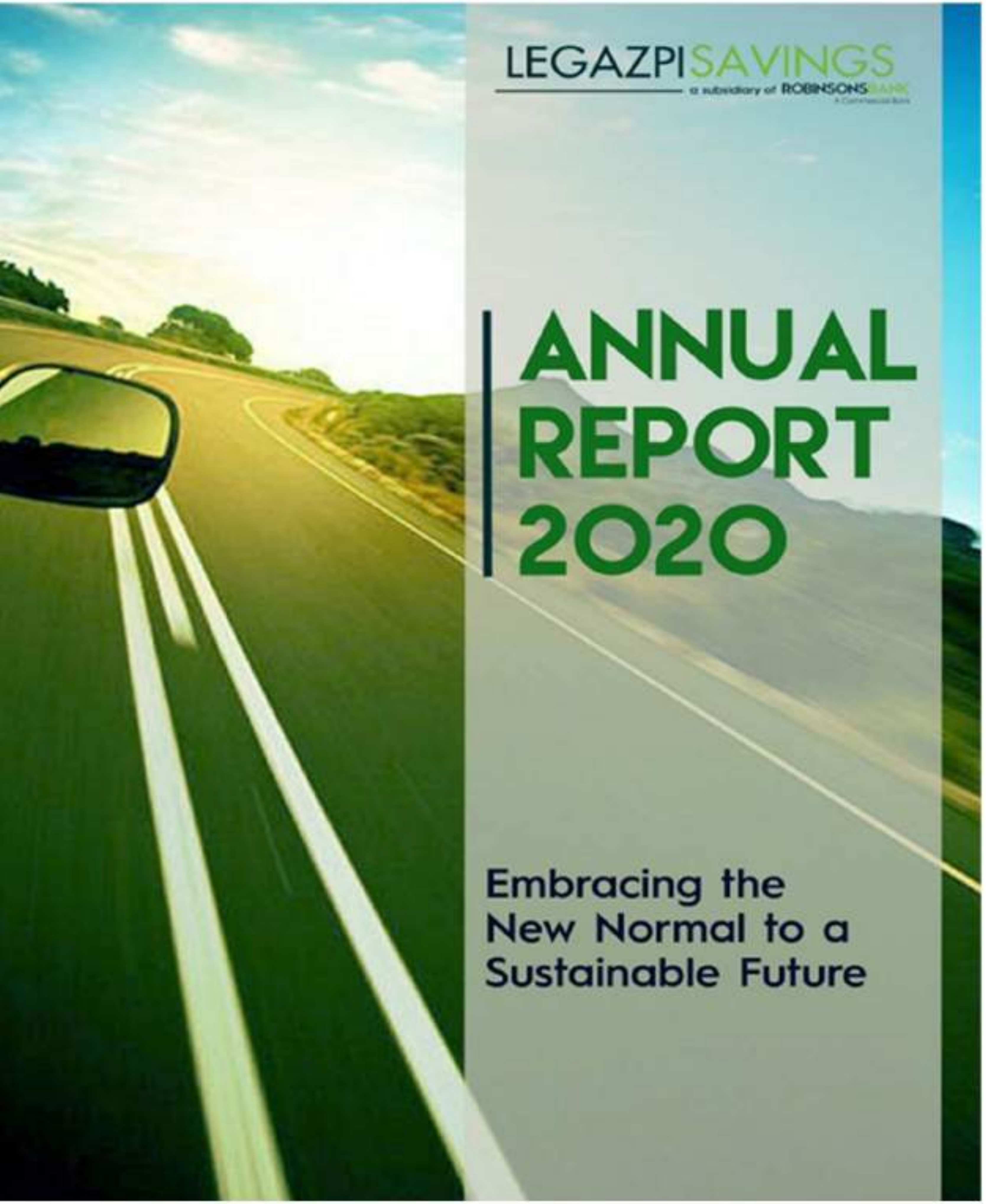

LEGAZPI SAVINGS
a subsidiary of ROBINSONSBANK
A Commercial Bank

ANNUAL REPORT 2020

Embracing the New Normal to a Sustainable Future

LEGAZPI SAVINGS
a subsidiary of ROBINSONSBANK
A Commercial Bank

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Contents

About the Cover

The "moving ahead" embodies the bank's commitment to continue improve its processes and introduce new offerings that are vital in meeting the changing needs of its clients.The "road" signifies opportunities including digital adaptation that is relevant and would ensure operational resilience amid the so-called new normal in the banking landscape. With the bank's strong foundation built over the years, LSB is true to its commitment in providing excellent financial services that is efficient, reliable and timely.

Mission and Philosophy

Legazpi Savings Bank...

A friendly financial institution founded on trust and confidence of the people of the Bicol Region, with the firm belief in Divine Providence and the value of Human Material Resources, providing competitive products and services, assuring stakeholders with stable and secure growth acting as partner and catalyst of economic and social development, uplifting the region's standard of living and contributing to the economic, political and social stability and progress of the region and the nation as a whole.

Business Model

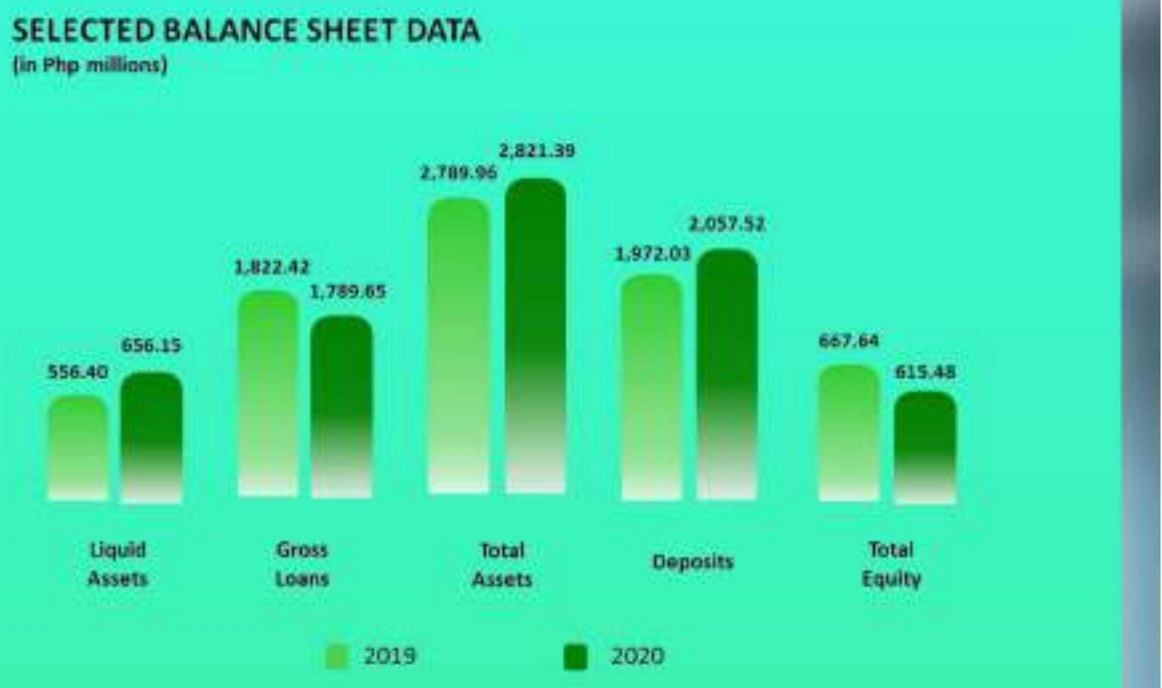
Legazpi Savings Bank aims to provide retail financial products and services that promote financial inclusion, sustainability and value for all its stakeholders. The initiatives are still growing the DepEd APDS portfolio, engaging in highly retail loans in the countryside such as the Micro & Small Enterprise and anchoring new products and services via digital platforms. To achieve these, the Bank will (1) transform into a selling organization for both the loans and deposit products, (2) expand the network reach by accelerating the expansion thru LSB kiosks and BLUs and (3) embark into digital products and services using mobile and internet platforms.

