BDO Private Bank

2020 Annual Report
Financial Supplements

Wealth & Legacy

BDO Private Bank

2020 ANNUAL REPORT
FINANCIAL SUPPLEMENTS

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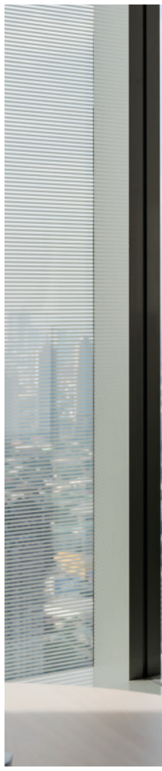
The 2020 Annual Report and the Financial Supplements can be viewed and downloaded online at www.bdo.com.ph/private-bank/financial-highlights.

Corporate Profile



Our Mission

Our purpose is to help clients meet their financial objectives.

Our goal is to be the best in what we do as individuals and as a firm.

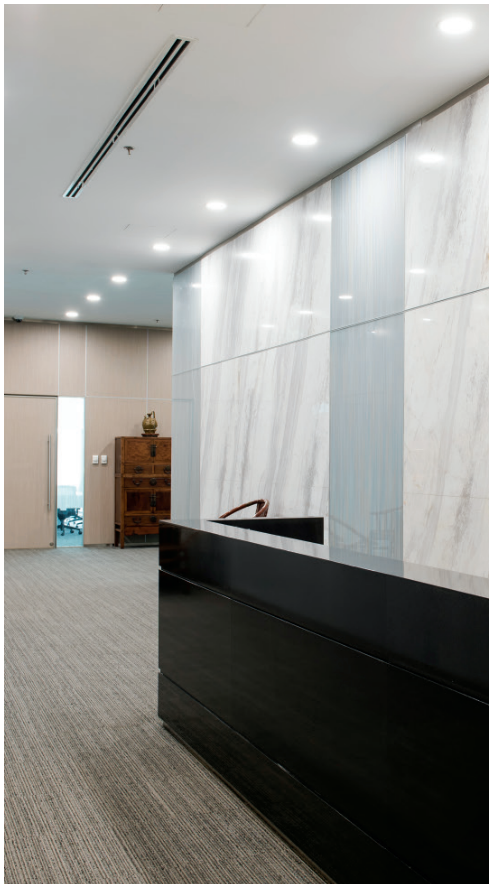
Our ideas should be innovative yet appropriate for our clients' needs.

Our executions shall be seamless.

Our service should be par excellence.

Our integrity will not be compromised.

We are BDO Private Bank.



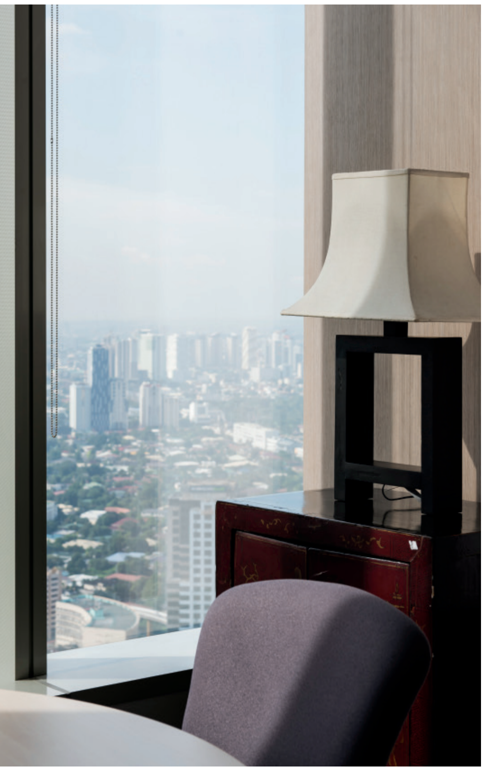
Our Philosophy

We seek to preserve and enhance the value of our clients' assets by achieving returns that outpace predefined market benchmarks.

We encourage diversification among asset classes and individual securities to mitigate price/market volatility. With these, we seek to grow and protect our clients' wealth for the enjoyment of their successors and their heirs.

We customize investment strategies to address each client's unique circumstances, as well as specific preferences for income, liquidity, and risk.

Where appropriate, we pursue cross-border investment opportunities to enhance returns and provide additional diversification.



Our Commitment

Our commitment to provide the best financial service to our clients requires us to be prudent in our design for financial solutions. We undertake to render proper due diligence, objective valuation, and full disclosure of material information. Through this process, we apply global standards in creating active markets for instruments we sponsor and offer to our clients.

Our product offerings are based on an open product architecture model, where clients are offered the best available products regardless of provider, an approach geared towards delivering the highest possible returns to each of our client groups.

In all these, we anchor our commitment on a solid base, a sound balance sheet, and a strong team of professionals.

To Clients

- Deliver high-value products and quality service
- Offer innovative solutions to specific needs
- Provide timely advice and investment/market information

To Shareholders

- Maximize return on investment
- Manage our business with the highest professional, ethical, and moral standards
- Pursue opportunities that improve shareholder value

To Associates

- Create a responsive environment that promotes teamwork
- Recognize individual worth and contribution
- Maintain and enhance the intellectual capital of our associates through rigorous and relevant training and education

Summary Financial Review

(Amounts in Philippine Pesos)

	2020	2019
Profitability		
Total Net Interest Income	993,939,890	796,094,787
Total Non-interest Income	1,551,956,310	1,667,521,558
Total Non-interest Expenses	1,238,387,561	1,330,647,802
Pre-provision profit	1,298,303,752	1,105,045,071
Allowance (Reversal) for credit losses	9,204,887	27,923,472
Net Income	1,007,815,855	878,617,728
Selected Balance Sheet Data		
Liquid Assets	35,098,486,123	31,154,201,686
Gross Loans and Other Receivables	6,134,391,094	3,517,957,023
Total Assets	41,436,391,548	34,952,096,883
Deposits	32,587,128,355	26,994,603,440
Total Equity	6,145,464,690	5,815,953,411
Selected Ratios		
Return on average equity	17.4%	14.8%
Return on average resources	2.6%	2.1%
CET 1 capital ratio	26.53%	26.33%
Tier 1 capital ratio	26.53%	26.33%
Capital Adequacy Ratio	26.75%	26.54%
Per common share data		
Net Income per share:		
Basic	465.50	405.83
Diluted	465.50	405.83
Book Value	2,838.55	2,686.35
Others		
Cash Dividends declared	700,000,000	800,000,000
Headcount		
Officers	188	197
Staff	4	4

Financial Statements

Report of the Audit Committee to the Board of Directors

Empowered by the Board to oversee the financial reporting process, system of internal control and risk management systems, internal and external audit functions, and compliance with applicable laws and regulations, the Board Audit Committee (BAC) discharged its oversight functions independently. The BAC, composed of two (2) independent directors and one (1) non-executive director, had five (5) meetings in 2020.

In 2020, the BAC accomplished the following:

1. On financial reporting, the Board Audit Committee (BAC) reviewed and recommended for approval to the Board the quarterly unaudited and annual audited financial statements ensuring compliance with accounting standards and tax regulations. On February 12, 2020, it endorsed for approval of the Board the audited financial statements as of December 31, 2019 including the Notes to the Financial Statements. This was approved by the Board on February 17, 2020, to be disclosed to the public on or before 180 days from the financial yearend, following the best practice requirement of the ASEAN Corporate Governance Scorecard (ACGS). It believed that the financial statements were fairly presented in conformity with the relevant financial reporting standards in all material aspects. The related internal controls on financial reporting process, compliance with accounting standards, more specifically the changes brought about by the adoption of the Philippine Financial Reporting Standards 9 and 16, were likewise reviewed.
2. In overseeing the internal audit function, it reviewed and approved the Internal Audit Charter and risk-based audit plan after a thorough review of its scope, audit methodology, risk assessment and rating processes, financial budget, manpower resources, as well as changes to the plan during the year. It reviewed audit reports focusing on high and moderate risk findings relating to operational, financial and compliance controls including risk assessment systems with impact to financial, reputation and information security. It regularly tracked the timely resolution of findings and asked for Management's action plans on items that needed to be addressed. It ensured the Internal Audit's independence and unfettered access to all records, properties and information to be able to fully carry out its function. It also assessed the performance of the Chief Internal Auditor and the internal audit function. The Committee is satisfied that the internal audit function has adequate resources to perform its function effectively.
3. On external audit, it ensured the independence, qualification, and objectivity of the appointed external auditor, which is accredited by the BSP. It reviewed and discussed the content of the engagement letter, audit plan, scope of work, focus areas, composition of engagement team among others, prior to the commencement of audit work. It comprehensively discussed the external audit reports, focusing on internal controls, risk management, governance and matters with financial impact particularly on the changes in accounting and reporting standards. It reviewed Management's Letter as well as Management's response and action taken on the external auditor's findings and recommendations.

4. On regulatory compliance, it reviewed and approved the annual plans and independent compliance testing roadmaps of the Compliance and Anti-Money Laundering (AML) unit. It monitored the progress and reviewed the results of the independent compliance and AML testing, timely submission of regulatory and prudential reports, compliance to mandatory ratios, as well as continuous improvement of the compliance and AML systems. It discussed in detail the BSP Reports of Examination including the results of regulatory examinations of the Bank's foreign subsidiaries and reviewed Management's replies, thereby ensuring implementation of corrective actions. It also reviewed legislation and regulatory compliance reports to ensure that the Bank complies with the relevant regulatory requirements. In 2020, the Committee reviewed the performance of the automated system being used by the Compliance Office for its AML function and related party database. It also discussed and assessed the Bank's guidelines on regulatory and AML emerging risks such as online gaming business and investment scams.

Reports on cases in operations, whistle blower accounts as well as non-loan related cases with impact to financials, internal controls, information systems and reputation were deliberated on focusing on risk assessment, legal handling, and fraud prevention.

As part of its commitment to excellent corporate governance, the Committee conducted a self-assessment for its 2019 performance based on its Terms of Reference. The BAC likewise evaluated the performance of Internal Audit, Compliance and AML units, and External Audit to ensure their effectiveness and achievement of objectives.

The BAC reports its evaluation of the effectiveness of the internal controls, financial reporting process, risk management systems of the Bank based on the report and unqualified opinion obtained from the External Auditor, the overall assurance provided by the Chief Internal Auditor and additional reports and information requested from Senior Management, and found that these are generally adequate across BDO Private Bank.

Statement of Management's Responsibility for Financial Statements

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

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

The Board of Directors is responsible for overseeing the Bank's financial reporting process.

The Board of Directors reviews and approves the financial statements, and the additional supplementary information, and submits the same to the stockholders.

Punongbayan & Araullo, the independent auditor appointed by the stockholders, have audited the financial statements of the Bank in accordance with the Philippine Standards on Auditing, and in their report to the Board of Directors and stockholders, has expressed their opinion on the fairness of presentation upon completion of such audit.

Teresita T. Sy
Chairman of the Board

Albert S. Yeo
President

Maria Lourdes M. Sevilla
Vice President
Head — Financial Control Department

SUBSCRIBED and SWORN to me before this 23rd day of February 2021 affiant exhibiting to me their Competent Evidence of Identity (CEI), as follows:

Name	CEI Number
Teresita T. Sy	SSS No. – 03-2832705-4
Albert S. Yeo	SSS No. – 03-6738633-1
Maria Lourdes M. Sevilla	SSS No. – 33-3535551-1

WITNESS BY HAND AND SEAL on the day first above - mentioned in Makati City.

Doc No. 222
Page No. 46
Book No. 111
Series of 2021

Atty. GERVACIO B. ORTIZ JR.
Notary Public City Of Makati
Until December 31, 2022
IBP No. 75729-Lifetime Member
MCLE Compliance No. VI-0024312
Appointment No. M-183 (2019-2020)
PTR No. 8531011 Jan. 4, 2021
Makati City Roll No. 40091
Ground Floor 8747 Paseo De Roxas, Lepanto Bldg.

Report of Independent Auditors

The Board of Directors
BDO Private Bank, Inc.
(A Wholly Owned Subsidiary of BDO Unibank, Inc.)

2nd Floor, BDO Equitable Tower
8751 Paseo de Roxas
Makati City

Report on the Audit of the Financial Statements

Opinion

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

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

Basis for Opinion

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

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

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Bank to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on Other Legal and Regulatory Requirements

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. As discussed in Note 24 to the financial statements, the Bank presented the supplementary information required by the Bureau of Internal Revenue under Revenue Regulations (RR) No. 15-2010 in a supplementary schedule filed separately from the basic financial statements. RR No. 15-2010 requires the supplementary information to be presented in the notes to the financial statements. The supplementary information for the year ended December 31, 2020 and 2019 required by the Bangko Sentral ng Pilipinas as disclosed in Note 29 to the financial statements is presented for purposes of additional analysis. Such supplementary information required by BIR and BSP is the responsibility of management. The supplementary information is not a required part of the basic financial statements prepared in accordance with PFRS; it is not also a required disclosure under the Revised Securities Regulation Code Rule 68 of the Securities and Exchange Commission.

PUNONGBAYAN & ARAULLO

By: Jerald M. Sanchez
Partner

CPA Reg. No. 0121830
TIN: 307-367-174
PTR No. 8533241, January 4, 2021, Makati City
SEC Group A Accreditation
Partner - No. 121830-SEC (until Dec. 31, 2023)
Firm - No. 0002 (until Dec. 31, 2024)
BIR AN 08-002551-041-2019 (until Dec. 15, 2022)
Firm's BOA/PRC Cert. of Reg. No. 0002 (until Jul. 24, 2021)

February 15, 2021

Statements of Financial Position

BDO PRIVATE BANK, INC.
(A Wholly Owned Subsidiary of BDO Unibank, Inc.)

DECEMBER 31, 2020 AND 2019
(Amounts in Philippine Pesos)

	Notes	2020	2019
RESOURCES			
DUE FROM BANGKO SENTRAL NG PILIPINAS	6	**P 3,176,953,168**	P 1,331,616,252
DUE FROM OTHER BANKS	6	**1,071,420,470**	499,431,082
TRADING AND INVESTMENT SECURITIES			
Financial assets at fair value through profit or loss	7	**3,013,301,524**	4,426,873,059
Financial assets at fair value through other comprehensive income	8	**12,204,872,612**	10,786,300,317
Held-to-collect investments - net	9	**15,631,938,349**	14,109,980,976
LOANS AND RECEIVABLES - Net	10	**6,097,912,196**	3,485,226,491
BANK PREMISES, FURNITURE, FIXTURES AND EQUIPMENT - Net	11	**97,429,030**	139,480,648
OTHER RESOURCES - Net	13	**142,564,199**	173,188,058
TOTAL RESOURCES		**P 41,436,391,548**	P 34,952,096,883
LIABILITIES AND EQUITY			
DEPOSIT LIABILITIES	14		
Demand		**P 21,348,101,872**	P 15,513,553,666
Time		**11,239,026,483**	11,481,049,774
Total Deposit Liabilities		**32,587,128,355**	26,994,603,440
BILLS PAYABLE	15	**-**	253,234,426
DERIVATIVE FINANCIAL LIABILITIES	16	**2,154,857,718**	1,449,251,660
ACCRUED EXPENSES AND OTHER LIABILITIES	17	**548,940,785**	439,053,946
Total Liabilities		**35,290,926,858**	29,136,143,472
EQUITY	18	**6,145,464,690**	5,815,953,411
TOTAL LIABILITIES AND EQUITY		**P 41,436,391,548**	P 34,952,096,883

See Notes to Financial Statements.

Statements of Income

BDO PRIVATE BANK, INC.
(A Wholly Owned Subsidiary of BDO Unibank, Inc.)

FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019
(Amounts in Philippine Pesos)

	Notes	2020	2019
INTEREST INCOME			
Held-to-collect investments	9	**P 561,532,237**	P 633,262,574
Financial assets at fair value through other comprehensive income	8	**383,369,025**	438,615,377
Loans and receivables	10	**201,840,007**	205,313,002
Financial assets at fair value through profit or loss	7	**34,739,744**	109,438,466
Due from Bangko Sentral ng Pilipinas and other banks	6, 13	**14,413,935**	79,781,347
		1,195,894,948	1,466,410,766
INTEREST EXPENSE			
Deposit liabilities	14	**194,027,408**	591,587,706
Bills payable	15	**2,705,789**	70,187,367
Others	12, 22	**5,221,861**	8,540,906
		201,955,058	670,315,979
NET INTEREST INCOME		**993,939,890**	796,094,787
IMPAIRMENT LOSSES - Net	8, 9, 10	**9,204,887**	27,923,472
NET INTEREST INCOME AFTER IMPAIRMENT LOSSES		**984,735,003**	768,171,315
OTHER INCOME			
Service charges, fees and commissions	19	**959,381,078**	938,963,857
Trading and securities gain - net	7, 8	**471,541,582**	718,564,284
Foreign exchange gain - net		**118,241,980**	-
Others	11	**2,791,670**	9,993,417
		1,551,956,310	1,667,521,558
OTHER EXPENSES			
Employee benefits	22	**493,300,929**	494,088,481
Taxes and licenses	24	**158,043,589**	223,395,476
Supervision		**136,053,782**	123,616,258
Representation and entertainment		**91,696,416**	94,552,601
Depreciation and amortization	11, 13	**71,149,322**	65,958,178
Insurance		**60,058,855**	76,572,558
Transportation and travel		**35,023,680**	41,292,597
Third party information	20	**32,505,757**	39,443,045
Management and professional fees	23	**25,302,351**	24,170,076
Occupancy	12, 23	**6,745,794**	11,817,375
Foreign exchange loss - net		**-**	5,734,443
Others	21	**128,507,086**	130,006,714
		1,238,387,561	1,330,647,802
PROFIT BEFORE TAX		**1,298,303,752**	1,105,045,071
TAX EXPENSE	24	**290,487,897**	226,427,343
NET PROFIT		**P 1,007,815,855**	P 878,617,728

See Notes to Financial Statements.

Statements of Comprehensive Income

BDO PRIVATE BANK, INC.
(A Wholly Owned Subsidiary of BDO Unibank, Inc.)

FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019
(Amounts in Philippine Pesos)

	Notes	2020	2019
NET PROFIT		**P 1,007,815,855**	P 878,617,728
OTHER COMPREHENSIVE INCOME			
Items that are or will be reclassified subsequently to profit or loss			
Unrealized gain on financial assets at fair value through other comprehensive income (FVOCI)	8, 18	**271,759,928**	750,752,156
Transfer of realized gain on disposed FVOCI securities to statements of income	8, 18	**(284,744,557)**	(144,826,462)
Credit losses (reversal of credit losses) on financial assets at FVOCI	8, 18	**(967,777)**	4,036,387
		(13,952,406)	609,962,081
Item that will not be reclassified to profit or loss			
Actuarial gain (loss) on remeasurement of post-employment defined benefit obligation, net of tax	18, 22	**35,647,830**	(8,992,127)
Total Other Comprehensive Income, Net of Tax		**21,695,424**	600,969,954
TOTAL COMPREHENSIVE INCOME		**P 1,029,511,279**	P 1,479,587,682

See Notes to Financial Statements.

Statements of Changes in Equity

BDO PRIVATE BANK, INC.
(A Wholly Owned Subsidiary of BDO Unibank, Inc.)

FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019
(Amounts in Philippine Pesos)

		Surplus (Note 10 and 18)			Revaluation Reserves		
	Share Capital (Note 18)	**Reserves**	**Free**	**Total**	**Unrealized Gains (Losses) on Financial Assets at Fair Value Through Other Comprehensive Income** (Note 18)	**Accumulated Actuarial Gains (Losses)** (Note 18)	**Total Equity**
BALANCE AS OF JANUARY 1, 2020	P 2,165,000,000	P 491,658,449	P 2,863,783,998	P 3,355,442,447	P 379,620,952	(P 84,109,988)	P 5,815,953,411
Total comprehensive income for the year	-	-	1,007,815,855	1,007,815,855	(13,952,406)	35,647,830	1,029,511,279
Cash dividend	-	-	(700,000,000)	(700,000,000)	-	-	(700,000,000)
Transfer to surplus reserves	-	48,845,546	(48,845,546)	-	-	-	-
BALANCE AS OF DECEMBER 31, 2020	**P 2,165,000,000**	**P 540,503,995**	**P 3,122,754,307**	**P 3,663,258,302**	**P 365,668,546**	**(P 48,462,158)**	**P 6,145,464,690**
BALANCE AS OF JANUARY 1, 2019	P 2,165,000,000	P 405,434,921	P 2,871,389,798	P 3,276,824,719	(P 230,341,129)	(P 75,117,861)	P 5,136,365,729
Total comprehensive income for the year	-	-	878,617,728	878,617,728	609,962,081	(8,992,127)	1,479,587,682
Cash dividend	-	-	(800,000,000)	(800,000,000)	-	-	(800,000,000)
Transfer to surplus reserves	-	86,223,528	(86,223,528)	-	-	-	-
BALANCE AS OF DECEMBER 31, 2019	P 2,165,000,000	P 491,658,449	P 2,863,783,998	P 3,355,442,447	P 379,620,952	(P 84,109,988)	P 5,815,953,411

See Notes to Financial Statements.

Statements of Cash Flows

BDO PRIVATE BANK, INC.
(A Wholly Owned Subsidiary of BDO Unibank, Inc.)

FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019
(Amounts in Philippine Pesos)

	Notes	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		P 1,298,303,752	P 1,105,045,071
Adjustments for:			
Interest received		1,196,157,033	1,506,440,312
Interest income	6, 7, 8, 9, 10, 13	(1,195,894,948)	(1,466,410,766)
Unrealized foreign exchange losses - net	8, 9, 15	725,618,954	523,995,177
Gain on sale of financial assets at fair value through other comprehensive income (FVOCI)	8	(284,744,557)	(144,826,462)
Interest paid		(256,906,196)	(742,090,133)
Interest expense	12, 14, 15, 22	201,955,058	670,315,979
Amortization of premium on held-to-collect (HTC) investments	9	88,177,054	91,092,004
Depreciation and amortization	11, 13	71,149,322	65,958,178
Provision for allowance for impairment - net	8, 9, 10	9,204,887	27,923,472
Unrealized fair value gains from financial assets at fair value through profit or loss (FVTPL)	7	(4,197,034)	(199,447,571)
Gain on disposal of property, plant and equipment	11	(16,219)	(28,920)
Reclassification of bank premises, furniture, fixtures and equipment to outright expense	11	-	380,758
Operating profit before changes in resources and liabilities		1,848,807,106	1,438,347,099
Decrease (increase) in financial assets at FVTPL		1,428,188,022	(470,257,006)
Decrease (increase) in loans and receivables		(23,716,538)	1,152,952,458
Decrease in other resources		46,046,284	1,700,141,187
Increase (decrease) in deposit liabilities		5,647,201,206	(13,445,806,546)
Increase (decrease) in derivative financial liabilities		705,606,058	(1,372,303,367)
Increase (decrease) in accrued expenses and other liabilities		105,695,144	(70,077,104)
Cash generated from (used in) operations		9,757,827,282	(11,067,003,279)
Cash paid for income taxes		(244,090,495)	(160,998,848)
Net Cash From (Used in) Operating Activities		9,513,736,787	(11,228,002,127)
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of financial assets at FVOCI	8	(15,273,187,478)	(9,876,458,312)
Proceeds from disposal of financial assets at FVOCI	8	13,676,350,884	10,870,064,098
Acquisition of HTC investments	9	(3,620,501,993)	-
Proceeds from maturity of HTC investments	9	1,709,678,951	5,129,697,522
Acquisitions of bank premises, furniture, fixtures and equipment	11	(10,094,553)	(18,443,035)
Proceeds from disposal of bank premises, furniture, fixtures and equipment	11	16,228	200,000
Net Cash From (Used in) Investing Activities		(3,517,737,961)	6,105,060,273
CASH FLOW FROM FINANCING ACTIVITIES			
Repayment of borrowings	15	(8,812,052,522)	(11,448,225,967)
Additional borrowings	15	8,567,817,326	11,767,254,566
Dividends paid	18	(700,000,000)	(800,000,000)
Repayments of lease liabilities	12	(40,768,041)	(35,293,992)
Net Cash Used in Financing Activities		(985,003,237)	(516,265,393)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		5,010,995,589	(5,639,207,247)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR			
Due from Bangko Sentral ng Pilipinas	6	1,331,616,252	4,425,182,127
Due from Other Banks	6	499,431,082	3,045,072,454
		1,831,047,334	7,470,254,581
CASH AND CASH EQUIVALENTS AT END OF YEAR			
Due from Bangko Sentral ng Pilipinas	6	3,176,953,168	1,331,616,252
Due from Other Banks	6	1,071,420,470	499,431,082
Securities purchased under reverse repurchase agreement	10	2,593,669,285	-
		P 6,842,042,923	P 1,831,047,334

Supplemental Information on Noncash Financing Activities

The Bank recognized additional right-of-use assets and lease liabilities in 2020 and 2019, both amounting to P7.5 million and P43.2 million, respectively, due to new lease agreements entered by the Bank as a lessee (see Notes 11 and 12).

Other Information

Securities purchased under reverse repurchased agreement are included as part of cash and cash equivalents for cash flow purposes but are presented as part of Loans and Receivables in the statements of financial position (see Notes 2 and 10).

See Notes to Financial Statements.

Notes to Financial Statements

BDO PRIVATE BANK, INC.
(A Wholly Owned Subsidiary of BDO Unibank, Inc.)

