669
Impact on ECL of exposures that did not transfer between stages	–	7,954	22,216	30,170
Accounts written-off	–	–	(1,059,532)	(1,059,532)
Foreign exchange adjustments	–	(862)	(1,571)	(2,433)
Allowance for ECL, December 31, 2020	₱460,835	₱191,520	₱1,773,579	₱2,425,934

Other receivables

Consolidated	2020			
	Stage 1	Stage 2	Stage 3	Total
Unquoted debt securities:				
Allowance for ECL, January 1, 2020	₱944	₱–	₱–	₱944
Impact on ECL of exposures that did not transfer between stages	(48)	–	–	(48)
Allowance for ECL, December 31, 2020	896	–	–	896
Accrued interest receivable:				
Allowance for ECL, January 1, 2020	193	2,133	31,903	34,229
Newly originated assets that remained in Stage 1 as at December 31, 2020	2,502	–	–	2,502
Newly originated assets that moved to Stage 2 and Stage 3 as at December 31, 2020	20,755	–	–	20,755
Effect of collections and other movements (excluding write-offs and transfers to ROPA)	(193)	(1,723)	(1,731)	(3,647)
Transfers to Stage 1	2	–	(2)	–
Transfers to Stage 2	(2,588)	2,588	–	–
Transfers to Stage 3	(18,160)	(305)	18,465	–
Impact on ECL of exposures transferred between stages	(2)	115	–	113
Impact on ECL of exposures that did not transfer between stages	–	–	102	102
Accounts written-off	–	–	(29,201)	(29,201)
Allowance for ECL, December 31, 2020	2,509	2,808	19,536	24,853
Accounts receivable:				
Allowance for ECL, January 1, 2020	–	–	11,173	11,173
Impact on ECL of exposures that did not transfer between stages	–	–	17,020	17,020
Accounts written-off	–	–	(154)	(154)
Allowance for ECL, December 31, 2020	–	–	28,039	28,039
Sales contracts receivable				
Allowance for ECL, January 1, 2020	2,463	1,192	6,591	10,246
Newly originated assets that moved to Stage 2 and Stage 3 as at December 31, 2020	8	–	–	8
Effect of collections and other movements (excluding write-offs and transfers to ROPA)	(1,392)	(465)	(3,323)	(5,180)
Transfers to Stage 1	788	(788)	–	–
Transfers to Stage 2	(1,213)	1,213	–	–
Transfers to Stage 3	(651)	(347)	998	–
Impact on ECL of exposures transferred between stages	–	25	3,089	3,114
Impact on ECL of exposures that did not transfer between stages	–	–	2,057	2,057
Allowance for ECL, December 31, 2020	3	830	9,412	10,245
Total other receivables				
Allowance for ECL, January 1, 2020	3,600	3,325	49,667	56,592
Newly originated assets that remained in Stage 1 as at December 31, 2020	2,502	–	–	2,502
Newly originated assets that moved to Stage 2 and Stage 3 as at December 31, 2020	20,763	–	–	20,763
Effect of collections and other movements (excluding write-offs and transfers to ROPA)	(1,585)	(2,188)	(5,054)	(8,827)

(Forward)

Consolidated	**2020**			
	Stage 1	Stage 2	Stage 3	Total
Transfers to Stage 1	₱790	(₱788)	(₱2)	₱–
Transfers to Stage 2	(3,801)	3,801	–	–
Transfers to Stage 3	(18,811)	(652)	19,463	–
Impact on ECL of exposures transferred between stages	(2)	140	3,089	3,227
Impact on ECL of exposures that did not transfer between stages	(48)	–	19,179	19,131
Accounts written-off	–	–	(29,355)	(29,355)
Foreign exchange adjustments	–	–	–	–
Allowance for ECL, December 31, 2020	₱3,408	₱3,638	₱56,987	₱64,033

Other receivables

Parent Company	**2020**			
	Stage 1	Stage 2	Stage 3	Total
Unquoted debt securities:				
Allowance for ECL, January 1, 2020	₱944	₱–	₱–	₱944
Impact on ECL of exposures that did not transfer between stages	(48)	–	–	(48)
Allowance for ECL, December 31, 2020	896	–	–	896
Accrued interest receivable:				
Allowance for ECL, January 1, 2020	193	2,133	31,903	34,229
Newly originated assets that remained in Stage 1 as at December 31, 2020	2,502	–	–	2,502
Newly originated assets that moved to Stage 2 and Stage 3 as at December 31, 2020	20,755	–	–	20,755
Effect of collections and other movements (excluding write-offs and transfers to ROPA)	(193)	(1,723)	(1,731)	(3,647)
Transfers to Stage 1	2	–	(2)	–
Transfers to Stage 2	(2,588)	2,588	–	–
Transfers to Stage 3	(18,160)	(305)	18,465	–
Impact on ECL of exposures transferred between stages	(2)	115	–	113
Impact on ECL of exposures that did not transfer between stages	–	–	102	102
Accounts written-off	–	–	(29,201)	(29,201)
Foreign exchange adjustments	–	–	–	–
Allowance for ECL, December 31, 2020	2,509	2,808	19,536	24,853
Accounts receivable:				
Allowance for ECL, January 1, 2020	–	–	11,173	11,173
Impact on ECL of exposures that did not transfer between stages	–	–	17,020	17,020
Accounts written-off	–	–	(154)	(154)
Allowance for ECL, December 31, 2020	–	–	28,039	28,039
Sales contracts receivable				
Allowance for ECL, January 1, 2020	2,463	1,192	6,591	10,246
Newly originated assets that moved to Stage 2 and Stage 3 as at December 31, 2020	8	–	–	8
Effect of collections and other movements (excluding write-offs and transfers to ROPA)	(1,392)	(465)	(3,323)	(5,180)
Transfers to Stage 1	788	(788)	–	–
Transfers to Stage 2	(1,213)	1,213	–	–
Transfers to Stage 3	(651)	(347)	998	–
Impact on ECL of exposures transferred between stages	–	25	3,089	3,114
Impact on ECL of exposures that did not transfer between stages	–	–	2,057	2,057
Allowance for ECL, December 31, 2020	3	830	9,412	10,245

(Forward)

Parent Company	**2020**			
	Stage 1	Stage 2	Stage 3	Total
Total other receivables				
Allowance for ECL, January 1, 2020	₱3,600	₱3,325	₱49,667	₱56,592
Newly originated assets that remained in Stage 1 as at December 31, 2020	2,502	–	–	2,502
Newly originated assets that moved to Stage 2 and Stage 3 as at December 31, 2020	20,763	–	–	20,763
Effect of collections and other movements (excluding write-offs and transfers to ROPA)	(1,585)	(2,188)	(5,054)	(8,827)
Transfer to ROPA	–	–	–	–
Transfers to Stage 1	790	(788)	(2)	–
Transfers to Stage 2	(3,801)	3,801	–	–
Transfers to Stage 3	(18,811)	(652)	19,463	–
Impact on ECL of exposures transferred between stages	(2)	140	3,089	3,227
Impact on ECL of exposures that did not transfer between stages	(48)	–	19,179	19,131
Accounts written-off	–	–	(29,355)	(29,355)
Foreign exchange adjustments	–	–	–	–
Allowance for ECL, December 31, 2020	₱3,408	₱3,638	₱56,987	₱64,033

Investment securities at FVTOCI

Consolidated and Parent Company	2019			
	Stage 1	Stage 2	Stage 3	Total
ECL, January 1, 2019	₱6,076	₱–	₱–	₱6,076
Newly originated assets that remained in Stage 1 as at December 31, 2019	5,210	–	–	5,210
Effect of collections and other movements (excluding write-offs)	(5,779)	–	–	(5,779)
Impact on ECL of exposures that did not transfer between stages	1	–	–	1
ECL, December 31, 2019	₱5,508	₱–	₱–	₱5,508

Investment securities at amortized cost

Consolidated and Parent Company	2019			
	Stage 1	Stage 2	Stage 3	Total
Allowance for ECL, January 1, 2019	₱7,485	₱–	₱–	₱7,485
Impact on ECL of exposures that did not transfer between stages	3,080	–	–	3,080
Allowance for ECL, December 31, 2019	₱10,565	₱–	₱–	₱10,565

Receivables from customers

Consolidated and Parent Company	2019			
	Stage 1	Stage 2	Stage 3	Total
Corporate loans:				
Allowance for ECL, January 1, 2019	₱458,416	₱106,378	₱588,113	₱1,152,907
Newly originated assets that remained in Stage 1 as at December 31, 2019	436,629	–	–	436,629
Effect of collections and other movements (excluding write-offs and transfers to ROPA)	(319,723)	(57,474)	(85,586)	(462,783)
Transfers to ROPA	–	–	(2,331)	(2,331)
Transfers to Stage 1	–	–	–	–
Transfers to Stage 2	(37)	37	–	–
Transfers to Stage 3	(162)	(3,471)	3,633	–
Impact on ECL of exposures transferred between stages	–	(37)	432,913	432,876
Impact on ECL of exposures that did not transfer between stages	447	24,540	55,173	80,160
Accounts written-off	–	–	(408,009)	(408,009)
Foreign exchange adjustments	(975)	(12)	(426)	(1,413)
Allowance for ECL, December 31, 2019	574,595	69,961	583,480	1,228,036
Consumer loans:				
Auto loans				
Allowance for ECL, January 1, 2019	63,052	41,861	250,737	355,650
Newly originated assets that remained in Stage 1 as at December 31, 2019	1,254	–	–	1,254
Newly originated assets that moved to Stage 2 and Stage 3 as at December 31, 2019	–	–	–	–
Effect of collections and other movements (excluding write-offs and transfers to ROPA)	(55,146)	(6,447)	(3,720)	(65,313)
Transfers to ROPA	–	–	(27,941)	(27,941)
Transfers to Stage 1	9,699	(8,124)	(1,575)	–
Transfers to Stage 2	(5,872)	6,359	(487)	–
Transfers to Stage 3	(4,542)	(25,008)	29,550	–
Impact on ECL of exposures transferred between stages	–	7,292	26,317	33,609
Impact on ECL of exposures that did not transfer between stages	2,846	–	21,302	24,148
Allowance for ECL, December 31, 2019	11,291	15,933	294,183	321,407
Home loans:				
Allowance for ECL, January 1, 2019	36,208	23,202	52,882	112,292
Newly originated assets that remained in Stage 1 as at December 31, 2019	2,938	–	–	2,938
Newly originated assets that moved to Stage 2 and Stage 3 as at December 31, 2019	–	–	–	–
Effect of collections and other movements (excluding write-offs and transfers to ROPA)	(22,224)	(2,035)	(13,457)	(37,716)
Transfers to ROPA	–	–	(23,631)	(23,631)
Transfers to Stage 1	4,598	(4,598)	–	–
Transfers to Stage 2	(1,804)	1,804	–	–
Transfers to Stage 3	(1,253)	(15,018)	16,271	–
Impact on ECL of exposures transferred between stages	–	9,725	26,133	35,858
Impact on ECL of exposures that did not transfer between stages	6,797	893	11,439	19,129
Allowance for ECL, December 31, 2019	25,260	13,973	69,637	108,870

(Forward

Consolidated and Parent Company	2019			
	Stage 1	Stage 2	Stage 3	Total
Personal loans:				
Allowance for ECL, January 1, 2019	₱64,118	₱25,635	₱333,762	₱423,515
Newly originated assets that remained in Stage 1 as at December 31, 2019	14,628	–	–	14,628
Derecognition of allowance due to sale to sale of subsidiary	(43,440)	(14,333)	32,445	(25,328)
Effect of collections and other movements (excluding write-offs and transfers to ROPA)	(10,567)	(736)	(5,918)	(17,221)
Transfers to Stage 1	1,409	(1,003)	(406)	–
Transfers to Stage 2	(1,065)	1,128	(63)	–
Transfers to Stage 3	(4,259)	(9,236)	13,495	–
Impact on ECL of exposures transferred between stages	–	5,345	33,817	39,162
Impact on ECL of exposures that did not transfer between stages	7,042	3,136	921	11,099
Accounts written-off	–	–	–	–
Allowance for ECL, December 31, 2019	27,866	9,936	408,053	445,855
Total receivables from customers:				
Allowance for ECL, January 1, 2019	621,794	197,076	1,225,494	2,044,364
Newly originated assets that remained in Stage 1 as at December 31, 2019	455,449	–	–	455,449
Newly originated assets that moved to Stage 2 and Stage 3 as at December 31, 2019	–	–	–	–
Derecognition of allowance due to sale to sale of subsidiary	(43,440)	(14,333)	32,445	(25,328)
Effect of collections and other movements (excluding write-offs and transfers to ROPA)	(407,660)	(66,692)	(108,681)	(583,033)
Transfers to ROPA	–	–	(53,903)	(53,903)
Transfers to Stage 1	15,706	(13,725)	(1,981)	–
Transfers to Stage 2	(8,778)	9,328	(550)	–
Transfers to Stage 3	(10,216)	(52,733)	62,949	–
Impact on ECL of exposures transferred between stages	–	22,325	519,180	541,505
Impact on ECL of exposures that did not transfer between stages	17,132	28,569	88,835	134,536
Accounts written-off	–	–	(408,009)	(408,009)
Foreign exchange adjustments	(975)	(12)	(426)	(1,413)
Allowance for ECL, December 31, 2019	₱639,012	₱109,803	₱1,355,353	₱2,104,168