President's Message

Mykel D. Abad

The 2020 global pandemic brought chaos & disruption not only to the banking sector but to the entire industry as well. Legazpi Savings Bank was no exception. As businesses were either on a temporary shut down or have closed permanently, the Bank's loan portfolio suffered affecting severely the microfinance product.

For the year 2020, Loan Portfolio dropped by 2% or by P33 million compared with the previous year's growth of 41% or by P532 million. The declaration of community quarantine also brought microfinance past due to a high of P190.9 million. However, through the government programs such as the Bayanihan I & II, the BSP relief and the Bank's tremendous collection effort, past due went down to P77.1 million as of December 31, 2020 and remained stable since then. The resilience of microfinance borrowers has always been evident. They were able to bounce back and started paying their dues as soon as they recovered. All the Bank did was to constantly communicate and give them the support they need.



On the other hand, the Bank's deposit level grew by only 4% or by P84 million compared with last year's increase of 23% or by P365 million. Although the increase in deposit may seem insignificant, we take pride that in the height of the pandemic, the Bank launched the Simple' Savings product, a basic deposit account, with the purpose of reaching out to the unbanked sectors. This is also part of the institution's vision of helping the community achieve a sustainable future.

The year 2020 may not be the best year for LSB. Apart from the Covid-19 outbreak, super typhoon Rolly devastated the Bicol Region. Nevertheless, amidst these challenges, the Bank managed to have a Net Income before Expected Credit Loss (ECL) and Loan Modification Loss (LML) of P24.8 million. As a result of the extension and movement of the amortization dues of the borrowers, the Bank booked a Loan Modification Loss (LML) net of accretion of P24.4 million. Moreover, the Bank also booked an additional provision for ECL of P30.8 million thus total provision for the year was P51.00 million.

The Bank's community collaboration did not end with the SAP distribution. In partnership with JG Summit Holdings, Inc., LSB also took part in the relief operations to families affected by super typhoon Rolly.

Also, in partnership with Gokongwei Brothers Foundation, personal protective equipment (PPEs) were donated to selected hospital beneficiaries.

The 2020 pandemic did not hinder the Bank's initiative of transforming kiosks to Branch Lite Units. For this year, Malolos Branch Lite Unit was formally opened on December 14, 2020. As part of its expansion program, Cainta Branch was also successfully inaugurated on November 20, 2020. It was also during this year that the Customer Experience Department (formerly Digital Marketing and Customer Care) was formalized.

With all that has been and now looking ahead, LSB is up and ready to embrace the new normal. We have started our digitization project with the microfinance online application. This online platform will be launched eventually with our APDS product. We are targeting a paperless process from loan origination to crediting of net proceeds. We are more confident to achieve these goals as our new Core Banking System is now cloud-based. We will also be embarking in mobile banking, digital marketing and cross selling of various RBank products as approved by the BSP. These initiatives will no doubt get us to the sustainable future that we all envision of.

These whole pandemic taught us to be adaptable to change. As one writer puts it, "Our most significant opportunities will be found in times of greatest challenge."

FINANCIAL HIGHLIGHTS

TOTAL ASSETS
(in Php millions)

CAPITAL FUNDS
(in Php millions)

OPERATING EXPENSES
(in Php millions)

GROSS LOAN PORTFOLIO
(in Php millions)

DEPOSIT LEVELS
(in Php millions)

GROSS INCOME
(in Php millions)

NET INCOME
(in Php millions)

LOANS AND OTHER RECEIVABLES
(in Php millions)

FINANCIAL HIGHLIGHTS

NON-PERFORMING LOAN (NPL)
(in Php millions)

NPL COVER

CAPITAL ADEQUACY RATIO

SIMPLE' SAVINGS LAUNCHING

Probably, the last thing people may think during this pandemic is to open a savings account and save money for the future. But if you are able to save, it would help you recover easier. However, the question is how about those who do not have savings most especially those unbanked sector. Will they be able to survive another crisis or emergencies in the future without any emergency fund?

Legazpi Savings Bank sees the value of reaching out the unbanked people in order to educate them the importance of saving.

In 2020, Legazpi Savings Bank officially launched its Simple' Savings Account product. Responding to Bangko Sentral ng Pilipinas (BSP)'s advocacy in promoting financial inclusion, this Simple Savings enables Filipinos to have access to banks' financial services like savings deposit. This is very timely for LSB to encourage people to open bank account with a very affordable initial deposit, zero maintaining balance and simple requirements. The bank believes that through this offering and continued program to widen the bank's outreach, a more secure and financially stable future is within our reach.

After the initial rollout in Feb up to year-end of 2020, LSB generates 876 accounts with deposit balances of P1.9 million.

A woman engaged in Puto making business assisted by Calauag Branch personnel in the Simple Savings Account opening during its branch-initiated marketing drive in a community in Calauag, Quezon.

LEGAZPI SAVINGS OPEN ITS DOORS IN MALOLOS, BULACAN

Legazpi Savings Bank (LSB) open its doors in Malolos Bulacan through its Malolos Branch Lite Unit – Loan Center last December 14, 2021. The province of Bulacan is steadily becoming industrialized due to its proximity to Metro Manila. It is served by all major banks with more than 200 banks doing business in the province. With the opening of Malolos BLU - Loan Center, the Bank will be able to initially service it loan customers from DEPED (teaching and non-teaching personnel) in the area via the Automatic Payroll Deduction System (APDS) and Small and Medium Enterprises (SME) businesses through its Micro Finance Loan. Likewise, LSB will be able to introduce its other consumer loan products such as housing loan and small business loan.

CREATION OF CUSTOMER EXPERIENCE DEPARTMENT

With the spread of COVID-19 all across the nation and entire world, the Bank in response to this pandemic, decided to have a reorganizational structure where it can address its clientele needs in this changing times and situation.

One of the Bank's move is the creation of Customer Experience Department (CED) under the umbrella of Retail Banking Group (RBG) last June 1, 2020 composing of three (3) personnel – the CED Head and two (2) CED Assistants – handling these three (3) areas: Digital, Marketing and Customer Care.