DECEMBER 31, 2020 AND 2019
(Amounts in Philippine Pesos)

1. CORPORATE MATTERS

1.1 Organization and Operations

On December 22, 1995, the Bangko Sentral ng Pilipinas (BSP) authorized BDO Private Bank, Inc. (the Bank) to operate as a commercial bank. The Bank was incorporated in the Philippines to engage in banking activities, as well as to engage in and carry on the business of a trust bank and to operate a foreign currency deposit unit.

The Bank is a wholly owned subsidiary of BDO Unibank, Inc. (BDO Unibank or Parent Bank), a publicly listed bank incorporated and domiciled in the Philippines. BDO Unibank is authorized to operate as an expanded commercial bank and to engage in trust and foreign currency deposit operations.

As a banking institution, the Bank's operations are regulated and supervised by the BSP. In this regard, the Bank is required to comply with the rules and regulations of the BSP such as those relating to maintenance of reserve requirements on deposit liabilities and deposit substitutes and those relating to the adoption and use of safe and sound banking practices, among others, as promulgated by the BSP. The Bank is subject to the provisions of the General Banking Law of 2000 (Republic Act No. 8791).

The Bank's registered office, which is also its principal place of business, is located at the 2nd Floor, BDO Equitable Tower, 8751 Paseo de Roxas, Makati City. The registered office of BDO Unibank is at BDO Corporate Center, 7899 Makati Avenue, Makati City.

1.2 Approval of Financial Statements

The financial statements of the Bank as of and for the year ended December 31, 2020 (including the comparative financial statements as of and for the year ended December 31, 2019) were authorized for issue by the Bank's Board of Directors (BOD) on February 15, 2021.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of Preparation of Financial Statements

(a) Statement of Compliance with Philippine Financial Reporting Standards

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

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

(b) Presentation of Financial Statements

The financial statements are presented in accordance with Philippine Accounting Standard (PAS) 1, *Presentation of Financial Statements*. The Bank presents statement of comprehensive income separate from the statement of income.

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

(c) Functional and Presentation Currency

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

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

2.2 Adoption of New and Amended PFRS

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

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

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

PFRS 16 (Amendments) : Leases – Coronavirus Disease 2019 (COVID19)-Related Rent Concessions

Discussed below are the relevant information about these pronouncements.

(i) *Revised Conceptual Framework for Financial Reporting*. The revised conceptual framework will be used in standard-setting decisions with immediate effect. Key changes include (a) increasing the prominence of stewardship in the objective of financial reporting, (b) reinstating prudence as a component of neutrality, (c) defining a reporting entity, which may be a legal entity, or a portion of an entity, (d) revising the definitions of an asset and a liability, (e) removing the probability threshold for recognition and adding guidance on derecognition, (f) adding guidance on different measurement basis, and, (g) stating that profit or loss is the primary performance indicator and that, in principle, income and expenses in other comprehensive income should be recycled where this enhances the relevance or faithful representation of the financial statements. The application of the revised conceptual framework had no significant impact on the Bank's financial statements.

(ii) PAS 1 (Amendments), *Presentation of Financial Statements,* and PAS 8 (Amendments), *Accounting Policies, Changes in Accounting Estimates and Errors – Definition of Material* (effective from January 1, 2020). The amendments provide a clearer definition of 'material' in PAS 1 by including the concept of 'obscuring' material information with immaterial information as part of the new definition, and clarifying the assessment threshold (i.e., misstatement of information is material if it could reasonably be expected to influence decisions made by primary users, which consider the characteristic of those users as well as the entity's own circumstances). The definition of material in PAS 8 has been accordingly replaced by reference to the new definition in PAS 1. In addition, amendment has also been made in other standards that contain definition of material or refer to the term 'material' to ensure consistency. The application of these amendments had no significant impact on the Bank's financial statements.

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

(iv) The Bank elected to adopt early PFRS 16 (Amendments), *Leases – COVID-19-Related Rent Concessions*, which is effective for annual reporting periods beginning on or after June 30, 2020. The amendments permit lessees, as a practical expedient, not to assess whether particular rent concessions occurring as a direct consequence of the COVID-19 pandemic are lease modifications and instead to account for those rent concessions as if they are not lease modifications. The application of these amendments had no significant impact on the Bank's financial statements.

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

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

(c) Effective Subsequent to 2020 but are not Adopted Early

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

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

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

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

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

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

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

2.3 Financial Assets and Financial Liabilities

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

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

At initial recognition, the Bank measures a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss (FVTPL), transaction costs that are incremental or directly attributable to the acquisition or issue of the financial asset or financial liability, such as fees and commissions. Transaction costs of financial assets and financial liabilities carried at FVTPL are expensed in profit or loss.

(a) Classification, Measurement and Reclassification of Financial Assets

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

(i) Financial Assets at Amortized Cost

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

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

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

Financial assets meeting these criteria are measured initially at fair value plus transaction costs. They are subsequently measured at amortized cost using the effective interest method, less any impairment in value.

Where the business model is to hold assets to collect contractual cash flows, the Bank assesses whether the financial instruments' cash flows represent SPPI. In making this assessment, the Bank considers whether the contractual cash flows are consistent with a basic lending arrangement, i.e., interest includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement [(see Note 3.1(c)]. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at FVTPL.

The Bank's financial assets at amortized cost are presented in the statement of financial position as Due from BSP, Due from Other Banks, Loans and Receivables, Held-to-Collect (HTC) Investments, and Margin deposits (under Other Resources). Due from BSP and Due from Other Banks are considered cash and cash equivalents, which are readily convertible to known amounts of cash and subject to insignificant risk of changes in value. Loans and receivables include receivables from customers and all other receivables from customers and other banks.

For purposes of reporting cash flows, cash and cash equivalents include amounts due from BSP and other banks, securities purchased under reserve repurchase agreement (SPURRA) and certain unquoted debt securities, if any, with maturities of three months or less from placement date.

(ii) Financial Assets at Fair Value Through Other Comprehensive Income

The Bank accounts for financial assets at fair value through other comprehensive income (FVOCI) if the assets meet the following conditions:

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

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

At initial recognition, the Bank can make an irrevocable election (on an instrument-by-instrument basis) to designate equity investments as at FVOCI; however, such designation is not permitted if the equity investment is held by the Bank for trading or as mandatorily required to be classified as FVTPL. The Bank does not hold equity instruments as of December 31, 2020 and 2019.

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

Any dividends earned on holding equity instruments, if any, are recognized in the statement of income, when the Bank's right to receive dividends is established, it is probable that the economic benefits associated with the dividend will flow to the Bank, and the amount of the dividend can be measured reliably, unless the dividends clearly represent recovery of a part of the cost of the investment.

(iii) Financial Assets at Fair Value Through Profit or Loss

Financial assets that are held within a different business model other than "hold to collect" or "hold to collect and sell" are categorized at FVTPL. Further, irrespective of business model, financial assets whose contractual cash flows are not SPPI are accounted for at FVTPL. Also, equity securities, if any, are classified as financial assets at FVTPL, unless the Bank designates an equity investment that is not held for trading as at FVOCI at initial recognition. The Bank's financial assets at FVTPL include derivatives, corporate and government debt securities which are held for trading purposes or designated as at FVTPL.

Financial assets at FVTPL are measured at fair value with gains or losses recognized in profit or loss as part of Trading and securities gain under Other Income in the statement of income. Related transaction costs are recognized directly as expense in profit or loss. The fair values of these financial assets are determined by reference to active market transactions or using a valuation technique where no active market exists.

The interest earned is recognized as part of Interest Income account in the statement of income.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are SPPI.

The Bank can only reclassify financial assets if the objective of its business model for managing those financial assets changes. Accordingly, the Bank is required to reclassify financial assets: (i) from amortized cost to FVTPL, if the objective of the business model changes so that the amortized cost criteria are no longer met; and, (ii) from FVTPL to amortized cost, if the objective of the business model changes so that the amortized cost criteria start to be met and the characteristic of the instrument's contractual cash flows meet the amortized cost criteria.

A change in the objective of the Bank's business model will take effect only at the beginning of the next reporting period following the change in the business model.

(b) Effective Interest Rate Method and Interest Income

Interest income is recorded using the effective interest rate (EIR) method for all financial instrument measured at amortized cost and financial instrument designated at FVTPL. Interest income on interest-bearing financial assets measured at FVOCI are also recorded by using the EIR method. The EIR is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument or, when appropriate, a shorter period, to the net carrying amount of the financial asset.

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

If expectations regarding the cash flows on the financial asset are revised for reasons other than credit risk, the adjustment is booked as a positive (negative) adjustment to the carrying amount of the asset in the balance sheet with an increase (reduction) in Interest Income. The adjustment is subsequently amortized through interest and similar income in the statement of income.

The Bank calculates interest income by applying the EIR to the gross carrying amount of financial assets other than credit-impaired assets.

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

(c) *Impairment of Financial Assets*

The Bank assesses its expected credit loss (ECL) on a forward-looking basis associated with its financial assets carried at amortized cost and debt instruments measured at FVOCI and other contingent accounts. No impairment loss is recognized on equity investments, if any. The Bank considers a broader range of information in assessing credit risk and measuring ECL, including past events, current conditions, reasonable and supportable forecasts that affect collectability of the future cash flows of the financial assets.

The Bank measures loss allowances at an amount equal to lifetime ECL, except for the following financial instruments for which they are measured as 12-month ECL:

- debt securities that are identified to have 'low credit risk' at the reporting date; and,

- other financial instruments (other than lease receivables) on which credit risk has not increased significantly since their initial recognition.

For these financial instruments, the allowance for impairment is based on 12-month ECL associated with the probability of default of a financial instrument in the next 12 months (referred to as 'Stage 1' financial instruments). Unless there has been a significant increase in credit risk subsequent to the initial recognition of the financial asset, a lifetime ECL (which are the expected shortfalls in contractual cash flows, considering the potential for default at any point during the life of the financial asset) will be recognized (referred to as 'Stage 2' financial instruments). 'Stage 2' financial instruments also include those loan accounts and facilities where the credit risk has improved and have been reclassified from 'Stage 3'. A lifetime ECL shall be recognized for 'Stage 3' financial instruments, which include financial instruments that are subsequently credit-impaired, as well as purchased or originated credit impaired (POCI) assets.

The Bank's definition of credit risk and information on how credit risk is mitigated by the Bank are disclosed in Note 4.3.

Measurement of ECL

The key elements used in the calculation of ECL are as follows:

- *Probability of default (PD)* – it is an estimate of likelihood of a borrower defaulting on its financial obligation (see Note 4.3.5) over a given time horizon, either over the next 12 months (12-month PD) or over the remaining lifetime (lifetime PD) of the obligation.

- *Loss given default (LGD)* – it is an estimate of loss arising in case where a default occurs at a given time (either over the next 12 months or 12-month LGD, or over the remaining lifetime or lifetime LGD). It is based on the difference between the contractual cash flows of a financial instrument due from a counterparty and those that the Bank would expect to receive, including the realization of any collateral. It is presented as a percentage loss per unit of exposure at the time of default.

- *Exposure at default (EAD)* – it represents the gross carrying amount of the financial instruments subject to the impairment calculation; hence, this is the amount that the Bank expects to be owed at the time of default over the next 12 months (12-month EAD) or over the remaining lifetime (lifetime EAD). In case of a loan commitment, the Bank shall include the undrawn balance (up to the current contractual limit) at the time of default should it occur.

The measurement of the ECL reflects: (i) an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes; (ii) the time value of money; and, (iii) reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

Measurement of the ECL is determined by a probability-weighted estimate of credit losses over the expected life of the financial instrument.

The Bank's detailed ECL measurement, as determined by the management, is disclosed in Note 4.3.5.

(d) *Derecognition of Financial Assets*

(i) *Modification of Loans*

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

- if the borrower is in financial difficulty, whether the modification merely reduces the contractual cash flows to amounts the borrower is expected to be able to pay;
- whether any substantial new terms are introduced that will affect the risk profile of the loan;
- significant extension of the loan term when the borrower is not in financial difficulty;
- significant change in the interest rate;
- change in the currency the loan is denominated in; and/or,
- insertion of collateral, other security or credit enhancements that will significantly affect the credit risk associated with the loan.

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

As to the impact on ECL measurement, the expected fair value of the "new" asset is treated as the final cash flow from the existing financial asset at the date of derecognition. Such amount is included in the calculation of cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

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

(ii) Derecognition of Financial Assets Other than Modification

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

(e) Classification and Measurement of Financial Liabilities

Financial liabilities, which include deposit liabilities, bills payable, derivative financial liabilities and accrued expenses and other liabilities (except tax-related payables and post-employment defined benefit obligation), are recognized when the Bank becomes a party to the contractual terms of the instrument. All interest-related charges are recognized as Interest Expense in the statement of income.

Deposit liabilities and bills payable are recognized initially at fair value, which is the fair value of consideration received (issue price), net of direct issue costs, and are subsequently measured at amortized cost. Any difference between the proceeds received, net of transaction costs and the redemption value is amortized in the profit or loss over the period of the borrowings using the effective interest method.

Derivative financial liabilities are recognized initially at fair value and subsequently valued at fair value with changes in fair value charged to profit or loss (see Note 2.4).

Accrued expenses and other liabilities are recognized initially at their fair value and subsequently measured at amortized cost less settlement payments.

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

(f) Derecognition of Financial Liabilities

Financial liabilities are derecognized from the statement of financial position only when the obligations are extinguished either through discharge, cancellation or expiration. The difference between carrying amount of financial liability derecognized and the consideration paid or payable is recognized in profit or loss. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or if the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of the new liability, and the difference in the respective carrying amounts is recognized as gain or loss in profit or loss.

2.4 Derivative Financial Instruments

The Bank is a party to various foreign currency forward contracts, cross currency and interest rate swaps. These contracts are entered into as a service to customers and as a means of reducing or managing the Bank's foreign exchange and interest rate exposure as well as for trading purposes.

Derivatives are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at their fair value. Fair values are obtained from quoted market prices in active markets and through valuation techniques, including discounted cash flow models and option pricing models, as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

The best evidence of the fair value of a derivative at initial recognition is the transaction price (i.e., the fair value of the consideration given or received) unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e., without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets. When such evidence exists, the Bank recognizes the profit or loss at initial recognition.

For more complex instruments, the Bank uses proprietary models, which usually are developed from recognized valuation models. Some or all of the inputs into these models may not be market observable, and are derived from market prices or rates or are estimated based on assumptions. When entering into a transaction, the financial instrument is recognized initially at the transaction price, which is the best indicator of fair value, although the value obtained from the valuation model may differ from the transaction price. This initial difference, usually an increase, in fair value indicated by valuation techniques is recognized in profit or loss depending upon the individual facts and circumstances of each transaction and not later than when the market data becomes observable.

The value produced by a model or other valuation technique is adjusted to allow for a number of factors as appropriate, because valuation techniques cannot appropriately reflect all factors market participants take into account when entering into a transaction. Valuation adjustments are recorded to allow for model risks, bid-ask spreads, liquidity risks, and other factors. Management believes that these valuation adjustments are necessary and appropriate to fairly state financial instruments carried at fair value in the statement of financial position.

2.5 Offsetting Financial Instruments

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

2.6 Other Resources

Other resources pertain to other assets controlled by the Bank as a result of past events. They are recognized in the financial statements when it is probable that the future economic benefits will flow to the Bank and the asset has a cost or value that can be measured reliably.

2.7 Intangible Assets

Intangible assets pertain to computer software licenses presented as part of Other Resources in the statement of financial position. Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and install the specific software. Capitalized costs are amortized on a straight-line basis over the estimated useful life. The expected useful life of computer software is five years. In addition, computer software is subject to impairment testing as described in Note 2.15. Costs associated with maintaining computer software are expensed as incurred.

When an intangible asset is disposed of, the gain or loss on disposal is determined as the difference between the proceeds and the carrying amount of the asset and is recognized in profit or loss.

2.8 Bank Premises, Furniture, Fixtures and Equipment

Bank premises, furniture, fixtures and equipment are carried at acquisition cost less accumulated depreciation and amortization and any impairment losses.

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

The estimated useful life of furniture, fixtures, and equipment is five years. Leasehold improvements are amortized over the lease term or five years, whichever is shorter.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (see Note 2.15).

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

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

2.9 Provisions and Contingencies

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

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

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

2.10 Equity

Share capital (common stocks) represents the nominal value of shares that have been issued.

Surplus reserves pertain to reserve for trust business representing the accumulated amount set aside by the Bank under existing regulations requiring the Bank to carry to surplus 10% of its net profits accruing from its trust business until the surplus shall amount to 20% of its authorized capital stock and, to the appropriation related to general loan loss provision as prescribed by the BSP (see Note 18.3).

Surplus free includes all current and prior period results as disclosed in statement of income and which are available and not restricted for use by the Bank, reduced by the amounts of dividends declared, if any.

Revaluation reserves include unrealized gains (losses) on financial assets at FVOCI which pertain to mark-to-market valuation and accumulated actuarial gains (losses) which relate to remeasurement of post-employment defined benefit plans.

2.11 Related Party Transactions and Relationships

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

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. These parties include: (a) individuals owning, directly or indirectly through one or more intermediaries, control or are controlled by, or under common control with the Bank; (b) associates; (c) individuals owning, directly or indirectly, an interest in the voting power of the Bank that gives them significant influence over the Bank and close members of the family of any such individual; and, (d) the Bank's funded retirement plan (see Note 22.2).

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

2.12 Other Income and Expense Recognition

Revenue is recognized only when (or as) the Bank satisfies a performance obligation by transferring control of the promised services to the customer. A contract with a customer that results in a recognized financial instrument in the Bank's financial statements may be partially within the scope of PFRS 9 and partially within the scope of PFRS 15, *Revenues from Contracts with Customers*. In such case, the Bank first applies PFRS 9 to separate and measure the part of the contract that is within the scope of PFRS 9, and then applies PFRS 15 to the residual part of the contract.

Expenses and costs, if any, are recognized in profit or loss upon utilization of the assets or services or at the date these are incurred. All finance costs are reported in profit or loss on accrual basis.

The Bank also earns service fees on various banking services which are supported by contracts approved by the parties involved. These revenues are accounted for by the Bank in accordance with PFRS 15.

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

(a) *Individual and Corporate Banking Services*

The Bank provides banking services to individual and corporate customers, including account management, servicing arrangements and all other banking transactions (i.e., lending, foreign currency transactions, settlement and remittance).

Transaction-based fees are charged to the customer's account; hence, revenues are recognized at the point in time when the transaction takes place.

(b) Asset Management Services

The Bank provides asset management services, which include trust and fiduciary activities. Related fees are recognized as follows:

(i) *Asset management and trust fees* – these are service fees calculated based on a fixed percentage of the value of assets managed and deducted from the customer's account balance on the scheduled collection date. Revenue from asset management services is recognized over time as the services are provided.

(ii) *Non-refundable upfront fees* – are charged to customers when opening certain types of trust account with the Bank. These fees give rise to material rights for future services and are recognized as revenue over the period for which a customer is expected to continue receiving asset management services.

2.13 Leases – Bank as Lessee

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

- the contract contains an identified asset, which is either explicitly identified in the contract or implicitly specified by being identified at the time the asset is made available to the Bank;

- the Bank has the right to obtain substantially all of the economic benefits from use of the identified asset throughout the period of use, considering its rights within the defined scope of the contract; and,

- the Bank has the right to direct the use of the identified asset throughout the period of use. The Bank assesses whether it has the right to direct 'how and for what purpose' the asset is used throughout the period of use.

At lease commencement date, the Bank recognizes a right-of-use asset and a lease liability in the statement of financial position. The right-of-use asset is measured at cost, which is made up of the initial measurement of the lease liability, any initial direct costs incurred by the Bank, an estimate of any costs to dismantle and remove the asset at the end of the lease, and any lease payments made in advance of the lease commencement date (net of any incentives received). Subsequently, the Bank depreciates the right-of-use asset on a straight-line basis from the lease commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The Bank also assesses the right-of-use asset for impairment when such indicators exist (see Note 2.15).

On the other hand, the Bank measures the lease liability at the present value of the lease payments unpaid at the commencement date, discounted using the interest rate implicit in the lease if that rate is readily available or the Bank's incremental borrowing rate. Lease payments include fixed payments (including in-substance fixed) less lease incentives receivable, if any, variable lease payments based on an index or rate, amounts expected to be payable under a residual value guarantee, and payments arising from options (either renewal or termination) reasonably certain to be exercised. Subsequent to initial measurement, the liability will be reduced for payments made and increased for interest. It is remeasured to reflect any reassessment or modification, or if there are changes in in-substance fixed payments. When the lease liability is remeasured, the corresponding adjustment is reflected in the right-of-use asset, or profit and loss if the right-of-use asset is already reduced to zero.

The Bank has elected to account for short-term leases and leases of low-value assets using the practical expedients allowed under PFRS 16. Instead of recognizing a right-of-use asset and lease liability, the payments in relation to these are recognized as an expense in profit or loss on a straight-line basis over the lease term.

On the statement of financial position, right-of-use assets and lease liabilities have been presented as part of Bank Premises, Furniture, Fixtures and Equipment, and Accrued Expense and Other Liabilities, respectively.

2.14 Foreign Currency Transactions and Translation

The accounting records of the Bank are maintained in Philippine pesos. Foreign currency transactions during the year are translated into the functional currency at exchange rates which approximate those prevailing on transaction dates.

Foreign currency gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in statement of income under Foreign exchange gain (loss). Changes in the fair value of monetary financial assets denominated in foreign currency classified as financial assets at FVOCI are analyzed between translation differences resulting from changes in the amortized cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in amortized cost are recognized in profit or loss, and other changes in the carrying amount are recognized in other comprehensive income (loss).

2.15 Impairment of Non-financial Assets

Bank premises, furniture, fixtures and equipment, computer software, and other non-financial assets included in Other Resources account in the statement of financial position are subject to impairment testing whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

Impairment loss is recognized in profit or loss for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amount, which is the higher of fair value less costs to sell, and value in use based on an internal discounted cash flow evaluation. The data used for impairment testing procedures are directly linked to the Bank's latest approved budget, adjusted as necessary to exclude the effects of asset enhancements. Discount factors are determined individually for each cash-generating unit and reflect management's assessment of respective risk profiles, such as market and asset-specific risk factors.

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

2.16 Employee Benefits

The Bank provides post-employment benefits to employees through a defined benefit plan and defined contribution plan, and other employee benefits which are recognized as follows:

(a) *Post-employment Defined Benefit Plan*

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

The liability recognized in the statement of financial position for a defined benefit plan is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows for expected benefit payments using a discount rate derived from the interest rates of a zero coupon government bonds [using the reference rates published by Bloomberg using its valuation technology, Bloomberg Valuation (BVAL)], that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related post-employment liability. BVAL provides evaluated prices that are based on market observations from contributed sources.

Remeasurements, comprising of actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions and the return on plan assets (excluding amount included in net interest) are reflected immediately in the statement of financial position with a charge or credit recognized in other comprehensive income in the period in which they arise. Net interest is calculated by applying the discount rate at the beginning of the period, taking account of any changes in the net defined benefit liability or asset during the period as a result of contributions and benefit payments. Net interest is reported as part of Others under Interest Expense account in the statement of income.

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

(b) Post-employment Defined Contribution Plan

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

(c) Termination Benefits

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

(d) Bonus Plans

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

(e) Compensated Absences

Compensated absences are recognized for the number of paid leave days (including holiday entitlement) remaining at the end of each reporting period. They are included in the Accrued Expenses and Other Liabilities account in the statement of financial position at the undiscounted amount that the Bank expects to pay as a result of the unused entitlement. Unavailed leaves of employees under the retirement plan are valued and funded as part of the present value of defined benefit obligation under item (a) of Note 2.16.

(f) Employee Stock Option Plan

The Bank grants stock option plan to its senior officers (from vice-president up) for their contribution to the Bank's performance and attainment of team goals. The stock option plan gives qualified employees the right to purchase BDO Unibank's shares at an agreed strike price. The amount of stock option allocated to the qualified officers is based on the performance of the individual officers as determined by the management and is determined based on the Bank's performance in the preceding year and amortized over five years (vesting period) starting from date of approval of the BOD. The number of officers qualified at the grant date is regularly evaluated (at least annually) during the vesting period and the amount of stock option is decreased in case there are changes in the number of qualified employees arising from resignation or disqualification.

Liability recognized on the stock option plan for the amount charged by BDO Unibank attributable to the qualified officers of the Bank is included under Accrued Expenses and Other Liabilities in the statement of financial position and the related expense is presented in Employee benefits under Other Expenses in the statement of income (see Notes 17 and 22.1).

2.17 Income Taxes

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

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

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

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

Deferred tax assets and deferred tax liabilities are measured at the tax rates that are expected to apply 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 end of each reporting period.

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

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

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

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

2.18 Trust Operations

The Bank commonly acts as trustee and in other fiduciary capacities that result in the holding or placing of assets on behalf of individuals, trusts, post-employment benefit plans and other institutions. Resources and income arising thereon are excluded from these financial statements, as these are neither resources nor income of the Bank.

2.19 Events After the End of the Reporting Period

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

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The Bank's financial statements prepared in accordance with PFRS require management to make judgments and estimates that affect the amounts reported in the financial statements and related notes. Judgments and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results may likely differ from these estimates and the differences could be significant.

3.1 Critical Management Judgments in Applying Accounting Policies

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

(a) Application of ECL to HTC Investments and Financial Assets at FVOCI

The Bank uses a general approach to calculate ECL for all debt instruments carried at amortized cost and FVOCI, together with loan commitments and financial guarantee contracts, if any. The allowance for impairment is based on the ECLs associated with the probability of default of a financial instrument in the next 12 months, unless there has been a significant increase in credit risk since origination of the financial instrument, in such case, a lifetime ECL for the instrument is recognized. This is where significant judgement is required.