Other receivables

Consolidated	2019			
	Stage 1	Stage 2	Stage 3	Total
Unquoted debt securities:				
Allowance for ECL, January 1, 2019	₱994	₱–	₱–	₱994
Impact on ECL of exposures that did not transfer between stages	(50)	–	–	(50)
Allowance for ECL, December 31, 2019	944	–	–	944
Accrued interest receivable:				
Allowance for ECL, January 1, 2019	5,469	2,092	374,281	381,842
Newly originated assets that remained in Stage 1 as at December 31, 2019	93	–	–	93
Newly originated assets that moved to Stage 2 and Stage 3 as at December 31, 2019	1,064	–	–	1,064
Derecognition of allowance due to sale to sale of subsidiary	(2,417)	(526)	19,306	16,363
Effect of collections and other movements (excluding write-offs and transfers to ROPA)	(3,225)	(550)	(364,916)	(368,691)

(Forward)

Consolidated	2019			
	Stage 1	Stage 2	Stage 3	Total
Transfer to ROPA	₱–	₱–	(₱615)	(₱615)
Transfers to Stage 1	–	–	–	–
Transfers to Stage 2	(340)	340	–	–
Transfers to Stage 3	(860)	(447)	1307	–
Impact on ECL of exposures transferred between stages	–	194	1,848	2,042
Impact on ECL of exposures that did not transfer between stages	38	1,029	1,321	2,388
Accounts written-off	–	–	(257)	(257)
Foreign exchange adjustments	–	–	–	–
Allowance for ECL, December 31, 2019	(178)	2,132	32,275	34,229
Accounts receivable:				
Allowance for ECL, January 1, 2019	721	75	29,187	29,983
Derecognition of allowance due to sale to sale of subsidiary	(721)	(75)	(15,420)	(16,216)
Impact on ECL of exposures that did not transfer between stages	–	–	2,206	2,206
Accounts written-off	–	–	(4,800)	(4,800)
Allowance for ECL, December 31, 2019	–	–	11,173	11,173
Sales contracts receivable				
Allowance for ECL, January 1, 2019	3,768	2,553	7,382	13,703
Newly originated assets that remained in Stage 1 as at December 31, 2019	1,070	–	–	1,070
Newly originated assets that moved to Stage 2 and Stage 3 as at December 31, 2019	–	–	–	–
Derecognition of allowance due to sale to sale of subsidiary	(754)	–	(2,704)	(3,458)
Effect of collections and other movements (excluding write-offs and transfers to ROPA)	(223)	(51)	(1,095)	(1,369)
Transfers to Stage 1	2,263	(2,137)	(126)	–
Transfers to Stage 2	(687)	754	(67)	–
Transfers to Stage 3	(1,441)	(363)	1,804	–
Impact on ECL of exposures transferred between stages	(1,785)	436	1,413	64
Impact on ECL of exposures that did not transfer between stages	252	–	(16)	236
Allowance for ECL, December 31, 2019	2,463	1,192	6,591	10,246
Total other receivables				
Allowance for ECL, January 1, 2019	10,952	4,720	410,850	426,522
Newly originated assets that remained in Stage 1 as at December 31, 2019	1,163	–	–	1,163
Newly originated assets that moved to Stage 2 and Stage 3 as at December 31, 2019	1,064	–	–	1,064
Derecognition of allowance due to sale to sale of subsidiary	(3,892)	(601)	1,182	(3,311)
Effect of collections and other movements (excluding write-offs and transfers to ROPA)	(3,448)	(601)	(366,011)	(370,060)
Transfer to ROPA	–	–	(615)	(615)
Transfers to Stage 1	2,263	(2,137)	(126)	–
Transfers to Stage 2	(1,027)	1,094	(67)	–
Transfers to Stage 3	(2,301)	(810)	3,111	–
Impact on ECL of exposures transferred between stages	(1,785)	630	3,261	2,106
Impact on ECL of exposures that did not transfer between stages	240	1,029	3,511	4,780
Accounts written-off	–	–	(5,057)	(5,057)
Foreign exchange adjustments	–	–	–	–
Allowance for ECL, December 31, 2019	₱3,229	₱3,324	₱50,039	₱56,592

Other receivables

Parent Company	2019			
	Stage 1	Stage 2	Stage 3	Total
Unquoted debt securities:				
Allowance for ECL, January 1, 2019	₱994	₱–	₱–	₱994
Impact on ECL of exposures that did not transfer between stages	(50)	–	–	(50)
Allowance for ECL, December 31, 2019	944	–	–	944
Accrued interest receivable:				
Allowance for ECL, January 1, 2019	3,052	1,566	393,587	398,205
Newly originated assets that remained in Stage 1 as at December 31, 2019	93	–	–	93
Newly originated assets that moved to Stage 2 and Stage 3 as at December 31, 2019	1,064	–	–	1,064
Effect of collections and other movements (excluding write-offs and transfers to ROPA)	(3,225)	(550)	(364,916)	(368,691)
Transfer to ROPA	–	–	(615)	(615)
Transfers to Stage 1	–	–	–	–
Transfers to Stage 2	(340)	340	–	–
Transfers to Stage 3	(860)	(447)	1307	–
Impact on ECL of exposures transferred between stages	–	194	1,848	2,042
Impact on ECL of exposures that did not transfer between stages	36	1,030	1,322	2,388
Accounts written-off	–	–	(257)	(257)
Foreign exchange adjustments	–	–	–	–
Allowance for ECL, December 31, 2019	(180)	2,133	32,276	34,229
Accounts receivable:				
Allowance for ECL, January 1, 2019	–	–	13,767	13,767
Impact on ECL of exposures that did not transfer between stages	–	–	2,206	2,206
Accounts written-off	–	–	(4,800)	(4,800)
Allowance for ECL, December 31, 2019	–	–	11,173	11,173
Sales contracts receivable				
Allowance for ECL, January 1, 2019	3,014	2,553	4,678	10,245
Newly originated assets that remained in Stage 1 as at December 31, 2019	1,070	–	–	1,070
Newly originated assets that moved to Stage 2 and Stage 3 as at December 31, 2019	–	–	–	–
Effect of collections and other movements (excluding write-offs and transfers to ROPA)	(223)	(51)	(1,095)	(1,369)
Transfers to Stage 1	2,263	(2,137)	(126)	–
Transfers to Stage 2	(687)	754	(67)	–
Transfers to Stage 3	(1,441)	(363)	1,804	–
Impact on ECL of exposures transferred between stages	(1,785)	436	1,413	64
Impact on ECL of exposures that did not transfer between stages	252	–	(16)	236
Allowance for ECL, December 31, 2019	2,463	1,192	6,591	10,246
Total other receivables				
Allowance for ECL, January 1, 2019	7,060	4,119	412,032	423,211
Newly originated assets that remained in Stage 1 as at December 31, 2019	1,163	–	–	1,163
Newly originated assets that moved to Stage 2 and Stage 3 as at December 31, 2019	1,064	–	–	1,064

(Forward)

Parent Company	2019			
	Stage 1	Stage 2	Stage 3	Total
Effect of collections and other movements (excluding write-offs and transfers to ROPA)	(₱3,448)	(₱601)	(₱366,011)	(₱370,060)
Transfer to ROPA	–	–	(615)	(615)
Transfers to Stage 1	2,263	(2,137)	(126)	–
Transfers to Stage 2	(1,027)	1,094	(67)	–
Transfers to Stage 3	(2,301)	(810)	3,111	–
Impact on ECL of exposures transferred between stages	(1,785)	630	3,261	2,106
Impact on ECL of exposures that did not transfer between stages	238	1,030	3,512	4,780
Accounts written-off	–	–	(5,057)	(5,057)
Foreign exchange adjustments	–	–	–	–
Allowance for ECL, December 31, 2019	₱3,227	₱3,325	₱50,040	₱56,592

As of December 31, 2020 and 2019, changes in the allowance for credit and impairment losses of the Group and the Parent Company follow:

	Consolidated		**Parent Company**	
	2020	2019	**2020**	2019
Balances at January 1				
Loans and receivables	**₱2,160,760**	₱2,470,886	**₱2,160,760**	₱2,442,247
Investment securities at FVTOCI	**5,545**	6,076	**5,545**	6,076
Investment securities at amortized cost	**10,565**	7,485	**10,565**	7,485
Interbank loans receivable and SPURA	–	1	–	1
Investment properties (Note 14)	**69,035**	214,446	**69,035**	201,186
Other assets (Note 16)	**336,449**	336,079	**336,449**	336,079
	2,582,354	3,034,973	**2,582,354**	2,993,074
Provision for credit and impairment losses	**1,418,228**	377,613	**1,418,228**	377,613
Revaluation of FCDU loans and other assets	**(3,566)**	(2,407)	**(3,566)**	(2,407)
Accounts written-off and others	**(1,410,554)**	(811,178)	**(1,410,554)**	(769,278)
Reversal of allowance on disposals of investment properties (Note 14)	**(10,782)**	(16,648)	**(10,782)**	(16,648)
	(6,674)	(452,620)	**(6,674)**	(410,720)
Balance at December 31:				
Loans and receivables (Note 12)	**₱2,489,967**	₱2,160,760	**₱2,489,967**	₱2,160,760
Investment securities at FVTOCI	**5,545**	5,545	**5,545**	5,545
Investment securities at amortized cost	**10,516**	10,565	**10,516**	10,565
Interbank loans receivable	–	–	–	–
Investment properties (Note 14)	**67,079**	69,035	**67,079**	69,035
Other assets (Note 16)	**2,573**	336,449	**2,573**	336,449
	₱2,575,680	₱2,582,354	**₱2,575,680**	₱2,582,354

Below is the breakdown of provisions for (reversals of) credit and impairment losses:

	Consolidated			Parent Company		
	2020	2019	2018	**2020**	2019	2018
Continuing operations:						
Financial assets and other credit-related exposures:						
Loans and receivables	**₱1,447,601**	₱378,688	₱202,102	**₱1,447,601**	₱378,688	₱202,102
Investment securities at FVTOCI	–	(570)	5,730	–	(570)	5,730
Investment securities at amortized cost	–	3,109	(1,520)	–	3,109	(1,520)
Interbank loans receivable	–	(1)	(11)	–	(1)	(11)
	1,447,601	381,226	206,301	**1,447,601**	381,226	206,301
Non-financial assets:						
Investment properties	**(1,956)**	(3,613)	3,613	**(1,956)**	(3,613)	3,613
Other assets (Note 16)	**(27,417)**	–	–	**(27,417)**	–	–
	(29,373)	(3,613)	3,613	**(29,373)**	(3,613)	3,613
	1,418,228	377,613	209,914	**1,418,228**	377,613	209,914
Discontinued operation:						
Financial assets and other credit-related exposures:						
Loans and receivables	–	–	57,619	–	–	–
Non-financial assets:						
Investment properties	–	–	203	–	–	–
	₱1,418,228	₱377,613	₱267,736	**₱1,418,228**	₱377,613	₱209,914

18. **Deposit Liabilities**

On May 29, 2019, BSP issued Circular No. 1041 decreasing the reserve requirement ratios against deposits and deposit substitutes to 17% in May, 16.5% in June and 16% in July while LTNCDs is subject to 4% reserve requirement. On October 22, 2019, Circular No. 1059 further decrease the reserve requirements to 15% and on following month, BSP issued Circular No. 1063 further decreasing the reserve requirements to 14% effective December 6, 2019.

On March 23, 2020, BSP issued Circular No. 1082 reducing the reserve requirement against deposit and deposits substitute to 12% while LTNCDs remains to have 4% reserve requirement. Further, on April 16, 2020, BSP issued Circular No. 1083, which allows the bank to use MSME loans granted as of March 15, 2020 as allowable mode for alternative compliance on the reserve requirement. The said alternative compliance is valid from April 24, 2020 to December 30, 2021.

As of December 31, 2020 and 2019, Due from BSP amounting to ₱8.59 billion and ₱8.43 billion, respectively, were set aside as reserves for deposit liabilities. As of December 31, 2020 and 2019, the Group is in compliance with the above regulations.

On July 26, 2018, the Monetary Board of the BSP, in its Resolution No. 1220, approved the Parent Company's issuance of the Long-Term Negotiable Certificates of Deposits (LTNCD) of up to ₱5.00 billion in one or more tranches over the course of one year, with minimum tenor of 5 years and 1 day to a maximum of 7 years. The purpose of the issuance is specifically for long-term funding.

On October 8, 2018, the Parent Company issued ₱2.90 billion worth of LTNCDs with a tenor of 5 years and 6 months. The LTNCDs will mature on April 8, 2024 and have fixed interest rate of 5.625% per annum, payable quarterly in arrears on October 8, January 8, April 8 and July 8 of each year, commencing on January 8, 2019. The LTNCDs are listed in the trading platform of the Philippine Dealing & Exchange Corp. for secondary market trading.

Interest expense on deposit liabilities consists of:

	Consolidated			**Parent Company**		
	2020	2019	2018	**2020**	2019	2018
Continuing operations:						
Demand	**₱64,029**	₱59,077	₱61,035	**₱64,029**	₱59,077	₱61,035
Savings	**10,103**	8,742	8,939	**10,103**	8,742	8,939
Time	**678,893**	1,266,283	1,052,469	**678,893**	1,266,283	1,052,469
LTNCD	**168,434**	167,485	39,376	**168,434**	167,485	39,376
	₱921,459	₱1,501,587	₱1,161,819	**₱921,459**	₱1,501,587	₱1,161,819
Discontinued operation:						
Savings	–	–	2,586	–	–	–
Time	–	–	54,523	–	–	–
	₱921,459	₱1,501,587	₱1,218,928	**₱921,459**	₱1,501,587	₱1,161,819

Peso-denominated deposit liabilities earn annual fixed interest rates ranging from 0.10% to 3.50% in 2020, 0.10% to 6.85% in 2019 and 0.03% to 7.25% in 2018, while foreign currency-denominated deposit liabilities earn annual fixed interest rates ranging from 0.10% to 2.00%, 0.01% to 4.75%, and 0.03% to 3.00% in 2020, 2019 and 2018, respectively.