CED caters and find ways in resolving all products and non-product concerns, inquiries and requests received via C3 e-mail address and Facebook Page Messenger. The Department itself serves as a medium in channelling and connecting bank's clients to its respective concerned business units in providing the customer service at its best.

In terms of digital and marketing aspects, CED formulated and launched the QR Code for GO! Teacher's Loan where all public teachers and qualified non-teaching staff can avail of this product by simply scanning its QR Code. Further, the video advertisements and instructional videos both in English and Filipino languages were made and posted at Facebook Page and website, and being played at branches for client's awareness and guidance for their online application. E-mail blast and text blast are resorted to when important matters must be made known to bank's customers.

Aside from that, CED also makes layouts of flyers for bank products including its corresponding advertisements to be posted at Facebook Page and website. The Branches' and Branch-lite Units' signages, advisories and other layout requests coming from each business units are being created by CED. CED had also a collaboration in coming up with the layout of Bank's 2019 Annual Report.

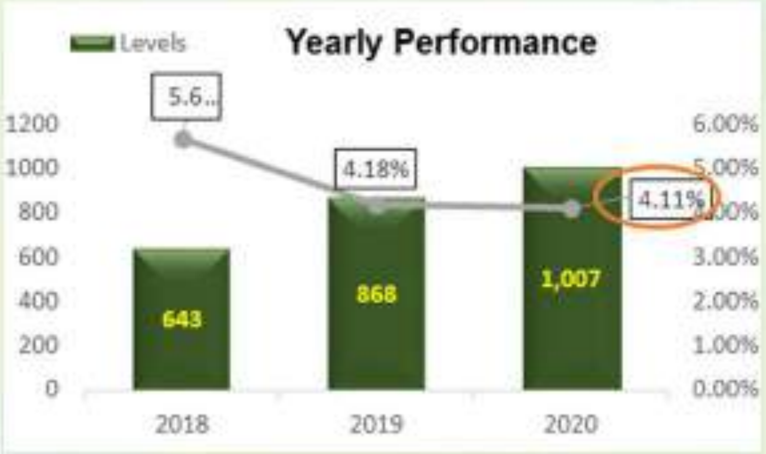
CED envisions to promote Bank's products digitally with efficient marketing strategies while not compromising the best customer service to its clients.

LENDING GROUP

LSB's Lending Group continues to expand it loan product and services in line with its vision of becoming a selling organization and bringing the financial product and services to customers with trump competition. The Bank expand its products through opening new Branch and Branch-Lite units. Embark our loan products and services using mobile and internet platforms.

AUTOMATIC PAYROLL DEDUCTION SYSTEM (APDS) LOAN

Despite of the pandemic, APDS loan portfolio ended P1 billion, or it grew by 16.01% in 2020 from P868 million in 2019. While past due is well managed and went down to 4.11% in 2020 from 4.18% in 2019. Booking mostly came from Bicol Region and slowly gaining market share in NCR and Region 4. The continued booking was primarily due to the intensified marketing effort through personalize service and digital marketing.

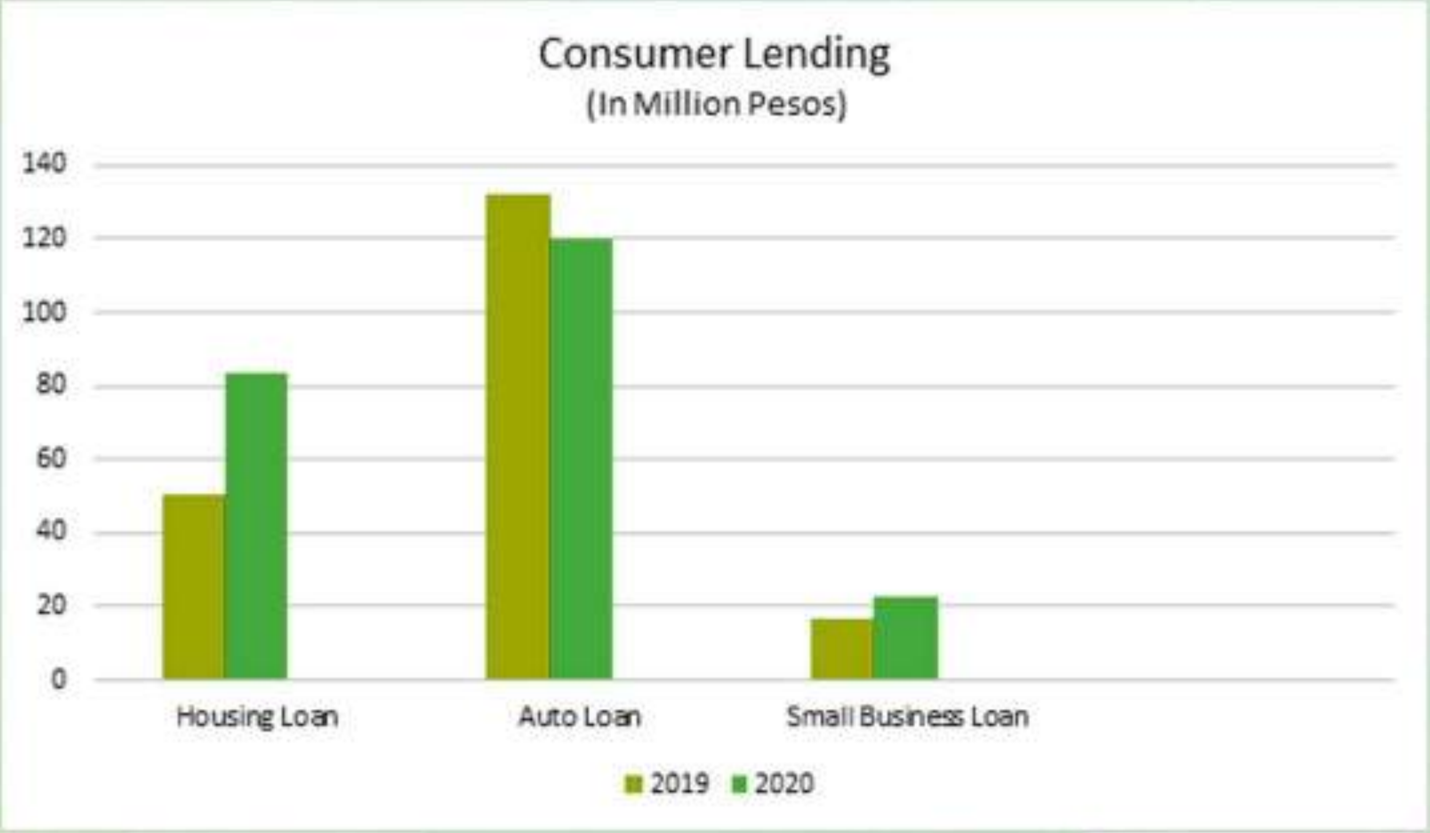


MICRO FINANCE (GO MICRO REGULAR, GO MICRO PLUS, GO MICRO SME, POWER-UP)

LSB's Micro Finance loan continue to be the partner of micro and small entrepreneur. Faced by the challenges brought by the pandemic mostly in NCR saw its portfolio went down to P232.78 million in 2020, from P280 million in 2019. In 2020, we saw Micro finance managed its loan level, where it focuses on lending to essential businesses. With adoption of Digital platform thru E-signature for all loan release documents, as well as refocused business strategies, we expect Micro Finance to expand its market in the coming year.