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

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

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

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

In determining the classification of a financial instrument under PFRS 9, the Bank evaluates in which business model a financial instrument or a portfolio of financial instruments belongs to taking into consideration the objectives of each business model established by the Bank as those relate to the Bank's investment, trading and lending strategies.

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

In determining the classification of financial assets under PFRS 9, the Bank assesses whether the contractual terms of the financial assets give rise on specified dates to cash flows that are SPPI on the principal outstanding, with interest representing time value of money and credit risk associated with the principal amount outstanding. The assessment as to whether the cash flows meet the test is made in the currency in which the financial asset is denominated. Any other contractual term that changes the timing or amount of cash flows (unless it is a variable interest rate that represents time value of money and credit risk) does not meet the amortized cost criteria. In cases where the relationship between the passage of time and the interest rate of the financial instrument may be imperfect, known as modified time value of money, the Bank assesses the modified time value of money feature to determine whether the financial instrument still meets the SPPI criterion. The objective of the assessment is to determine how different the undiscounted contractual cash flows could be from the undiscounted cash flows that would arise if the time value of money element was not modified (the benchmark cash flows). If the resulting difference is significant, the SPPI criterion is not met. In view of this, the Bank considers the effect of the modified time value of money element in each reporting period and cumulatively over the life of the financial instrument.

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

(d) Determination of Timing of Satisfaction of Performance Obligations

The Bank determines that its revenues from services for asset management and other non-refundable upfront fees shall be recognized over time. In making its judgment, the Bank considers the timing of receipt and consumption of benefits provided by the Bank to the customers. As the work is performed, the Bank becomes entitled to payments. This demonstrates that the customers simultaneously receive and consume the benefits of the Bank's rendering of these banking services as it performs.

In determining the best method of measuring the progress of the Bank's rendering of aforementioned services, the management considers the output method, which uses direct measurements of the value to the customer of the services transferred to date relative to the remaining services promised as basis in recognizing revenues. Such measurements include results of performance completed to date, time elapsed, and appraisals of milestones reached or activities already performed.

(e) Recognition of Provisions and Contingencies

Judgment is exercised by management to distinguish between provisions and contingencies. Policies on recognition of provisions and contingencies are discussed in Note 2.9 and relevant disclosures are presented in Note 26.

3.2 Key Sources of Estimation Uncertainty

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

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

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

(b) Estimation of Allowance for ECL

The measurement of the allowance for ECL on financial assets at amortized cost is an area that requires the use of significant assumptions about the future economic conditions and credit behavior (e.g., likelihood of customers defaulting and the resulting losses). Explanation of the inputs, assumptions and estimation used in measuring ECL is further detailed in Note 4.3.5.

The carrying value of financial assets at FVOCI, HTC investments and Loans and other receivables and, the analysis of the allowance for impairment on such financial assets, are shown in Notes 8, 9 and 10, respectively.

(c) Fair Value Measurements for Financial Instruments

Management applies valuation techniques to determine the fair value of financial instruments where active market quotes are not available. Valuation techniques are used to determine fair values which are validated and periodically reviewed. To the extent practicable, models use observable data, however, areas such as counterparty credit risk, volatilities and correlations require management to make estimates. Changes in assumptions could affect the reported fair value of financial instruments. The Bank uses judgment to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of each reporting period.

The carrying values of the Bank's financial assets at FVTPL and financial assets at FVOCI and the amounts of fair value changes recognized during the years on those assets are disclosed in Notes 7 and 8, respectively.

(d) *Determination of Fair Value of Derivatives*

The fair value of derivative financial instruments that are not quoted in an active market is determined through valuation techniques using the net present value computation.

Valuation techniques are used to determine fair values, which are validated and periodically reviewed. To the extent practicable, models use observable data, however, areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates. Changes in assumptions and correlations require management to make estimates.

The Bank uses judgment to select a variety of methods and make assumptions that are mainly based on conditions existing at the end of each reporting period.

(e) *Estimation of Useful Lives of Bank Premises, Furniture, Fixtures and Equipment and Computer Software*

The Bank estimates the useful lives of bank premises, furniture, fixtures and equipment, and computer software based on the period over which the assets are expected to be available for use. The estimated useful lives of bank premises, furniture, fixtures and equipment, and computer software are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets. Actual results; however, may vary due to changes in estimates brought about by changes in factors mentioned above.

Analyses of the carrying amounts of bank premises, furniture, fixtures, and equipment and computer software are disclosed in Notes 11 and 13, respectively.

(f) *Determination of Realizable Amount of Deferred Tax Assets*

The Bank reviews its deferred tax assets at the end of each reporting period and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Management assessed that the deferred tax assets recognized as of December 31, 2020 and 2019 will be fully utilized in the coming years. The carrying value of deferred tax assets as of those dates is disclosed in Notes 13 and 24.

(g) *Impairment of Non-financial Assets*

In assessing impairment, management estimates the recoverable amount of each asset or a cash-generating unit based on expected future cash flows and uses an interest rate to calculate the present value of those cash flows. Estimation uncertainty relates to assumptions about future operating results and the determination of a suitable discount rate (see Note 2.15). Though management believes that the assumptions used in the estimation of fair values reflected in the financial statements are appropriate and reasonable, significant changes in those assumptions may materially affect the assessment of recoverable values and any resulting impairment loss could have a material adverse effect on the results of operations.

No impairment losses on non-financial assets were recognized in 2020 and 2019.

(b) Valuation of Post-employment Defined Benefit Obligation

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

The amounts of post-employment benefit obligation and expense and an analysis of the movements in the estimated present value of post-employment benefit, as well as the significant assumptions used in estimating such obligation are presented in Note 22.2.

4. RISK MANAGEMENT

With its culture of managing risk prudently within its capacity and capabilities, the Bank pursues its strategy and business plans to provide consistent quality service to its customers, to achieve its desired long-term target returns to its shareholders and satisfy or abide by the needs of its other stakeholders, including its depositors and regulators.

The Bank believes that, as there are opportunities, there are associated risks and the objective is not to totally avoid risks, but to adequately and consistently evaluate, manage, control, and monitor the risks and ensure that the Bank is adequately compensated for all the risks taken. Good risk management involves making informed and rational decisions about the level of risks the institution wants to take, in the pursuit of its objectives, but with consideration to return commensurate with the risk-taking activity.

The Bank's goal is to remain a strong bank that is resilient to possible adverse events. Hence, the Bank ensures:

- strong financial position by maintaining capital ratios in excess of regulatory requirements;
- sound management of liquidity; and,
- ability to generate sustainable earnings commensurate with the risks taken.

For credit risk, market risk, and liquidity risk, the Bank ensures that these are within Board-approved operating limits. For operational risk (which includes legal, regulatory, compliance risks), and reputational risks, these are invariably managed by the development of both a strong "control culture" and an effective internal control system that constantly monitors and updates operational policies and procedures with respect to the Bank's activities and transactions.

Risk management at the Bank begins at the highest level of the organization. At the helm of the risk management infrastructure is the BOD who is responsible for establishing and maintaining a sound risk management system. The BOD assumes oversight over the entire risk management process and has the ultimate responsibility for all risks taken. It regularly reviews and approves the institution's tolerance for risks, as well as, its business strategy and risk philosophy.

The BOD has constituted the Risk Management Committee (RMC) as the board-level committee responsible for the development and oversight of the risk management program. Considering the importance of appropriately addressing credit risk, the BOD has also constituted the Credit Committee. The Credit Committee is responsible for approving credit-specific transactions, while the RMC is responsible for approving credit portfolio risk-related policies and limits, as well as, market, liquidity, and operational risk policies and limits.

Within the Bank's overall risk management system is the Assets and Liabilities Committee (ALCO) which is responsible for managing the Bank's statement of financial position, including the Bank's liquidity, interest rate and foreign exchange related risks. In addition, ALCO formulates investment and financial policies by determining the asset allocation and funding mix strategies that are likely to yield the targeted financial results.

The Bank operates an integrated risk management system to address the risks it faces in its banking activities, including credit, market (foreign exchange, interest rate, and price risks), liquidity, and operational risks. The Risk Management Group (RMG) is mandated to adequately and consistently evaluate, manage, control, and monitor the overall risk profile of the Bank's activities across the different risk areas (i.e., credit, market, liquidity and operational risks) to optimize the risk-reward balance and maximize return on capital. RMG also has the responsibility for recommending to the appropriate body, risk policies across the full range of risks to which the Bank is exposed. RMG functionally reports to the RMC.

The evaluation, analysis, and control performed by the risk function, in conjunction with the risk takers, constitute the risk management process. The risk management process is applied at three levels: the transaction level, the business unit level and the portfolio level. This framework ensures that risks are properly identified, quantified and analyzed, in the light of its potential effect on the Bank's business. The goal of the risk management process is to ensure rigorous adherence to the Bank's standards for precision in risk measurement and reporting and to make possible, in-depth analysis of the deployment of capital and the returns that are delivered to the shareholders.

There is no significant change on the policies and process for managing the risks and the methods used to measure the risks of the Bank, except for the performance of the comprehensive review of the financial instruments, particularly for loan accounts, to assess vulnerability to the significant increase in credit risk in response to the unprecedented impact of COVID-19 pandemic.

4.1 Market Risk

The Bank's exposure to market risk, the risk of future loss from changes in the price of a financial instrument, relates primarily to its holdings in foreign exchange instruments, debt securities and derivatives. The Bank manages its risk by identifying, analyzing and measuring relevant or likely market risks. Market risk management recommends market risk limits based on relevant activity indicators for approval by the Bank's RMC and BOD.

4.1.1 Foreign Exchange Risk

The Bank manages its exposure to effects of fluctuations in the foreign currency exchange rates by maintaining foreign currency exposure within the existing regulatory guidelines and at a level that it believes to be relatively conservative for a financial institution engaged in that type of business.

The Bank's net foreign exchange exposure is computed as its foreign currency resources less foreign currency liabilities plus contingent assets less contingent liabilities. BSP regulations impose a cap of 20% of unimpaired capital or US$50 million, whichever is lower, on the consolidated excess foreign exchange holdings of banks in the Philippines. The Bank's foreign exchange exposure is primarily foreign exchange trading with corporate accounts and other financial institutions. The Bank, as a market participant in the Philippine Dealing System, may engage in proprietary trading to take advantage of foreign exchange fluctuations. The Bank's foreign exchange exposure at end-of-day is guided by the limits set forth in the Bank's Risk Management Manual. These limits are within the prescribed ceilings mandated by the BSP. At the end of each day, the Bank reports to the BSP on its compliance with the mandated foreign currency exposure limits.

The tables below set out the composition of the Bank's financial resources and financial liabilities as to currency as of December 31, 2020 and 2019 (amounts in thousands):

	2020		
	Foreign Currencies	**Philippine Peso**	**Total**
Resources:			
Due from BSP	**P -**	**P 3,176,953**	**P 3,176,953**
Due from other banks	**1,055,957**	**15,463**	**1,071,420**
Financial assets at FVTPL	**289,253**	**2,724,049**	**3,013,302**
Financial assets at FVOCI	**9,973,764**	**2,231,109**	**12,204,873**
HTC investments - net	**6,735,193**	**8,896,745**	**15,631,938**
Loans and receivables - net	**778,877**	**5,319,035**	**6,097,912**
Other resources	**36,183**	**891**	**37,074**
	P 18,869,227	**P 22,364,245**	**P 41,233,472**
Liabilities:			
Deposit liabilities	**P 17,641,385**	**P 14,945,743**	**P 32,587,128**
Derivative financial liabilities	**3,024**	**2,151,834**	**2,154,858**
Other liabilities	**2,069**	**402,886**	**404,955**
	P 17,646,478	**P 17,500,463**	**P 35,146,941**

	2019		
	Foreign Currencies	Philippine Peso	Total
Resources:			
Due from BSP	P -	P 1,331,616	P 1,331,616
Due from other banks	477,937	21,494	499,431
Financial assets at FVTPL	1,823,398	2,603,475	4,426,873
Financial assets at FVOCI	10,786,300	-	10,786,300
HTC investments - net	4,144,033	9,965,948	14,109,981
Loans and receivables - net	838,151	2,647,075	3,485,226
Other resources	95,046	1,102	96,148
	P 18,164,865	P 16,570,710	P 34,735,575
Liabilities:			
Deposit liabilities	P 16,778,680	P 10,215,923	P 26,994,603
Bills payable	253,234	-	253,234
Derivative financial liabilities	15,580	1,433,672	1,449,252
Other liabilities	51,429	270,015	321,444
	P 17,098,923	P 11,919,610	P 29,018,533

4.1.2 Interest Rate Risk

The Bank prepares an interest rate gap analysis in the Banking Book to measure the sensitivity of its resources, liabilities and off-book items to interest rate fluctuations. The Banking Book is a term for resources on a bank's statement of financial position that are expected to be held to maturity, usually consisting of customer loans to and deposits from retail and corporate customers. The Banking Book can also include those derivatives that are used to hedge exposures arising from the Banking Book activity, including interest rate risk. The focus of analysis is the impact of changes in interest rates on accrual or reported earnings. This analysis would give management a glimpse of the repricing profile of its interest sensitive resources and liabilities in the Banking Book.

An interest rate gap report is prepared by classifying all resources and liabilities into various time buckets according to contracted maturities if fixed or anticipated repricing dates if floating, or based on behavioural assumptions if more applicable.

In the interest rate gap presented, loans and investments are profiled based on next repricing if floating; or contracted maturity if fixed; while non-maturity deposit liabilities are considered non-rate sensitive. The difference in the amount of resources and liabilities maturing or being repriced in any time period category would then give the Bank an indication of the extent to which it is exposed to the risk of potential changes in net interest income. Interest rate financial instruments (e.g., interest rate derivatives) may be used to hedge the interest rate exposures in the Banking Book.

The following table shows the amounts of the Bank's resources and liabilities that are subject to different interest rate arrangements as of December 31, 2020 and 2019 (amounts in thousands):

	2020		2019	
	Resources	**Liabilities**	Resources	Liabilities
Subject to floating interest rates	**P 1,626,552**	**P -**	P 1,747,055	P -
Subject to fixed interest rates	**34,849,739**	**26,184,770**	27,133,884	21,950,255
Noninterest-bearing	**4,960,101**	**9,106,157**	6,071,158	7,185,889
	P 41,436,392	**P 35,290,927**	P 34,952,097	P 29,136,144

The analyses of the groupings of resources, liabilities and off-book items as of December 31, 2020 and 2019 based on expected interest realization or recognition are presented below and in the succeeding page (amounts in millions):

	2020					
	One to Three Months	**More Than Three Months to One Year**	**More Than One Year to Five Years**	**More Than Five Years**	**Non-Rate Sensitive**	**Total**
Resources:						
Due from BSP	P 1,470	P -	P -	P -	P 1,707	P 3,177
Due from other banks	1,046	25	-	-	-	1,071
Trading and investment securities	5,336	1,122	14,292	7,087	3,013	30,850
Loans and receivables - net	4,091	857	141	1,009	-	6,098
Other resources - net*	-	-	-	-	240	240
Total Resources	**P 11,943**	**P 2,004**	**P 14,433**	**P 8,096**	**P 4,960**	**P 41,436**

	2020					
	One to Three Months	**More Than Three Months to One Year**	**More Than One Year to Five Years**	**More Than Five Years**	**Non-Rate Sensitive**	**Total**
Liabilities and Equity:						
Deposit liabilities	P 19,445	P 4,023	P 583	P 2,134	P 6,402	P 32,587
Other liabilities**	-	-	-	-	2,704	2,704
Total Liabilities	**19,445**	**4,023**	**583**	**2,134**	**9,106**	**35,291**
Equity	-	-	-	-	6,145	6,145
Total Liabilities and Equity	**19,445**	**4,023**	**583**	**2,134**	**15,251**	**41,436**
On-book Gap	(7,502)	(2,019)	13,850	5,962	(10,291)	-
Cumulative On-book Gap	**(7,502)**	**(9,521)**	**4,329**	**10,291**	**-**	**-**
Contingent Resources	3,433	492	-	-	-	3,925
Contingent Liabilities	3,362	480	-	-	-	3,842
Off-book Gap	71	12	-	-	-	83
Cumulative Total Gap	**(P 7,431)**	**(P 9,438)**	**P 4,412**	**P 10,374**	**P 83**	**P -**

	2019					
	One to Three Months	More Than Three Months to One Year	More Than One Year to Five Years	More Than Five Years	Non-Rate Sensitive	Total
Resources:						
Due from BSP	P -	P -	P -	P -	P 1,332	P 1,332
Due from other banks	399	100	-	-	-	499
Trading and investment securities	640	1,051	13,623	9,583	4,426	29,323
Loans and receivables - net	1,546	348	545	1,046	-	3,485
Other resources - net*	-	-	-	-	313	313
Total Resources	2,585	1,499	14,168	10,629	6,071	34,952
Liabilities and Equity:						
Deposit liabilities	18,205	1,807	453	1,232	5,298	26,995
Bills payable	253	-	-	-	-	253
Other liabilities**	-	-	-	-	1,888	1,888
Total Liabilities	18,458	1,807	453	1,232	7,186	29,136
Equity	-	-	-	-	5,816	5,816
Total Liabilities and Equity	18,458	1,807	453	1,232	13,002	34,952
On-book Gap	(15,873)	(308)	13,715	9,397	(6,931)	-
Cumulative On-book Gap	(15,873)	(16,181)	(2,466)	6,931	-	-
Contingent Resources	3,001	1,797	-	-	-	4,798
Contingent Liabilities	2,964	1,773	-	-	-	4,737
Off-book Gap	37	24	-	-	-	61
Cumulative Total Gap	(P 15,836)	(P 16,120)	(P 2,405)	P 6,992	P 61	P -

* *Other resources include bank premises, furniture, fixtures and equipment, margin deposits, petty cash, and other deposits.*
** *Other liabilities include derivative financial liabilities, and accrued expenses and other liabilities.*

The Bank's market risk management limits are generally categorized as limits on:

- Value-at-risk (VaR) – The RMG computes the VaR benchmarked at a level which is a percentage of projected earnings. The Bank uses the VaR model to estimate the daily potential loss that the Bank can incur from its trading book, based on a number of assumptions with a confidence level of 99%. The measurement is designed such that exceptions over limits should only arise in very exceptional circumstances.

- Stop loss – The RMG sets the amount of each risk-bearing activity at a percentage of the budgeted annual income for such activity.

- Nominal position – The RMG sets the nominal amount to prevent over-trading, excessive concentration, and to limit financial loss supplementing other already established limits.

- Trading volume – The RMG sets the volume of transactions that any employee may execute at various levels based on the rank of the personnel making the risk-bearing decision.

- Earnings-at-risk (EAR) – The RMG computes the earnings-at-risk based on the repricing profile of the Banking Book and benchmarks against projected annual net interest income and capital.

VaR is one of the key measures in the Bank's management of market risk. VaR is defined as a statistical estimate of the maximum possible loss on a given position during a time horizon within a given confidence interval. The Bank uses a 99% confidence level and a 260-day observation period in VaR calculation. The Bank's VaR limit is established as a percentage of projected earnings and is used to alert senior management whenever the potential losses in the Bank's portfolios exceed tolerable levels.

Because the VaR measure is tied to market volatility, it therefore allows management to react quickly and adjust its portfolio strategies in different market conditions in accordance with its risk philosophy and appetite. The VaR model is validated through back-testing.

Although VaR is an important tool for measuring market risk, the assumptions on which the model is based do give rise to some limitations, including the following:

- A one-day holding period assumes that it is possible to hedge or dispose of positions within that period. This is considered to be a realistic assumption in almost all cases but may not be the case in situations in which there is severe market illiquidity for a prolonged period;

- A 99% confidence level does not reflect losses that may occur beyond this level. Even within the model used, there is a one percent probability that losses could exceed the VaR;

- VaR is calculated on an end-of-day basis and does not reflect exposures that may arise on positions during the trading day;

- The use of historical data as a basis for determining the possible range of future outcomes may not always cover all possible scenarios, especially those of an exceptional nature; and,

- The VaR measure is dependent upon the Bank's position and the volatility of market prices. The VaR of an unchanged position reduces if the market price volatility declines and vice versa.

The limitations of the VaR methodology are recognized by supplementing VaR limits with other position and sensitivity limit structures, including limits to address potential concentration risks within each trading portfolio. In addition, the Bank uses a wide range of stress tests to model the financial impact of a variety of exceptional market scenarios on individual trading portfolios and the Bank's overall position.

Stress VaR is also performed on all portfolios as a complementary measure of risk. While VaR deals with risk during times of normality, stress testing is used to measure the potential effect of a crisis or low probability event.

A summary of the VaR position of the Bank's trading portfolios as of December 31, 2020 and 2019 are as follows:

	December 31, 2020		December 31, 2019	
	VaR	**Stress VaR**	VaR	Stress VaR
Foreign currency risk	**P 762,769**	**P 9,034,055**	P 267,298	P 3,147,290
Interest rate risk – Peso	**15,337,568**	**217,303,915**	20,205,099	504,694,139
Interest rate risk – USD	**14,008,247**	**328,015,513**	7,866,547	310,027,791
	P 30,108,584	**P 554,353,483**	P 28,338,944	P 817,869,220

For the Bank, the earnings perspective using an EAR approach is the more relevant measure for the interest rate risks in the Banking Book given a "going-concern" assumptions and also because the component of earnings in focus is net interest income. EAR is a measure of likely earnings volatility for accrual portfolios. The appropriate yield curve used is the relevant benchmark rate and the volatilities of the relevant benchmark interest rate curve are calculated similar to the method employed in VaR. The volatility calculations make use of actual pre-defined time series data, using five years' worth of yearly changes, at the 99% confidence interval. The frequency of measurement for EAR is monthly. EAR Stress Test uses 300 basis point increase in US interest rates and 400 basis point increase in peso interest rates.

The EAR before tax in a rising and declining interest rate scenario for financial assets and liabilities repriced during 2020 and 2019 is shown below and in the succeeding page (amounts in millions).

	2020			
	Change in interest rates (in basis points)			
	-100	**+100**	**-50**	**+50**
Change in annualized net interest income	**P 5.07**	**(P 5.07)**	**P 2.53**	**(P 2.53)**
As a percentage of the Bank's net interest income for 2020	**0.51%**	**(0.51%)**	**0.26%**	**(0.26%)**
EAR	**P 237.90**			
As a percentage of the Bank's net interest income for 2020	**23.93%**			
Average (1yr) EAR	**P 164.05**			
Stress EAR	**P 393.60**			

	2019			
	Change in interest rates (in basis points)			
	-100	+100	-50	+50
Change in annualized net interest income	P 104.36	(P 104.36)	P 52.18	(P 52.18)
As a percentage of the Bank's net interest income for 2019	13.11%	(13.11%)	6.55%	(6.55%)
EAR	P 157.01			
As a percentage of the Bank's net interest income for 2019	19.72%			
Average (1yr) EAR	P 181.57			
Stress EAR	P 357.25			

4.2 Liquidity Risk

Liquidity risk is the risk that there could be insufficient funds available to adequately meet the credit demands of the Bank's customers and repay deposits on maturity. The Bank manages liquidity risk by holding sufficient liquid assets of appropriate quality to ensure short-term funding requirements are met and by maintaining a balanced loan portfolio which is repriced on a regular basis. In addition, the Bank seeks to maintain sufficient liquidity to take advantage of interest rate and exchange rate opportunities when they arise.

The analyses of the maturity groupings of resources, liabilities and off-book items as of December 31, 2020 and 2019, in accordance with the account classifications of the BSP, are presented below and in the succeeding page (amounts in millions). The amounts disclosed in the maturity analysis are the contractual undiscounted cash flows using the primary contractual maturities or behavioural assumptions on core levels (e.g. core deposit liabilities), if the latter is more relevant in profiling the liquidity gap.