19. Bills Payable

This account consists of the Group's and the Parent Company's borrowings from:

	2020	2019
Private firms and individuals	**₱1,984,864**	₱9,740,875
Banks and other financial institutions	**197,980**	3,323,949
	₱2,182,844	₱13,064,824

As of December 31, 2020 and 2019, none and ₱10.63 billion of the bills payable, respectively are collateralized by investment in government securities. Details of the securities pledged are as follows:

	2020			2019		
	Face value	**Carrying amount**	**Fair value**	Face value	Carrying amount	Fair value
FVTPL	**₱–**	**₱–**	**₱–**	₱1,260,000	₱1,377,621	₱1,377,621
FVTOCI	–	–	–	1,000,000	1,093,350	1,093,350
Investment securities at amortized cost	–	–	–	7,187,818	8,728,602	8,104,030
	₱–	**₱–**	**₱–**	₱9,447,818	₱11,199,573	₱10,575,001

Interest expense on bills payable and other borrowings consists of:

	Consolidated			Parent Company		
	2020	2019	2018	**2020**	2019	2018
Continuing operations:						
Borrowed funds	**₱127,462**	₱542,989	₱467,504	**₱127,462**	₱542,989	₱467,504
Lease liability	**17,603**	18,711	–	**17,603**	18,711	–
Net interest cost on retirement liability (Note 27)	**1,969**	–	1,181	**1,969**	–	1,181
	147,034	561,700	468,685	**147,034**	561,700	468,685
Discontinued operation:						
Borrowed funds	–	–	3,944	–	–	–
Net interest cost (income) on retirement liability (Note 27)	–	–	(223)	–	–	–
	₱147,034	₱561,700	₱472,406	**₱147,034**	₱561,700	₱468,685

The net interest income on retirement liability for 2020, 2019 and 2018 amounted to nil, ₱5.65 million and nil, respectively, is presented as part of miscellaneous income.

The Group has no dollar interbank borrowings as of December 31, 2020 and 2019.

The Parent Company did not avail of peso and dollar rediscounting facilities in 2020 and 2019.

Borrowings from private firms and individuals represent deposit substitutes with maturities of 1 to 216 days and bear annual interest rates ranging from 0.37% to 3.88%, 2.00% to 6.88%, and 0.10% to 7.25%in 2020, 2019 and 2018, respectively.

As of December 31, 2020 and 2019, Due from BSP amounting to ₱262.4 million and ₱1.34 billion, respectively, were set aside as reserves for deposit substitutes.

20. Accrued Interest, Taxes and Other Expenses

This account consists of:

	Consolidated		Parent Company	
	2020	2019	**2020**	2019
Financial liabilities				
Accrued interest payable	**₱105,338**	₱193,645	**₱105,338**	₱193,645
Accrued other expenses	**515,674**	383,360	**515,526**	383,209
	621,012	577,005	**620,864**	576,854
Non-financial liabilities				
Retirement liability (Note 27)	**109,004**	37,155	**109,004**	37,155
Accrued taxes and licenses	**72,769**	98,268	**72,769**	98,268
	181,773	135,423	**181,773**	135,423
	₱802,785	₱712,428	**₱802,637**	₱712,277

21. **Other Liabilities**

This account consists of:

	Consolidated		Parent Company	
	2020	2019	**2020**	2019
Financial liabilities				
Lease liability (Notes 28 and 33)	**₱239,734**	₱270,554	**₱239,734**	₱270,554
Accounts payable	**205,426**	223,831	**204,921**	223,829
Refundable security deposits	**186,517**	198,434	**186,517**	198,434
Due to the Treasurer of the Philippines	**40,589**	40,679	**40,589**	40,679
	672,266	733,498	**671,761**	733,496
Non-financial liabilities				
Deferred credits	**298,580**	247,439	**298,580**	247,439
Withholding taxes payable	**18,756**	30,454	**18,756**	30,454
Miscellaneous	**111,119**	155,932	**110,366**	154,677
	428,455	433,825	**427,702**	432,570
	₱1,100,721	₱1,167,323	**₱1,099,463**	₱1,166,066

Miscellaneous liabilities of the Group and the Parent Company include marginal deposits, cash letters of credit, and deposit liabilities classified as dormant.

Shown below is the movement of lease liability of the Group and Parent:

	2020	2019
Balance at January 1	**₱270,554**	₱192,803
Additions	**76,072**	178,209
Lease payments	**(124,495)**	(119,169)
Interest expense	**17,603**	18,711
Balance at December 31	**₱239,734**	₱270,554

22. Maturity Analysis of Assets and Liabilities

The tables below show an analysis of assets and liabilities analyzed according to when they are expected to be recovered or settled:

	Consolidated					
	2020			2019		
	Due Within One Year	**Due Beyond One Year**	**Total**	Due Within One Year	Due Beyond One Year	Total
Financial assets - at gross						
Cash and other cash items	**₱2,467,099**	**₱–**	**₱2,467,099**	₱2,698,681	₱–	₱2,698,681
Due from BSP	**20,597,868**	**–**	**20,597,868**	10,213,521	–	10,213,521
Due from other banks	**1,495,485**	**–**	**1,495,485**	357,960	–	357,960
Interbank loans receivable (Note 8)	**6,054,454**	**–**	**6,054,454**	717,736	–	717,736
Financial assets at FVTPL (Note 9)	**718,294**	**–**	**718,294**	1,667,827	–	1,667,827
Financial assets at FVTOCI (Note 10)	**–**	**5,137,816**	**5,137,816**	251,419	7,842,943	8,094,362
Investment securities at amortized cost (Note 11)	**–**	**2,273,872**	**2,273,872**	250,168	12,599,332	12,849,500
Loans and receivables (Note 12):						
Receivables from Customers	**34,892,624**	**23,552,231**	**58,444,855**	33,229,147	27,832,623	61,061,770
Unquoted debt securities	**–**	**852,565**	**852,565**	–	1,068,193	1,068,193
Accrued interest receivable	**190,100**	**341,084**	**468,544**	145,836	423,657	569,493
Accounts receivable	**322,118**	**11,182**	**333,300**	705,244	–	705,244
Sales contracts receivable	**30,831**	**35,121**	**65,952**	72,048	30,160	102,208
Other assets (Note 16):						
Refundable security deposits	**–**	**33,387**	**33,387**	–	34,771	34,771
RCOCI	**1,273**	**–**	**1,273**	128	–	128
	66,770,146	**32,237,258**	**98,944,764**	50,309,715	49,831,679	100,141,394
Non-financial assets - at gross						
Investments in subsidiary and an associate (Note 7)	**–**	**14,114**	**14,114**	–	13,848	13,848
Property and equipment (Note 13)	**90,658**	**2,476,709**	**2,567,367**		2,308,724	2,308,724
Investment properties (Note 14):						
Condominium units for Lease	**–**	**2,644,075**	**2,644,075**	–	2,644,074	2,644,074
Foreclosed properties	**–**	**848,169**	**848,169**	–	796,741	796,741
Office units for lease	**–**	**39,274**	**39,274**	–	39,274	39,274
Intangible assets (Note 15)	**–**	**613,526**	**613,526**	–	673,089	673,089
Deferred tax assets (Note 30)	**–**	**170,608**	**170,608**	–	–	–
Right of use assets	**-**	**-**	**-**	97,425	151,046	248,471
Other assets (Note 16)	**206,473**	**548,803**	**755,276**	240,559	855,056	1,095,615
	297,131	**7,355,278**	**7,652,409**	337,984	7,481,852	7,819,836
	₱67,067,277	**₱39,592,536**	**₱106,597,173**	₱50,647,699	₱57,313,531	₱107,961,230
Less:						
Unearned interest and discounts (Note 12)			**(51,256)**			(89,109)
Accumulated depreciation and amortization (Notes 13, 14 and 16)			**(2,745,564)**			(2,565,373)
Allowance for credit and impairment losses (Notes 12, 16 and 17)			**(2,570,135)**			(2,566,244)
Total			**₱101,230,218**			₱102,740,504

	Consolidated					
	2020			2019		
	Due Within One Year	**Due Beyond One Year**	**Total**	Due Within One Year	Due Beyond One Year	Total
Financial liabilities						
Deposit liabilities:						
Demand	**₱30,865,282**	**₱–**	**₱30,865,282**	₱27,204,604	₱–	₱27,204,604
Savings	**9,664,945**	**–**	**9,664,945**	9,180,273	–	9,180,273
Time	**38,021,768**	**2,345,749**	**40,367,517**	34,903,828	1,690,404	36,594,232
LTNCD	**–**	**2,883,668**	**2,883,668**	–	2,902,730	2,902,730
Bills payable (Note 19)	**2,182,844**	**–**	**2,182,844**	12,945,293	119,531	13,064,824
Outstanding acceptances	**497,813**	**–**	**497,813**	91,855	–	91,855
Manager's checks	**188,100**	**–**	**188,100**	442,811	–	442,811
Accrued interest payable (Note 20)	**105,338**	**–**	**105,338**	193,645	–	193,645
Accrued other expenses (Note 20)	**515,674**	**–**	**515,674**	383,360	–	383,360
Other liabilities (Note 21):		**–**			–	
Accounts payable	**205,426**	**–**	**205,426**	223,831	–	223,831
Refundable security deposits	**144,627**	**41,890**	**186,517**	18,431	180,003	198,434
Due to the Treasurer of the Philippines	**40,589**	**–**	**40,589**	40,679	–	40,679
	82,432,406	**5,271,307**	**87,703,713**	85,628,610	4,892,668	90,521,278
Non-financial liabilities						
Deferred tax liabilities (Note 30)	**₱–**	**₱–**	**₱0**	₱–	₱782	₱782
Retirement liability (Notes 20 and 27)	**–**	**109,004**	**109,004**	–	37,155	37,155
Accrued taxes and licenses (Note 20)	**72,769**	**–**	**72,769**	98,268	–	98,268
Income tax payable	**146,866**	**–**	**146,866**	23,441	–	23,441
Other liabilities (Note 21):						
Deferred credits	**240,530**	**58,050**	**298,580**	74,225	173,214	247,439
Lease liability	**96,412**	**143,322**	**239,734**	96,745	173,809	270,554
Withholding taxes payable	**18,756**	**–**	**18,756**	30,454	–	30,454
Miscellaneous	**53,576**	**57,542**	**111,118**	103,756	52,176	155,932
	628,909	**367,918**	**996,827**	426,889	437,136	864,025
	₱83,103,205	**₱5,597,335**	**₱88,700,540**	₱86,055,499	₱5,329,804	₱91,385,303

	Parent Company					
	2020			2019		
	Due Within One Year	**Due Beyond One Year**	**Total**	Due Within One Year	Due Beyond One Year	Total
Financial assets - at gross						
Cash and other cash items	**₱2,467,099**	**₱–**	**₱2,467,099**	₱2,698,681	₱–	₱2,698,681
Due from BSP	**20,597,868**	**–**	**20,597,868**	10,213,521	–	10,213,521
Due from other banks	**1,495,485**	**–**	**1,495,485**	357,960	–	357,960
Interbank loans receivable (Note 8)	**6,054,454**	**–**	**6,054,454**	717,736	–	717,736
Financial assets at FVTPL (Note 9)	**718,294**	**–**	**718,294**	1,667,827	–	1,667,827
Financial assets at FVTOCI (Note 10)		**5,137,815**	**5,137,815**	251,419	7,842,943	8,094,362
Investment securities at amortized cost (Note 11)		**2,273,872**	**2,273,872**	250,168	12,599,332	12,849,500
Loans and receivables (Note 12):						
Receivables from customers	**34,892,624**	**23,552,231**	**58,444,855**	33,229,147	27,832,623	61,061,770
Unquoted debt securities	**–**	**852,565**	**852,565**	–	1,068,193	1,068,193
Accrued interest receivable	**190,100**	**278,444**	**468,544**	145,836	423,657	569,493
Accounts receivable	**322,118**	**13,897**	**336,015**	707,998	–	707,998
Sales contracts receivable	**30,831**	**35,121**	**65,952**	72,048	30,160	102,208
Other assets (Note 16):						
Refundable security deposits	**–**	**33,387**	**33,387**	–	34,771	34,771
RCOCI	**1,273**	**–**	**1,273**	128	–	128
	66,770,146	**32,177,332**	**98,947,478**	50,312,469	49,831,679	100,144,148