HOUSING LOAN / SMALL BUSINESS LOAN / AUTO LOAN

LSB's housing loan portfolio increased by 65.40% in 2020 from P50.41 million in 2019 to P83.38 million in 2020. The increase is primarily driven by active referrals from agents / brokers and Branches. However, the bank stopped its auto loan lending, as loan portfolio went down by 9.20% in 2020. LSB will gradually reduce its auto loan portfolio in the succeeding years and will focus on cross selling of the product to the mother Bank. On the other hand, Small Business Loan portfolio expanded by 37.78% in 2020 to P22.72 million from P16.49 million 2019, this is despite of the pandemic. The Bank will continue to expand its secured lending to small business loan borrowers in areas where we are.



RISK MANAGEMENT

RISK MANAGEMENT CULTURE AND PHILOSOPHY

Legazpi Savings Bank aims to provide retail financial products and services that promotes financial inclusion, sustainability, and value for all its stakeholders. As the bank take this journey, risk management will be an important aspect of its business. The Bank's philosophy includes the following:

1. Risk standards aligned with internationally-accepted principles, practices and regulations in the Bank's day-to-day administration of performance and risk management;

2. Proactive exposure management using prudent risk-taking activities which serves as its foundation of sustainable growth, sound capitalization and profitability

3. Commitment to create a risk-awareness culture within the organization by instituting and upholding the highest standards of professionalism, work ethics and integrity among its employees, highlighting the utmost value of risk process, establishing a solid internal control framework and promoting the effective utilization of its capital investments.

The Bank's risk management is headed by a Chief Risk Officer responsible for overseeing the risk management function and is complemented by a team of risk management personnel assigned for each risk areas. The team ensures that risk governance and control framework. policies and practices are in place. The CRO directly reports to the Risk Oversight Committee for guidance and direction.

The responsibility of risk management rests upon the respective Senior Management and Board Level committees authorized by the Board of Directors to establish the Bank's risk management strategy.

RISK APPETITE STATEMENT

"To contribute a Return on Equity acceptable to the shareholders and at par with the industry by generating earning assets, deposits and fee-based transactions, expanding Bank's reached to other regions, improving profitability and asset quality through prudent deployment of capital while consistently complying with regulatory requirements" Notwithstanding its quest for growth and profitability, the Bank would like to maintain a CAR more than or equal to the regulatory requirement. This is to ensure that capital would still be sufficient to meet future regulatory requirements.

CREDIT RISK

As LSB continues to build its portfolio, it still takes utmost importance to credit quality, capital preservation and profitability. LSB's focus is on highly retail loans mostly catering to the countryside and market not captured by the Parent Bank. Ultimately, every loan or investment decision is driven by its culture of prudence, conservatism, active management, excellent due diligence process, which was instilled by its Parent Bank. LSB's strategies which impacts credit risk management are as follows:

1. Lending or investing on stable and seasoned companies that are owned or managed by professionals and entrepreneurs;
2. Ensuring that every loan will provide optimal return for the stakeholders;
3. Focusing on banner products such as DepEd loans, Microfinance loans and Housing Loans;
4. Preserving asset or capital through low risk, adequate collateral or securities loans;
5. Expanding reach through deliberate but steady organic growth of the loans; and
6. Seeking for excellent opportunities for loan portfolio growth by not hesitating to take advantage of acquiring other banks or financial institutions (FI's).

The Bank's approach to credit or investment is generally straightforward, that there is no substitute for a sound credit due diligence. Loans and/or investments shall be pursued not based solely on the yield but rather on the viability and stability of a borrower's cash flows. Finally, LSB's credit philosophy of asset growth and capital preservation and its credit culture of prudence and conservatism instituted through the strong oversight of its Parent Bank which stems from the long banking experience of its shareholders.

The Board of Directors, Risk Oversight Committee, EXCOM, Credit Committee, Consumer Credit Committee, Credit Cycle Department, Financial Reporting Department, Risk Management Unit are the stakeholders who have relevant roles in the implementation of credit risk management of the Bank.

Credit Risk Mitigation, Control and Reporting

The responsibility of credit management rests upon the following:

The Bank employs the following credit risk mitigation practices:

- Employing risk acceptance criteria that will serve as guide in granting loan applications
- Limit setting for the amount of credit risk taking activities and exposures are monitored to ensure adherence to such credit limits
- Observing regulatory limits such as single borrower's limit (SBL), large exposures, and directors, officers, stockholders and related interests (DOSRI) ceilings, among others. These exposures are likewise reported to the ROC and the BOD.
- Performing portfolio quality reviews to determine performance of the portfolio along with their causes and consequences, allowing the recommendation of appropriate action plans.
- Utilizing credit scoring models embedded in the bank's loan origination systems and Internal Credit

Risk Rating System (ICRRS) for SBL/SME and commercial loans

- Monitoring past due and non-performing loan (NPL) ratios to measure the quality of the loan portfolio.
- Calculating Expected Credit Loss (ECL), relative to the implementation of IFRS 9, to assess the appropriateness of loan loss provisions and determination of risk profile of each customer loan accounts.

CREDIT CONCENTRATION RISK

Concentration Risk is the risk faced by the Bank when a number of counterparties are engaged in similar activities or business industries, activities in the same geographic region, or have similar economic features.

As of December 31, 2020, the Bank has a total loan portfolio of Php1.784Bn (inclusive of the Php98.76Mn residential real estate loan to individual household for occupancy). Among the industries, borrowers from Personal Consumption have the biggest exposures amounting to Php1.31Bn or 73% of the total loan portfolio, due to the Bank's focus on highly retail loans. This is followed by wholesale and retail with Php196.75Mn or 11% and agricultural, hunting and forestry with Php49.65Mn or 3%.

As of December 31, 2020, based on the Sectoral Concentration Index (SCI) used in computing for the Industry Concentration risk, the Bank needs to provide additional capital charge since the calculated SCI is already at 55%, which is within the 25 to 100 range wherein the multiplier is 0.08. This means that the Bank has risk concentration on Personal Consumption industry portfolio and there is a need to set up additional capital charge of Php16.85Mn to cover the risk.

Also, based on the Individual Concentration Index (ICI) metric used in computing for the top borrower's concentration risk, it shows that there is a need for the Bank to make an additional capital charge of Php3.97Million. This is because the resulting ICI of 0.15 is within the range of 0.1 to 0.2 which has 0.02 multiplier based on the above formula. Again, multiplying it from the total credit risk weighted assets, based on Bank's CAR report dated September 30, 2020, would result to credit concentration RWA of Php198.70Million and 10% additional capital charge would be Php29.87 Million. However, on December 2020, computed ICI only resulted to 0.10 thus, no additional charge was made on even date.