	2020				
	One to Three Months	**More Than Three Months To One Year**	**More Than One Year To Five Years**	**More Than Five Years**	**Total**
Resources:					
Due from BSP	P 2,173	P 12	P 10	P 982	P 3,177
Due from other banks	1,046	25	-	-	1,071
Trading and investment securities	5,318	1,122	14,292	10,118	30,850
Loans and receivables - net	3,507	1,359	223	1,009	6,098
Other resources - net*	-	-	215	25	240
Total Resources	**12,044**	**2,518**	**14,740**	**12,134**	**41,436**
Liabilities and Equity:					
Deposit liabilities	9,400	1,629	250	21,308	32,587
Other liabilities**	253	-	-	2,451	2,704
Total Liabilities	9,653	1,629	250	23,759	35,291
Equity	-	-	-	6,145	6,145
Total Liabilities and Equity	**9,653**	**1,629**	**250**	**29,904**	**41,436**
On-book Gap	2,391	889	14,490	(17,770)	-
Cumulative On-book Gap	**P 2,391**	**P 3,280**	**P 17,770**	**P -**	**P -**

	2020				
	One to Three Months	**More Than Three Months To One Year**	**More Than One Year To Five Years**	**More Than Five Years**	**Total**
Contingent Resources	P 8,864	P 2,261	P 31,789	P 6,300	P 49,214
Contingent Liabilities	8,837	2,071	31,427	6,280	48,615
Off-book Gap	27	190	362	20	599
Cumulative Total Gap	**P 2,418**	**P 3,497**	**P 18,349**	**P 599**	**P -**

	2019				
	One to Three Months	More Than Three Months to One Year	More Than One Year to Five Years	More Than Five Years	Total
Resources:					
Due from BSP	P 191	P 1	P -	P 1,140	P 1,332
Due from other banks	399	100	-	-	499
Trading and investment securities	2,887	750	13,744	11,942	29,323
Loans and receivables - net	987	292	1,160	1,046	3,485
Other resources - net*	-	-	-	313	313
Total Resources	4,464	1,143	14,904	14,441	34,952
Liabilities and Equity:					
Deposit liabilities	6,263	813	204	19,715	26,995
Bills payable	253	-	-	-	253
Other liabilities**	231	-	-	1,657	1,888
Total Liabilities	6,747	813	204	21,372	29,136
Equity	-	-	-	5,816	5,816
Total Liabilities and Equity	6,747	813	204	27,188	34,952
On-book Gap	(2,283)	330	14,700	(12,747)	-
Cumulative On-book Gap	(2,283)	(1,953)	12,747	-	-
Contingent Resources	6,061	8,846	22,207	568	37,682
Contingent Liabilities	5,994	8,657	21,858	549	37,058
Off-book Gap	67	189	349	19	624
Cumulative Total Gap	(P 2,216)	(P 1,697)	P 13,352	P 624	P -

** Other resources include banks premises, furniture, fixtures and equipment, margin deposits, petty cash and other deposits.*
*** Other liabilities include derivative financial liabilities, and accrued expenses and other liabilities.*

Contractual Maturity Analysis – Derivative Financial Liabilities

As of December 31, 2020 and 2019, the Bank's derivative financial liabilities for which contractual maturities are essential for the understanding of cash flows have contractual maturities as follows (amounts in thousands):

	2020				
	One to Three Months	**More Than Three Months to One Year**	**More Than One Year to Five Years**	**More Than Five Years**	**Total**
Forwards (FX swaps/outrights)	**P 14,990**	**P 63**	**P -**	**P -**	**P 15,053**
Nondeliverable forwards	**64,622**	**-**	**-**	**-**	**64,622**
Cross currency swaps	**509,274**	**-**	**1,002,594**	**522,348**	**2,034,216**
Interest rate swaps	**7,056**	**8,922**	**24,269**	**-**	**40,247**
Futures	**720**	**-**	**-**	**-**	**720**
	P 596,662	**P 8,985**	**P 1,026,863**	**P 522,348**	**P 2,154,858**

	2019				
	One to Three Months	More Than Three Months to One Year	More Than One Year to Five Years	More Than Five Years	Total
Forwards (FX swaps/outrights)	P 340	P 947	P -	P -	P 1,287
Nondeliverable forwards	-	-	-	29,486	29,486
Cross currency swaps	84,731	300,950	746,024	170,844	1,302,549
Interest rate swaps	4,740	17,191	93,999	-	115,930
	P 89,811	P 319,088	P 840,023	P 200,330	P 1,449,252

4.3 Credit Risk

Credit risk is the risk that the counterparty in a transaction may default and arises from lending, treasury, derivatives and other activities undertaken by the Bank. The Bank manages its credit risk and loan portfolio through the RMG, which undertakes several functions with respect to credit risk management.

The RMG undertakes credit analysis and review to ensure consistency in the Bank's risk assessment process. The RMG performs account risk ratings and ensures that the Bank's credit policies and procedures are adequate to meet the demands of the business. The RMG is also responsible for developing procedures to streamline and expedite the processing of credit applications.

The RMG also undertakes portfolio management by reviewing the Bank's loan portfolio, including the portfolio risks associated with particular industry sectors, regions, loan size and maturity, and development of a strategy for the Bank to achieve its desired portfolio mix and risk profile.

The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower or issuer, or groups of borrowers or issuers, and to geographical and industry segments. Such risks are monitored on a regular basis and subject to an annual or more frequent review.

Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits when appropriate. Exposure to credit risk is also managed in part by securing eligible collateral/guarantees.

4.3.1 Exposure to Credit Risk

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

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

- Current/Unclassified : Grades AAA to B
- Watchlisted : Grade B-
- Loans Especially Mentioned : Grade C
- Substandard : Grade D
- Doubtful : Grade E
- Loss : Grade F

Once an account is Watchlisted or Adversely Classified, the resulting risk rating grade is aligned based on the above classification.

(a) Current/Unclassified

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

(b) Watchlisted

Since early identification of troublesome or potential accounts is vital in portfolio management, a "Watchlisted" classification of credit accounts is maintained. These accounts are not adversely classified but they require more than normal attention to prevent these accounts from deteriorating to said category.

Past due or individually impaired financial assets comprise accounts under the following risk ratings:

(c) Adversely Classified

(i) Especially Mentioned

It is an adverse classification of loans/accounts that have potential weaknesses and deserves management's close attention. These potential weaknesses, if left uncorrected, may affect the repayment of the loan and thus increase credit risk to the Bank.

(ii) Substandard

Accounts classified as "Substandard" are individual credits or portions thereof, that have well-defined weakness/(es) 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.

(iii) Doubtful

Accounts classified as "Doubtful" are individual credits or portions thereof which exhibit more severe weaknesses than those classified as "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. Classification as "Loss" is deferred because of specific pending factors, which may strengthen the assets.

(iv) Loss

Accounts classified as "Loss" are individual credits or portions thereof, which are considered uncollectible or worthless, and of such little value that their continuance as bankable assets are not warranted although the loans may have some recovery or salvage value. This shall be viewed as a transitional category for loans and other credit accommodations, which have been identified as requiring write-off during the current reporting period even though partial recovery may be obtained in the future.

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

4.3.2 Credit Quality Analysis

The following table sets out information about the credit quality of financial resources measured at amortized cost and FVOCI (except those classified as cash and cash equivalents). Unless specifically indicated, for financial assets, the amounts in the table represent gross carrying amounts. As of December 31, 2020 and 2019, the Bank has no loan commitments and financial guarantee contracts. Thus, there are no amounts committed or guaranteed in the table below and in the succeeding page.

The following tables presented below and in the succeeding page show the exposure to credit risk as of December 31, 2020 and 2019 for each internal risk grade and the related allowance for impairment (amounts in thousands):

	2020			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Receivables from customers – corporate				
Grades AAA to B: Current	P 2,413,088	P -	P -	P 2,413,088
Expected credit loss allowance	(8,286)	-	-	(8,286)
Carrying amount	**P 2,404,802**	**P -**	**P -**	**P 2,404,802**

	2020			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Receivables from customers – individual				
Grades AAA to B: Current	P 785,310	P -	P -	P 785,310
Expected credit loss allowance	(1,306)	-	-	(1,306)
Carrying amount	**P 784,004**	**P -**	**P -**	**P 784,004**
Other receivables				
Grades AAA to B: Current	P 315,437	P -	P -	P 315,437
Grade F: Loss	-	-	26,887	26,887
Expected credit loss allowance	-	-	(26,887)	(26,887)
Carrying amount	**P 315,437**	**P -**	**P -**	**P 315,437**
Debt securities – Financial assets at FVOCI				
Grades AAA to B: Current	**P 12,204,873**	**P -**	**P -**	**P 12,204,873**
Debt securities – HTC investments				
Grades AAA to B: Current	P 15,642,574	P -	P -	P 15,642,574
Expected credit loss allowance	(10,636)	-	-	(10,636)
Carrying amount	**P 15,631,938**	**P -**	**P -**	**P 15,631,938**

	2019			
	Stage 1	Stage 2	Stage 3	Total
Receivables from customers – corporate				
Grades AAA to B: Current	P 2,386,409	P -	P -	P 2,386,409
Expected credit loss allowance	(4,465)	-	-	(4,465)
Carrying amount	P 2,381,944	P -	P -	P 2,381,944
Receivables from customers – individual				
Grades AAA to B: Current	P 822,984	P -	P -	P 822,984
Expected credit loss allowance	(1,108)	-	-	(1,108)
Carrying amount	P 821,876	P -	P -	P 821,876
Other receivables				
Grades AAA to B: Current	P 281,407	P -	P -	P 281,407
Grade F: Loss	-	-	27,157	27,157
Expected credit loss allowance	-	-	(27,157)	(27,157)
Carrying amount	P 281,407	P -	P -	P 281,407
Debt securities – Financial assets at FVOCI				
Grades AAA to B: Current	P 10,786,300	P -	P -	P 10,786,300
Debt securities – HTC investment				
Grades AAA to B: Current	P 14,115,428	P -	P -	P 14,115,428
Expected credit loss allowance	(5,447)	-	-	(5,447)
Carrying amount	P 14,109,981	P -	P -	P 14,109,981

The following table sets out the credit quality of trading debt securities measured at FVTPL (see Note 7) (amounts in thousands):

	2020	2019
Grade:		
AAA	**P -**	P 602,702
AA+ to AA-	**106,268**	437,326
BBB+ to BBB-	**52,431**	1,363,779
BB+ to BB-	**128,874**	-
	P 287,573	P 2,403,807

The table below shows an analysis of counterparty credit exposures arising from derivative transactions. Outstanding derivative exposures to counterparties are generally to investment grade counterparty banks. Derivative transactions with non-bank counterparties are on a fully secured basis (amounts in thousands):

	Total		Exchange-traded		Over-the-counter: Central counterparties		Over-the-counter: Other bilateral collateralized	
	Notional Amount	Fair value	Notional amount	Fair value	Notional amount	Fair value	Notional amount	Fair value
2020								
Derivative assets	**P23,376,319**	**P2,725,729**	**P -**	**P -**	**P -**	**P -**	**P 23,376,319**	**P2,725,729**
Derivative liabilities	**24,472,288**	**2,154,858**	**-**	**-**	**-**	**-**	**24,472,288**	**2,154,858**
2019								
Derivative assets	P24,408,491	P 2,023,066	P -	P -	P -	P -	P 24,408,491	P 2,023,066
Derivative liabilities	16,434,120	1,449,252	-	-	-	-	16,434,120	1,449,252

As of December 31, 2020 and 2019, the Bank held Due from Other Banks and Due from BSP (including SPURRA) totaling to P6,842,042,923 and P1,831,047,334, respectively. The financial assets are held with the BSP and financial institution counterparties that are rated at least BBB to AAA+, based on S&P ratings.

4.3.3 Concentration of Credit Risk

The RMG reviews the Bank's loan portfolio in line with the Bank's policy of not having significant unwarranted concentrations of exposure to individual counterparties, in accordance with the BSP's prohibitions on maintaining a financial exposure to any single person or group of connected persons in excess of 25% of its net worth.

The Bank monitors concentrations of credit risk by sector and by geographic location. An analysis of concentrations of credit risk (gross of allowance for impairment) at the reporting date is shown below and in the succeeding page (amounts in thousands).

	2020		
	Cash and Cash Equivalents*	**Loans and Receivables**	**Trading and Investment Securities**
Concentration by sector:			
Financial and insurance activities	**P 6,879,116**	**P 760,684**	**P 6,768,360**
Arts, entertainment and recreation	**-**	**1,033,225**	**-**
Other service activities	**-**	**1,065,662**	**3,096,704**
Real estate activities	**-**	**264,615**	**2,238,751**
Information	**-**	**188,559**	**-**
Construction	**-**	**87,504**	**-**
Government	**-**	**-**	**18,652,071**
Electricity, gas, steam and air-conditioning supply	**-**	**140,473**	**-**
Transportation and storage	**-**	**-**	**104,862**
	P 6,879,116	**P 3,540,722**	**P 30,860,748**
Concentration by location:			
Philippines	**P 5,873,427**	**P 3,060,492**	**P 22,443,474**
Foreign countries	**1,005,689**	**480,230**	**8,417,274**
	P 6,879,116	**P 3,540,722**	**P 30,860,748**

	2019		
	Cash and Cash Equivalents*	Loans and Receivables	Trading and Investment Securities
Concentration by sector:			
Financial and insurance activities	P 1,927,195	P 941,597	P 7,387,792
Arts, entertainment and recreation	-	1,066,953	-
Other service activities	-	1,040,760	1,243,451
Real estate activities	-	190,351	1,606,605
Information	-	185,988	-
Construction	-	92,308	-
Government	-	-	16,875,352
Electricity, gas, steam and air-conditioning supply	-	-	2,158,677
Transportation and storage	-	-	56,724
	P 1,927,195	P 3,517,957	P 29,328,601
Concentration by location:			
Philippines	P 1,598,405	P 2,958,798	P 22,594,778
Foreign countries	328,790	559,159	6,733,823
	P 1,927,195	P 3,517,957	P 29,328,601

**In addition to the accounts that comprise cash and cash equivalents in Note 2.3, the amount also includes margin deposits with foreign bank and other financial assets classified under Other Resources (see Note 13) amounting to P37,074 and P96,148 as of December 31, 2020 and 2019, respectively.*

The table below shows the maximum exposure to credit risk for the components of the statements of financial position, including derivatives. The maximum exposure is gross, before the effect of mitigation through the use of netting and collateral agreements (amounts in thousands).

	Notes	**2020**	2019
Due from BSP	6	**P 3,176,953**	P 1,331,616
Due from other banks	6	**1,071,420**	499,431
Financial assets at FVTPL	7		
Derivatives		**2,725,729**	2,023,066
Corporate debt securities		**287,573**	1,282,635
Government debt securities		**-**	1,121,172
Financial assets at FVOCI	8		
Corporate debt securities		**6,268,704**	6,741,525
Government debt securities		**5,936,169**	4,044,775
HTC investments (gross)	9		
Government debt securities		**13,090,922**	12,886,813
Corporate debt securities		**2,551,652**	1,228,615
Loans and receivables (gross)	10		
Receivable from customers		**3,198,397**	3,209,393
Other receivables		**2,935,994**	308,564
Other resources	13		
Margin deposits		**36,183**	95,046
Others		**891**	1,102
		P 41,280,587	P 34,773,753

4.3.4 Collateral Held as Security and Other Credit Enhancements

The Bank holds some collateral against loans to customers in the form of deposits and money market investments; fixed, floater and zero coupon bonds and notes guaranteed by the government; fixed, floater or zero coupon bonds issued by domestic corporations; and listed and publicly traded liquid equity issues. The market values of collaterals are based on the previous day's closing price and are revalued daily. Collateral generally is not held over due from other banks, interbank loans and investment securities, except when securities are held as part of reverse repurchase and securities borrowing activities. Significant counterparties to collateral held as security and other credit enhancements are corporate issuers of listed securities.

Estimate of the fair value of collateral and other security enhancements held against the following loans and receivables risk groupings as of December 31 are as follows (amounts in thousands):

		2020		2019
Neither past due nor impaired:				
Equity securities	**P**	**873,400**	P	488,882
Debt securities		**379,375**		407,359
Others		**381,200**		224,021
	P	**1,633,975**	P	1,120,262

There is no significant change on the quality of the collateral and other security enhancements held against the credit exposures except for the fair value of the collaterals driven by the change in market conditions.

4.3.5 Amounts Arising from Expected Credit Losses

At each reporting date, the Bank assesses whether financial assets carried at amortised cost and debt financial assets carried at FVOCI are credit-impaired (referred to as Stage 3 financial assets). A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

The assessment of credit risk of a portfolio of assets entails further estimations as to the likelihood of defaults occurring, of the associated loss ratios and of default correlations between counterparties. The Bank measures credit risk using PD, LGD and EAD.

(a) Significant Increase in Credit Risk

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Bank considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Bank's historical experience and expert credit assessment and including forward-looking information (FLI).

The objective of the assessment is to identify whether a significant increase in credit risk has occurred for an exposure by comparing:

- the remaining lifetime PD as at the reporting date; with,

- the remaining lifetime PD for this point in time that was estimated at the time of initial recognition of the exposure (adjusted where relevant for changes in prepayment expectations).

The Bank uses the following criteria in determining whether there has been a significant increase in credit risk: (i) quantitative test based on movement in PD; and (ii) qualitative indicators, such as substantial decline in sales or intermittent delays in payment:

(i) Credit Risk Grading

The Bank allocates each exposure to a credit risk grade based on a variety of data that is determined to be predictive of the risk of default and applying experienced credit judgement. Credit risk grades are defined using qualitative and quantitative factors that are indicative of risk of default. These factors vary depending on the nature of the exposure and the type of borrower.

The credit grades are defined and calibrated such that the risk of default increases exponentially at each higher risk grade so, for example, the difference PD between an AAA and AA rating grade is lower than the difference in the PD between a B and B- rating grade.

(ii) Generating the Term Structure of PD

Credit risk grades are a primary input into the determination of the term structure of PD for exposures. The Bank collects performance and default information about its credit risk exposures analysed by jurisdiction or region and by type of product and borrower as well as by credit risk grading. For some portfolios, information from external credit reference agencies is also used.

The Bank employs statistical models to analyze the data collected and to generate the term structure of PD estimates.

(iii) Determining Whether Credit Risk has Significantly Increased

The Bank assesses whether credit risk has increased significantly since initial recognition at each reporting date. Determining whether an increase in credit risk is significant depends on the characteristics of the financial instrument and the borrower. What is considered significant varies across financial assets of the Bank. The credit risk may also be deemed to have increased significantly since initial recognition based on qualitative factors linked to the Bank's credit risk management processes that may not otherwise be fully reflected in its quantitative analysis on a timely basis. This will be the case for exposures that meet certain heightened risk criteria, such as substantial decline in sales and intermittent delays in payments.

If there is evidence that there is no longer a significant increase in credit risk relative to initial recognition, then the loss allowance on an instrument returns to being measured as 12-month ECL.

During 2020, certain assumptions and estimation technique have been reviewed to consider the unprecedented impact of COVID-19 pandemic. In this regard, the Bank performed comprehensive review of the financial assets, particularly for loan accounts to assess vulnerability arising from current economic condition.

(b) Definition of Default

The Bank considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Bank in full, without recourse by the Bank to actions such as realizing security (if any is held);
- the borrower is more than 90 days past due on any material credit obligation to the Bank; or,
- it is becoming probable that the borrower will restructure the asset as a result of bankruptcy due to the borrower's inability to pay its credit obligations.

In assessing whether a borrower is in default, the Bank considers indicators that are qualitative (e.g., breaches of covenant) and, quantitative (overdue or non-payment).

Inputs into the assessment of whether a financial instrument is in default as well as their significance may vary over time to reflect changes in circumstances.

A loan that has been renegotiated due to a deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment.

The definition of default has been aligned with the definition used for regulatory capital purposes. Definition of default can be rebutted and the rebuttal will be monitored and reviewed on annual basis to ensure definition remains appropriate.

These criteria are consistent with the definition of default used for internal credit risk management purposes. Such definition is consistently applied in determining PD, LGD, and EAD for each loan portfolio segment and throughout the ECL calculations of the Bank.

(c) Forward-looking Information

The Bank incorporates FLI into both the assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and the measurement of ECL.

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

The relevant macro-economic variables for selection generally include, but are not limited to, Gross Domestic Product (GDP) growth, unemployment rate, foreign exchange, stock market index, oil prices and interest rates.

Predicted relationships between the key macro-economic indicators and default and loss rates on various portfolios of financial assets have been developed based on analyzing historical data over the past 10 to 15 years.

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

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

(d) Modified Financial Assets

The contractual terms of a loan may be modified for a number of reasons, including changing market conditions, customer retention and other factors not related to a current or potential credit deterioration of the customer.

When the terms of a financial asset are modified and the modification does not result in derecognition, the determination of whether the asset's credit risk has increased significantly reflects comparison of:

- its remaining lifetime PD at the reporting date based on the modified terms; with,
- the remaining lifetime PD estimated based on data on initial recognition and the original contractual terms.

When modification results in derecognition, a new loan is recognized and allocated to Stage 1 (assuming it is not credit-impaired at that time).

The Bank renegotiates loans to customers in financial difficulties (referred to as 'restructuring') to maximize collection opportunities and minimize the risk of default. Under the Bank's restructuring policy, loan restructuring is granted on a selective basis if the debtor is currently in default on its debt; or if there is a high risk of default, there is evidence that the debtor made all reasonable efforts to pay under the original contractual terms and the debtor is expected to be able to meet the revised terms.

The revised terms usually include extending the maturity, changing the timing of interest payments and amending the terms of loan covenants. Individual and corporate loans are subject to restructuring. The Bank's Credit Committee regularly reviews reports on restructured activities.

For financial assets modified as part of the Bank's restructuring policy, the estimate of PD reflects whether the modification has improved or restored the Bank's ability to collect interest and principal and the Bank's previous experience of similar action. As part of this process, the Bank evaluates the borrower's payment performance against the modified contractual terms and considers various behavioral indicators.

Generally, restructuring is a qualitative indicator of a significant increase in credit risk and an expectation of forbearance may constitute evidence that an exposure is credit-impaired. A customer needs to demonstrate consistently good payment behaviour over a period of time before the exposure is no longer considered to be credit-impaired/in default or the PD is considered to have decreased such that the loss allowance reverts to being measured at an amount equal to Stage 1.

(e) Measurement of ECL

The key inputs into the measurement of ECL are the term structure of PD, LGD and EAD.

ECL for exposures in Stage 1 is calculated by multiplying the 12-month PD by LGD and EAD. Lifetime ECL is calculated by multiplying the lifetime PD by LGD and EAD.

The methodology of estimating PDs is discussed in the preceding section under the heading 'Generating the Term Structure of PD' under item (a) of Note 4.3.5.

LGD is the magnitude of the likely loss if there is a default. The Bank estimates LGD parameters based on the history of recovery rates of claims against defaulted counterparties. The LGD models consider the structure, collateral, seniority of the claim, counterparty industry and recovery costs of any collateral that is integral to the financial asset. For loans secured by retail property, loan-to-value (LTV) ratios are a key parameter in determining LGD. LGD estimates are recalibrated for different economic scenarios and, for real estate lending, to reflect possible changes in property prices. They are calculated on a discounted cash flow basis using the effective interest rate as the discounting factor.

EAD represents the expected exposure in the event of a default. The Bank derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract and arising from amortisation. The EAD of a financial asset is its gross carrying amount at the time of default. For lending commitments, the EADs are potential future amounts that may be drawn under the contract, which are estimated based on historical observations and forward-looking forecasts. For some financial assets, EAD is determined by modelling the range of possible exposure outcomes at various points in time using scenario and statistical techniques.

The assumptions underlying the ECL calculation are monitored and reviewed on an annual basis. There have been no significant changes in estimation techniques or significant assumptions made during the reporting period.

As described above, and subject to using a maximum of a 12-month PD for Stage 1 financial assets, the Bank measures ECL considering the risk of default over the maximum contractual period (including any borrower's extension options) over which it is exposed to credit risk, even if, for credit risk management purposes, the Bank considers a longer period. The maximum contractual period extends to the date at which the Bank has the right to require repayment of an advance or terminate a loan commitment or guarantee.

Where modelling of a parameter is carried out on a collective basis, the financial instruments are grouped on the basis of shared risk characteristics that include:

- instrument type;
- credit risk gradings;
- collateral type;
- LTV ratio for retail mortgages;
- date of initial recognition;
- remaining term to maturity;
- industry; and,
- geographic location of the borrower.

The groupings are subject to regular review to ensure that exposures within a particular group remain appropriately homogeneous.

For portfolios in respect of which the Bank has limited historical data, external benchmark information (e.g., PD from external credit rating agencies, Basel LGD) is used to supplement the internally available data. The portfolios for which external benchmark information represent a significant input into measurement of ECL include exposures to foreign borrowers and low default borrower segments.

(f) Write-offs

The Bank writes off financial assets, in whole or in part, when it has exhausted all practical recovery efforts and has concluded that there is no reasonable expectation of recovery of the financial asset. Indicators that there is no reasonable expectation of recovery include; cessation of enforcement activity; and, where the Bank's recovery method is through foreclosure of collateral and the value of the collateral is less than the outstanding contractual amounts of the financial assets to be written-off. The Bank has still, however, enforceable right to receive payment even if the financial assets have been written off except in certain cases.

(g) Loss Allowance

The following tables show the reconciliation from the opening to the closing balance of the loss allowance by class of financial instrument (amounts in thousands).