	Parent Company					
	2020			2019		
	Due Within One Year	**Due Beyond One Year**	**Total**	Due Within One Year	Due Beyond One Year	Total
Non-financial assets - at gross						
Investments in subsidiary and an associate (Note 7)	**₱–**	**₱20,252**	**₱20,252**	₱–	₱20,052	₱20,052
Property and equipment (Note 13)	**90,658**	**2,476,709**	**2,567,367**		2,308,724	2,308,724
Investment properties (Note 14):						
Condominium units for lease	**–**	**2,644,075**	**2,644,075**	–	2,644,074	2,644,074
Foreclosed assets	**–**	**848,169**	**848,169**	–	796,741	796,741
Office units for lease	**–**	**39,274**	**39,274**	–	39,274	39,274
Intangible assets (Note 15)	**–**	**613,526**	**613,526**	–	673,089	673,089
Deferred tax assets (Note 30)	**–**	**170,608**	**170,608**	–	–	–
Right of use assets				97,425	151,046	248,471
Other assets (Note 16)	**206,306**	**547,573**	**753,879**	239,169	855,056	1,094,225
	296,964	**7,360,186**	**7,657,150**	336,594	7,488,056	7,824,650
	₱67,067,110	**₱39,537,518**	**₱106,604,628**	₱50,649,063	₱57,31	₱107,968,798
Less:						
Unearned interest and discounts (Note 12)			**(51,256)**			(89,109)
Accumulated depreciation and amortization (Notes 13, 14 and 16)			**(2,745,564)**			(2,565,373)
Allowance for credit and impairment losses (Notes 12, 14, 16 and 17)			**(2,570,135)**			(2,566,244)
Total			**₱101,237,673**			₱102,748,072
Financial liabilities						
Deposit liabilities:						
Demand	**₱30,874,143**	**₱–**	**₱30,874,143**	₱27,213,579	₱–	₱27,213,579
Savings	**9,664,945**	**–**	**9,664,945**	9,180,273	–	9,180,273
Time	**38,021,768**	**2,345,749**	**40,367,517**	34,903,828	1,690,404	36,594,232
LTNCD	**–**	**2,883,668**	**2,883,668**	–	2,902,730	2,902,730
Bills payable (Note 19)	**2,182,844**	**–**	**2,182,844**	12,945,293	119,531	13,064,824
Outstanding acceptances	**497,813**	**–**	**497,813**	91,855	–	91,855
Manager's checks	**188,100**	**–**	**188,100**	442,811	–	442,811
Accrued interest payable (Note 20)	**105,338**	**–**	**105,338**	193,645	–	193,645
Accrued other expenses (Note 20)	**515,526**	**–**	**515,526**	383,209	–	383,209
Other liabilities (Note 21):		**–**			–	
Accounts payable	**205,418**	**–**	**205,418**	223,829	–	223,829
Refundable security deposits	**145,087**	**41,430**	**186,517**	18,431	180,002	198,433
Due to the Treasurer of the Philippines	**40,589**	**–**	**40,589**	40,679	–	40,679
	82,441,571	**5,270,847**	**87,712,418**	85,637,432	4,892,667	90,530,099
Non-financial liabilities						
Deferred tax liabilities (Note 30)		**–**	**–**		782	782
Retirement liability (Notes 20 and 27)	**–**	**109,004**	**109,004**	–	37,155	37,155
Accrued taxes and licenses (Note 20)	**72,769**	**–**	**72,769**	98,268	–	98,268
Income tax payable	**146,866**	**–**	**146,866**	23,441	–	23,441
Other liabilities (Note 21):						
Deferred credits	**240,530**	**58,050**	**298,580**	74,225	173,214	247,439
Lease liability	**96,412**	**143,322**	**239,734**	96,754	173,799	270,553
Withholding taxes payable	**18,756**	**–**	**18,756**	30,454	–	30,454
Miscellaneous	**52,326**	**57,542**	**109,868**	102,502	52,178	154,680
	627,659	**367,918**	**995,577**	425,644	437,128	862,772
	₱83,069,230	**₱5,638,765**	**₱88,707,995**	₱86,063,076	₱5,329,795	₱91,392,871

23. Equity

Common Stock

Details and movements of common stock follow:

	Shares	Amount
Common - ₱25 par value		
Authorized	**760,000**	
Issued and outstanding		
Balance at January 1	**480,645**	**₱12,016,129**
Issuance during the year (Note 1)	–	–
Balance at December 31	**480,645**	**₱12,016,129**

The Parent Company became listed in the PSE on May 12, 1988. After its listing in the PSE, there was no succeeding offer/selling to the public of the Parent Company's shares.

The summarized information on the Parent Company's registration of securities under the Securities Regulation Code follows:

Date of SEC Approval	Type/Class	Authorized Shares	Par Value
November 23, 1988	Common Class A	7,000,000	100
	Common Class B	3,000,000	100
June 3, 1993	Common Class A	14,000,000	100
	Common Class B	6,000,000	100
September 11, 1997	Common	65,000,000	100
April 6, 2001	Common	145,000,000	100
March 31, 2006	Common	145,000,000	100
	Preferred	120,000,000	25
March 11, 2013	Common	760,000,000	25

As reported by the Parent Company's transfer agent, AB Stock Transfers Corporation, the total number of shareholders is 399 and 357 as of December 31, 2020 and 2019, respectively.

Surplus Reserves

As of December 31, 2020 and 2019, surplus reserves consist of reserve for trust business, and self-insurance amounting to ₱106.42 million and ₱105.96 million, respectively.

In compliance with BSP regulations and RA No. 337, *The General Banking Act*, 10.00% of the Parent Company's profit from trust business is appropriated to surplus reserves. This annual appropriation is required until the surplus reserves for trust business equals 20.00% of the Parent Company's authorized capital stock. Surplus reserve for self-insurance represents the amount set aside to cover for losses due to fire, defalcation by and other unlawful acts of the Parent Company's personnel or third parties.

Deficit

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

In the consolidated financial statements, accumulated net earnings of the subsidiary and an associate amounting to ₱8.25 million and ₱8.05 million as of December 31, 2020 and 2019, respectively, that were closed out to 'Deficit' is not available for dividend declaration. The accumulated equity in net earnings becomes available for dividends upon declaration and receipt of cash dividends from the investees.

Capital Management
The primary objectives of the Parent Company's capital management are to ensure that the Parent Company complies with regulatory capital requirements and that the Parent Company maintains strong credit ratings and healthy capital ratios in order to support its business and to maximize shareholders' value.

The Parent Company manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Parent Company may adjust the amount of dividend payment to shareholders, return capital to shareholders or issue capital securities. No changes were made in the objectives, policies and processes from the previous years.

The Parent Company maintains an actively managed capital base to cover risks inherent in the business. The adequacy of the Parent Company's capital is monitored using, among other measures, the rules and ratios established by the Basel Committee on Banking Supervision ("Bank for International Settlements rules/ratios") and adopted by the BSP as discussed below. The Parent Company has complied in full with all its regulatory capital requirements.

BSP approvals
On December 14, 2012, the BSP, in its Resolution No. 2088, approved the request of the Parent Company to include the ₱1.92 billion appraisal increment resulting from the revaluation of PBCom Tower as part of unimpaired and qualifying capital in computing for net worth and capital adequacy ratio. Effective January 1, 2018, the Group and the Parent Company changed their method of accounting for Investment Properties and Land from the fair value model and revaluation model, respectively, to the cost model, and restated the comparative information in its audited financial statements. As approved by the BSP, however, the Parent Company continues to include the above revaluation increment for purposes of regulatory unimpaired and qualifying capital in its computation of net worth and capital adequacy ratio. As of December 31, 2020 and 2019, the revaluation increment pertaining to PBCom Tower amounted to ₱1.64 billion and ₱1.63 billion, respectively.

Regulatory Qualifying Capital
Under existing BSP regulations, the determination of the Parent Company's compliance with regulatory requirements and ratios is based on the amount of the Group's "qualifying capital" (regulatory net worth) as reported to the BSP, which is determined on the basis of regulatory accounting policies which may differ from PFRS in some respects.

The BSP, under BSP Circular No. 538 dated August 4, 2006, issued the prescribed guidelines implementing the revised risk-based capital adequacy framework for the Philippine banking system to conform to Basel II recommendations. The new BSP guidelines took effect on July 1, 2007.

Below is a summary of risk weights and selected exposure types:

Risk Weight	Exposure/Asset Type*
0.00%	Cash on hand; claims collateralized by securities issued by the national government, BSP; loans covered by the Trade and Investment Development Corporation of the Philippines; real estate mortgages covered by the Home Guarantee Corporation
20.00%	Cash and other cash items, claims guaranteed by Philippine incorporated banks/quasi-banks with the highest credit quality; claims guaranteed by foreign incorporated banks with the highest credit quality; loans to exporters to the extent guaranteed by Small Business Guarantee and Finance Corporation
50.00%	Housing loans fully secured by first mortgage on residential property; Local Government Unit (LGU) bonds which are covered by Deed of Assignment of Internal Revenue allotment of the LGU and guaranteed by the LGU Guarantee Corporation
75.00%	Direct loans of defined Small Medium Enterprise and microfinance loans portfolio; non-performing housing loans fully secured by first mortgage
100.00%	All other assets (for example, real estate assets) excluding those deducted from capital (for example, deferred income tax)
150.00%	All non-performing loans (except non-performing housing loans fully secured by first mortgage) and all non-performing debt securities

*Not all inclusive

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

The Circular defines in greater detail, the quality capital a bank must maintain to cover its risks. These include:

- Tier One capital - comprises the Group's and the Parent Company's core capital resources that are immediately available to sustain the financial stability of the group. Components of tier one capital include:
  - Core-Equity Tier One or CET-1 includes paid-in shares of common stock, retained earnings and accumulated OCI. CET-1 must be the predominant form of Tier One Capital. CET-1 absorbs all deductions to capital mandated by regulation. These deductions include capital invested in affiliates, net deferred tax assets, intangible assets and goodwill items.
  - Alternative Tier One or AT-1 includes other equity type claims on a bank's statement of financial position that are sufficiently subordinate to the claims of depositors and senior creditors and whose cash flow distributions are not committed and cancellable at the option of the bank.
- Tier Two capital - includes auxiliary items, such as the general loan loss provision and appraisal increment reserves on investment property, that supplement Tier One Capital in sustaining the financial stability of the bank.

Banks must maintain CET-1 capital equivalent to 6.00%, Total Tier One capital equivalent to 7.5% and Total capital equivalent to 10% of regulatory risk weighted assets at all times.

As of December 31, 2020 and 2019, the Group and the Parent Company reported ratios in excess of the regulatory requirements.

Presented below are the composition of qualifying capital and the related disclosures as reported to the BSP (amounts in millions):

	2020	2019
CET-1 Capital	**₱13,068**	₱11,853
Less: Regulatory Adjustments to CET-1	**(623)**	(762)
	12,445	11,091
Additional Tier 1 Capital	–	–
Less: Regulatory Adjustments to AT-1	–	–
	–	–
Total Tier 1 Capital	**12,445**	11,091
Tier 2 Capital	**2,226**	2,256
Less: Regulatory Adjustments to Tier 2 Capital	–	–
Total Tier 2 Capital	**2,226**	2,256
Total Qualifying Capital	**₱14,671**	₱13,347

The Group's and the Parent Company's RBCAR as reported to the BSP as of December 31, 2020 and 2019 are shown in the table below (amounts in millions):

	2020	2019
CET-1 Capital:		
Paid-up common stock	**₱12,016**	₱12,016
Additional paid-in capital	**2,262**	2,262
Deficit	**(1,217)**	(2,527)
Net unrealized gains or losses on FVTOCI	**97**	92
Cumulative foreign currency translation	**(12)**	(13)
Cumulative actuarial losses	**(78)**	23
Minority interest in subsidiary banks	–	–
	13,068	11,853
Less: Regulatory Adjustments to CET-1		
Outstanding unsecured loans, other credit accommodations and guarantees granted to subsidiary and affiliates	–	–
Goodwill	–	667
Other intangible assets	**603**	74
Investments in equity of unconsolidated subsidiary banks and quasi-banks, and other financial allied undertakings	–	–
Investments in equity of unconsolidated subsidiary securities dealers/brokers and insurance companies	**6**	6
Significant minority investments	**14**	14
	623	761
Tier 1 Capital		
Additional Tier 1 Capital	–	–
Less: Regulatory Adjustments to AT-1	–	–
	–	–
Total Tier 1 Capital	**12,445**	11,092
Appraisal increment reserve	**1,640**	1,625
General loan loss provision	**586**	630
	2,226	2,255
Less: Regulatory Adjustments to Tier 2 Capital	–	–
Total Tier 2 Capital	**2,226**	2,255
Total Qualifying Capital	**₱14,671**	₱13,347

(Forward)

	2020	2019
Credit risk-weighted assets	**₱69,987**	₱72,950
Market risk-weighted assets	**182**	1,266
Operational risk-weighted assets	**7,585**	6,830
Total Risk Weighted Assets	**₱77,754**	₱81,046
CET 1 Capital Ratio	**16.01%**	13.69%
Tier 1 Capital Ratio	**16.01%**	13.69%
Total Capital Ratio	**18.87%**	16.47%

Leverage ratio
BSP also requires the Basel III Leverage Ratio (BLR), which is designed to act as a supplementary measure to the risk-based capital requirements. BLR intends to restrict the build-up of leverage in the banking sector to avoid destabilizing deleveraging processes, which can damage the broader financial system and the economy. Likewise, it reinforces the risk-based requirements with a simple, non-risk based "backstop" measure.

Exposure measure is the sum of on-balance sheet exposures, derivative exposures, and off-balance sheet items. Items that are deducted completely from capital (regulatory deductions) do not contribute to leverage, hence, deducted from the exposure measure. BLR is computed as the capital measure (Tier 1 capital) divided by the total exposure measure and should not be less than 5.00%.

As of December 31, 2020 and 2019, BLR of the Parent Company, as reported to the BSP, is shown in the table below (amounts, except ratios, are expressed in millions):

	2020	2019
Tier 1 capital	**₱12,445**	₱11,092
Total exposure measure	**109,400**	106,379
BLR	**11.38%**	10.43%

Internal Capital Adequacy Assessment Process (ICAAP)
The ICAAP methodology of the Parent Company was based on the minimum regulatory capital requirement under BSP Circular No. 639 which involved, first, an assessment of whether the risks covered by the Framework are fully captured; and second, an assessment of other risks the Parent Company is exposed to which are not fully captured and covered under the Framework, and an assessment of whether and how much capital to allocate against these other risks.

The ICAAP included the articulation of the Parent Company's Risk Appetite and the corresponding limit on each material risk which was deliberated upon by the ICAAP Steering Committee, ROC and endorsed to the BOD for approval.