The Board of Directors, Risk Oversight Committee, Credit Committee, Financial Reporting Department and Risk Management Unit are the stakeholders who have relevant roles in the implementation of credit risk management of the Bank.

OPERATIONAL RISK

The Bank's philosophy of operational risk management, as adopted from its Parent Bank for consistency of implementation, has its foundation in the concept that taking risks is required in order to seek rewards and to fulfill the company's vision and mission. The Bank also acknowledges that operational risks, which are present in all phases and levels of every business undertaking, should be identified and assessed in order to ensure that effective mitigation strategies are employed to the greatest extent possible.

The Bank adopts the definition of operational risk as provided in BSP Circular 900 (Guidelines on Operational Risk Management), to wit; "Operational risk refers to the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events. This includes legal risk, but excludes strategic and reputational risks."

The Bank further acknowledges that "operational risk is inherent in all activities, products and services, and cuts across multiple activities and business lines within the financial institution and across the different entities in a banking group or conglomerate where the financial institution belongs."

The Board of Directors through the Risk Oversight Committee, Business and Service Units, Risk Management Unit, Compliance Unit and Internal Audit are the stakeholders who have relevant roles iin the implementation of operational risk management of the Bank.

As the Bank implements the enterprise-wide approach in risk management, it has designed a framework wherein everybody in the organization is aware, not just of the presence of operational risk in every process and function, but more importantly, of their respective roles in managing it. The Bank implements the three (3) lines of defense model in managing operational risk:

1. The first line of defense rests with the business lines which are responsible on day-to-day risk management. Part of this role is ensuring that internal controls are strictly observed and practices within their business lines are consistent with the enterprise-wide policies and procedures. Further, senior management is responsible for the implementation and consistent adherence by all personnel to the operational risk management framework.

2. The second line of defense comes from the operational risk management and compliance testing functions which are both independent of business operations. The Operational Risk Management Department oversees the implementation of ORM framework by designing risk assessment methodology and tools, coordinating risk management activities across the organization, and consolidating and reporting risk information/reports to the Board, thru the Risk

Oversight Committee, and Senior Management. On the other hand, the Compliance Group conducts an independent assessment of the Bank's compliance with relevant laws, rules and regulations, as well as internal policies to determine areas that may potentially result in losses due to non-compliance.

3. The third line of defense is the internal audit function which provides independent assessments of the adequacy and effectiveness of the overall risk management framework and governance structures. This function reports directly to the Board thru the Audit Committee.

Overall, the Bank endeavors to establish an operational risk culture which promotes disciplined risk-taking and creates shareholder value through resources efficiency, loss reduction, increased revenues and lower regulatory capital.

The Bank further acknowledges that "operational risk is inherent in all activities, products and services, and cuts across multiple activities and business lines within the financial institution and across the different entities in a banking group or conglomerate where the financial institution belongs."

The Bank uses the same operational risk management tools with the Parent Bank in identifying and assessing its operational risk exposures. The levels of operational risk exposure of the varous units of the Bank are captured by the following operational risk management tools which are all anchored from the Parent Bank:

- Results of internal/external audit and supervisory issues raised in the BSP Report of examination (ROE)
- Process Mapping
- Risk & Control Self-Assessment (RCSA)
- Business Impact Analysis (BIA)
- Key Risk Indicator (KRI)
- Loss Events Database (LED) and Analysis

The Bank compares the results of the RCSA as against the capital charge for operational risk computed using the Basic Indicator Approach (BIA) in validating the sufficiency of the regulatory capital requirements. Under the BIA, the Bank must hold capital for operational risk equal to 15% of the average gross income over the previous three years of positive annual gross income.

The 2020 RCSA exercise yielded net loss exposure of Php35.42 million. When compared to the operational risk capital charge for 2020 of Php44.77 million derived through the BIA approache, this would result in a variance or Php9.37 million or by 20.88%. Based on this result of the RCSA exercise, the Bank believes that the capital set aside for operational risk as per BIA is sufficient to cover for operational risk losses.

The Information Technology & Information Security Risk is also included/embodied in the limits of Operational Risk.

MARKET RISK

Market risk refers to changes in the value of financial instruments held by the Bank due to unpredictable fluctuations in prices of traded assets and commodities as well as fluctuations in interest and exchange rates and other market indices which affect either earnings or capital.

Specifically, LSB's market risk is composed only of interest rate risk, equity price and other commodity price risk. LSB's exposures to market risk as of December 31, 2020 is almost NIL since most of its investments, loans and deposit products has fixed rates and impact of the interest rate risk is further assessed using the Interest Rate Risk in the Banking Book (IRRBB) and investments were all classified and booked as Held-to-Collect (HTC) securities, thus only minimal impact to market risk is assumed.

The Board of Directors through the Risk Oversight Committee, Treasury, Retail Banking Group, Financial Reporting Department and Risk Management Unit are the stakeholders who have relevant roles in the implementation of market risk management of the Bank.

INTEREST RATE RISK IN THE BANKING BOOK

Interest rate risk is a form of market risk but it has a multi-dimensional nature involving the movements of rates across yield curves (term structures) of one or more instruments. Specifically, for the Bank's banking book, the lending activities, taking deposits with different maturities and interest rates, and investing in a portfolio of fixed income securities, exposes the Bank to interest rate risk. This risk may affect the recognition and/or accrual of interest income and expense.

The repricing gap analysis is the Bank's initial step in assessing its capital requirement to cover for its interest rate risk. The Bank recognizes that changes in interest rates can have adverse effects both on its earnings and economic value. As of December 31, 2020, the Bank's IRRBB risk-weighted assets and capital charge for interest rate risk in the banking book amounts to Php45.54 Mn and Php4.55 Mn, respectively.

The Bank likewise utilizes the Earnings-at-Risk methodology in assessing the capital requirement of its interest rate risk exposure. Earnings-at-Risk (EaR) of the Bank is an estimate of the annualized maximum change in net interest income given a specified holding period for a particular time band's repricing gap, with a corresponding probability of occurrence in a normal market environment. On a monthly basis, the RMC is apprised of the Bank's balance sheet structure, analysis of its current and projected repricing mismatches, and potential loss on net interest income (EAR). Gap

The Board of Directors through the Risk Oversight Committee, Treasury, Retail Banking Group, Financial Reporting Department and Risk Management Unit are the stakeholders who have relevant roles in the implementation of IRRBB risk management of the Bank.

LIQUIDITY RISK

Liquidity risk is defined by the Bank as the current and prospective risk to earnings or capital arising from the Bank's inability to meet its obligations when they come due without incurring unacceptable losses. It includes the inability to manage unplanned decreases or changes in funding sources. It also arises from the failure to recognize or address changes in market conditions that affect the ability to liquidate assets quickly and with minimal loss in value.