	2020			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Receivables from customers – corporate				
Balance at January 1	P 4,465	P -	P -	P 4,465
New financial assets originated	5,184	-	-	5,184
Derecognition of financial assets	(1,244)	-	-	(1,244)
Foreign exchange	(119)	-	-	(119)
Balance at December 31	**P 8,286**	**P -**	**P -**	**P 8,286**
Receivables from customers – individual				
Balance at January 1	P 1,108	P -	P -	P 1,108
New financial assets originated	950	-	-	950
Derecognition of financial assets	(733)	-	-	(733)
Foreign exchange	(19)	-	-	(19)
Balance at December 31	**P 1,306**	**P -**	**P -**	**P 1,306**
Other receivables				
Balance at January 1	P -	P -	P 27,157	P 27,157
Derecognition of financial assets	-	-	(270)	(270)
Balance at December 31	**P -**	**P -**	**P 26,887**	**P 26,887**
Debt securities – Financial assets at FVOCI				
Balance at January 1	P 11,793	P -	P -	P 11,793
Net remeasurement of loss allowance	2,681	-	-	2,681
New financial assets purchases	5,887	-	-	5,887
Derecognition of financial assets	(8,989)	-	-	(8,989)
Foreign exchange	(547)	-	-	(547)
Balance at December 31	**P 10,825**	**P -**	**P -**	**P 10,825**
Debt securities – HTC investments				
Balance at January 1	P 5,447	P -	P -	P 5,447
Net remeasurement of loss allowance	3,193	-	-	3,193
New financial assets purchases	2,363	-	-	2,363
Derecognition of financial assets	(87)	-	-	(87)
Foreign exchange	(280)	-	-	(280)
Balance at December 31	**P 10,636**	**P -**	**P -**	**P 10,636**

	2019			
	Stage 1	Stage 2	Stage 3	Total
Receivables from customers – corporate				
Balance at January 1	P 6,573	P -	P -	P 6,573
New financial assets originated	2,661	-	-	2,661
Derecognition of financial assets	(4,739)	-	-	(4,739)
Foreign exchange	(30)	-	-	(30)
Balance at December 31	P 4,465	P -	P -	P 4,465
Receivables from customers – individual				
Balance at January 1	P 1,403	P -	P -	P 1,403
New financial assets originated	931	-	-	931
Derecognition of financial assets	(1,206)	-	-	(1,206)
Foreign exchange	(20)	-	-	(20)
Balance at December 31	P 1,108	P -	P -	P 1,108
Other receivables				
Balance at January 1	P -	P -	P -	P -
New financial assets originated	-	-	27,157	27,157
Balance at December 31	P -	P -	P 27,157	P 27,157
Debt securities – Financial assets at FVOCI				
Balance at January 1	P 7,757	P -	P -	P 7,757
Net remeasurement of loss allowance	2,374	-	-	2,374
New financial assets purchases	4,971	-	-	4,971
Derecognition of financial assets	(2,904)	-	-	(2,904)
Foreign exchange	(405)	-	-	(405)
Balance at December 31	P 11,793	P -	P -	P 11,793
Debt securities – HTC investments				
Balance at January 1	P 6,916	P -	P -	P 6,916
Net remeasurement of loss allowance	(174)	-	-	(174)
Derecognition of financial assets	(1,148)	-	-	(1,148)
Foreign exchange	(147)	-	-	(147)
Balance at December 31	P 5,447	P -	P -	P 5,447

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

The tables below and in the succeeding page provide information how the significant changes in the gross carrying amount of financial instruments in 2020 and 2019 contributed to the changes in the allowance for ECL.

	2020			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Receivables from customers – corporate				
Balance at January 1	P 2,386,409	P -	P -	P 2,386,409
New financial assets originated	509,504	-	-	509,504
Derecognition of financial assets	(550,706)	-	-	(550,706)
Foreign exchange	67,881	-	-	67,881
Balance at December 31	**P 2,413,088**	**P -**	**P -**	**P 2,413,088**
Receivables from customers – individual				
Balance at January 1	P 822,984	P -	P -	P 822,984
New financial assets originated	2,449,267	-	-	2,449,267
Derecognition of financial assets	(2,378,827)	-	-	(2,378,827)
Foreign exchange	(108,114)	-	-	(108,114)
Balance at December 31	**P 785,310**	**P -**	**P -**	**P 785,310**

	2020			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Other receivables				
Balance at January 1	P 281,407	P -	P 27,157	P 308,564
New financial assets originated	34,030	-	-	34,030
Derecognition of financial assets	-	-	(270)	(270)
Balance at December 31	**P 315,437**	**P -**	**P 26,887**	**P 342,324**
Debt securities – Financial assets at FVOCI				
Balance at January 1	P 10,786,300	P -	P -	P 10,786,300
New financial assets purchases	15,260,203	-	-	15,260,203
Derecognition of financial assets	(13,428,096)	-	-	(13,428,096)
Foreign exchange	(413,534)	-	-	(413,534)
Balance at December 31	**P 12,204,873**	**P -**	**P -**	**P 12,204,873**
Debt securities – HTC investments				
Balance at January 1	P 14,115,428	P -	P -	P 14,115,428
New financial assets purchases	4,093,857	-	-	4,093,857
Derecognition of financial assets	(2,245,406)	-	-	(2,245,406)
Foreign exchange	(321,305)	-	-	(321,305)
Balance at December 31	**P 15,642,574**	**P -**	**P -**	**P 15,642,574**

	2019			
	Stage 1	Stage 2	Stage 3	Total
Receivables from customers – corporate				
Balance at January 1	P 4,336,880	P -	P -	P 4,336,880
New financial assets originated	862,241	-	-	862,241
Derecognition of financial assets	(864,433)	-	-	(864,433)
Foreign exchange	(1,948,279)	-	-	(1,948,279)
Balance at December 31	P 2,386,409	P -	P -	P 2,386,409
Receivables from customers – individual				
Balance at January 1	P 142,584	P -	P -	P 142,584
New financial assets originated	2,614,022	-	-	2,614,022
Derecognition of financial assets	(3,860,049)	-	-	(3,860,049)
Foreign exchange	1,926,427	-	-	1,926,427
Balance at December 31	P 822,984	P -	P -	P 822,984
Other receivables				
Balance at January 1	P 241,271	P -	P -	P 241,271
New financial assets originated	40,136	-	27,157	67,293
Balance at December 31	P 281,407	P -	P 27,157	P 308,564
Debt securities – Financial assets at FVOCI				
Balance at January 1	P 11,449,767	P -	P -	P 11,449,767
New financial assets purchases	10,482,384	-	-	10,482,384
Derecognition of financial assets	(10,743,513)	-	-	(10,743,513)
Foreign exchange	(402,338)	-	-	(402,338)
Balance at December 31	P 10,786,300	P -	P -	P 10,786,300
Debt securities – HTC investments				
Balance at January 1	P 19,506,337	P -	P -	P 19,506,337
Derecognition of financial assets	(5,203,251)	-	-	(5,203,251)
Foreign exchange	(187,658)	-	-	(187,658)
Balance at December 31	P 14,115,428	P -	P -	P 14,115,428

4.4 Equity Risk

Equity risk is the risk that the fair values of equity investments will decrease as a result of changes in the levels of equity indices and the value of individual stocks (whether traded or not). The Bank has no significant equity risk.

4.5 Operational Risk

Operational risk is the risk of loss due to the Bank's:

- failure to comply with defined Bank operational procedures;
- inability to address fraud committed internally or externally;
- inability to handle system failures; and,
- inability to cope with the impact of external events.

The Bank manages its operational risks by having policies to minimize its expected losses, allocating capital for the unexpected losses, and having insurance and/or a business continuity plan to prepare for catastrophic losses.

4.5.1 Framework

True to its commitment to sound management and corporate governance, the Bank considers operational risk management as a critical element in the conduct of its business. Under the Bank's Operational Risk Management (ORM) framework, the BOD has the ultimate responsibility for providing leadership in the management of risk in the Bank. The business and service unit heads, as risk owners, are responsible for identifying, assessing and limiting the impact of risk in their respective businesses. The RMG provides the common risk language and management tools across the Bank as well as monitors the implementation of the ORM framework and policies.

The Bank continued to pursue its proactive management of identified operational risks, focusing on the ongoing adoption of the Risk and Control Self-Assessment Process so that business process owners could document both their operational risks and the control mechanisms they have put in place to manage those risks. This ORM tool allows the Bank to identify risks the business/operation faces, assess the severity of those risks, evaluate the adequacy of key controls associated to the identified risks, and take proactive action to address any deficiencies identified.

Operational risks arising from health, safety and environmental issues are appropriately managed through policies and measures that are integrated into the Bank's day-to-day operations. These include environmental consciousness, occupational health and safety, and community health and safety.

4.6 Anti-Money Laundering Controls

The Anti-Money Laundering (AML) Program of the BDO Unibank Group and the Parent Bank, which is also adopted by the Bank, is articulated in the Board-approved Money Laundering and Terrorist Financing Prevention Program Manual (MTPP). The MTPP encapsulates the policies and procedures covering the : (i) on-boarding of clients, Know Your Client and required due diligence; (ii) customer risk assessment; (iii) on-going monitoring of transactions; (iv) regulatory reporting; (v) record-keeping; (vi) training of all Officers and Staff including BOD; (vii) Independent Compliance Testing (ICT); and (viii) Institutional Risk Assessment.

The MTPP provides the framework for the Bank to adhere with the AML and Counter-Terrorism Financing Laws and Regulations.

5. CATEGORIES AND OFFSETTING OF FINANCIAL RESOURCES AND FINANCIAL LIABILITIES

5.1 Comparison of Carrying Amounts and Fair Values

The table below summarizes the carrying amounts and fair values by categories of those financial resources and financial liabilities in the statements of financial position (amounts in thousands):

	Notes	**2020** Carrying Amounts	**2020** Fair Values	2019 Carrying Amounts	2019 Fair Values
Financial Resources					
Financial assets at Amortized Cost:					
Due from BSP	6	**P 3,176,953**	**P 3,176,953**	P 1,331,616	P 1,331,616
Due from other banks	6	**1,071,420**	**1,071,420**	499,431	499,431
Receivables from customers – net	10	**3,188,806**	**3,487,446**	3,203,820	3,378,854
Other receivables - net	10	**2,909,106**	**2,909,106**	281,407	281,407
Other resources*	13	**37,074**	**37,074**	96,148	96,148
		10,383,359	**10,681,999**	5,412,422	5,587,456
Financial assets at FVTPL:	7				
Derivative financial assets		**2,725,729**	**2,725,729**	2,023,066	2,023,066
Corporate debt securities		**287,573**	**287,573**	1,282,635	1,282,635
Government debt securities		**-**	**-**	1,121,172	1,121,172
		3,013,302	**3,013,302**	4,426,873	4,426,873
Financial assets at FVOCI:	8				
Corporate debt securities		**6,268,704**	**6,268,704**	6,741,525	6,741,525
Government debt securities		**5,936,169**	**5,936,169**	4,044,775	4,044,775
		12,204,873	**12,204,873**	10,786,300	10,786,300
HTC investments:	9				
Government debt securities		**13,084,458**	**13,919,079**	12,883,409	12,927,650
Corporate debt securities		**2,547,480**	**2,600,820**	1,226,572	1,167,296
		15,631,938	**16,519,899**	14,109,981	14,094,946
		P 41,233,472	**P 42,420,073**	P 34,735,576	P 34,895,575
Financial Liabilities					
Financial liabilities at Amortized Cost:					
Deposit liabilities	14	**P 32,587,128**	**P 32,590,989**	P 26,994,603	P 26,995,238
Bills payable	15	**-**	**-**	253,234	253,234
Other liabilities**	17	**404,955**	**404,955**	321,444	321,444
		32,992,083	**32,995,944**	27,569,281	27,569,916
Financial liabilities at Fair Value – Derivative financial liabilities	16	**2,154,858**	**2,154,858**	1,449,252	1,449,252
		P 35,146,941	**P 35,150,802**	P 29,018,533	P 29,019,168

* *Other resources include margin deposits, petty cash and other deposits.*
** *Other liabilities include manager's checks, accrued expenses, unclaimed balances and other liabilities.*

5.2 Fair Value Hierarchy

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

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities that an entity can access at the measurement date;

- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and,

- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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

For purposes of determining the market value at Level 1, a market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

For investments which do not have quoted market price, the fair value is determined by using generally acceptable pricing models and valuation techniques or by reference to the current market of another instrument which is substantially the same after taking into account the related credit risk of counterparties, or is calculated based on the expected cash flows of the underlying net asset base of the instrument.

When the Bank uses valuation technique, it maximizes the use of observable market data where it is available and relies as little as possible on entity specific estimates. If all significant inputs required to determine the fair value of an instrument are observable, the instrument is included in Level 2. Otherwise, it is included in Level 3.

5.3 Financial Instruments Measured at Fair Value

The tables below and in the succeeding page show the fair value hierarchy of the Bank's classes of financial resources and financial liabilities measured at fair value in the statements of financial position on a recurring basis as of December 31, 2020 and 2019 (amounts in thousands).

	Level 1	Level 2	Level 3	Total
December 31, 2020				
Resources:				
Financial assets at FVTPL:				
Derivative financial assets	P -	P 2,725,729	P -	P 2,725,729
Corporate debt securities	287,573	-	-	287,573
Financial assets at FVOCI:				
Corporate debt securities	6,268,704	-	-	6,268,704
Government debt securities	5,936,169	-	-	5,936,169
Total Resources	P 12,492,446	P 2,725,729	P -	P 15,218,175
Liabilities –				
Derivatives financial liabilities	P -	P 2,154,858	P -	P 2,154,858

	Level 1	Level 2	Level 3	Total
December 31, 2019				
Resources:				
Financial assets at FVTPL:				
Derivative financial assets	P -	P 2,023,066	P -	P 2,023,066
Corporate debt securities	1,282,635	-	-	1,282,635
Government debt securities	1,121,172	-	-	1,121,172
Financial assets at FVOCI:				
Corporate debt securities	6,741,525	-	-	6,741,525
Government debt securities	4,044,775	-	-	4,044,775
Total Resources	P 13,190,107	P 2,023,066	P -	P 15,213,173
Liabilities –				
Derivatives financial liabilities	P -	P 1,449,252	P -	P 1,449,252

There have been no significant transfers among Levels 1 and 2 in the reporting periods.

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

(a) Debt securities

The fair value of the Bank's debt securities, which are categorized within Level 1 is discussed below.

(i) The fair values of government debt securities issued by the Philippine government, are determined based on the reference price per Bloomberg which used BVAL. These BVAL reference rates are computed based on the weighted price derived using an approach based on a combined sequence of proprietary BVAL algorithms of direct observations or observed comparables.

(ii) For corporate and other quoted debt securities, fair value is determined to be the current mid-price, which is computed as the average of ask and bid prices as appearing on Bloomberg.

(b) Derivatives

The fair value of derivative financial instruments, which are categorized within Level 2, is determined through valuation techniques using the net present value computation [see Note 3.2(d)].

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

The table below summarizes the fair value hierarchy of the Bank's financial resources and financial liabilities which are not measured at fair value in the statements of financial position but for which fair value is disclosed (amounts in thousands).

	Level 1	Level 2	Level 3	Total
December 31, 2020				
Resources:				
Due from BSP	**P 3,176,953**	**P -**	**P -**	**P 3,176,953**
Due from other banks	**1,071,420**	**-**	**-**	**1,071,420**
HTC investments	**16,519,899**	**-**	**-**	**16,519,899**
Loans and other receivables	**2,593,669**	**-**	**3,802,883**	**6,396,552**
Other resources	**36,183**	**-**	**891**	**37,074**
	P 23,398,124	**P -**	**P 3,803,774**	**P 27,201,898**
Liabilities:				
Deposit liabilities	**P -**	**P -**	**P 32,590,989**	**P 32,590,989**
Other liabilities	**-**	**-**	**404,955**	**404,955**
	P -	**P -**	**P 32,995,944**	**P 32,995,944**
December 31, 2019				
Resources:				
Due from BSP	P 1,331,616	P -	P -	P 1,331,616
Due from other banks	499,431	-	-	499,431
HTC investments	14,094,946	-	-	14,094,946
Loans and other receivables	-	-	3,660,261	3,660,261
Other resources	95,046	-	1,102	96,148
	P 16,021,039	P -	P 3,661,363	P 19,682,402
Liabilities:				
Deposit liabilities	P -	P -	P 26,995,238	P 26,995,238
Bills payable	-	-	253,234	253,234
Other liabilities	-	-	321,444	321,444
	P -	P -	P 27,569,916	P 27,569,916

For financial resources and financial liabilities, management considers that the carrying amounts of those short-term financial instruments approximate their fair values. The following are the methods used to determine the fair value of financial resources and financial liabilities presented in the statements of financial position at their amortized cost:

(a) Due from BSP and Other Banks

Due from BSP pertains to deposits made by the Bank to the BSP for clearing, reserve requirements and placement of excess liquidity in Overnight Deposit Facility (ODF) and Term Deposit Facility (TDF) in 2020 and 2019, respectively. Due from other banks include interbank placements and items in the course of collection. The fair value of floating rate placements and overnight deposits is their carrying amount. The estimated fair value of fixed interest-bearing deposits is based on discounted cash flows using prevailing money-market interest rates for debts with similar credit risk and remaining maturity, which for short-term deposits approximates the nominal value.

(b) *HTC Investments*

The fair value of investment securities at amortized cost consisting of government securities and corporate debt securities is determined based on reference prices appearing in Bloomberg (Level 1). For HTC investments categorized at Level 2, the fair values are determined by using generally accepted valuation techniques. Inputs used in these techniques are from observable data and quoted market prices in respect of similar financial instruments existing at reporting dates.

The Bank will hold into the investments until management decides to sell them when there will be offers to buy out such investments on the appearance of an available market where the investments can be sold.

(c) *Loans and Other Receivables*

Receivables from customers and other receivables (including SPURRA) are presented net of provisions for impairment, if any. The estimated fair value of loans and receivables represents the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at current market rates to determine fair value.

(d) *Deposits and Borrowings*

The estimated fair value of demand deposits with no stated maturity, which includes noninterest-bearing deposits, is the amount repayable on demand. The estimated fair value of long-term fixed interest-bearing deposits and other borrowings without quoted market price is based on discounted cash flows using interest rates for new debts with similar remaining maturity. For bills payable categorized within Level 3, the Bank classify financial instruments that have no quoted prices or observable market data where reference of fair value can be derived; hence, fair value is determined based on their discounted amount of estimated future cash flows expected to be received or paid, or based on their cost which management estimates to approximate their fair values.

(e) *Other Resources and Liabilities*

Due to their short duration, the carrying amounts of other resources and liabilities in the statements of financial position are considered to be reasonable approximation of their fair values.

5.5 Offsetting of Financial Assets and Financial Liabilities

The table below shows the financial assets of the Bank as of December 31, 2020 and 2019 which are subject to offsetting, enforceable master netting arrangements and similar agreements which are not set off in the statements of financial position (amounts in thousands).

	December 31, 2020			
	Financial Assets	**Financial Liabilities Available for Set-off**	**Collateral Received**	**Net Amount**
Financial assets at FVTPL				
Currency forwards	**P 2,460,391**	**P 369,985**	**P -**	**P 2,090,406**
Interest rate swaps	**104,574**	**7,056**	**-**	**97,518**
Loans and receivables				
Receivables from customers	**6,097,912**	**-**	**114,931**	**5,982,981**
Other resources				
Margin deposits on currency forwards	**36,183**	**26,173**	**-**	**10,010**
	P 8,699,060	**P 403,214**	**P 114,931**	**P 8,180,915**

	December 31, 2019			
	Financial Assets	Financial Liabilities Available for Set-off	Collateral Received	Net Amount
Financial assets at FVTPL				
Currency forwards	P 1,800,242	P 298,470	P -	P 1,501,772
Interest rate swaps	167,782	50,965	-	116,817
Loans and receivables				
Receivables from customers	3,485,226	-	59,938	3,425,288
Other resources				
Margin deposits on currency forwards	95,046	89,624	-	5,422
	P 5,548,296	P 439,059	P 59,938	P 5,049,299

The following financial liabilities with net amounts presented in the statements of financial position are not set-off in the statements of financial position subject to offsetting, enforceable master netting arrangements and similar agreements which are as follows (amount in thousands):

	December 31, 2020			
	Financial Liabilities	**Financial assets Available for Set-off**	**Collateral Given**	**Net Amount**
Deposit liabilities	**P 32,587,128**	**P 207,868**	**P -**	**P 32,379,260**
Financial liabilities				
Currency forwards	**2,034,216**	**395,016**	**25,453**	**1,613,747**
Interest rate swaps	**40,247**	**12,579**	**-**	**27,668**
Futures	**720**	**-**	**720**	**-**
	P 34,662,311	**P 615,463**	**P 26,173**	**P 34,020,675**

	December 31, 2019			
	Financial Liabilities	Financial assets Available for Set-off	Collateral Given	Net Amount
Deposit liabilities	P 26,994,603	P 146,792	P -	P 26,847,811
Financial liabilities				
Currency forwards	1,302,549	298,470	90	1,003,989
Interest rate swaps	115,930	51,086	-	64,844
	P 28,413,082	P 496,348	P 90	P 27,916,644

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

6. DUE FROM BSP AND OTHER BANKS

6.1 Due from BSP

This account pertains to the deposit account maintained by the Bank with the BSP to meet reserve requirements and to serve as clearing account for interbank claims. The outstanding balance of this account amounted to P3,176,953,168 and P1,331,616,252 in 2020 and 2019, respectively.

Due from BSP, excluding mandatory reserves which has no interest, bears annual effective interest rates of 1.50% to 4.13% and 3.50% to 4.75% in 2020 and 2019, respectively. The total interest income earned amounted P5,923,428 and P5,689,632 in 2020 and 2019, respectively, and is included as part of Interest Income on Due from BSP and Other Banks in the statements of income. Due from BSP is included in cash and cash equivalents for cash flow statement reporting purposes.

Under Section 254, *Composition of Reserves*, of the Manual of Regulations for Banks (MORB), a bank is required to maintain reserve requirements in the form of deposits with the BSP as among the allowable instruments for reserve cover. Section 254.1 of the MORB further provides that such deposit account with the BSP is not considered as a regular current account as BSP checks for drawings against such deposits shall be limited to (a) settlement of obligations with the BSP, and; (b) withdrawals to meet cash requirements.

6.2 Due from Other Banks

The balance of this account represents regular deposits with the following:

	Note	**2020**	2019
Foreign banks		**P 969,505,968**	P 375,990,881
Local banks	23.1(d)	**101,914,502**	123,440,201
		P 1,071,420,470	P 499,431,082

A breakdown of this account by currency follows:

	2020	2019
United States (U.S.) dollar	**P 934,867,140**	P 297,891,494
Philippine peso	**15,463,424**	21,493,771
Other foreign currencies	**121,089,906**	180,045,817
	P 1,071,420,470	P 499,431,082

These deposits earn effective interest at rates ranging from 0.00% to 1.65% and 0.04% to 4.66% per annum in 2020 and 2019, respectively.

The total interest earned on due from other banks amounted to P8,050,594 and P49,395,380 in 2020 and 2019, respectively, and is included as part of Interest Income on Due from BSP and Other Banks in the statements of income.

7. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

This account is composed of the following:

	Notes	**2020**	2019
Derivatives	16, 23.1(c)	**P 2,725,728,861**	P 2,023,066,482
Corporate debt securities		**287,572,663**	1,282,634,478
Government debt securities		**-**	1,121,172,099
		P 3,013,301,524	P 4,426,873,059

As to currency, this account is composed of the following:

	2020	2019
Philippine peso	**P 2,724,048,927**	P 2,603,475,132
Foreign currencies	**289,252,597**	1,823,397,927
	P 3,013,301,524	P 4,426,873,059

Corporate debt securities include local and foreign corporate securities that earn interest from 3.28% to 4.75% and 3.37% to 7.38% per annum in 2020 and 2019, respectively. Government debt securities consist of various treasury bills and other securities issued by the government that earn interest from 2.63% to 6.25% and 6.75% to 7.39% per annum in 2020 and 2019, respectively.

In 2020, effective interest rates range from 2.62% to 4.91% and 0.09% to 4.35% for peso denominated and foreign currency denominated FVTPL securities, respectively. In 2019, effective interest rates range from 3.81% to 6.57% and 0.68% to 6.06% for peso denominated and foreign currency denominated FVTPL securities, respectively. The total interest earned on financial assets at FVTPL are presented in the statements of income which amounted to P34,739,744 and P109,438,466 in 2020 and 2019, respectively.

The Bank recognized net realized trading gains on financial assets at FVTPL amounting to P182,599,991 and P374,290,251 in 2020 and 2019, respectively. Unrealized fair value gain of P4,197,034 and P199,447,571 were recognized by the Bank in 2020 and 2019, respectively (see also Note 16). Both realized and unrealized trading gains are presented as part of Trading and Securities Gain in the statements of income.

8. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

This account is composed of the following:

	2020	2019
Corporate debt securities	**P 6,268,703,173**	P 6,741,525,456
Government debt securities	**5,936,169,439**	4,044,774,861
	P 12,204,872,612	P 10,786,300,317

As to currency, this account is composed of the following:

	2020	2019
Foreign currencies	**P 9,973,763,344**	P 10,786,300,317
Philippine peso	**2,231,109,268**	-
	P 12,204,872,612	P 10,786,300,317

Changes in the Bank's holdings of financial assets at FVOCI are summarized below.

	Note	2020	2019
Balance at beginning of year		**P 10,786,300,317**	P 11,449,767,007
Additions		**15,273,187,478**	9,876,458,312
Disposals		**(13,428,096,364)**	(10,743,512,503)
Fair value gains (losses)	18.2	**(12,984,629)**	605,925,694
Foreign currency revaluation		**(413,534,190)**	(402,338,193)
Balance at end of year		**P 12,204,872,612**	P 10,786,300,317

These debt securities pertain to local and foreign securities issued by corporate and government entities. Effective interest rates of peso denominated securities range from 2.44% to 4.70% and 4.40% to 6.64% in 2020 and 2019, respectively. On the other hand, foreign currency denominated securities earn effective interest ranging from 0.06% to 5.38% and 1.89% to 7.26% in 2020 and 2019, respectively.

The total interest earned amounted to P383,369,025 and P438,615,377 in 2020 and 2019, respectively. Disposals of securities resulted in net gains of P284,744,557 and P144,826,462 in 2020 and 2019, respectively, (see Note 18.2), and are included as part of Trading and Securities Gain in the statements of income.

In 2020, the Bank recognized a reversal on credit losses on financial assets at FVOCI amounting to P421,314. In 2019, the Bank recognized credit losses amounting to P4,440,860. These are presented as part of Impairment Losses account in the statements of income with corresponding charge to Unrealized Gains (Losses) on Financial Assets at FVOCI in the statements of comprehensive income.