Salient points of the 2021 ICAAP Document:
- The Parent Company's total Qualifying Capital for December 31, 2020 fully covers the capital requirements for risks under BSP Circular Nos. 538 and 639 (Pillar 1 and Pillar 2 Risks).
- The Parent Company's resulting operating environment and risk requirements from 2021 to 2023 will be guided by the Capital Development and Sustainability Plan to ensure appropriate capital coverages not only to meet the regulatory and internal capital adequacy requirements but also to ensure execution of the 3-year strategic growth within the BOD's desired appetite for capital adequacy. Realization of the capital plan will enable the Parent Company to have sufficient RBCAR, and even projecting significant excess of capital in 2021 to 2023.

24. **Commitments and Contingent Liabilities**

In the normal course of operations, the Group has various outstanding commitments and contingent liabilities such as guarantees, forward exchange contracts, and commitments to extend credit, which are not presented in the accompanying financial statements. The Group does not anticipate any material losses as a result of these transactions.

The Group has certain loan-related suits and claims that remain unsettled. It is not practicable to estimate the potential financial statement impact of these contingencies. However, in the opinion of management, the suits and claims, if decided adversely, will not involve sums that would have a material effect on the financial statements.

The Group is a defendant in legal actions arising from its normal business activities. Management believes that these actions are without merit or that the ultimate liability, if any, resulting from them will not materially affect the consolidated and parent company financial statements.

The allowance for credit losses on the loan commitments and financial guarantee contracts for the years ended December 31, 2020 and 2019 amounted to nil.

The following is a summary of contingencies and commitments of the Group and the Parent Company with the equivalent peso contractual amounts:

	2020	2019
Trust department accounts	**₱7,973,683**	₱7,144,650
Standby LC	**1,112,021**	1,340,632
Spot exchange:		
Bought	**1,300,002**	1,052,313
Sold	**1,460,869**	927,871
Usance LC outstanding	**84,331**	80,843
Outstanding shipping guarantees	**403,601**	218,883
Sight LC outstanding	**792,459**	594,933
Outward bills for collection	**32,053**	117,541
Currency forwards:		
Bought	**3,811**	–
Sold	**337,400**	354,445
Inward bills for collection	**13,108**	22,916
Items held for safekeeping	**25**	37
Items held as collateral	**7**	7
Other contingencies	**12,700**	16,055

<u>Derivative Financial Instruments</u>
As of December 31, 2020, the Parent Company has outstanding buy US dollar currency forwards with aggregate notional amount of US$6.946 million, terms of 366 days, and weighted average forward rate of ₱49.55.

As of December 31, 2019, the Parent Company has outstanding buy US dollar currency forwards with aggregate notional amount of US$7 million, terms of 184 days, and weighted average forward rate of ₱51.78.

In 2020, 2019 and 2018, total gain (loss) on currency forwards included under 'Trading and securities gain (loss) - others' in the statements of income amounted to ₱2.56 million, ₱8.76 million, and ₱0.27 million, respectively (see Note 26).

25. Trust Operations

Securities and other properties (other than deposits) held by the Parent Company for its customers in its fiduciary or agency capacity are not included in the statements of financial position since these are not assets of the Parent Company. Total assets held by the Parent Company's trust department amounted to ₱7.97 billion and ₱7.14 billion as of December 31, 2020 and 2019, respectively (see Note 38).

As of December 31, 2020 and 2019, government securities (included under 'Investment securities at amortized cost') owned by the Parent Company with total face value of ₱80.00 million and ₱72.30 million, respectively, are deposited with the BSP in compliance with the requirements of RA No. 337 relative to the Parent Company's trust functions.

Income from the Group's and the Parent Company's trust operations shown under 'Income from trust operations' in the statements of income amounted to ₱25.69 million, ₱21.10 million, and ₱15.71 million in 2020, 2019 and 2018, respectively.

26. Income on Investment Securities

Interest income on investment securities follows:

	2020	2019	2018
Investment securities at amortized cost	**₱150,348**	₱497,929	₱540,129
Financial assets at FVOCI	**213,270**	90,388	168,879
Investment Securities	**₱363,618**	₱588,317	₱709,008
Financial assets at FVTPL	**80,007**	159,297	15,810
	₱443,625	₱747,614	₱724,818

The Parent Company's peso-denominated investment securities earned annual interest rates ranging from 2.63% to 8.00% in 2020 and 3.19% to 8.13% in 2019 and 2018, while dollar-denominated investment securities earned annual interest rates ranging from 0.63% to 10.63%, 2.63% to 10.63%, and 2.95% to 10.63% in 2020, 2019 and 2018, respectively.

The Group's and the Parent Company's trading and securities gain (loss) - net follows:

	2020	2019	2018
Financial assets at FVTPL	**₱374,890**	₱90,476	(₱9,454)
Financial assets at FVTOCI	**277,278**	309,176	32,522
Derivatives (Note 24)	**2,563**	8,761	268
	₱654,731	₱408,413	₱23,336

27. **Employee Benefits**

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

Defined Benefit Plans

Parent Company

The Parent Company has a funded, noncontributory defined benefit retirement plan covering substantially all of its officers and regular employees. The Parent Company's annual contribution to the retirement plan consists of a payment covering the current service cost and unfunded actuarial accrued liability. The retirement plan provides a retirement benefit based on applicable percentage of salary (100% - 150%) depending on the number of years of service (minimum of five years), a fraction of a month being considered as one whole month. The Parent Company's retirement plan is in the form of a trust administered by the Parent Company's Trust and Wealth Management Group (TWMG) under the supervision of the Retirement Board.

The latest actuarial valuation studies of the defined benefit retirement plans of the Group were made as of December 31, 2020.

The following table shows the actuarial valuation results for the Group and the Parent Company as of December 31, 2020 and 2019:

	2020		2019	
	Fair Value of Plan Assets	**Present Value of Obligation**	Fair Value of Plan Assets	Present Value of Obligation
Consolidated and Parent Company	**₱500,642**	**₱609,646**	₱475,809	₱512,964

The amounts relating to the defined benefit retirement plans of the Group and Parent Company are presented in the statements of financial position as follows:

	2020	2019
Retirement asset* (Note 16)	**₱–**	₱–
Retirement liability** (Note 20)	**(109,004)**	(37,155)
Net retirement asset (liability)	**(₱109,004)**	(₱37,155)

** Included in 'Other assets'*
*** Included in 'Accrued interest, taxes and other expenses'*

Changes in the present value of the defined benefit obligations as of December 31, 2020 and 2019 are as follows:

	Consolidated		Parent Company	
	2020	2019	**2020**	2019
Balance at January 1	**₱512,964**	₱389,533	**₱512,964**	₱381,725
Sale of subsidiary (Note 7)	**–**	(7,808)	**–**	–
Current service cost	**60,898**	42,968	**60,898**	42,968
Interest cost	**27,187**	29,011	**27,817**	29,011
Remeasurement losses (gains):				
Actuarial loss (gains) arising from deviations of experience from assumptions	**(₱35,203)**	₱6,512	**(₱35,203)**	₱6,512
Actuarial losses arising from changes in financial assumptions	**86,634**	107,597	**86,634**	107,597
Benefits paid	**(42,834)**	(54,849)	**(42,834)**	(54,849)
Settlements	**–**	–	**–**	–
Balance at December 31	**₱609,646**	₱512,964	**₱609,646**	₱512,964

Changes in the fair value of the plan assets of the Group and Parent Company as of December 31, 2020 and 2019 are as follows:

	2020	2019
Balance at January 1	**₱475,809**	₱470,927
Sale of subsidiary (Note 7)	**–**	(14,852)
Contributions	**62,867**	37,317
Interest income	**25,218**	34,662
Return on plan assets (excluding interest income)	**(20,418)**	2,604
Benefits paid	**(42,834)**	(54,849)
Balance at December 31	**₱500,642**	₱475,809

The fair values of plan assets by class of the Group and Parent Company as of December 31, 2020 and 2019 are as follows:

	2020	2019
Cash and cash equivalents	**₱139,193**	₱54,193
Debt instruments:		
Philippine government	**98,416**	96,080
Industrial	**56,251**	64,796
Real estate	**47,808**	40,879
Financial intermediaries	**28,161**	29,268
Holding firms	**24,977**	20,127
Power, electricity and water distribution	**14,386**	11,058
Agricultural	**–**	67,611
Equity instruments:		
Real estate	**27,198**	31,658
Holding firms	**26,273**	18,164
Wholesale and retail trade	**13,016**	14,703
Transport, storage and communication	**11,824**	9,368
Financial intermediaries	**9,398**	10,470
Power, electricity and water distribution	**2,476**	2,675
Manufacturing	**1,546**	559
Others	**470**	526
Other assets and liabilities	**(1,471)**	3,674
	₱500,642	₱475,809

The Group's plan assets are carried at fair value. All equity and debt instruments have quoted prices in an active market. The fair values of other assets and liabilities, which include amounts due from other banks, accrued interest and other receivables and trust fee payables, approximate their carrying amount due to the short-term nature of these accounts.

The plan assets are diversified investments and are not exposed to concentration risk.

The Group expects to contribute ₱77.16 million to the defined retirement benefit plans in 2021.

The cost of defined benefit retirement plans, as well as the present value of the benefit obligations, are determined using actuarial valuations, which involve making various assumptions. The principal assumptions used are shown below:

	Parent Company	
	2020	2019
Discount rate:		
At January 1	**5.30%**	7.60%
At December 31	**4.00%**	5.30%
Salary increase rate	**7.00%**	7.00%
Average remaining working life	**13**	13

The sensitivity analysis below has been determined based on reasonably possible changes of each significant assumption of the Group and Parent Company as of December 31, 2020 and 2019, assuming all other assumptions were held constant. The sensitivity analysis may not be representative of an actual change in the defined benefit obligation as it is unlikely that changes in assumptions would occur in isolation from one another.

	Increase (Decrease) in Defined Benefit Obligation	
	2020	2019
Increase in discount rate of 0.50%	**(₱73,280)**	(₱10,150)
Decrease in discount rate of 0.50%	**148,157**	66,595
Increase in salary increase rate of 0.50%	**144,931**	64,370
Decrease in salary increase rate of 0.50%	**(75,783)**	(11,890)

The amounts of defined benefit cost included in the statements of other comprehensive income as 'Remeasurement of retirement liability', gross of tax, follow:

	Consolidated			Parent Company		
	2020	2019	2018	**2020**	2019	2018
Actuarial gain (loss) on benefit obligation	**(₱51,431)**	(₱114,109)	₱133,658	**(₱51,431)**	(₱114,109)	₱129,728
Return on plan assets (excluding interest income)	**(20,418)**	2,604	(35,903)	**(20,418)**	2,604	(35,024)
Remeasurement gains (loss) in OCI	**(₱71,849)**	(₱111,505)	₱97,755	**(₱71,849)**	(₱111,505)	₱94,704

The amounts of retirement cost included in the statements of income follow:

	Consolidated			Parent Company		
	2020	2019	2018	**2020**	2019	2018
Current service cost*	**₱60,898**	₱42,968	₱62,245	**₱60,898**	₱42,968	₱59,832
Net interest expense (Note 19)	**1,969**	(5,651)	958	**1,969**	(5,651)	1,181
Retirement cost	**₱62,867**	₱37,317	₱63,203	**₱62,867**	₱37,317	₱61,013

**Included under 'Compensation and fringe benefits' in the statements of income*

Shown below is the maturity profile of the undiscounted benefit payments of the Group and the Parent Company as of December 31, 2020 and 2019:

Plan Year	**2020**	2019
Less than five years	**₱172,677**	₱183,708
More than five to ten years	**343,479**	310,649
Ten years and above	**3,383,230**	3,387,844
	₱3,899,386	₱3,882,201

Collective Bargaining Agreement (CBA)
All of the Parent Company's rank and file employees are covered by a CBA, the most recent negotiation having been signed on September 21, 2018, with an effectivity date until December 31, 2020. The new CBA is currently under negotiation and will cover the 2-year period from January 1, 2021 to December 31, 2022. There had been neither dispute nor occurrence of employees' strike for the past years.

Defined Contribution Plans
Parent Company
The Parent Company employs a provident fund scheme where the Parent Company and its covered employees shall contribute 11% and 5% of the employees' basic monthly salary, respectively. Contributions are maintained under the Provident Fund account administered by the Parent Company's TWMG under the supervision of the Retirement/Provident Fund Board. As approved by the Parent Company's BOD on November 27, 2013, new officers hired after December 31, 2013, except those whose terms of employment have been negotiated prior to December 1, 2013, are no longer eligible for inclusion in the Parent Company's provident fund. The Parent Company's BOD, in its meeting held on January 27, 2016, approved a change in vesting for the retirement fund from 5 to 10 years effective for all new hires who sign up starting February 1, 2016.

Contributions paid and accrued by the Parent Company for both the Staff Provident Fund and the Retirement Fund recognized under 'Compensation and fringe benefits' in the statements of income amounted to ₱91.28 million, ₱67.27 million, and ₱95.95 million in 2020, 2019 and 2018, respectively.

28. **Long-term Leases**

Group as a Lessee

As of December 31, 2020 and 2019, 81.72% of the Parent Company's branch sites are under lease arrangements. The lease contracts are for periods ranging from one to four years and some are renewable at the Group's option under certain terms and conditions. Various lease contracts include escalation clauses, which bear an annual rent increase of 5.00% to10.00%. As of December 31, 2020 and 2019, the Group has no contingent rent payable.

As of December 31, 2020 and 2019, the carrying amount of lease liabilities (included in 'Other Liabilities' in Note 21) is ₱239.74 million and ₱270.55 million, respectively .

With the adoption of PFRS 16, in 2020 and 2019, the Group and the Parent Company recognized interest expense on lease liabilities (included in 'Interest and Finance Charges' in the Statements of Income) amounting to ₱17.60 million and ₱18.71 million, and rent expense from short-term leases and leases of low-value assets amounting to ₱44.24 million and ₱55.90 million, respectively.