The uses the maximum cumulative outflow (MCO) as a tool to measure liquidity gaps of maturing assets and liabilities. The Bank's appetite for liquidity risk is measured through the limits set for each book/fund vehicle, and for each liquidity target. Liquidity risk limits approved for 2020 is at Maximum Cumulative Outflow (MCO) of Php 500Mn. The Senior Management and the Board thru the ROC are kept well informed on the sufficiency of the Bank's funding requirements, likewise breaches in limits are properly identified and reported to Senior Management and ROC. Preventive measures and/or corrective actions are required/taken.

The MCO report as of December 31, 2020 shows that the Bank's liquidity remains at a comfortable level. All books posted positive gaps across all tenors.

The Bank has high volume of liquid assets in the form of cash, Special Deposit Account, government securities in HTC. Php555.88Mn or 36% of the total Php1.56Bn loans and receivables will mature within the next 12 months. These are other liquidity drivers for the Bank and they are assumed to be easily liquefiable in 1 or 2 months.

In compliance to Appendix 71 of Section 145 of the Manual of Regulations for Banks – Guidelines on Liquidity Risk Management. The Bank computes for both Liquidity Coverage Ratios (LCR) and Net Stable Funding Ratios (NSFR) to ensure that the Bank complies to the minimum regulatory requirement.

The Board of Directors through the Risk Oversight Committee, Treasury, Retail Banking Group, Financial Reporting Department and Risk Management Unit are the stakeholders who have relevant roles in the implementation of liquidity risk management of the Bank.

COMPLIANCE RISK

BSP Circular No. 972 provides that the Bank should establish a dynamic and responsive compliance risk management system which is designed to specifically identify and mitigate risks that may erode the franchise value of the Bank such as risks of legal or regulatory sanctions, material financial loss or loss to reputation, the Bank may suffer as a result of its failure to comply with laws, rules and related self-regulatory organization standards, and codes of conduct applicable to its activities.

Compliance risk may also arise from failure to manage conflict of interest, treat customers fairly, or effectively manage risks arising from money laundering and terrorist financing activities. Compliance risk management should be an integral part of the culture and risk governance framework of the Bank. In this respect, it shall be the responsibility and shared accountability of all personnel, officers, and the board of director

The Bank's Risk Assessment process is covered in its Compliance Program, approved by the Board of Directors. The main procedures performed are summarized as follows:

• Identification. The Bank identified all historical risk events from all of the Bank's business units. In addition, it identified other business risks and their sources.

• Measurement. The Bank analyzed the level of risk associated for each risk event. The level of risk has been determined using both quantitative and qualitative measures. Quantitative measures refer to loss amounts determined to be the consequence of non-compliance. In cases where data is inadequate, qualitative measures had been used.

• Mitigation and Control. Based on the identified risks, Senior Management takes corrective actions in order to maintain the level of risk exposures within the tolerance level. Mitigants are in place in order to control the risk exposures.

• Monitoring. Senior Management with the assistance of Compliance Group monitors the Bank's exposure to business risks and determines whether the said exposure is still within the level of risk that management is willing to take.

Based on the identified and quantified business risks, the Bank conducted stress testing based on severe but plausible scenarios e.g., non-compliance with all the identified risk events and losing all legal cases filed against the Bank. The Bank assumes a yearly capital charge growth rate of 20%. As of December 31, 2020, Bank's total risk weighted assets for Compliance Risk is Php38.35 Mn.

The Board of Directors, Corporate Governance Committee, Business and Service Units, Compliance Unit, Financial Reporting Department and Internal Audit are the stakeholders who have relevant roles in the implementation of market risk management of the Bank.

STRATEGIC RISK

The Bank identified the external risk, disruptions in the economy, as the strategic risk which may hinder the Bank from executing the initiatives set to achieve the financial projection. The Bank utilizes the full range of available macroeconomic data and tools to measure the likelihood and its impact to the Bank's general business.

The Board of Directors, Senior Management, Risk Management Unit and Internal Audit are the stakeholders who have relevant roles in the implementation of market risk management of the Bank.

This procedure assesses and evaluates the impact of economic uncertainties to the Bank's capital adequacy. Advanced quantitative and qualitative techniques are used in the process to identify the risk factors involved and to prepare internal models for the different scenarios and arrive at the required capital level.

The strategic risk management is an integral part in the strategy setting, strategy execution, and strategic management procedures of the Bank to achieve its objectives. Methodologies were put in place for the Bank's risk assessment. In this process, to be able to develop a sufficient model, the Bank needs to identify the hazards and the risk factors that may potentially impact the Bank's capital adequacy. The model covers both the quantitative and qualitative data collection in order to cover the non-quantifiable risk aspects.

A comprehensive review of the forward-looking economic prospects of the international, regional, and domestic financial institutions was made to analyze and evaluate the potential risks associated with the operations of the Bank. This resulted to the identification of key macro-economic variables that was used in the model to test the capital adequacy of the Bank in the different scenarios identified.

The risk assessment methodology provides the Bank initial effective strategic risk mitigation process. Measures of certain financial and non-financial indicators support the Senior Management and RMU in evaluating the Bank's growth. These also provide guidance to the Board on how to proceed with the Bank's strategies, either to implement strategic adjustments or put to end to certain strategic initiatives.

As an additional measure, a more extensive channel for risk mitigation has been implemented by the Bank. Every six months or as necessary, the Senior Management together with the Board gets to review the Bank's overall strategy and risk appetite as to their materiality. Collectively, decisions are made relevant to the Bank's financial performance should developments in strategic initiatives are necessary. This meeting is used as a venue to provide a more extensive discussion and decision-making processes where financial metrics are discussed under long-term goal setting. These updates in strategic direction, depending on the management and the Board, may then be affected.

A scenario planning exercise was carried out adapting the macroeconomic risk factors identified in the Risk Assessment process. The historical data of these variables were collected from the earliest to the latest data available. The economic cycles of the Philippines have been tested and measured. Likewise, the global and domestic headwinds that led to the downturns in the economy were identified. The impact of each macroeconomic variable is tested against the bust in the economy, with adjustments due to seasonality.

CAPITAL MANAGEMENT AND ADEQUACY

Below are the risk-based capital components, including regulatory deductions of Legazpi Savings Bank:

Qualifying Capital (in Php Millions)	2020	2019
Tier 1 Capital		
Paid-up Common Stock	1,245.96	1,245.96
Additional Paid-In Capital	-	-
Deposit for Common Stock Subscription	-	-
Retained Earnings	(574.48)	(695.61)
Undivided Profits	2.13	41.23
Net Unrealized Gains or Losses on AFS Securities	-	-
Cumulative Foreign Currency Translation	-	-
Others	11.93	10.20
Minority Interest	-	-
Less: Regulatory Adjustments		
DOSRI	(0.35)	(0.49)
Deferred Income Tax	(111.75)	(26.46)
Goodwill	-	-
Other Intangible Assets	(2.34)	(1.93)
Investment in Subsidiary	-	-
Total Common Equity Tier 1 Capital	**571.10**	**572.90**
Additional Tier 1 Capital	-	-
Instruments issued by the Bank eligible as Capital	-	-
Total Tier 1 Capital	**571.10**	**572.90**
Less: Investment in Subsidiary - 50%	-	-
Net Tier 1 Capital	**571.10**	**572.90**
Tier 2 Capital		
Redeemable Preferred Stock	-	-
General Loan Loss Provision (GLLP)	22.17	15.44
Unrealized Gain AFS Equity Securities	-	-
Total Tier 2 Capital	**22.17**	**15.44**
Less: Investments in equity of unconsolidated subsidiary banks and quasi banks, and other financial allied undertakings - 50%	-	-
Net Tier 2 Capital	**22.17**	**15.44**
Total Gross Qualifying Capital	**593.27**	**588.34**
Less: Total Investment in Subsidiary	-	-
TOTAL QUALIFYING CAPITAL	**593.27**	**588.34**