9. HELD-TO-COLLECT INVESTMENTS

This account is composed of the following:

	2020	2019
Debt securities:		
Government debt securities	**P 13,090,921,713**	P 12,886,812,714
Corporate debt securities	**2,551,652,603**	1,228,615,405
	15,642,574,316	14,115,428,119
Allowance for impairment	**(10,635,967)**	(5,447,143)
	P 15,631,938,349	P 14,109,980,976

As to currency, this account is composed of the following:

	2020	2019
Philippine peso	**P 8,896,745,376**	P 9,965,948,185
Foreign currencies	**6,735,192,973**	4,144,032,791
	P 15,631,938,349	P 14,109,980,976

Changes in the Bank's holdings of HTC investments are summarized below.

	2020	2019
Balance at beginning of year	**P 14,109,980,976**	P 19,499,420,895
Additions	**3,532,324,939**	-
Interest accrued	**649,709,291**	724,354,578
Amortization of premium/discount	**(88,177,054)**	(91,092,004)
Foreign currency revaluation	**(321,024,568)**	(187,510,583)
Maturities	**(2,245,405,999)**	(5,836,513,929)
Reversal of (provision for) allowance for impairment	**(5,469,236)**	1,322,019
Balance at end of year	**P 15,631,938,349**	P 14,109,980,976

Annual interest rates on government debt securities range from 0.00% to 9.50% and 3.00% to 9.50% in 2020 and 2019, respectively. On the other hand, corporate debt securities have annual interest rates ranging from 4.13% to 6.63% and 5.05% to 6.63% in 2020 and 2019, respectively. Effective interest rate of government debt securities ranges from 2.34% to 6.11% and 3.01% to 4.45% in 2020 and 2019, respectively. While, corporate debt securities earn effective interest ranging from 3.59% to 6.31% and 2.83% to 6.31% in 2020 and 2019, respectively. Interest earned amounted P561,532,237 and P633,262,574 in 2020 and 2019, respectively.

In compliance with the regulations that govern the Bank's trust functions, government bonds owned by the Bank are deposited with the BSP with a total face value of P4,957,832,093 and P5,007,832,093 as of December 31, 2020 and 2019, respectively (see Note 25).

Movements of the Bank's allowance for impairment are as follow:

	2020	2019
Balance at beginning of year	**P 5,447,143**	P 6,915,986
Net impairment (recovery)	**5,469,236**	(1,322,019)
Revaluation	**(280,412)**	(146,824)
Balance at end of year	**P 10,635,967**	P 5,447,143

10. LOANS AND RECEIVABLES

Loans and receivables consist of the following:

	2020	2019
Receivables from customers	P 3,198,397,274	P 3,209,392,764
Allowance for impairment	(9,591,529)	(5,573,163)
	3,188,805,745	3,203,819,601
SPURRA	2,593,669,285	-
Other receivables	342,324,535	308,564,259
Allowance for impairment	(26,887,369)	(27,157,369)
	2,909,106,451	281,406,890
	P 6,097,912,196	P 3,485,226,491

The maturity profile of the Bank's receivables from customers are as follows:

	2020	2019
Within one year	P 1,956,583,789	P 972,629,945
Beyond one year within five years	222,759,949	1,169,809,777
Beyond five years	1,019,053,536	1,066,953,042
	P 3,198,397,274	P 3,209,392,764

As to security, receivables from customers are classified into:

	2020	2019
Secured	P 1,084,615,970	P 824,504,149
Unsecured	2,113,781,304	2,384,888,615
	P 3,198,397,274	P 3,209,392,764

Receivables from customers earn effective interest at rates ranging from 1.35% to 6.78% and 2.92% to 7.82% per annum in 2020 and 2019, respectively. The total interest earned on loans and receivables amounted to P201,840,007 and P205,313,002 in 2020 and 2019, respectively. All of the Bank's outstanding loans and receivables as of December 31, 2020 and 2019 are categorized as performing. The SPURRA held by the Bank in 2020 has an average term of seven days with an average interest rate of 2.25%.

Movements of the Bank's allowance for impairment are as follows:

	2020	2019
Balance at beginning of year	**P 32,730,532**	P 7,976,408
Provision for (reversal of) allowance for impairment:		
Receivable from customer	**4,156,965**	(2,352,738)
Other receivables	**(270,000)**	27,157,369
Revaluation	**(138,599)**	(50,507)
Balance at end of year	**P 36,478,898**	P 32,730,532

The Bank made an appropriation of P3,349,710 out of the Surplus Free to comply with the requirement of the BSP to provide general loan loss provisions in 2019. The appropriation is presented as part of Surplus Reserves (see Note 18.3). No additional appropriation was made in 2020 since the Bank already reached the statutory limits and that the outstanding balance already covers the required amount for the current year (see Note 18.3).

11. BANK PREMISES, FURNITURE, FIXTURES AND EQUIPMENT

The gross carrying amounts and accumulated depreciation and amortization at the beginning and end of 2020 and 2019 are shown below.

	Furniture, Fixtures and Equipment	Leasehold Improvements	Right-of-Use Assets (see Note 12)	Total
December 31, 2020				
Cost	P 168,511,832	P 168,429,861	P 140,702,689	P 477,644,382
Accumulated depreciation and amortization	(146,230,928)	(157,024,500)	(76,959,924)	(380,215,352)
Net carrying amount	**P 22,280,904**	**P 11,405,361**	**P 63,742,765**	**P 97,429,030**
December 31, 2019				
Cost	P 167,281,210	P 164,511,919	P 135,191,147	P 466,984,276
Accumulated depreciation and amortization	(141,043,571)	(148,678,825)	(37,781,232)	(327,503,628)
Net carrying amount	P 26,237,639	P 15,833,094	P 97,409,915	P 139,480,648
January 1, 2019				
Cost	P 162,368,610	P 157,776,154	P 92,002,983	P 412,147,747
Accumulated depreciation and amortization	(136,743,718)	(138,765,403)	-	(275,509,121)
Net carrying amount	P 25,624,892	P 19,010,751	P 92,002,983	P 136,638,626

A reconciliation of the carrying amounts of bank premises, furniture, fixtures and equipment at the beginning and end of 2020 and 2019, as follows:

	Furniture, Fixtures and Equipment	Leasehold Improvements	Right-of-Use Assets (see Note 12)	Total
Balance at January 1, 2020, net of accumulated depreciation and amortization	P 26,237,639	P 15,833,094	P 97,409,915	P 139,480,648
Additions	6,176,611	3,917,942	7,496,124	17,590,677
Disposal	(9)	-	-	(9)
Depreciation and amortization charges for the year	(10,133,337)	(8,345,675)	(41,163,274)	(59,642,286)
Balance at December 31, 2020, net of accumulated depreciation and amortization	**P 22,280,904**	**P 11,405,361**	**P 63,742,765**	**P 97,429,030**
Balance at January 1, 2019, net of accumulated depreciation and amortization	P 25,624,892	P 19,010,751	P 92,002,983	P 136,638,626
Additions	11,707,270	6,735,765	43,188,164	61,631,199
Reclassification	(380,758)	-	-	(380,758)
Disposal	(171,080)	-	-	(171,080)
Depreciation and amortization charges for the year	(10,542,685)	(9,913,422)	(37,781,232)	(58,237,339)
Balance at December 31, 2019, net of accumulated depreciation and amortization	P 26,237,639	P 15,833,094	P 97,409,915	P 139,480,648

In 2020 and 2019, the Bank disposed of certain furniture, fixtures and equipment with carrying amount of P9 and P171,080, respectively. The resulting gain on asset disposal amounting to P16,219 and P28,920 in 2020 and 2019, respectively, is presented as part of Others under Other Income in the statements of income.

Total cost of fully depreciated assets, consisting of furniture, fixtures and equipment amounted to P116,968,865 and P114,638,819 in 2020 and 2019, respectively, and are still being used by the Bank.

The BSP requires that investments in bank premises, furniture, fixtures and equipment do not exceed 50% of the Bank's unimpaired capital. As of December 31, 2020 and 2019, the Bank has satisfactorily complied with this requirement.

12. LEASES

The Bank has leases for certain office and administrative spaces. With the exception of short-term leases and leases of low-value underlying assets, each lease is reflected as a right-of-use asset under Bank Premises, Furniture, Fixtures and Equipment (see Note 11) and as a lease liability under Accrued Expenses and Other Liabilities (see Note 17) in the statements of financial position.

Each lease generally imposes a restriction that, unless there is a contractual right for the Bank to sublet the asset to another party, the right-of-use asset can only be used by the Bank. Leases are either non-cancellable or may only be cancelled by incurring a substantive termination fee. The Bank is prohibited from selling or pledging the underlying leased assets as security. For leases over office and administrative spaces, the Bank must keep those properties in a good state of repair and return the properties in their original condition at the end of the lease. Further, the Bank must insure the leased assets and incur maintenance fees on such items in accordance with the lease contracts.

The Bank has eleven right-of-use assets leased with remaining lease term ranging from one to five years having an average remaining lease term of two years. These leased assets do not have any enforceable extension options, options to purchase and termination options.

The carrying amount of the Bank's right-of-use assets as at December 31, 2020 and 2019 and the movements during the period are shown in Note 11, while the movements in the lease liabilities are shown below (see Note 17).

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

	Within 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Total
December 31, 2020						
Lease payments	P 37,468,773	P 16,166,706	P 11,851,582	P 5,131,590	P 798,096	P 71,416,747
Finance charges	(2,783,916)	(1,334,009)	(578,442)	(89,436)	(5,706)	(4,791,509)
Net present value	**P 34,684,857**	**P 14,832,697**	**P 11,273,140**	**P 5,042,154**	**P 792,390**	**P 66,625,238**
December 31, 2019						
Lease payments	P 45,407,227	P 35,872,581	P 14,570,514	P 10,255,390	P 3,535,398	P 109,641,110
Finance charges	(5,346,830)	(2,631,301)	(1,217,769)	(499,492)	(48,563)	(9,743,955)
Net present value	P 40,060,397	P 33,241,280	P 13,352,745	P 9,755,898	P 3,486,835	P 99,897,155

The total cash outflow in respect of leases amounted to P46,205,323 and P38,705,981 in 2020 and 2019, respectively, for the Bank. Interest expense in relation to lease liabilities amounted to P5,437,282 and P7,097,129 in 2020 and 2019, respectively, are presented as part of Others under Interest Expense in the statements of income.

The Bank has elected not to recognize a lease liability for short-term leases or for leases of low value assets. Payments made under such leases are expensed on a straight-line basis. The expenses relating short term leases amount to P3,411,989 in 2019 (nil in 2020). On the other hand, the expenses relating low-value assets amounted to P1,182,840 and P1,597,504 in 2020 and 2019, respectively. These are presented as part of Occupancy under Other Expenses account in the statements of income. As of December 31, 2020 and 2019, there are no lease commitments relating to short-term leases and low-value assets.

Presented below is the reconciliation of the Bank's lease liability arising from financing activity, which included both cash and non-cash changes.

	2020	2019
Balance at beginning of year	**P 99,897,155**	P 92,002,983
Cash flows from financing activities –		
Repayment of lease liabilities	**(40,768,041)**	(35,293,992)
Non-cash financing activities		
Additional lease liabilities	**7,496,124**	43,188,164
Balance at end of year	**P 66,625,238**	P 99,897,155

13. OTHER RESOURCES

This account consists of:

	Notes	2020	2019
Post-employment defined benefit asset	22.2	**P 58,408,079**	P -
Margin deposits		**36,183,348**	95,046,149
Computer software – net		**11,327,807**	13,775,663
Deferred tax assets – net	24.1	**11,260,372**	27,358,272
Prepaid expenses		**9,847,893**	11,995,810
Documentary stamps		**5,340,118**	4,767,592
Sundry debits		**2,552,789**	10,715,334
Creditable withholding taxes		**-**	756,990
Others		**7,643,793**	8,772,248
		P 142,564,199	P 173,188,058

Margin deposits consist of placements with foreign banks that are offered by the Bank as security on its derivative transactions with certain counterparties. Interest rates on margin deposits ranged between 0.00% to 1.57% and 0.02% to 3.06% in 2020 and 2019, respectively. The total interest earned on margin deposits amounted to P439,913 and P24,696,335 in 2020 and 2019, respectively, and is included as part of Interest Income on Due from BSP and Other Banks in the statements of income.

Amortization charges related to software costs amounted to P11,507,036 and P7,720,839 in 2020 and 2019, respectively, and are included as part of Depreciation and Amortization in the statements of income.

14. DEPOSIT LIABILITIES

The maturity profile of the Bank's deposit liabilities follows:

	2020	2019
Within one year	**P 32,011,189,200**	P 26,544,406,367
Beyond one year up to five years	**575,939,155**	450,197,073
	P 32,587,128,355	P 26,994,603,440

The classification of the Bank's deposit liabilities as to currency are as follows:

	2020	2019
Philippine peso	**P 14,945,743,796**	P 10,215,923,513
Foreign currencies	**17,641,384,559**	16,778,679,927
	P 32,587,128,355	P 26,994,603,440

Interest expense on deposit liabilities comprises of:

	2020	2019
Demand	P 52,815,952	P 286,276,493
Time	141,211,456	305,311,213
	P 194,027,408	P 591,587,706

Interest rates on time deposits ranged from 0.05% to 2.35% and 0.38% to 3.53% per annum for 2020 and 2019, respectively. For demand deposits, interest rates ranged from 0.00% to 1.88% and 0.00% to 3.63% per annum for 2020 and 2019, respectively.

15. BILLS PAYABLE

Bills payable represents the Bank's borrowings from other local and foreign banks and entities which bear annual interest rates of 0.55% to 4.25% and 1.69% to 5.25% in 2020 and 2019, respectively. As of December 31, 2020 and 2019, the Bank has no secured liabilities and assets pledged as security.

As of December 31, 2019, the Bank has an outstanding unsecured bills payable amounting to P253,234,426 from a local bank (nil as of 2020). Interest expense on bills payable amounted to P2,705,789 and P70,187,367 in 2020 and 2019, respectively, and is presented as Interest Expense on Bills Payable in the statements of income.

Presented below is the reconciliation of the Bank's bills payable arising from financing activities, which includes both cash and non-cash changes.

	BSP	Local Bank	Foreign Bank	Total
Balance at January 1, 2020	P -	P 253,234,426	P -	P 253,234,426
Cashflows from financing activities:				
Additional borrowings	200,000,000	7,480,000,000	887,817,326	8,567,817,326
Repayments of borrowings	(200,070,833)	(7,734,688,216)	(880,058,688)	(8,814,817,737)
Non-cash financing activities				
Interest amortization	70,833	1,373,790	1,261,166	2,705,789
Revaluation	-	80,000	(9,019,804)	(8,939,804)
Balance at December 31, 2020	**P -**	**P -**	**P -**	**P -**
Balance at January 1, 2019	P -	P -	P -	P -
Cash flows from financing activities:				
Additional borrowings	2,000,000,000	8,579,475,000	1,187,779,566	11,767,254,566
Repayments of borrowings	(2,001,445,833)	(8,341,463,246)	(1,175,444,829)	(11,518,353,908)
Non-cash financing activities				
Interest amortization	1,445,833	55,897,672	12,843,862	70,187,367
Revaluation	-	(40,675,000)	(25,178,599)	(65,853,599)
Balance at December 31, 2019	P -	P 253,234,426	P -	P 253,234,426

16. DERIVATIVE FINANCIAL INSTRUMENTS

The Bank uses derivative instruments for both hedging and non-hedging purposes. Currency forwards represent commitments to purchase foreign and domestic currency, including undelivered spot transactions. Currency and interest swaps are commitments to exchange one set of cash flows for another. Swaps result in an economic exchange of currencies or interest rates or a combination of all these. No exchange of principal takes place, except for certain currency swaps. The Bank's credit risk represents the potential cost to replace the swap contracts if counterparties fail to perform their obligation.

This risk is monitored on an on-going basis with reference to the current fair value, a proportion of the notional amount of the contracts and the liquidity of the market. To control the level of credit risk taken, the Bank assesses counterparties using the same techniques as for its lending activities.

The notional amounts of certain types of financial instruments provide a basis for comparison with instruments recognized in the statements of financial position but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate the Bank's exposure to credit or price risks.

The derivative instruments become favorable or unfavorable as a result of fluctuations in market interest rates, foreign exchange rates and other underlying relative to their terms. The aggregate contractual or notional amount of derivative financial instruments on hand, the extent to which instruments are favorable or unfavorable, and thus the aggregate fair values of derivative financial assets and liabilities, can fluctuate significantly from time to time.

The fair values of derivative instruments held are set out below [see Notes 7 and 23.1(c)].

	Notional Amount	Fair Values	
		Assets	**Liabilities**
December 31, 2020			
Free-standing			
Cross currency swaps	**P 39,016,913,755**	**P 2,460,390,844**	**P 2,034,215,582**
Interest rate swaps	**3,701,575,000**	**104,574,467**	**40,246,651**
Forward contracts	**4,344,336,619**	**160,763,550**	**15,053,312**
Nondeliverable forwards	**545,500,000**	**-**	**64,621,823**
Futures	**240,282,000**	**-**	**720,350**
	P 47,848,607,374	**P 2,725,728,861**	**P 2,154,857,718**
December 31, 2019			
Free-standing			
Cross currency swaps	P 24,848,027,742	P 1,800,241,814	P 1,302,548,565
Interest rate swaps	11,126,230,000	167,782,099	115,930,302
Forward contracts	4,322,853,068	55,042,569	1,287,012
Nondeliverable forwards	545,500,000	-	29,485,781
	P 40,842,610,810	P 2,023,066,482	P 1,449,251,660

The changes in fair value of derivative assets and liabilities determined using a valuation technique amounted to loss of P11,283,023 and P217,394,254 in 2020 and 2019, respectively, and were included in Trading and Securities Gain in the statements of income (see Note 7).

17. ACCRUED EXPENSES AND OTHER LIABILITIES

The breakdown of this account are as follows:

	Notes	2020	2019
Manager's checks		**P 139,488,398**	P 104,253,765
Accrued taxes		**113,839,975**	84,821,967
Sundry credits		**112,668,946**	49,431,073
Lease liabilities	12	**66,625,238**	99,897,155
Accrued expenses		**55,053,447**	48,161,403
Withholding taxes		**28,939,455**	28,466,286
Post-employment defined benefit obligation	22.2	**-**	2,702,147
Others		**32,325,326**	21,320,150
		P 548,940,785	P 439,053,946

As of December 31, 2020, Others include amount payable to BDO Unibank amounting to P12,049,770 representing the Bank's liability arising from the stock option plan offered to the Bank's employees [see Note 2.16(f)]. In 2019, the Bank's liability to BDO Unibank arising from the stock option plan were settled (see Note 22.1).

18. EQUITY

18.1 Share Capital

The Bank has authorized capital stock of 2,500,000 voting shares, with par value of P1,000 per share, 2,165,000 of which are issued and outstanding for a total amount of P2,165,000,000 as of December 31, 2020 and 2019.

As of December 31, 2020 and 2019, the Bank has only one stockholder owning 100 or more shares of the Bank's capital stock.

18.2 Revaluation Reserves

The components and reconciliation of items of other comprehensive income presented in the statements of changes in equity at their aggregate amount under Revaluation Reserves account, are shown below and in the succeeding page.

	Notes	Unrealized Gains (Losses) on Financial Assets at FVOCI	Accumulated Actuarial Gains (Losses)	Total
Balance as of January 1, 2020		P 379,620,952	(P 84,109,988)	P 295,510,964
Unrealized gains during the year	8	271,759,928	-	271,759,928
Transfer of net realized gains to profit or loss on disposal of debt securities	8	(284,744,557)	-	(284,744,557)
Credit losses on financial assets at FVOCI	8	(967,777)	-	(967,777)
Remeasurements of post-employment defined benefit obligation	22.2	-	50,925,472	50,925,472
Other comprehensive income (loss) before tax		(13,952,406)	50,925,472	36,973,066
Tax expense	24.1	-	(15,277,642)	(15,277,642)
Other comprehensive income (loss) after tax		(13,952,406)	35,647,830	21,695,424
Balance as of December 31, 2020		P 365,668,546	(P 48,462,158)	P 317,206,388

	Notes	Unrealized Gains (Losses) on Financial Assets at FVOCI	Accumulated Actuarial Gains (Losses)	Total
Balance as of January 1, 2019		(P 230,341,129)	(P 75,117,861)	(P 305,458,990)
Unrealized gains during the year	8	750,752,156	-	750,752,156
Transfer of net realized gains to profit or loss on disposal of debt securities	8	(144,826,462)	-	(144,826,462)
Credit gains on financial assets at FVOCI	8	4,036,387	-	4,036,387
Remeasurements of post-employment defined benefit obligation	22.2	-	(12,845,895)	(12,845,895)
Other comprehensive income (loss) before tax		609,962,081	(12,845,895)	597,116,186
Tax income	24.1	-	3,853,768	3,853,768
Other comprehensive income (loss) after tax		609,962,081	(8,992,127)	600,969,954
Balance as of December 31, 2019		P 379,620,952	(P 84,109,988)	P 295,510,964

18.3 Surplus Reserve

In compliance with the requirements of the General Banking Act relative to the Bank's trust functions, certain percentage of the trust income is transferred to surplus reserve. This yearly transfer is required until the surplus reserve for trust function is equivalent to 20% of the Bank's authorized capital stock. The Bank appropriated P48,845,546 and P82,873,818 in 2020 and 2019, respectively. As of December 31, 2020 and 2019, accumulated appropriated surplus related to the Bank's trust functions amounted to P500,000,000 and P451,154,454, respectively.

In addition, the Bank appropriated P3,349,710 for general loan loss provision representing the excess of the 1% required allowance of the BSP over the computed allowance for ECL on loans in 2019 (see Note 10). The Bank did not make additional appropriation in 2020 since they already reached the statutory limits and that the outstanding balance already covers the required amount for the current year. As of December 31, 2020 and 2019, accumulated appropriation for general loan loss provision amounted to P40,503,995.

18.4 Surplus Free

On July 20, 2020, the BOD approved dividends amounting to P700,000,000 (or P323.33 per share for common stock). The dividends were paid on November 6, 2020. On October 14, 2019, the BOD approved dividends amounting to P800,000,000 (or P369.52 per share for common stock). The dividends were paid on November 29, 2019 [see Note 23.1(a)].

18.5 Capital Management

On January 15, 2009, the BSP issued Circular No. 639 articulating the need for banks to adopt and document an Internal Capital Adequacy Assessment Process (ICAAP). All universal and commercial banks are expected to perform a thorough assessment of all their material risks and maintain adequate capital to support these risks. This is intended to complement the current regulatory capital requirement of at least 10% of risk assets, which covered only credit, market and operational risks.

The BDO Group is complying with the BSP's ICAAP requirements. BDO Unibank is driving the preparation and compliance requirements of the ICAAP bankwide/group-wide policies. Annually, as required, BDO Unibank submits its updated ICAAP to the BSP. The Bank is closely coordinating with BDO Unibank regarding said policies.

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

The BSP has adopted the Basel 3 risk-based capital adequacy framework effective January 1, 2014, which requires the Bank, as a subsidiary of a universal bank required to adopt Basel 3, to maintain the following:

(a) Common Equity Tier 1 (CET1) of at least 11.00% of risk-weighted assets;
(b) Tier 1 Capital of at least 7.5% of risk-weighted assets;
(c) Qualifying Capital (Tier 1 plus Tier 2 Capital) of at least 12.50% of risk-weighted assets; and,
(d) Capital Conservation Buffer of 2.5% of risk-weighted assets, comprised of CET1 Capital.

The regulatory capital is analyzed as CET1 Capital, Additional Tier 1 Capital and Tier 2 Capital, each adjusted for prescribed regulatory deductions.

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

The Bank's policy is to maintain a strong capital base to maintain investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholder's return is recognized by the Bank as well as the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position.

At the end of each reporting period, the Bank has complied with the prescribed ratio of qualifying capital to risk-weighted assets.

Further, under an existing BSP circular, commercial banks must meet a minimum capital threshold amounting to P2.0 billion. As of December 31, 2020 and 2019, the Bank has complied with the above capitalization requirement.

The Bank's regulatory capital position based on the Basel 3 risk-based capital adequacy framework as of December 31, 2020 and 2019 are as follows:

	2020	2019
Tier 1 Capital		
CET 1	**P 6,059,518,974**	P 5,770,574,896
Additional Tier 1	**-**	-
	6,059,518,974	5,770,574,896
Tier 2 Capital	**50,095,524**	46,077,158
Total Regulatory Capital	**6,109,614,498**	5,816,652,054
Deductions	**(37,007,041)**	(49,653,918)
Total Qualifying Capital	**P 6,072,607,457**	P 5,766,998,136
Total Risk Weighted Assets	**P 22,702,832,797**	P 21,731,881,556

	2020	2019
Capital ratios:		
CET 1 Ratio	**26.53%**	26.33%
Capital Conservation Buffer	**20.53%**	20.33%
Tier 1 Capital Ratio	**26.53%**	26.33%
Total Capital Adequacy Ratio	**26.75%**	26.54%

19. SERVICE CHARGES, FEES AND COMMISSIONS

This account is composed of the following:

	Note	2020	2019
Trust fees	25	**P 948,055,967**	P 932,218,675
Others – net		**11,325,111**	6,745,182
		P 959,381,078	P 938,963,857

Trust fees are revenue from asset management services and are recognized over time as the services are provided.

20. THIRD PARTY INFORMATION

Third party information account under Other Expenses refers to service charges incurred by the Bank for market data obtained from service providers such as Reuters, Prebon, Morningstar and Bloomberg (used in the Bank's treasury operations and research activities).