Prior to PFRS 16 adoption, rent expense (included in 'Occupancy and equipment-related costs' in the statements of income) in 2018 amounted to ₱191.02 million.

The Group's and the Parent Company's future minimum rentals payable under noncancellable operating leases are as follows:

	2020	2019
Within one year	**₱141,199**	₱140,168
Beyond one year but not more than five years	**243,737**	254,574
Beyond five years	**5,523**	1,276
	₱390,459	₱396,018

Group as a Lessor

The Parent Company has also entered into commercial property leases on its investment properties. These noncancellable leases have remaining noncancellable lease terms of between one to five years. The Parent Company recognized rent income, included under 'Rent income' in the statements of income, amounting to ₱673.41 million, ₱736.34 million, and ₱661.02 million, in 2020, 2019 and 2018, respectively.

The Group's and the Parent Company's future minimum rentals receivable under noncancellable operating leases follow:

	2020	2019
Within one year	**₱678,275**	₱777,329
Beyond one year but not more than five years	**3,294,112**	3,585,023
Beyond five years	**504,705**	1,035,475
	₱4,477,092	₱5,397,827

29. Miscellaneous Income and Expenses

Miscellaneous income

Details of this account are as follows:

	Consolidated			Parent Company		
	2020	2019	2018	**2020**	2019	2018
Continuing operations:						
Rental charges	**₱112,721**	₱108,171	₱92,305	**₱112,721**	₱108,171	₱92,305
Loan charges	**24,116**	30,459	11,275	**24,116**	30,459	11,275
Dividend income	**9,585**	3,335	5,085	**9,585**	3,335	5,085
Loss on sale/exchange of other non-financial assets	**(3,014)**	(8,515)	–	**(3,014)**	(8,515)	–
Others	**14,994**	4,333	5,511	**14,994**	4,333	5,511
	₱158,402	₱137,783	₱114,176	₱158,402	₱137,783	₱114,176
Discontinued operation:						
Loan charges	–	–	12,544	–	–	–
	₱158,402	₱137,783	₱126,720	**₱158,402**	₱137,783	₱114,176

Miscellaneous expenses

Details of this account are as follows:

	Consolidated			Parent Company		
	2020	2019	2018	**2020**	2019	2018
Continuing operations:						
Information technology	**₱81,861**	₱83,892	₱84,157	**₱ 81,861**	₱83,892	₱84,157
Fines, penalties and other charges	**71,796**	80,604	35,086	**71,796**	80,604	35,087
Transaction dues	**44,634**	43,673	37,043	**44,634**	43,673	37,043
Brokerage fees	**38,191**	37,760	315	**38,191**	37,760	10,201
Litigation and assets acquired - related expenses	**36,926**	32,043	22,184	**36,926**	32,043	22,184
Stationery and supplies	**13,064**	13,506	21,482	**13,064**	13,506	16,550
Travel	**12,094**	5,485	16,674	**12,094**	5,485	9,666
Fuel and lubricants	**10,123**	11,991	11,198	**10,123**	11,991	13,273
Advertising	**4,668**	13,763	9,238	**4,668**	13,763	7,393
Freight	**7,926**	8,714	5,384	**7,926**	8,714	7,224
Others	**71,494**	100,963	95,301	**71,489**	100,963	95,269
	392,777	432,394	338,062	**392,772**	432,394	338,047
Discontinued operation:						
Information technology	–	–	8,175	–	–	–
Fines, penalties and other charges	–	–	563	–	–	–
Transaction dues	–	–	260	–	–	–
Litigation and assets acquired - related expenses	–	–	1,553	–	–	–
Travel	–	–	2,848	–	–	–
Fuel and lubricants	–	–	4,923	–	–	–
Brokerage fees	–	–	9,886	–	–	–
Advertising	–	–	38	–	–	–
Freight	–	–	1,882	–	–	–
Others	–	–	9,057	–	–	–
	₱392,777	₱432,394	₱377,247	**₱392,772**	₱432,394	₱338,047

Others include account maintenance charges, contractual services, and Philippine Dealing Exchange Corp. transaction fees.

30. **Income and Other Taxes**

Under Philippine tax laws, the RBU of the Parent Company and its subsidiary are subject to percentage and other taxes (presented as 'Taxes and licenses' in the statements of income), as well as income taxes. Percentage and other taxes paid consist principally of gross receipts tax (GRT) and DST. Income taxes include corporate income tax, as discussed below, and final taxes paid, which represents final withholding tax on gross interest income from government securities and other deposit substitutes and income from FCDU transactions. These income taxes, as well as the deferred tax benefits and provisions, are presented as 'Provision for income tax' in the statements of income.

RA No. 9397, *An Act Amending National Internal Revenue Code*, provides that the RCIT rate shall be 30.00% and the interest expense allowed as a deductible expense shall be reduced by 33.00% of interest income subjected to final tax.

An MCIT of 2.00% of modified gross income is computed and compared with the RCIT. Any excess of MCIT over the RCIT is deferred and can be used as a tax credit against future income tax liability for the next three years. In addition, NOLCO is allowed as a deduction from taxable income in the next three years from the period of incurrence.

FCDU offshore income (income from non-residents) is tax-exempt while gross onshore income (income from residents) is generally subject to 10.00% gross income tax. In addition, interest income on deposit placements with other FCDUs and offshore banking units is subject to a 15.00% and 7.50% final tax in 2018 and 2017, respectively. RA No. 9294, *An Act Restoring the Tax Exemption of Offshore Banking Units (OBUs) and FCDUs*, provides that the income derived by the FCDU from foreign currency transactions with non-residents, OBUs, local commercial banks including branches of foreign banks is tax-exempt while interest income on foreign currency loans from residents other than OBUs or other depository banks under the expanded system is subject to 10.00% income tax.

Provision for income tax consists of:

	Consolidated			**Parent Company**		
	2020	2019	2018	**2020**	2019	2018
Continuing operations:						
Current:						
Final	**₱144,040**	₱159,002	₱150,912	**₱144,040**	₱159,002	₱150,912
RCIT	**217,947**	70,626	75,875	**217,947**	70,626	75,875
MCIT	**–**	–	(3,769)	**–**	–	(3,769)
	361,987	229,628	223,018	**361,987**	229,628	223,018
Deferred	**(131,864)**	(27,237)	3,263	**(131,864)**	(27,237)	3,263
	230,123	202,391	226,281	**230,123**	202,391	226,281
Discontinued operations:						
Current:						
Final	–	–	20	–	–	–
RCIT	–	–	(8,928)	–	–	–
	–	–	(8,908)	–	–	–
Deferred	–	–	10,356	–	–	–
	–	–	1,448	–	–	–
	₱230,123	₱202,391	₱227,729	**₱230,123**	₱202,391	₱226,281

The Group's and Parent Company's components of deferred tax assets and liabilities follow:

	2020	2019
Deferred tax assets:		
Allowance for ECL and impairment losses	**₱635,159**	₱485,023
Retirement liability	**32,700**	–
Advance rental	**15,335**	–
Unamortized past service cost	**6,819**	–
Excess of MCIT over RCIT	–	5,021
	₱690,013	₱490,044
Deferred tax liabilities:		
Revaluation increment credited to surplus free	**₱399,979**	₱399,979
Branch licenses acquired from business combinations	**78,780**	78,780
Unrealized gain on equity securities carried at FVTOCI	**9,869**	9,364
Gain on foreclosure of foreclosed of properties	**25,438**	–
Unrealized foreign exchange gain	**5,339**	2,703
	₱519,405	₱490,826
Net deferred tax assets (liabilities)	**₱170,608**	**(₱782)**

Provision for (benefit from) income tax directly charged to OCI by the Group in 2020, 2019 and 2018 amounted to (₱45.05 million), (₱8.16 million) and ₱12.32 million, respectively.

Provision for income tax directly charged to OCI by the Parent Company in 2020, 2019 and 2018 amounted to(₱45.05 million), (₱8.16 million) and ₱11.40 million, respectively.

The ultimate realization of deferred tax assets is dependent on the generation of future taxable income. In assessing the realizability of its deferred tax assets, the Group considers projected future taxable income, reversal of temporary differences, and tax planning strategies.

The Group and Parent Company assessed that not all of its deferred tax assets may be realized in the future. Accordingly, the Group and Parent Company did not set up deferred tax assets on the following temporary differences and excess MCIT over RCIT:

	2020	2019
Allowance for ECL/credit and impairment losses	**₱356,936**	₱769,664
Advance rental income	–	29,416
Unamortized past service cost	–	28,495
	₱356,936	₱827,575

Details of the Parent Company's MCIT are as follow:

Inception Year	Amount	Used Amount	Expired Amount	Balance	Expiry Year
2019	5,021	5,021	–	–	2022
Total	₱5,021	₱5,021	₱–	₱–	

A reconciliation between the statutory income tax and the effective income tax follows:

	Consolidated			Parent Company		
	2020	2019	2018	**2020**	2019	2018
Statutory income tax	**₱419,711**	₱476,417	₱256,190	**₱419,711**	₱425,170	₱255,754
Tax effects of:						
Nondeductible expenses and others	**123,146**	57,921	114,355	**123,146**	126,443	109,317
FCDU income before income tax	**(93,512)**	(142,199)	(81,707)	**(93,512)**	(142,199)	(81,707)
Interest income subjected to final tax	**(36,579)**	(31,265)	(42,933)	**(36,579)**	(31,265)	(42,783)
Nontaxable income	**(67,280)**	(15,818)	(21,283)	**(67,280)**	(33,093)	(15,650)
Changes in unrecognized deferred tax assets	**(115,363)**	(142,665)	3,107	**(115,363)**	(142,665)	1,350
Effective income tax	**₱230,123**	₱202,391	₱227,729	**₱230,123**	₱202,391	₱226,281

31. **Related Party Transactions**

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. The Parent Company's related parties include key management personnel, close family members of key management personnel, affiliates (that is, entities which are controlled, significantly influenced by or for which significant voting power is held by the Parent Company or key management personnel or their close family members and retirement plan for the benefit of the Group's employees).

The Parent Company has business relationships with certain related parties. Transactions with such parties are made in the ordinary course of business and on substantially same terms, including interest and collateral, as those prevailing at the time for comparable transactions with other parties. These transactions also did not involve more than the normal risk of collectability or present other unfavorable conditions.

<u>Retirement Plans</u>
Under PFRS, certain post-employment benefit plans are considered as related parties. The Parent Company has a business relationship with its and PRBI's defined benefit and contribution plans, as it provides trust and management services to the plans. Any investments made in the retirement plans are approved by the Parent Company's and PRBI's respective Retirement Board. The Parent Company's Retirement Board is comprised of senior officers of the Parent Company while PRBI's Retirement Board is comprised of its senior officers. Income earned by the Parent Company (presented as part of 'Income from trust operations' in the statements of income) from such services amounted to ₱4.79 million in 2020, ₱4.63 million in 2019, and ₱4.64 million in 2018. Total deposits maintained by the related party retirement plans with the Parent Company amounted to ₱264.39 million and ₱6.15 million as of December 31, 2020 and 2019, respectively.

<u>Key Management Personnel</u>
Key management personnel are those persons with authority and responsibility for planning, directing and controlling the activities of the Parent Company, directly or indirectly. The Parent Company considers the members of the Senior Management Team to constitute key management personnel for purposes of PAS 24.

Total remunerations of key management personnel are as follows:

	2020	2019	2018
Short-term benefits	**₱131,425**	₱129,744	₱142,480
Post-employment benefits	**6,681**	4,445	5,659
	₱138,106	₱134,189	₱148,139

Details on significant related party transactions of the Parent Company follow:

	2020		
Category	**Volume**	**Outstanding Balance**	**Nature, Terms and Conditions**
Significant investors:			
Deposit liabilities	**(₱4,406,238)**	**₱3,982,377**	Savings and time deposit accounts with annual interest rates ranging from 0.06% to 3%.
Interest expense	**26,676**	−	
Depreciation expense	**22,559**	−	Branch and office space leased for five years ending in various years, with 5.00% annual escalation.
Lease liability	**(6,634)**	−	
Interest expense	**5,649**		
Rent income	**4,064**	−	5-year lease of branches, subject to pre-termination, with escalation rate of 5%.
Affiliate:			
Deposit liabilities	**2,985**	**17,548**	Demand, savings and time deposit accounts with annual interest rates ranging from 0.10% to 0.50%.
Interest expense	**172**	−	
Rent income	**157**	−	5-year lease expiring in July 2023 with 5.00% annual escalation.
Subsidiary:			
Deposit liabilities	**(5,574)**	**8,971**	Non-interest demand deposit account.
Key management personnel:			
Deposit liabilities	**8,240**	**24,779**	Savings and time deposit accounts with annual interest rates ranging from 0.10% to 2.63%.
Interest expense	**66**		
Provident fund:			
Deposit liabilities	**120,691**	**125,900**	Savings and time deposit accounts with annual interest rates ranging from 0.10% to 0.50%.
Interest expense	**256**		A certain percentage of the monthly ending market value of the fund depending on agreement.
Trust fee	**2,348**		
Retirement fund:			
Deposit liabilities	**137,558**	**138,499**	Savings and time deposit accounts with annual interest rates ranging from 0.10% to 0.50%
Interest expense	**271**		A certain percentage of the monthly ending market value of the fund depending on agreement.
Trust fee	**2,443**		

Category	Volume	Outstanding Balance	Nature, Terms and Conditions
	2019		
Significant investors:			
Deposit liabilities	₱3,195,068	₱8,388,615	Savings and time deposit accounts with annual interest rates ranging from 0.10% to 6.50%.
Interest expense	88,353	−	
Depreciation expense	20,365	−	
Lease Liability	78,258	78,258	Branch and office space leased for five years ending in various years, with 5.00% annual escalation.
Interest expense	4,774		
Rent income	3,946	−	5-year lease of branches, subject to pre-termination, with escalation rate of 5%.
Affiliate:			
Deposit liabilities	240	14,563	Demand, savings and time deposit accounts with annual interest rates ranging from 0.10% to 3.00%.
Interest expense	435	−	
Rent income	149	−	5-year lease expiring in July 2023 with 5.00% annual escalation.
Subsidiaries:			
Deposit liabilities	(1,265)	14,545	Demand and savings deposit accounts with annual interest rates ranging of 0.10% to 0.13%.
Rent income	27	−	3-year lease expiring in May 2020 with 7.50% and 10.00% annual escalation on second and third year, respectively.
Key management personnel:			
Deposit liabilities	(9,883)	16,539	Savings and time deposit accounts with annual interest rates ranging from 0.10% to 3.00%.
Interest expense	453	−	
Provident fund:			
Deposit liabilities	(15,818)	5,209	Savings and time deposit accounts with annual interest rates ranging from 0.10% to 1.25%.
Interest expense	583	−	
Trust fee	2,267	−	A certain percentage of the monthly ending market value of the fund depending on agreement.
Retirement fund:			
Deposit liabilities	(29,435)	941	Savings and time deposit accounts with annual interest rates ranging from 0.10%
Interest expense	580	−	
Trust fee	2,364	−	A certain percentage of the monthly ending market value of the fund depending on agreement.