Risk-based Capital Ratios:

Qualifying Capital (in Php Millions)	2020	2019
Tier 1 Capital	**571.10**	**572.90**
Common Equity Tier 1	571.10	572.90
Additional Tier 1 Capital	-	-
Tier 2 Capital	**22.17**	**15.44**
Gross Qualifying Capital	**593.27**	**588.34**
Less: Required Deductions	-	-
TOTAL GROSS QUALIFYING CAPITAL	**593.27**	**588.34**
RISK WEIGHTED ASSETS	**2,590.16**	**2,386.39**
Common Equity Tier 1 Ratio	**22.05%**	**24.01%**
Capital Conservation Buffer	**16.05%**	**18.01%**
Tier 1 Capital Ratio	**22.05%**	**24.01%**
Capital Adequacy Ratio	**22.90%**	**24.65%**

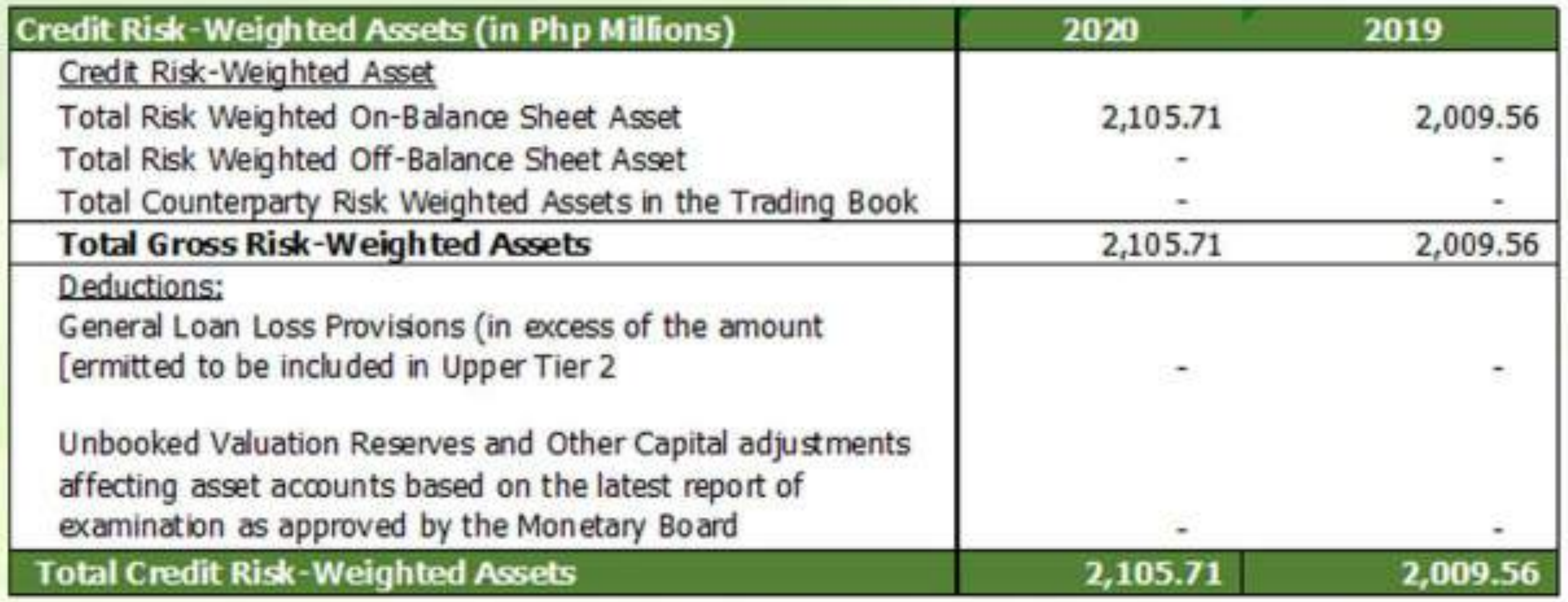
The capital requirements for Credit, Market and Operational Risks are provided below:

Capital Requirement (RWAs)	2019		2020	
In Php Millions	Risk Weighted Assets	Capital Charge	Risk Weighted Assets	Capital Charge
Credit Risk	2,009.56	200.96	2,105.71	210.57
Market Risk	-	-	-	-
Operational Risk	376.82	37.68	484.45	48.44
Total Capital Requirements	**2,386.39**	**238.64**	**2,590.16**	**259.02**

CAPITAL MANAGEMENT AND ADEQUACY

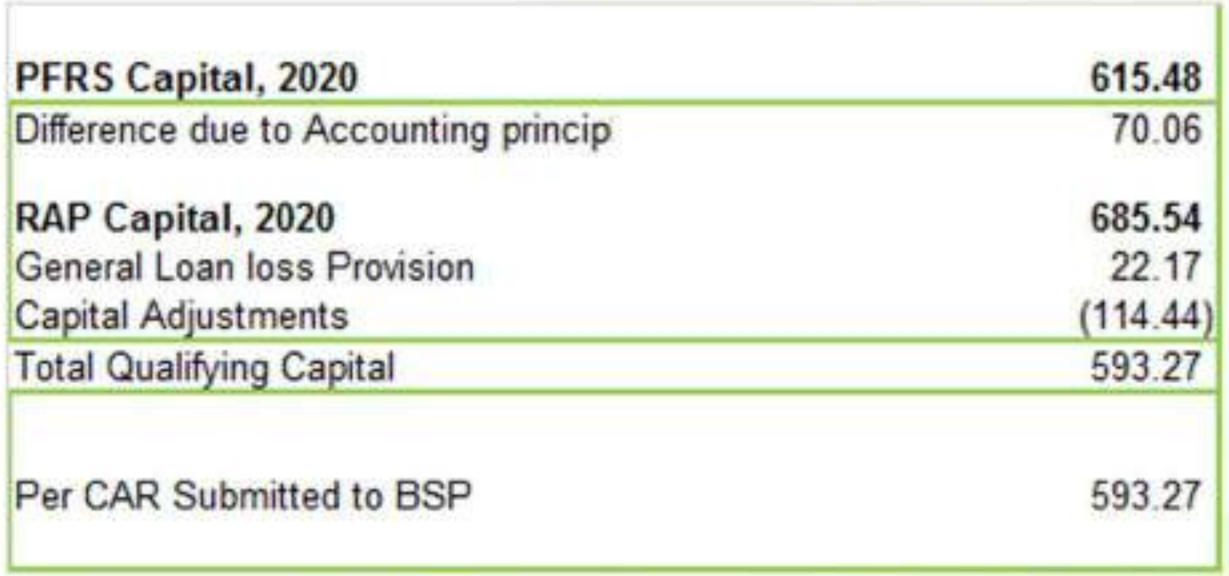
CREDIT RISK

The Bank uses the Standardized Approach in computing its exposure to credit risk. Credit Risk-Weighted Asset (CRWA) is an important risk measure of the Bank, primarily because it is used to determine the Bank's minimum capital requirement for credit risk is defined as 10% of CRWA. The table below summarizes the result of the risk quantification and capital assessment of the Bank's credit risk using the standardized approach.