21. OTHER EXPENSES

This account is composed of the following:

	2020	2019
Custodianship fees	**P 34,743,802**	P 30,732,156
Transfer fees and charges	**22,258,995**	21,265,214
Security, messengerial and janitorial services	**19,913,993**	25,349,773
Repairs and maintenance	**19,480,283**	20,770,195
Communication	**6,816,233**	6,976,354
Advertising	**5,836,870**	8,658,676
Stationery and supplies	**3,773,373**	5,114,169
Contractual services	**1,318,061**	1,921,465
Courier services	**800,155**	1,249,307
Fines, penalties and other charges	**134,000**	3,000,000
Miscellaneous	**13,431,321**	4,969,405
	P 128,507,086	P 130,006,714

22. EMPLOYEE BENEFITS

22.1 Employee Benefits

The total expense recognized by the Bank for employee benefits is broken down below.

	Note	**2020**	2019
Salaries and wages		**P 449,284,595**	P 450,547,477
Post-employment defined benefit	22.2	**32,193,020**	31,439,728
Social security and medical benefits		**11,315,926**	11,116,238
Others		**507,388**	985,038
		P 493,300,929	P 494,088,481

The salaries and wages account includes the expense recognized arising from the Executive Stock Option Plan [see Notes 2.16(f) and 17].

22.2 Post-employment Defined Benefit

(a) Characteristics of the Defined Benefit Plan

The Bank maintains a funded, tax-qualified, non-contributory and multi-employer post-employment benefit plan that is being administered by a trustee bank that is legally separated from the Bank. The post-employment plan covers all regular full-time employees.

The normal retirement age is 60 with a minimum of 5 years of credited service. The plan also provides for an early retirement at age 50 with a minimum of five years of credited service and late retirement after age 60, both subject to the approval of the Bank's BOD. Normal retirement benefit is an amount equivalent to 150% of the final monthly covered compensation (average monthly basic salary during the last 12 months of credited service) for every year of credited service.

(b) Explanation of Amounts Presented in the Financial Statements

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

The amounts of post-employment defined benefit obligation (asset) recognized in the statements of financial position are presented as part of Accrued Expenses and Other Liabilities (see Note 17) or as part of Other Resources (see Note 13) are as follows:

	2020	2019
Present value of obligation	**P 407,474,352**	P 441,869,976
Fair value of plan assets	**(469,370,129)**	(439,167,829)
	(61,895,777)	2,702,147
Effect of asset ceiling	**3,487,698**	-
	(P 58,408,079)	P 2,702,147

The movements in the present value of the post-employment benefit obligation recognized in the books are as follows:

		2020		2019
Balance at beginning of year	**P**	**441,869,976**	P	412,992,408
Current service cost		**32,193,020**		31,439,728
Interest cost		**23,065,613**		30,974,431
Remeasurements – actuarial losses (gains) arising from:				
Experience adjustments		**(30,345,065)**		2,848,769
Changes in financial assumptions		**(30,804,822)**		16,280,039
Changes in demographic assumptions		**-**		(16,935,159)
Benefits paid		**(28,504,370)**		(35,730,240)
Balance at end of year	**P**	**407,474,352**	P	441,869,976

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

		2020		2019
Balance at beginning of year	**P**	**439,167,829**	P	367,194,676
Interest income		**23,281,034**		29,530,654
Return on plan assets (excluding amounts included in net interest)		**(6,736,717)**		(10,652,246)
Benefits paid		**(28,504,370)**		(35,730,240)
Contributions		**42,162,353**		88,824,985
Balance at end of year	**P**	**469,370,129**	P	439,167,829

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

		2020		2019
Placements in debt instruments:				
Government bonds	**P**	**219,150,718**	P	169,079,614
Corporate bonds		**121,577,220**		142,641,711
Cash and cash equivalents		**37,781,598**		483,085
Unit investment trust funds (UITF)		**81,396,345**		114,666,720
Loans and other receivables		**105,805**		175,667
Equity instruments		**4,658,022**		7,685,437
Other properties		**4,700,421**		4,435,595
Balance at end of year	**P**	**469,370,129**	P	439,167,829

The fair value of the plan assets is at Level 1 in the fair value hierarchy except for UITFs which are at Level 2, loans and other receivables and other properties, which are at Level 3.

Actual return on plan assets amounted to P16,544,317 and P18,878,408 in 2020 and 2019, respectively.

Plan assets do not comprise any of the Bank's own financial instruments or any of its assets occupied and/or used in its operations.

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

	Notes	2020	2019
Recognized in profit or loss:			
Current service cost	22.1	P **32,193,020**	P 31,439,728
Net interest expense (income)		**(215,421)**	1,443,777
		P **31,977,599**	P 32,883,505
Recognized in other comprehensive income (loss):			
Actuarial gains (losses) arising from changes in:			
- experience adjustment		P **30,345,065**	(P 2,848,769)
- financial assumptions		**30,804,822**	(16,280,039)
- demographic assumptions		**-**	16,935,159
Effect of asset ceiling		**(3,487,698)**	-
Return on plan assets (excluding amounts included in net interest expense)		**(6,736,717)**	(10,652,246)
	18.2	**50,925,472**	(12,845,895)
Deferred tax income (expense)	24.1	**(15,277,642)**	3,853,768
		P **35,647,830**	(P 8,992,127)

Current service cost is presented in the statements of income under Employee Benefits while net interest expense is classified as Others under Interest Expense in the statements of income.

Amounts recognized in other comprehensive income (loss) were presented as an item that will not be reclassified subsequently to profit or loss.

In determining retirement benefits, the following actuarial assumptions were used:

	2020	2019
Discount rates	**3.89%**	5.22%
Salary increase rate	**5.51%**	7.75%

Assumptions regarding future mortality experience are based on published statistics and mortality tables. The average remaining working lives of an individual retiring at the age of 65 is 26 and 25 for males and females, respectively. These assumptions were developed by management with the assistance of an independent actuary. Discount factors are determined close to the end of each reporting period by reference to the interest rates of interpolated yields of government bonds with terms to maturity approximating to the terms of the retirement obligation. Other assumptions are based on current actuarial benchmarks and management's historical experience.

(c) Risks Associated with Retirement Plan

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

(i) Investment and Interest Risks

The present value of the defined benefit obligation is calculated using a discount rate determined by reference to market yields of government bonds. Generally, a decrease in the interest rate of a reference government bonds will increase the plan obligation. However, this will be partially offset by an increase in the return on the plan's investments in debt securities and if the return on plan asset falls below this rate, it will create a deficit in the plan. Currently, the plan has investments in debt instruments, cash and cash equivalents, UITF, loans and other receivables, equity securities and other properties. Due to the long-term nature of plan obligation, a level of continuing debt investments is an appropriate element of the Bank's long-term strategy to manage the plans efficiently.

(ii) Longevity and Salary Risks

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

(d) Other Information

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

(i) Sensitivity Analysis

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

	Impact on defined benefit obligation		
	Change in assumption	**Increase in assumption**	**Decrease in assumption**
December 31, 2020			
Discount rate	**+/- 1%**	**(P 10,943,828)**	**P 11,557,366**
Salary increase rate	**+/- 1%**	**11,544,323**	**(11,140,727)**
December 31, 2019			
Discount rate	+/- 1%	(P 11,848,735)	P 12,541,719
Salary increase rate	+/- 1%	11,738,044	(11,302,996)

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

The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to the previous year.

(ii) Asset-liability Matching Strategies

To efficiently manage the retirement plan, the Bank through its BOD, ensures that the investment positions are managed in accordance with its asset-liability matching strategy to achieve that long-term investments are in line with the obligations under the retirement scheme. This strategy aims to match the plan assets to the retirement obligations by investing in long-term fixed interest securities (i.e., government or corporate bonds) with maturities that match the benefit payments as they fall due and in the appropriate currency. The Bank actively monitors how the duration and the expected yield of the investments are matching the expected cash outflows arising from the retirement obligations. In view of this, investments are made in reasonably diversified portfolio, such that the failure of any single investment would not have a material impact on the overall level of assets.

A large portion of assets as of December 31, 2020 and 2019 consists of debt instruments and UITF, although the Bank also invests in cash and cash equivalents, loans and other receivables, equity securities and other properties.

There has been no change in the Bank's strategies to manage its risks from previous periods.

(iii) Funding Arrangements and Expected Contributions

The plan is currently overfunded by P58.4 million based on the latest actuarial valuation as of December 31, 2020. While there are no minimum funding requirement in the country, the size of the underfunding may pose a cash flow risk in about 10 years' time when a significant number of employees is expected to retire.

The Bank expects to make contribution of P41.0 million to the plan during the next financial year.

The maturity profile of undiscounted expected benefits payments from the plan from the end of each reporting period follows:

		2020		2019
Within one year	**P**	**152,878,917**	P	181,984,601
More than one year to five years		**319,428,586**		343,324,469
More than five years		**146,685,948**		192,396,907
	P	**618,993,451**	P	717,705,977

23. RELATED PARTY TRANSACTIONS

The summary of the Bank's transactions with its related parties as of and for the years ended December 31, 2020 and 2019 are as follows (amounts in thousands):

Related Party Category	Notes	**2020** Amount of Transaction	**2020** Outstanding Balance	2019 Amount of Transaction	2019 Outstanding Balance
BDO Unibank:					
Dividends declared	23.1(a)	**P 700,000**	**P -**	P 800,000	P -
Bills payable	23.1(b)	**2,100,000**	**-**	64,110,000	-
Due from other banks (net of withdrawals)	23.1(d)	**(P 9,671)**	**P 93,221**	(P 385,290)	P 102,892
Lease transactions	23.1(e)				
Right-of-use assets		**7,496**	**55,804**	38,056	81,700
Lease liabilities		**30,033**	**58,235**	(3,670)	83,668
Depreciation expense		**33,391**	**-**	30,480	-
Interest expense		**4,600**	**-**	5,875	-
Rental		**-**	**-**	2,341	-
Management services	23.1(g)	**14,927**	**-**	14,669	-
Derivative transactions	23.1(c)				
Derivative assets					
Buy: USD/PhP		**$ 219,000**	**$ -**	$ 515,000	-
Derivative liabilities					
Buy: PhP/USD		**209,150**	**30,000**	505,000	-
FX spot transactions					
Buy EUR/ USD		**1,358**	**-**	5,368	-
Buy USD/ EUR		**239**	**-**	3,570	-
Buy USD/ AUD		**1,107**	**-**	785	-
Buy SGD/ USD		**-**	**-**	800	-
Buy AUD/ USD		**537**	**-**	945	-
Buy PHP/ USD		**1,000**	**-**	-	-
Buy JPY/ USD		**-**	**-**	350	-
Buy USD/ SGD		**-**	**-**	420	-
Buy USD/ PHP		**-**	**-**	2,000	-
Buy USD/ JPY		**-**	**-**	590	-
Entity under common ownership:					
Deposit liabilities (net of withdrawals)	23.1(d)	**P 62,921**	**P 170,228**	P 45,654	P 108,307
Rental	23.1(e)	**81**	**-**	87	-
Other transactions – Loans	23.1(f)	**140,506**	**155,506**	15,000	15,000
Key management personnel compensation	23.2	**157,466**	**-**	153,809	-

None of the Bank's outstanding balances with related parties has indications of impairment; hence, no impairment losses were recognized in both years.

23.1 Nature of Related Party Transactions

The transactions conducted by the Bank with related parties in the normal course of business are described below and in the succeeding pages.

(a) On July 20, 2020, the BOD approved dividends amounting to P700,000,000 (or P323.33 per share for common stock). The dividends were paid on November 6, 2020. On October 14, 2019, the BOD approved dividends amounting to P800,000,000 (or P369.52 per share for common stock). The dividends were paid on November 29, 2019 (see Note 18.4).

(b) In 2020 and 2019, the Bank entered into interbank bills payable with BDO Unibank. There were no outstanding bills payable from this transaction.

(c) In 2020 and 2019, the Bank entered into currency forward transactions with BDO Unibank. The outstanding derivative assets and liabilities are shown as part of Financial assets at FVTPL under Trading and Investment Securities account and Derivative Financial Liabilities account in statements of financial position (see Notes 7 and 16).

(d) The Bank maintains deposits with BDO Unibank which are included as part of Due from Other Banks in the statements of financial position (see Note 6.2). The interest rates on these deposits ranged from 0.00% to 0.13% and 0.04% to 0.25% per annum in 2020 and 2019, respectively. The Bank holds demand deposits from BDO Securities Corporation, an entity under common ownership, with annual interest rates at 0.50% and 2.25% for 2020 and 2019, respectively.

(e) The Bank occupied rental spaces with BDO Strategic Holdings Inc. Total rentals amounting to P80,640 and P87,397 in 2020 and 2019, respectively, is included as part of Occupancy under Other Expenses in the statement of income. There were no outstanding payable as of December 31, 2020 and 2019.

In 2020, the Bank entered into a new lease agreement with BDO Unibank for its Quezon City Lounge, for a monthly rental of P133,016. The lease term is for a period of five years and is payable in cash. Other lease agreement for the Bank's Main Office and Lounges remain outstanding in 2020 for a total monthly rental of P3,002,733.

Under PFRS 16, the Bank, as a lessee, recognized right-of-use assets related to lease of space from BDO Unibank amounting to P55,804,275 and P81,699,588 as of December 31, 2020 and 2019, respectively, which is presented as part of Bank Premises, Furniture, Fixtures and Equipment (see Note 11). Depreciation expense and amortization of the right-of-use assets arising from this transaction amounting to P33,391,474 and P30,479,573 in 2020 and 2019, respectively, is presented as part of Depreciation and amortization under Other Expenses in statements of income. Total interest expense on lease liability amounting to P4,600,095 and P5,874,665 in 2020 and 2019, respectively, is included as part of Others under Interest Expense in the statements of income. Outstanding balance arising from these transactions amounted to P58,235,085 and P83,668,088 as of December 31, 2020 and 2019, respectively, and is included as part of Lease liabilities under Accrued Expenses and Other Liabilities (see Note 17). The expenses relating to short-term leases amounted to P2,341,325 as part of Occupancy under Other Expenses account in the 2019 statement of income.

(f) In 2019, the Bank granted a secured, interest-bearing loan amounting to P15,000,000 for a term of one year to a related party. The same loan was renewed in 2020 for another one year. The loan bears an annual interest of 4% and 6% in 2020 and 2019, respectively.

In 2020, the Bank also granted an unsecured, interest-bearing loan amounting to P140,000,000 for a term of one year to another related party. The loan bears an annual interest of 6.75%.

The mentioned loans to related parties were substantially the same terms as loans granted to other individuals and businesses of comparable risks. The outstanding balance of the loans are presented as part of Loans and Receivables account in the statements of financial position.

(g) In March 2012, the BSP approved the outsourcing of several functions to BDO Unibank. The arrangement will allow the Bank to tap the resources and expertise of BDO Unibank in the areas covered by the new agreement, specifically in the Bank's asset management, central operations, human resources management, information technology, internal audit services and risk management. Total expense incurred pertaining to this contract is presented as part of Management and professional fees under Other Expenses account in the statements of income. As of December 31, 2020 and 2019, there are no outstanding liabilities in relation to the agreement.

23.2 Key Management Personnel Compensation

The salaries and other benefits given to the Bank's key management personnel are as follows (amounts in thousands):

		2020		2019
Short-term benefits	**P**	**139,534**	P	134,327
Post-employment benefits		**17,932**		19,482
	P	**157,466**	P	153,809

24. TAXES

24.1 Current and Deferred Taxes

The components of tax expense for the years ended December 31 are as follows:

			2020		2019
Reported in profit or loss:					
Final tax at 20% and 10%		**P**	**116,136,530**	P	156,637,526
Regular corporate income tax (RCIT) at 30% - Regular Banking Unit (RBU)			**166,880,487**		57,590,222
RCIT at 30% - Foreign Currency Deposit Unit (FCDU)			**6,650,622**		6,891,837
			289,667,639		221,119,585
Deferred tax expense relating to origination and reversal of temporary differences			**820,258**		5,307,758
		P	**290,487,897**	P	226,427,343
Reported in other comprehensive income –					
Deferred tax expense (income) related to accumulated actuarial gains and losses	18.2, 22.2	**P**	**15,277,642**	(P	3,853,768)

Current taxes include corporate income tax and final taxes paid on income from FCDU and final withholding tax on gross interest income from debt securities and other deposit substitutes.

In 2020 and 2019, the Bank continued to claim itemized deductions. The Bank is also subject to percentage and other taxes, which consist principally of gross receipts tax or GRT, presented as part of Taxes and Licenses in the statements of income.

The reconciliation of tax on pre-tax profit computed at the applicable statutory rates to tax expense attributable to continuing operations are as follows:

	2020	2019
Tax on pretax profit at 30%	**P 389,491,126**	P 331,513,521
Adjustment for income subjected to lower tax rates	**(36,311,197)**	(24,459,670)
Tax effects of:		
Non-deductible expenses	**124,500,823**	171,252,079
Income from FCDU	**(171,272,911)**	(130,401,930)
Application of net operating loss carry over (NOLCO) and MCIT	**-**	(120,868,581)
Income exempted from income taxes	**(10,008,002)**	(608,076)
Recognized deferred tax assets on retirement	**(5,911,942)**	-
	P 290,487,897	P 226,427,343

The net deferred tax assets (included as part of Other Resources – see Note 13) as of December 31 relate to the following:

	Statements of Financial Position		**Statements of Income**		**Statements of Comprehensive Income**	
	2020	2019	**2020**	2019	**2020**	2019
Deferred tax assets:						
Lease liabilities	**P 19,987,572**	P 29,969,147	**P 9,981,575**	P 29,969,147	**P -**	P -
Post-employment benefit obligation	**20,769,496**	36,047,138	**-**	-	**15,277,642**	(3,853,768)
Unamortized past service cost	**22,428,697**	8,835,901	**(13,592,796)**	4,994,720	**-**	-
Deferred tax liabilities:						
Right-of-use assets	**(19,122,830)**	(29,222,975)	**(10,100,145)**	(29,222,975)	**-**	-
Post-employment benefit obligation	**(32,802,563)**	(18,270,939)	**14,531,624**	(433,134)	**-**	-
Deferred tax assets - net	**P 11,260,372**	P 27,358,272				
Deferred tax expense (income)			**P 820,258**	P 5,307,758	**P 15,277,642**	(P 3,853,768)

The Bank is subject to MCIT which is computed at 2% of gross income, as defined under tax regulations, or RCIT, whichever is higher. The Bank is subject to RCIT in 2020 and 2019 since RCIT was higher than the MCIT.

The Bank did not set up deferred tax assets on the allowance for impairment amounting to P36,338,368 with tax effect of P10,901,510 in 2020 and P31,922,718 with tax effect of P9,576,815 in 2019 since management believes that deferred tax assets will not be realized in the future.

As of December 31, 2018, the Bank's available NOLCO and MCIT amounting to P298,605,795 and P31,286,842, respectively, was fully utilized in 2019.

As of the date of the issuance of the 2020 financial statements of the Bank, the Corporate Recovery and Tax Incentives for Enterprises (CREATE) Bill is yet to be enacted into a law. The CREATE Bill aims to lower certain corporate taxes and rationalize tax incentives given to certain taxpayers. When enacted, the effective regular corporate income tax rate applicable to the Bank from January 1, 2020 to June 30, 2020 and July 1, 2020 to December 31, 2020 will be 30% and 25%, respectively. Pending the enactment of the CREATE Bill, the Bank used the prevailing regular corporate income tax rate of 30% as of December 31, 2020 in determining its current and deferred taxes in its 2020 financial statements. The change in tax rate would also affect the measurement of the deferred tax assets of the Bank (see Note 13). The impact of this is yet to be assessed by the management.

24.2 Supplemental Information Required By the Bureau of Internal Revenue

The Bureau of Internal Revenue (BIR) issued Revenue Regulations (RR) No. 15-2010 on November 25, 2010, which required certain tax information to be disclosed as part of the notes to the financial statements.

The supplementary information is, however, not a required part of the basic financial statements prepared in accordance with PFRS; it is neither a required disclosure under the Philippine Securities and Exchange Commission rules and regulations covering form and content of financial statements under the Revised Securities Regulation Code Rule 68.

The Bank presented this tax information required by the BIR as a supplementary schedule filed separately from the basic financial statements.

25. TRUST OPERATIONS

As of December 31, 2020 and 2019, the following cash, securities and other properties held by the Bank in fiduciary or agency capacity for a fee amounting to P948,055,967 and P932,218,675, respectively, presented as Trust Fees under Service Charges, Fees and Commissions in the statements of income (see Note 19) for its customers are not included in the Banking statements of financial position since these are not resources of the Bank (see Note 26.2):

		2020		2019
Cash	**P**	**15,354,844,795**	P	33,928,417,173
Investments		**479,317,223,116**		315,812,539,430
Real estate		**5,310,539,295**		4,920,524,950
Loans and other receivables		**1,750,552,776**		1,750,453,147
Others		**2,973,378,685**		2,660,956,114
	P	**504,706,538,667**	P	359,072,890,814

The trust operations of the Bank relate mainly to management of funds. Certain government bonds owned by the Bank are deposited with the BSP, as mentioned in Note 9.

26. COMMITMENTS AND CONTINGENT LIABILITIES

26.1 Litigations

On March 15, 2011, the BIR issued RR No. 4-2011 regarding the alleged violation relating to the proper allocation of costs and expenses amongst income earnings of banks and other financial institutions for income tax reporting purposes.

RR No. 4-2011 essentially prescribed the method of allocation of cost and expenses such that when computing the amount allowable as deduction from regular banking unit operations, all costs and expenses should first be allocated between the regular banking unit and FCDU/expanded FCDU or offshore banking unit.

On April 6, 2015, 19 banks (Petitioners) filed a Petition for Declaratory Relief with Application for Temporary Restraining Order and/or Preliminary Injunction, with the Regional Trial Court of Makati. The Parent Bank and BDO Private are among the Petitioners in Civil Case No. 15-287 assailing the validity of RR No. 4-2011. In the Petition, the Petitioners claimed that there is no provision in the National Internal Revenue Code which justifies the issuance of RR No. 4-2011 and that the scope of RR No. 4-2011 unduly expands the power of the BIR to allocate a taxpayer's costs and expenses. The Petitioners also claimed that RR No. 4-2011 limits their rights to claim ordinary and necessary expenses as deductions.

On April 8, 2015, the Regional Trial Court of Makati issued a temporary restraining order, enjoining the BIR from enforcing RR No. 4-2011. Also, on April 27, 2015, the Regional Trial Court of Makati issued a Writ of Preliminary Injunction also enjoining the BIR from enforcing, carrying out, or implementing in any way or manner RR No. 4-2011 against the Petitioners, including the issuance of Preliminary Assessment Notice or Final Assessment Notice, as the case may be, based on the revenue regulations, pending litigation, unless sooner dissolved.

On May 25, 2018, the RTC declared RR 4-2011 as null and void. The writs of preliminary injunction issued by the RTC on April 25, 2015 and February 28, 2018 were also made permanent, thereby enjoining Department of Finance (DOF) and BIR from implementing RR 4-2011 and prohibiting them from issuing a preliminary assessment notice or final assessment notice, or deciding any administrative matter pending before it, according to or in relation to said regulation.

On July 10, 2018, the DOF and BIR filed a Motion for Extension of Time to File a Petition for Review on Certiorari ("Motion for Extension"). The Supreme Court granted the Motion for Extension.

On August 9, 2018, Petitioners filed a Petition for Review on Certiorari dated August 1, 2018 ("Petition") to assail the RTC decision based on the following grounds: (i) the RTC had no jurisdiction over petitions assailing the constitutionality and validity of tax laws, rules and regulation, and other administrative issuance of the BIR. Allegedly, it is the Court of Tax Appeals that has exclusive jurisdiction to determine the constitutionality or validity of Tax Laws, Rules and Regulations issued by the Commissioner of Internal Revenue; and (ii) RR 4-2011 is a valid regulation issued pursuant to the rule-making power of the DOF and the BIR.

In a Resolution dated March 27, 2019, the Supreme Court ordered Respondents to file their Comment on the Petition. On August 5, 2019, the Respondents filed their Comment on/Opposition to the Petition for Review on Certiorari.

All other Respondents have their respective Comments and/or Oppositions to the Petition.

1. Land Bank of the Philippines' *Comment (On Petition for Review on Certiorari)* dated 24 July 2019.

2. UOBP Collections, Inc.'s *Comment [To: Petition for Review on Certiorari dated 01 August 2018]* dated 19 July 2019.

3. Bank of the Philippine Islands and BPI Direct Savings Bank, Inc.' s *Comment (to the Petition for Review dated 01 August 2018)* dated 1 April 2015; and

4. Development *Bank of the Philippines' Comment to the Petition for Review on Certiorari (Dated 01 August 2018)* dated 12 July 2019.

On September 30, 2020, the Supreme Court issued a Resolution requiring Petitioners DOF and the BIR to file their Reply to the Banks' comments within 10 days from notice.

The case remains pending as of December 31, 2020.

26.2 Others

In the normal course of its operations, the Bank has various outstanding commitments and contingent liabilities such as guarantees, commitments to extend credit, etc., which are not reflected in the Banking financial statements. The Bank recognizes in its books any losses and liabilities incurred in the course of its operations as soon as these become known and quantifiable.

As of December 31, 2020, the Bank's management believes that losses, if any, from the commitments and contingencies will not have a material effect on the Bank's financial statements.