Category	Volume	Outstanding Balance	Nature, Terms and Conditions
	2018		
Significant investors:			
Deposit liabilities	₱3,373,142	₱5,193,547	Savings and time deposit accounts with annual interest rates ranging from 0.10% to 2.38%.
Interest expense	78,561	−	
Rent expense	30,735	−	Branch and office space leased for five years ending in various years, with 5.00% annual escalation.
Rent income	4,225	−	5-year lease of branches, subject to pre-termination, with escalation rate of 5%.
Affiliate:			
Deposit liabilities	(399)	14,323	Demand, savings and time deposit accounts with annual interest rates ranging from 0.10% to 1.50%.
Interest expense	59	−	
Rent income	156	−	5-year lease expiring in July 2018, with 5.00% annual escalation.
Subsidiaries:			
Deposit liabilities	(75,977)	15,810	Demand and savings deposit accounts with annual interest rates ranging of 0.10% to 0.13%.
Interest expense	30	−	
Rent income	174	−	3-year lease expiring in May 2020 with 7.50% and 10.00% annual escalation on second and third year, respectively.
Key management personnel:			
Deposit liabilities	13,611	26,242	Savings and time deposit accounts with annual interest rates ranging from 0.10% to 3.50%.
Interest expense	123	−	

(Forward)

Category	2018 Volume	Outstanding Balance	Nature, Terms and Conditions
Provident fund:			
Deposit liabilities	(₱36,263)	₱21,027	Savings and time deposit accounts with annual interest rates ranging from 0.10% to 2.00%.
Interest expense	1,854	–	
Trust fee	2,331	–	A certain percentage of the monthly ending market value of the fund depending on agreement.
Retirement fund:			
Deposit liabilities	(58,016)	30,377	Savings and time deposit accounts with annual interest rates ranging from 0.10% to 2.00%.
Interest expense	2,167	–	
Trust fee	2,306	–	A certain percentage of the monthly ending market value of the fund depending on agreement.

32. Earnings Per Share

Basic EPS amounts are calculated by dividing the net income for the year by the weighted average number of common shares outstanding during the year.

The following reflects the income and share data used in the basic and diluted earnings per share computations:

	2020	2019	2018
Net income attributable to equity holders of the Parent Company	**₱1,168,912**	₱1,157,257	₱626,233
Weighted average number of common shares outstanding	**480,645**	480,645	480,645
Basic/diluted earnings per share	**₱2.43**	₱2.41	₱1.30

As of December 31, 2020, 2019 and 2018, there are no outstanding dilutive potential common shares.

33. Notes to Statements of Cash Flows

The amounts of interbank loans receivable and SPURA considered as cash and cash equivalents of the Group and Parent as of December 31, 2020, 2019 and 2018 follow:

	2020	2019	2018
Interbank loans receivable and SPURA shown under statements of cash flows	**₱2,151,502**	₱717,736	₱193,820
Interbank loans receivable and SPURA not considered as cash and cash equivalents	**3,902,952**	–	13,145
Allowance for ECL	–	–	(1)
	₱6,054,454	₱717,736	₱206,964

The following is a summary of noncash activities:

	2020	2019	2018
Noncash operating activities:			
Additions to investment properties from settlement of loans (Note 14)	**₱63,969**	₱210,003	₱113,017
Additions to chattel mortgage from settlement of loans	**58,211**	112,024	180,562
Noncash investing activities:			
Transfer to property and equipment from investment properties (Notes 13 and 14)	–	(53,494)	–
Transfer to investment properties from property and equipment (Notes 13 and 14)	–	53,494	–
Transfer to property and equipment from other assets (Notes 13 and 16)	**5,247**	6,619	7,014
Transfer to other assets from property and equipment (Notes 13 and 16)	**(5,247)**	(6,619)	(7,014)

The changes in liabilities arising from the Group's financing activities in 2020, 2019 and 2018 are as follows:

	January 1, 2020	**Cash Flows**	**Derecognition of Subsidiary**	**Foreign Exchange Movement**	**December 31, 2020**
Bills payable (Note 19)	**₱13,064,824**	**(₱10,879,934)**	**₱–**	**(₱2,046)**	**₱2,182,844**
Outstanding acceptances	**91,855**	**417,210**	**–**	**(11,252)**	**497,813**
Marginal deposits*	**34,348**	**(27,575)**		**–**	**6,773**
Total liabilities from financing activities	**₱13,191,027**	**(₱10,490,299)**	**₱–**	**(₱13,298)**	**₱2,687,430**

	January 1, 2019	Cash Flows	Derecognition of Subsidiary	Foreign Exchange Movement	December 31, 2019
Bills payable (Note 19)	₱17,659,043	(₱4,537,163)	(₱67,758)	₱10,702	₱13,064,824
Outstanding acceptances	46,344	50,412	–	(4,901)	91,855
Marginal deposits*	304	34,044		–	34,348
Total liabilities from financing activities	₱17,705,691	(₱4,452,707)	(₱67,758)	₱5,801	₱13,191,027

** Included in 'Other liabilities'*

	January 1, 2018	Cash Flows	Foreign Exchange Movement	December 31, 2018
Bills payable (Note 19)	₱12,567,399	₱5,096,599	(₱4,915)	₱17,659,083
Outstanding acceptances	64,085	(19,683)	1,942	46,344
Marginal deposits*	532	(228)	–	304
Total liabilities from financing activities	₱12,632,016	₱5,076,688	(₱2,973)	₱17,705,731

** Included in 'Other liabilities'*

The changes in liabilities arising from the Parent Company's financing activities in 2020, 2019 and 2018 are as follows:

	January 1, 2020	**Cash Flows**	**Derecognition of Subsidiary**	**Foreign Exchange Movement**	**December 31, 2020**
Bills payable (Note 19)	**₱13,064,824**	**(₱10,879,934)**	**₱–**	**(₱2,046)**	**₱2,182,844**
Outstanding acceptances	**91,855**	**417,210**	**–**	**(11,252)**	**497,813**
Marginal deposits*	**34,348**	**(27,575)**		**–**	**6,773**
Total liabilities from financing activities	**₱13,191,027**	**(₱10,490,299)**	**₱–**	**(₱13,298)**	**₱2,687,430**

	January 1, 2019	Cash Flows	Derecognition of Subsidiary	Foreign Exchange Movement	December 31, 2019
Bills payable (Note 19)	₱17,591,264	(₱4,537,163)	(₱67,758)	₱10,702	₱13,064,824
Outstanding acceptances	46,344	50,412	–	(4,901)	91,855
Marginal deposits*	304	34,044		–	34,348
Total liabilities from financing activities	₱17,705,691	(₱4,452,707)	(₱67,758)	₱5,801	₱13,191,027

** Included in 'Other liabilities'*

	January 1, 2018	Cash Flows	Foreign Exchange Movement	December 31, 2018
Bills payable (Note 19)	₱12,567,399	₱5,028,800	(₱4,915)	₱17,591,284
Outstanding acceptances	64,085	(19,683)	1,942	46,344
Marginal deposits*	532	(228)	–	304
Total liabilities from financing activities	₱12,632,016	₱5,008,889	(₱2,973)	₱17,637,932

** Included in 'Other liabilities'*

Below is the movement of lease liability of the Group and Parent:

	2020	2019
Beginning balance	**₱270,554**	₱192,803
Additions	**76,072**	178,209
Cash flows	**(124,495)**	(119,169)
Interest expenses	**17,603**	18,711
Ending balance	**₱239,734**	₱270,554

34. Offsetting of Financial Assets and Liabilities

The amendments to PFRS 7 require the Group to disclose information about rights of offset and related arrangements (such as collateral posting requirements) for financial instruments under an enforceable master netting agreements or similar arrangements. The effects of these arrangements are disclosed in the succeeding table (amounts in thousands).

December 31, 2020						
				Effects of remaining rights of set–off (including rights to set off financial collateral) that do not meet PAS 32 offsetting criteria		
Financial instruments recognized at end of reporting period by type	**Gross carrying amounts (before offsetting)**	**Gross amounts offset in accordance with the offsetting criteria**	**Net amount presented in statements of financial position [a–b]**	**Financial instruments**	**Fair value of financial collateral**	**Net exposure [c–d]**
	[a]	**[b]**	**[c]**	**[d]**		**[e]**
Financial liabilities						
Bills payable	**₱–**	**₱–**	**₱–**	**₱–**	**₱–**	**₱–**

Financial instruments recognized at end of reporting period by type	Gross carrying amounts (before offsetting)	Gross amounts offset in accordance with the offsetting criteria	Net amount presented in statements of financial position [a–b]	Effects of remaining rights of set–off (including rights to set off financial collateral) that do not meet PAS 32 offsetting criteria		Net exposure [c–d]
December 31, 2019				Financial instruments	Fair value of financial collateral	
	[a]	[b]	[c]	[d]		[e]
Financial liabilities						
Bills payable	₱10,628,041	₱–	₱10,628,041	₱11,199,573	₱10,575,001	₱53,040

The amounts disclosed in column (d) include those rights to set–off amounts that are only enforceable and exercisable in the event of default, insolvency or bankruptcy. These include amounts related to financial collateral both received and pledged, whether cash or non–cash collateral, excluding the extent of over–collateralization.

35. Events after Reporting Period

President Rodrigo Duterte signed into law on March 26, 2021 the Corporate Recovery and Tax Incentives for Enterprises (CREATE) Act to attract more investments and maintain fiscal prudence and stability in the Philippines. Republic Act (RA) 11534 or the CREATE Act introduces reforms to the corporate income tax and incentives systems. It takes effect 15 days after its complete publication in the Official Gazette or in a newspaper of general circulation or April 11, 2021.

The following are the key changes to the Philippine tax law pursuant to the CREATE Act which have an impact on the Group:

- Effective July 1, 2020, regular corporate income tax (RCIT) rate is redLuced from 30% to 25% for domestic and resident foreign corporations. For domestic corporations with net taxable income not exceeding Php5 million and with total assets not exceeding Php100 million (excluding land on which the business entity's office, plant and equipment are situated) during the taxable year, the RCIT rate is reduced to 20%.

- Minimum corporate income tax (MCIT) rate reduced from 2% to 1% of gross income effective July 1, 2020 to June 30, 2023.

- Effective January 1, 2021, income tax rate for nonresident foreign corporation is reduced from 30% to 25%.

- Income tax arbitrage rate reduced from 33% to 20% of interest income subject to final tax effective July 1, 2020

As clarified by the Philippine Financial Reporting Standards Council in its Philippine Interpretations Committee Q&A No. 2020-07, the CREATE Act was not considered substantively enacted as of December 31, 2020 even though some of the provisions have retroactive effect to July 1, 2020. The passage of the CREATE Act into law on March 26, 2011 is considered as a non-adjusting subsequent event. Accordingly, current and deferred taxes as of and for the year ended December 31, 2020 continued to be computed and measured using the applicable income tax rates as of December 31, 2020 (i.e., 30% RCIT / 2% MCIT) for financial reporting purposes.

Applying the provisions of the CREATE Act, the Group would have been subjected to lower regular corporate income tax rate of 25% effective July 1, 2020.

Based on the provisions of Revenue Memorandum Circular No. 50-2021 dated April 5, 2021 issued by the BIR, the prorated RCIT rate of the Group for 2020 is 27.50%.

- This will result in lower provision for current income tax for the year ended December 31, 2020 amounting to ₱190.70 million, or a reduction of ₱18.16 million. The reduced amount will be reflected in the Group's 2020 annual income tax return. However, for financial reporting purposes, the changes will only be recognized in the 2021 financial statements.

- This will result in lower deferred tax assets as of December 31, 2020 and provision for deferred tax for the year then ended by ₱21.98 million. These reductions will be recognized in the 2021 financial statements.

36. Approval for Release of the Financial Statements

The financial statements were authorized for issue by the BOD of the Parent Company on May 14, 2021.

37. Standards Issued but not yet Effective

Pronouncements issued but not yet effective are listed below. The Group intends to adopt the following pronouncements when they become effective. The adoption of these pronouncements is not expected to have a significant impact on the Group's financial statements unless otherwise indicated.

Effective beginning on or after January 1, 2021

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

  The amendments provide the following temporary reliefs which address the financial reporting effects when an interbank offered rate (IBOR) is replaced with an alternative nearly risk-free interest rate (RFR):

  - Practical expedient for changes in the basis for determining the contractual cash flows as a result of IBOR reform;
  - Relief from discontinuing hedging relationships;
  - Relief from the separately identifiable requirement when an RFR instrument is designated as a hedge of a risk component

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

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

Effective beginning on or after January 1, 2022

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

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

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

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

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

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

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

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

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

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

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

- *Annual Improvements to PFRSs* 2018-2020 Cycle

- Amendments to PFRS 1, *First-time Adoption of Philippines Financial Reporting Standards, Subsidiary as a first-time adopter*

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

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

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

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

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

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

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

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

- Amendments to PAS 41, *Agriculture, Taxation in fair value measurements*

  The amendment removes the requirement in paragraph 22 of PAS 41 that entities exclude cash flows for taxation when measuring the fair value of assets within the scope of PAS 41.

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

Effective beginning on or after January 1, 2023

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

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

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

  The amendments are effective for annual reporting periods beginning on or after January 1, 2023 and must be applied retrospectively.

- PFRS 17, *Insurance Contracts*

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

  The overall objective of PFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in PFRS 4, which are largely based on grandfathering previous local accounting policies, PFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of PFRS 17 is the general model, supplemented by:
  - A specific adaptation for contracts with direct participation features (the variable fee approach)
  - A simplified approach (the premium allocation approach) mainly for short-duration contracts

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

Deferred effectivity

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

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

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

38. Report on the Supplementary Information Required Under BSP Circular No. 1074

On February 7, 2020, the BSP issued Circular No. 1074 which amends certain provisions of Section 174 of the Manual of Regulations for Banks relating to the audited financial statements. It also required banks to disclose the following supplementary information in the financial statements:

Basic quantitative indicators of financial performance
The following basic ratios measure the financial performance of the Group and the Parent Company:

	Consolidated			Parent Company		
	2020	2019	2018	**2020**	2019	2018
Return on average equity (a/b)	**9.79%**	10.68%	6.18%	**9.79%**	10.67%	6.17%
a) Net income	**1,168,912**	1,157,257	626,236	**1,168,912**	1,157,257	626,233
b) Average total equity	**11,942,440**	10,840,557	10,134,543	**11,942,440**	10,845,255	10,143,939
Return on average assets (a/c)	**1.15%**	1.12%	0.63%	**1.15%**	1.13%	0.64%
c) Average total assets	**101,985,361**	103,244,912	99,430,297	**101,992,873**	102,307,438	97,569,211
Net interest margin (d/e)	**4.64%**	3.85%	3.71%	**4.64%**	3.90%	3.80%
d) Net interest income	**3,925,494**	3,205,033	2,869,809	**3,925,494**	3,205,033	2,869,809
e) Average interest earning assets	**84,668,912**	83,216,561	77,402,722	**84,671,645**	82,213,352	75,431,531

Description of Capital Instruments Issued
As of December 31, 2020 and 2019, the Parent Company has outstanding capital stock shown below:

	Shares		Amount	
	2020	2019	**2020**	2019
Common - ₱25 par value				
Authorized	**760,000**	760,000		
Issued and outstanding				
Balance at January 1	**480,645**	480,645	**₱12,016,129**	₱12,016,129
Issuance during the year (Note 1)	**–**	–	**–**	–
Balance at December 31	**480,645**	480,645	**₱12,016,129**	₱12,016,129

Significant Credit Exposures as to Industry Sector

The information of the Group and Parent Company on the concentration of credit as to industry before taking into account the allowance for ECL follows:

	2020		2019	
	Amount	**%**	Amount	%
Wholesale and retail trade, repair of motor vehicles, motorcycles	**15,351,359**	**26.29**	₱14,522,833	23.82
Real estate activities	**12,648,584**	**21.66**	13,262,342	21.75
Manufacturing	**12,478,425**	**21.37**	11,117,955	18.23
Construction	**3,699,796**	**6.34**	3,251,380	5.33
Electric, gas, steam and air-conditioning supply	**3,471,471**	**5.94**	3,256,313	5.34
Accommodation and food service activities	**2,701,351**	**4.63**	3,916,028	6.42
Financial and insurance activities	**1,998,754**	**3.42**	3,054,853	5.01
Agriculture, forestry and fishing	**1,420,167**	**2.43**	1,346,003	2.21
Transportation and storage	**1,375,109**	**2.35**	1,541,078	2.53
Human health and social work activities	**1,149,146**	**1.97**	732,198	1.20
Loans to individuals Primarily for Personal Use purposes	**933,090**	**1.60**	1,991,722	3.27
Other service activities	**479,441**	**0.82**	2,084,953	3.42
Activities of households as employers and undifferentiated goods and services-producing activities of households for own use	**183,280**	**0.31**	223,365	0.37
Mining and quarrying	**132,348**	**0.23**	164,509	0.27
Education	**87,338**	**0.15**	94,264	0.15
Others	**283,940**	**0.49**	412,865	0.68
	₱58,393,599	**100.00**	₱60,972,661	100.00

Breakdown of Total Loans as to Security

The information (gross of unearned discounts and capitalized interest) of the Group and Parent Company relating to receivables from customers as to secured and unsecured and as to collateral follows:

	2020		2019	
	Amount	**%**	Amount	%
Loans secured by:				
Real estate	**₱17,751,671**	**30.37**	₱16,220,369	26.56
Chattel	**1,025,674**	**1.75**	1,410,702	2.31
Deposit hold-out	**932,830**	**1.60**	964,720	1.58
Securities and others	**4,844,451**	**8.29**	4,152,966	6.80
Secured	**24,554,626**	**42.01**	22,748,757	37.26
Unsecured loans	**33,890,229**	**57.99**	38,313,013	62.74
	₱58,444,855	**100.00**	₱61,061,770	100.00

Breakdown of Total Loans as to Status

The table below shows the status of the Group and the Parent Company's loans (gross of unearned discounts and capitalized interest) as to performing and non-performing loans (NPL) per product line as adjusted.

	2020		2019	
	Performing	**NPL**	Performing	NPL
Corporate loans	**₱50,036,261**	**₱2,728,009**	₱52,758,779	₱1,090,098
Consumer loans				
Home	**3,942,017**	**526,532**	4,571,004	270,245
Auto	**587,384**	**184,539**	813,258	435,574
Personal	**324,254**	**115,859**	593,869	528,943
	₱54,889,916	**₱3,554,939**	₱58,736,910	₱2,324,860

The Parent Company has also applied for the following reliefs with BSP for prudential reporting:

- Temporary regulatory relief granted by the Bangko Sentral ng Pilipinas on the classification of Past Due Loans and Non-Performing Loans, as indicated under BSP memorandums M-2020-008 M-2020-032, and M-2020-087, due to the effects of the COVID-19 Pandemic on the loan portfolio of Banks. Subject to reporting to the BSP, eligible loans are those loans in affected areas that should have been reclassified as past due, including those loans becoming past due or nonperforming six (6) months thereafter. The exclusion shall be allowed from March 8, 2020 until December 31, 2020.

- Lenders were allowed to renegotiate terms of existing loan agreements via restructuring, extension of maturities, and moratorium on payments/amortizations among others on a case-to-case basis depending on financial status, cash flow, and security position.

In accordance with BSP Circular No. 941, *Amendments to the Regulations on Past Due and Non-Performing Loans*, loans, investments, receivables, or any financial asset shall be considered non-performing, even without any missed contractual payments, if it satisfies the following conditions:

a. It is considered impaired under existing accounting standards;
b. It is classified as doubtful or loss;
c. It is under litigation; and
d. There is evidence that full repayment of principal and interest is unlikely without foreclosure of collateral, if any.

All other loans, even if not considered impaired, shall be considered non-performing if any principal and/or interest are unpaid for more than 90 days from contractual due date, or accrued interests for more than 90 days have been capitalized, refinanced, or delayed by agreement.

Non-performing loans, investments, receivables, or any financial asset (and/or any replacement loan) shall remain classified as such until:

a. There is sufficient evidence to support that full collection of principal and interests is probable and at least six consecutive payments of the required amortization of principal and/or interest are received; or
b. Written-off.

As of December 31, 2020 and 2019, based on the definition of NPLs under MORB Section X306.2, NPLs of ₱3.56 billion for 2020 and ₱2.32 billion for 2019, net of specific allowance amounting to ₱1.78 billion and ₱1.07 billion, respectively. Gross and net NPL ratios of the Group are 5.71% and 2.86% for 2020, respectively, and 3.82% and 1.76% for 2019, respectively.

<u>Information on Related Party Loans</u>

As required by the BSP, the Parent Company discloses loan transactions with its associates, affiliates and with certain directors, officers, stockholders and related interests (DOSRI). Existing banking regulations limit the amount of individual loans to DOSRI, 70.00% of which must be secured, to the total of their respective deposits and book value of their respective investments in the Parent Company. In the aggregate, loans to DOSRI generally should not exceed total equity or 15.00% of total loan portfolio, whichever is lower.

BSP Circular No. 423 dated March 15, 2004 amended the definition of DOSRI accounts. The following table shows information relating to the loans, other credit accommodations and guarantees classified as DOSRI accounts under regulations existing prior to BSP Circular No. 423, and new DOSRI loans, other credit accommodations and guarantees granted under said Circular:

	2020	2019
Total outstanding DOSRI loans	**₱2,492**	₱3,857
Total outstanding DOSRI loans granted under regulations existing prior to BSP Circular No. 423	**2,492**	3,857
New DOSRI loans granted under BSP Circular No. 423	**–**	–
Total outstanding non-DOSRI loans prior to BSP Circular No. 423	**62,251,348**	60,882,337
Percent of DOSRI loans to total loans	**0.00%**	0.01%
Percent of unsecured DOSRI loans to total DOSRI loans	**56.18%**	32.89%
Percent of past due DOSRI loans to total DOSRI loans	**0.00%**	0.00%
Percent of nonperforming DOSRI loans to total DOSRI loans	**0.00%**	0.00%

The amounts of loans and receivables disclosed for related parties above differ with the amounts disclosed for key management personnel since the composition of DOSRI is more expansive than that of key management personnel.

BSP Circular No. 560 provides that the total outstanding loans, other credit accommodation and guarantees to each of the bank's/quasi–bank's subsidiaries and affiliates shall not exceed 10.00% of the net worth of the lending bank/quasi–bank, provided that the unsecured portion of which shall not exceed 5.00% of such net worth. Further, the total outstanding loans, credit accommodations and guarantees to all subsidiaries and affiliates shall not exceed 20.00% of the net worth of the lending bank/quasi–bank; and the subsidiaries and affiliates of the lending bank/quasi–bank are not related interest of any director, officer and/or stockholder of the lending institution, except where such director, officer or stockholder sits in the BOD or is appointed officer of such corporation as representative of the bank/quasi–bank. As of December 31, 2020 and 2019, the Parent Company is in compliance with these requirements.

Any violation of the provisions of BSP Circular No. 423 is subject to regulatory sanctions. However, loans, other credit accommodations and guarantees, as well as availments of previously approved loans and committed credit lines that are not considered DOSRI (non-DOSRI) accounts prior to the issuance of BSP Circular No. 423 are not covered by such sanctions for a transition period of two years from the effectivity of this Circular or until said loan, other credit accommodations and guarantees become past due, or are extended, renewed or restructured, whichever comes later.

On May 12, 2009, BSP issued Circular No. 654 allowing a separate individual limit of twenty–five (25.00%) of the net worth of the lending bank/quasi–bank to loans of banks/quasi–banks to their subsidiaries and affiliates engaged in energy and power generation.

Aggregate Amount of Secured Liabilities and Assets Pledged as Security

As of December 31, 2020, no bills payable are secured by pledge on financial assets of the Parent Company .

As of December 31, 2019, 'Bills payable' amounting to ₱10.63 billion, are secured by a pledge of certain 'Financial assets at FVTPL amounting to ₱1.38 billion, 'Financial assets at FVOCI' amounting to ₱1.09 billion, and 'Investment securities at amortized cost' amounting to ₱8.73 billion.

Commitments and contingencies

The following is a summary of contingencies and commitments of the Group and the Parent Company with the equivalent peso contractual amounts:

	2020	2019
Trust department accounts	**₱7,973,683**	₱7,144,650
Standby LC	**1,112,021**	1,340,632
Spot exchange:		
Bought	**1,300,002**	1,052,313
Sold	**1,460,869**	927,871
Usance LC outstanding	**84,331**	80,843
Outstanding shipping guarantees	**403,601**	218,883
Sight LC outstanding	**792,459**	594,933
Outward bills for collection	**32,053**	117,541
Currency forwards:		
Bought	**3,811**	–
Sold	**337,400**	354,445
Inward bills for collection	**13,108**	22,916
Items held for safekeeping	**25**	37
Items held as collateral	**7**	7
Other contingencies	**12,700**	16,055

39. Supplementary Information Under Revenue Regulations No. 15-2010

In compliance with the requirements set forth by RR No. 15-2010 hereunder are the details of percentage and other taxes paid or accrued by the Parent Company in 2020:

GRT	₱339,992
DST	236,346
Local taxes	28,977
Fringe benefit taxes	3,371
Others	31,374
	₱640,060

Withholding Taxes

Details of total remittances in 2020 and outstanding balance of withholding taxes as of December 31, 2020 follow:

	Total Remittances	Balance as of December 31
Final withholding taxes	₱196,939	₱7,747
Withholding taxes on compensation and benefits	120,783	8,110
Expanded withholding taxes	31,421	2,899
	₱349,143	₱18,756

Tax Assessments and Cases

As of December 31, 2020, the Parent Company has outstanding cases filed in courts for various claims for tax refund amounting to ₱4.62 million. The case is still pending in Supreme Court for final decision.