27. CURRENT/NON-CURRENT DISTINCTION OF RESOURCES AND LIABILITIES

The table below and in the succeeding page shows an analysis of resources and liabilities analyzed according to when they are expected to be recovered or settled (amounts in thousands):

	2020			2019		
	Within One Year	**Beyond One Year**	**Total**	Within One Year	Beyond One Year	Total
Financial Resources						
Due from BSP	**P 3,176,953**	**P -**	**P 3,176,953**	P 1,331,616	P -	P 1,331,616
Due from other banks	**1,071,420**	**-**	**1,071,420**	499,431	-	499,431
Financial assets at FVTPL	**659,100**	**2,354,202**	**3,013,302**	1,295,532	3,131,341	4,426,873
Financial assets at FVOCI	**3,370,935**	**8,833,938**	**12,204,873**	-	10,786,300	10,786,300
Held-to-collect investments*	**3,085,049**	**12,557,525**	**15,642,574**	1,265,243	12,850,186	14,115,429
Loans and other receivables*	**4,865,690**	**1,268,701**	**6,134,391**	1,254,037	2,263,920	3,517,957
Other resources	**36,203**	**871**	**37,074**	96,148	-	96,148
	16,265,350	**25,015,237**	**41,280,587**	5,742,007	29,031,747	34,773,754
Allowance for credit and impairment losses	**(7,685)**	**(39,430)**	**(47,115)**	(1,291)	(36,887)	(38,178)
	16,257,665	**24,975,807**	**41,233,472**	5,740,716	28,994,860	34,735,576
Non-financial Resources						
Bank premises, furnitures, fixtures and equipment - net	**-**	**97,429**	**97,429**	-	139,481	139,481
Others	**83,496**	**21,995**	**105,491**	35,906	41,134	77,040
	83,496	**119,424**	**202,920**	35,906	180,615	216,521
	P 16,341,161	**P 25,095,231**	**P 41,436,392**	P 5,776,622	P 29,175,475	P 34,952,097

	2020			2019		
	Within One Year	Beyond One Year	Total	Within One Year	Beyond One Year	Total
Financial Liabilities						
Deposit liabilities	P 32,011,189	P 575,939	P 32,587,128	P 26,544,406	P 450,197	P 26,994,603
Derivative liabilities	605,482	1,549,376	2,154,858	408,899	1,040,353	1,449,252
Bills payable	-	-	-	253,234	-	253,234
Other liabilities	373,015	31,940	404,955	246,563	74,881	321,444
	32,989,686	2,157,255	35,146,941	27,453,102	1,565,431	29,018,533
Non-financial Liabilities						
Accrued taxes	113,840	-	113,840	84,822	-	84,822
Withholding taxes	28,939	-	28,939	28,466	-	28,466
Retirement liability	-	-	-	-	2,702	2,702
Other liabilities	109	1,098	1,207	1,620	-	1,620
	142,888	1,098	143,986	114,908	2,702	117,610
	P 33,132,574	P 2,158,353	P 35,290,927	P 27,568,010	P 1,568,133	P 29,136,143

**Gross of allowance for credit and impairment losses*

28. IMPACT OF COVID-19 PANDEMIC

The unprecedented impact of the COVID-19 pandemic and the government's stringent mobility/quarantine measures to contain the virus have affected economic conditions and consequently, the Bank's business operations.

The following were the actions undertaken by the Bank's business to mitigate such impact:

- activated Business Continuity to enable dual-site processing capabilities or team redundancies in the event one site becomes contaminated. Senior management likewise split among sites and skeletal crews;
- implemented new occupational safety and health standards to provide a safe and sanitized environment for both clients and employees through the strict observance of health and safety protocols, retrofitting of workspaces, and periodic testing for employees to minimize infection within the workplace;
- performed review of loan and investments accounts to assess vulnerable sectors, and recognize additional allowance for impairment; and,
- complied with *Bayanihan to Heal as One Act* (*Bayanihan Act I)* and *Bayanihan to Recover as One Act* (*Bayanihan Act II)* by granting loan moratoria to qualified clients under the said laws.

Based on the above actions and measures taken by management to mitigate the adverse effect of the pandemic, the Bank believe that it would continue to report positive results of operations and would remain liquid to meet current obligation as it falls due. Overall, the COVID-19 pandemic has no significant impact to the Bank. Accordingly, management has not determined material uncertainty that may cast significant doubt on the Bank's ability to continue as a going concern.

29. SUPPLEMENTARY INFORMATION REQUIRED BY THE BSP

Presented below and in the succeeding pages are the supplementary information required by the BSP under Section 174 (Appendix 55) of the BSP Manual of Regulations for Banks (MORB) to be disclosed as part of the notes to financial statements based on BSP Circular 1074, *Amendments to Regulations on Financial Audit of Banks.*

(a) *Selected Financial Performance Indicators*

The following are some of the financial performance indicators of the Bank:

	2020	2019
Return on average equity		
Net profit / Average total capital accounts	**17.4%**	14.8%
Return on average common equity		
Net profit / Average common equity	**17.4%**	14.8%
Return on average resources		
Net profit / Average total resources	**2.6%**	2.1%
Net interest margin		
Net interest income / Average interest-earning resources	**2.8%**	1.9%
Basel III leverage ratio*		
Capital measure / Exposure measure	**13.9%**	15.8%
Liquidity coverage ratio*		
Total stock of high-quality liquid assets / Total net cash outflows	**129.1%**	151.6%
Net stable funding ratio*		
Available stable funding / Required stable funding	**128.8%**	128.2%

**Computed using balances prepared under PFRS* *(b)* *Capital Instruments Issued*

As of December 31, 2020 and 2019, the Bank has only one class of capital stock, which is common shares.

As of December 31, 2020 and 2019, the Bank has no capital instruments considered in the computation of the Bank's regulatory and qualifying capital in accordance with Circular 781, *Basel III Implementing Guidelines on Minimum Capital Requirements*, which may include instruments recorded as part of equity or a financial liability qualifying as Tier 2 capital.

(c) *Significant Credit Exposures for Loans*

The Bank's concentration of credit as to industry for its receivables from customers gross of allowance for ECL follows (amounts in thousands):

	2020		2019	
	Amount	**Percentage**	Amount	Percentage
Arts, entertainment and recreation	**P 1,033,225**	**32.3%**	P 1,066,953	33.3%
Financial and insurance activities	**760,684**	**23.8%**	941,597	29.3%
Real estate activities	**264,615**	**8.3%**	190,351	5.9%
Information and communication	**188,559**	**5.9%**	185,988	5.8%
Electricity, gas, steam and air-conditioning supply	**140,473**	**4.4%**	-	0.0%
Construction	**87,504**	**2.7%**	92,308	2.9%
Other service activities	**723,337**	**22.6%**	732,196	22.8%
	P 3,198,397	**100%**	P 3,209,393	100%

The BSP considers that loan concentration exists when the total loan exposure to a particular industry exceeds 30% of the total loan portfolio plus the outstanding interbank loans receivable or 10% of Tier 1 capital.

(d) *Credit Status of Loans*

In 2020 and 2019, all of the Bank's outstanding loans were classified as performing loans.

(e) *Analysis of Loan Portfolio as to Type of Security*

The breakdown of receivable from customers, gross of allowance, as to security are disclosed as follows.

	2020	2019
Secured:		
Debt securities	**P 538,322,751**	P 127,695,602
Equity securities	**286,027,777**	509,696,249
Hold-out deposits	**207,867,506**	53,479,337
Others	**52,397,936**	133,632,961
	1,084,615,970	824,504,149
Unsecured	**2,113,781,304**	2,384,888,615
	P 3,198,397,274	P 3,209,392,764

(f) *Information on Related Party Loans*

The following information relates to the loans, other credit accommodations and guarantees granted to related parties as of December 31, 2020 and 2019.

		2020		2019
Total outstanding related party loan	**P**	**155,506,273**	P	15,000,000
% of related party loan to total loan portfolio		**4.86%**		0.47%
% of unsecured related party loans to total related party loans		**4.39%**		0.00%
% of past due related party loans to total related party loans		**0.00%**		0.00%
% of non-performing related party loans to total related party loans		**0.00%**		0.00%

(g) *Secured Liabilities and Assets Pledged as Security*

In 2020 and 2019, the Bank did not have any secured liabilities or assets pledged as security.

(h) *Contingencies and Commitments Arising from Off-balance Sheet Items*

The summary of the Bank's commitments and contingent accounts arising from transactions not given recognition in the statements of financial position, expressed at their equivalent peso contractual amounts as of December 31, 2020 and 2019 is as follows:

	Notes		2020		2019
Trust department accounts	25	**P**	**504,706,538,667**	P	359,072,890,014
Cross currency swap receivable	16		**20,297,628,880**		12,715,161,780
Cross currency swap payable	16		**18,719,284,875**		12,132,865,962
Interest rate swap receivable	16		**3,701,575,000**		11,126,230,000
Interest rate swap payable	16		**3,701,575,000**		11,126,230,000
Forward exchange bought	16		**76,500,991**		-
Forward exchange sold	16		**4,267,835,628**		4,322,853,068
Spot exchange bought			**268,622,514**		873,458,105
Spot exchange sold			**268,622,514**		873,458,105
Nondeliverable forwards	16		**545,500,000**		545,500,000
Interest rates futures-sold	16		**240,282,000**		-

Supplementary Management Disclosures

(Amounts in Philippine Pesos)

On Capital Structure and Capital Adequacy

A. CET 1 Capital and Breakdown of Components (including deductions solely from CET 1)

	2020	2019
Paid-up common stock	2,165,000,000	2,165,000,000
Retained earnings	3,612,960,416	3,317,309,844
Other comprehensive income	281,558,559	288,265,052
Sub-total	6,059,518,975	5,770,574,896
Less deduction:		
Deferred income tax	20,179,134	30,378,155
Other intangible assets	16,827,907	19,275,763
Total CET 1 capital	6,022,511,934	5,720,920,978

B. Tier 1 Capital and Breakdown of Components (including deductions solely from Tier 1)

	2020	2019
Paid-up common stock	2,165,000,000	2,165,000,000
Retained earnings	3,612,960,416	3,317,309,844
Other comprehensive income	281,558,559	288,265,052
Sub-total	6,059,518,975	5,770,574,896
Less deduction:		
Deferred income tax	20,179,134	30,378,155
Other intangible assets	16,827,907	19,275,763
Total Tier 1 capital	6,022,511,934	5,720,920,978

C. Tier 2 Capital and Breakdown of Components

	2020	2019
General loan loss provision	50,095,524	46,077,158
Total Tier 2 capital	50,095,524	46,077,158

D. Computation of Qualifying Capital

	2020	2019
Tier 1 capital	6,059,518,975	5,770,574,896
Tier 2 capital	50,095,524	46,077,158
Gross qualifying capital	6,109,614,498	5,816,652,054
Less: Required deductions	37,007,041	49,653,918
Total qualifying capital	6,072,607,457	5,766,998,136

The regulatory qualifying capital of the Bank consists of Tier 1 (core) capital which includes paid-up common, surplus including current year profit, and surplus reserves, less deduction for deferred income tax and other intangible assets. The other component of regulatory capital is Tier 2 (supplementary) capital, which is the general loan loss provision.

E. Capital Conservation Buffer

	2020	2019
Common Equity Tier 1 Capital	6,022,511,934	5,720,920,978
Less: CET 1 requirement	1,362,169,968	1,303,912,893
Capital Conservation Buffer	4,660,341,966	4,417,008,085
Capital Conservation Buffer Ratio	20.53%	20.33%

F. Capital Requirements for Credit Risk

	2020	2019
On -Balance Sheet	12,982,546,991	13,045,892,328
Off -Balance Sheet	—	—
Counterparty (Trading Book)	3,494,420,003	2,166,942,973
Total	16,476,966,995	15,212,835,301
Capital Requirements	1,647,696,699	1,521,283,530

G. Capital Requirements for Market Risk

	2020	2019
Interest Rate Exposures	1,470,183,799	2,503,156,436
Foreign Exchange Exposures	867,727,634	343,241,812
Total	2,337,911,432	2,846,398,248
Capital Requirements	233,791,143	284,639,825

H. Capital Requirements for Operational Risk

	2020	2019
Basic Indicator	3,887,954,371	3,672,648,007
Total	3,887,954,371	3,672,648,007
Capital Requirements	388,795,437	367,264,801

I. Computation of Capital Adequacy Ratio - Total and Tier 1

	2020	2019
Total Qualifying Capital	6,072,607,457	5,766,998,136
Credit risk-weighted assets	16,476,966,995	15,212,835,301
Market risk-weighted assets	2,337,911,432	2,846,398,248
Operational risk-weighted assets	3,887,954,371	3,672,648,007
Risk weighted assets	22,702,832,798	21,731,881,556
Total capital ratio	26.75%	26.54%
Tier 1 capital ratio	26.53%	26.33%
CET 1 ratio	26.53%	26.33%

Full Reconciliation of all Regulatory Capital Elements back to the Balance Sheet in the Audited Financial Statements

	Per AFS	Adj - AFS to Regulatory	Regulatory Capital			
			CET 1	Tier 1	Tier 2	Qualifying
Common Stock	2,165,000,000		2,165,000,000	2,165,000,000		2,165,000,000
Surplus - Free/Reserve	3,663,258,302	(50,297,886)[a]	3,612,960,416	3,612,960,416		3,612,960,416
General Loan Loss Provisions	—	50,095,524[b]			50,095,524	50,095,524
Other Comprehensive Income						
Unrealized Fair Value G/L on AFS	365,668,547	—	365,668,547	365,668,547		365,668,547
Accumulated Actuarial G/L	(48,462,158)	(35,647,830)[c]	(84,109,988)	(84,109,988)		(84,109,988)
	6,145,464,691	(35,850,193)	6,059,518,975	6,059,518,975	50,095,524	6,109,614,498
Regulatory Adjustments/ Deductions						
Deferred Income Tax		(20,179,134)	(20,179,134)	(20,179,134)		(20,179,134)
Other Intangible Assets		(16,827,907)	(16,827,907)	(16,827,907)		(16,827,907)
	6,145,464,691	(72,857,234)	6,022,511,934	6,022,511,934	50,095,524	6,072,607,457

(a)	Various adjustments	(9,793,891)
	Reclass from Reserve for GLLP to Tier 2 GLLP in CAR per Cir#1011	(40,503,995)
		(50,297,886)
(b)	General Loan Loss	9,591,529
	Reserve for GLLP	40,503,995
	Total Tier 2 GLLP	50,095,524
(c)	Various actuarial adjustments	(35,647,830)

Comprehensive Explanation on How Ratios Involving Components for Regulatory Capital are Calculated

	Regulatory Capital Ratios		
	CET 1	Tier 1	Qualifying
Components of Regulatory Ratios			
Regulatory Capital	6,022,511,934	6,022,511,934	6,072,607,457
Risk Weighted Assets	22,702,832,798	22,702,832,798	22,702,832,798
Computation of Regulatory Ratios			
Qualifying Capital / Risk Weighted Assets			26.75%
Tier 1 Capital / Risk Weighted Assets		26.53%	
CET 1 Capital / Risk Weighted Assets	26.53%		

On Credit Risk Exposures

On-Balance Sheet (BS) Assets

Type of Exposures	2020								
	Principal Amount	Exposures After CRM	RISK WEIGHTS						
			0%	20%	50%	75%	100%	150%	Total
Cash on Hand									—
Checks and Other Cash Items									—
Due from Bangko Sentral ng Pilipinas	3,176,953,168	3,176,953,168	3,176,953,168						3,176,953,168
Due from Other Banks	1,071,415,471	1,071,415,471		85,242,636	986,172,835		—		1,071,415,471
Financial Assets at FVTPL	—	—							—
Financial Assets at FVOCI	12,211,052,866	12,211,052,866	4,794,498,103	—	3,842,311,044		3,574,243,718		12,211,052,866
Hold to Collect Investments	15,622,643,822	15,622,643,822	8,018,682,995	1,225,738,430	6,378,222,397		—		15,622,643,822
Unquoted Debt Securities Classified as Loans	—	—			—				—
Loans and Receivables	3,054,282,034	3,054,282,034					3,054,282,034		3,054,282,034
Loans and Receivables Arising from Repurchase Agreements, Certificates of Assignment/Participation with Recourse, and Securities Lending and Borrowing Transactions	2,593,669,285	2,593,669,285	2,593,669,285						2,593,669,285
Sales Contract Receivable	—	—							—
Real and Other Properties Acquired	—	—							—
Other Assets	488,471,888	488,471,888					488,471,888		488,471,888
Total Exposures	38,218,488,535	38,218,488,535	18,583,803,552	1,310,981,066	11,206,706,277	—	7,116,997,640	—	38,218,488,535
Total Risk-weighted On-BS Assets Not Covered by CRM			18,583,803,552	1,310,981,066	11,206,706,277	—	7,116,997,640		38,218,488,535
Total Risk-weighted On-BS Assets Covered by CRM *			144,115,240		—				144,115,240
Total Risk-weighted On-BS Assets			18,727,918,792	1,310,981,066	11,206,706,277	—	7,116,997,640	—	38,362,603,775
Computed Risk Weight/Capital Charge			—	262,196,213	5,603,353,138	—	7,116,997,640	—	12,982,546,991

* *The types of eligible credit risk mitigants used on On Balance Sheet Assets are GS, ROP and Deposits*

On-Balance Sheet (BS) Assets

	2019								
			RISK WEIGHTS						
Type of Exposures	Principal Amount	Exposures After CRM	0%	20%	50%	75%	100%	150%	Total
Cash on Hand									—
Checks and Other Cash Items									—
Due from Bangko Sentral ng Pilipinas	1,331,616,252	1,331,616,252	1,331,616,252						1,331,616,252
Due from Other Banks	450,098,302	450,098,302		48,486,080	401,612,222		—		450,098,302
Financial Assets at FVTPL	—	—							—
Financial Assets at FVOCI	10,786,300,317	10,786,300,317	—	—	7,794,716,080		2,991,584,237		10,786,300,317
Hold to Collect Investments	14,101,400,632	14,101,400,632	8,730,795,747	1,226,572,094	4,144,032,791		—		14,101,400,632
Unquoted Debt Securities Classified as Loans	—	—			—				—
Loans and Receivables	3,087,733,598	3,087,733,598					3,087,733,598		3,087,733,598
Loans and Receivables Arising from Repurchase Agreements, Certificates of Assignment/Participation with Recourse, and Securities Lending and Borrowing Transactions	—	—	—						—
Sales Contract Receivable	—	—							—
Real and Other Properties Acquired	—	—							—
Other Assets	541,382,311	541,382,311					541,382,311		541,382,311
Total Exposures	30,298,531,412	30,298,531,412	10,062,411,999	1,275,058,174	12,340,361,094	—	6,620,700,146	—	30,298,531,412
Total Risk-weighted On-BS Assets Not Covered by CRM			10,062,411,999	1,275,058,174	12,340,361,094	—	6,620,700,146	—	30,298,531,412
Total Risk-weighted On-BS Assets Covered by CRM *			121,659,166		—				121,659,166
Total Risk-weighted On-BS Assets			10,184,071,165	1,275,058,174	12,340,361,094	—	6,620,700,146	—	30,420,190,579
Computed Risk Weight/Capital Charge			—	255,011,635	6,170,180,547	—	6,620,700,146	—	13,045,892,328

* *The types of eligible credit risk mitigants used on On Balance Sheet Assets are GS, ROP and Deposits*

Off-Balance Sheet (BS) Assets

Type of Exposures	Credit Equivalent	2020						
		Risk Weights						
		0%	20%	50%	75%	100%	150%	Total
Guarantees Issued	—					—		—
Transaction-related contingencies	—					—		—
Commitments with an original maturity of up to one (1) year	—					—		
	—					—		—
	—	—	—	—	—	—	—	—
Computed Risk Weight/Capital Charge		—	—	—	—	—	—	—

Off-Balance Sheet (BS) Assets

Type of Exposures	Credit Equivalent	2019						
		Risk Weights						
		0%	20%	50%	75%	100%	150%	Total
Guarantees Issued								
Transaction-related contingencies								
Commitments with an original maturity of up to one (1) year								
	—	—	—	—	—	—	—	—
Computed Risk Weight/Capital Charge		—	—	—	—	—	—	—

On External Credit Assessments

Standardized credit risk weights were used in the credit assessment of asset exposures. Third party credit assessments were based on ratings of Standard and Poor's, Moody's, Fitch and PhilRatings on exposures to sovereigns, MDBs, LGUs, Government Corporations and Corporates.

On Interest Rate Risk in the Banking Books

For interest rate risks in the banking book (IRRBB), please refer to NFS Section 4.1.2. Earnings-at-Risk (EaR) calculated using a 1-year holding period and measured on a monthly basis.

Disclosure Statements on the ff:

Eligible Credit Risk Mitigants including Credit Derivatives

Credit Protection Given by the Bank

Structured Products

Hedging and Continuing Effectiveness of Hedges

Securitization Structures

Risk-weighted on balance sheet assets covered by credit risk mitigants are mostly exposures covered by deposits, government and corporate issued securities. There are no securitization exposures, no exposures covered by credit derivatives, no outstanding credit protection provided by the Bank through credit derivatives, and no outstanding investments in structured products. Moreover, the Bank has no outstanding accounting hedges. In case there are accounting hedges, the Bank performs both prospective and retrospective hedge effectiveness tests to monitor the continuing effectiveness of accounting hedges as a matter of policy.

On Basel III Leverage Ratio

A. Calculation of BASEL III Leverage Ratio

	2020	2019
Capital Measure	6,022,511,934	5,720,920,978
Total On-balance sheet exposures[1/]	36,453,061,792	33,206,152,774
Total Derivatives Exposures	4,320,722,289	2,801,283,498
Total Securities Financing Transactions (SFT)	2,593,323,509	—
Off-balance Sheet Exposures	26,903,485	89,770,349
Total Exposure Measure	43,394,011,075	36,097,206,622
BASEL III Leverage Ratio	13.88%	15.85%

[1/] *Gross of general loan loss provision (GLLP) excluding derivatives and SFTs, and deductions from BASEL III Tier1 capital are excluded from the leverage ratio exposure measure*

B. Summary Comparison Table

	2020	2019
Total consolidated assets as per published financial statements[1/]	41,391,935,418	34,903,891,858
Adjustments for derivatives financial instruments	2,002,587,684	1,147,625,170
Adjustments for securities financial transactions	—	—
Adjustments for off-balance sheet items	26,903,485	89,770,349
Other adjustments	(27,415,512)	(44,080,756)
Leverage ratio exposure	43,394,011,075	36,097,206,622

[1/] *Refers to total on-balance sheet assets per quarterly published balance sheet*

C. Common Disclosure Table

	2020	2019
On-balance sheet items[1/]	36,490,068,833	33,255,806,692
Asset amounts deducted in determining BASEL III Tier 1 Capital	(37,007,041)	(49,653,918)
Total on-balance sheet exposures (excluding derivatives & SFTs)	36,453,061,792	33,206,152,774
Replacement cost associated with all derivatives transactions	2,318,134,605	1,653,658,328
Add-on amounts for Potential Future Exposure associated with all derivative transactions	2,002,587,684	1,147,625,170
Total derivative exposures	4,320,722,289	2,801,283,498
Gross SFT assets	2,593,323,509	—
Total securities financing transaction exposures	2,593,323,509	—
Off-balance sheet exposure at gross notional amount	269,034,850	897,703,491
Off-balance sheet items	26,903,485	89,770,349
Tier 1 capital	6,022,511,934	5,720,920,978
Total exposures	43,394,011,075	36,097,206,622
Basel III leverage ratio	**13.88%**	**15.85%**

[1/] *Gross of general loan loss provision (GLLP) excluding derivatives and SFTs*

On Basel III Net Stable Funding Ratio (NSFR)

	2020	2019
A. Available Stable Funding	**20,520,902,358**	**21,803,155,524**
Capital	6,099,952,184	5,811,236,037
Retail Deposits	9,533,796,394	12,593,617,827
Wholesale Deposits	4,887,153,780	3,398,301,660
Secured and Unsecured Funding	—	—
Other Liabilities and Equities	—	—
B. Required Stable Funding	**15,931,735,534**	**16,999,849,852**
NSFR High-Quality Liquid Assets (HQLA)	4,234,232,323	5,393,112,589
Deposits Held at other Financial Institutions	196,380,647	109,988,757
Performing Loans and Non-HQLA Securities	7,849,065,491	8,461,991,503
Other Assets	3,652,057,073	3,034,757,004
Off-Balance Sheet Exposures	—	—
C. Net Stable Funding Ratio (A/B)	**128.81%**	**128.25%**

On Liquidity Coverage Ratio (LCR)

	2020	2019
A. Total Stock of High-Quality Liquid Assets	**20,851,724,322**	**14,288,068,807**
Stock of Level 1 Assets	18,701,795,443	11,350,045,374
Stock of Level 2 Assets	2,149,928,879	2,938,023,434
Total Stock of High Quality Liquid Assets	20,851,724,322	14,288,068,807
Adjustments for 40% Cap on Level 2 Assets	—	—
B. Total Net Cash Outflows	**16,156,029,020**	**9,425,339,834**
Total Expected Cash Outflows	22,284,391,252	13,720,524,084
Total Expected Cash Inflows Before Ceiling	6,128,362,232	4,295,184,250
Adjustments for 75% Ceiling on Cash Inflows	—	—
Total Expected Cash Inflows After Ceiling	6,128,362,232	4,295,184,250
C. Liquidity Coverage Ratio (A/B)	**129.06%**	**151.59%**

BDO Private Bank