Credit Risk-Weighted Assets (in Php Millions)	2020	2019
Credit Risk-Weighted Asset		
Total Risk Weighted On-Balance Sheet Asset	2,105.71	2,009.56
Total Risk Weighted Off-Balance Sheet Asset	-	-
Total Counterparty Risk Weighted Assets in the Trading Book	-	-
Total Gross Risk-Weighted Assets	2,105.71	2,009.56
Deductions:		
General Loan Loss Provisions (in excess of the amount [ermitted to be included in Upper Tier 2	-	-
Unbooked Valuation Reserves and Other Capital adjustments affecting asset accounts based on the latest report of examination as approved by the Monetary Board	-	-
Total Credit Risk-Weighted Assets	**2,105.71**	**2,009.56**

Reconcilliation between the Philippine Financial Reporting Standards (PFRS) capital under Philippine Regulatory Principles and Qualified Capital for Minimum Adequacy under Base III are as follows (in Php Million):



PFRS Capital, 2020	**615.48**
Difference due to Accounting princip	70.06
RAP Capital, 2020	**685.54**
General Loan loss Provision	22.17
Capital Adjustments	(114.44)
Total Qualifying Capital	593.27
Per CAR Submitted to BSP	593.27

CREDIT RISK WEIGHTED ASSETS

Corporate Social Responsibility

ACCOMPLISHMENTS FOR THE YEAR 2020

Responding to Community

Hatod Tabang-Bikolano: Relief Operations

Last November 2020, Bicol Region was barrelled by Super Typhoon Rolly. Week after that, comes another strong typhoon named Ulysses. As a respond to the affected communities, a relief operation was launched in partnership with the Gokongwei Brothers Foundation, Inc., Robinsons Bank Corp., Legazpi Savings Bank, Inc. and Premium Bikes, Inc. Relief Packs were donated to Municipalities of Polangui, Guinobatan, Daraga, Tabaco City, Legazpi City and Albay District. These were all made possible in coordination with 2nd District of Albay Representative, Congressman Joey Sarte S. Salceda, Ang Probinsyano Partylist and the mentioned LGUs. A total of 3,500 relief packs which includes assorted foods and hygiene items were distributed to the communities.

Social Amelioration Program Pay-out

On 24 March 2020, the Philippine congress passed Republic Act 11649 or "An Act Declaring the Existence of a National Emergency Arising from the coronavirus disease 2019 (COVID-19), otherwise known as the "Bayanihan Heal as One Act." The law mandated the executive branch **to provide an emergency subsidy** of between Php5,000 to Php8,000 pesos per month and **to distribute to around 18 million low income households for two months.**

Robinsons Bank was selected as one of the six financial service providers to disburse the emergency subsidy under the second tranche of the government's Social Amelioration Program (SAP). Among the areas assigned to RBank was Albay in the Bicol region. Poverty incidence in Albay in 2018 is 21.2%, with an annual per capita of near-poverty threshold at Php24,902.

Albay province, assigned to RBank is mostly mountainous, with scattered plains and valleys. Transportation within the Albay province is very limited, partly because of the terrain, making some municipalities remote and inaccessible. Target DSWD beneficiary population, those living below or within poverty line, have low mobile ownership. Low mobile ownership ruled out digital banking, and in addition to the challenges in accessing bank branches because of the remote locations of the municipalities RBank was assigned to, **the DSWD Field Office then decided to conduct community-based face-to-face SAP payouts.**

To ensure better service in Bicol region, Robinsons Bank collaborated with Legazpi Savings Bank (LSB) to execute the face-to-face distribution of SAP to around 60,000 beneficiaries. LSB, with Legazpi, Albay as its headquarters has 13 branches servicing the Bicol region.

To facilitate the flow of the disbursement, with the goal of being able to distribute in a short span of time, **thirteen (13) payout sites were deployed around Albay, covering even the remote areas.** The site identification and preparation was done by the Legazpi Savings Bank (LSB) team in close coordination with the DSWD Field Office, the local city government and the local police. The sites were situated in municipal halls or covered courts. Assisting LSB in each site were 10 to 12 DSWD representatives and LGU volunteers were there and served as verifiers and cashiers while the local police ensured peace, order and physical distancing during the payout. Physical barriers were set up to ensure physical distancing, as a prevention measure against the spread of Covid-19.

order and physical distancing during the payout. Physical barriers were set up to ensure physical distancing, as a prevention measure against the spread of Covid-19.

With these efforts, SAP beneficiaries from Albay received their ayuda in a safe and timely manner, and in locations that were very convenient for them.

LSB, in partnership with RBank received a citation/commendation from DSWD-FO5 last March 26, 2021 during its 70th Anniversary Celebration as partner in the SAP distribution.

We Care for our fellow Frontliners

PPE Donation

Legazpi Savings Bank (LSB) values the sacrifices and dedications of our medical frontline professionals. As we care for their safety in facing the health crisis, LSB in partnership with Gokongwei Brothers Foundation, Inc. donated personal protective equipments (PPEs) for our health care frontliners. These PPEs includes hair cap, goggles, mask, and face shield, laboratory gowns, gloves and shoe covers. Over 104 PPEs were distributed to hospital beneficiaries such as Bicol Regional Training and Teaching Hospital and Bicol Medical Center in Legazpi City, Albay.

In March 2020, Gokongwei Group allotted P100 million Fund to help fight the impact of COVID19-Pandemic in the country.

2K Rewards Points

In communal spirit and taking in mind the Covid 19 pandemic, the Gokongwei Brothers Foundation initiated a 2k rewards program with its chosen beneficiaries, Multi Modal Unlimited Skills Corp. (MUSCO) and Work With Us agencies, wherein Third Party Employees deployed at Legazpi Savings Bank can avail grocery items worth Php2,000 with any JG Subisidiries. MUSCO and Work With Us are the 3rd party suppliers of agents dedicated to work along with JG Summit Employees under Legazpi Savings Bank and Robinsons Bank's employees.

This Corporate Social Responsibility activity bolsters Gokongwei Brothers Foundation's commitment in helping and uplifting the lives of those who are in need especially given the difficulty brought about by the Covid 19 pandemic. Gokongwei Brothers Foundation, through its various subsidiaries, strives its best that it shall stand with its corporate ideals in the service of the Filipino people.

Sending our sincerest thank you from Legazpi Savings and our Third Party Employee. ☺

A Future-Proof Banking Technology

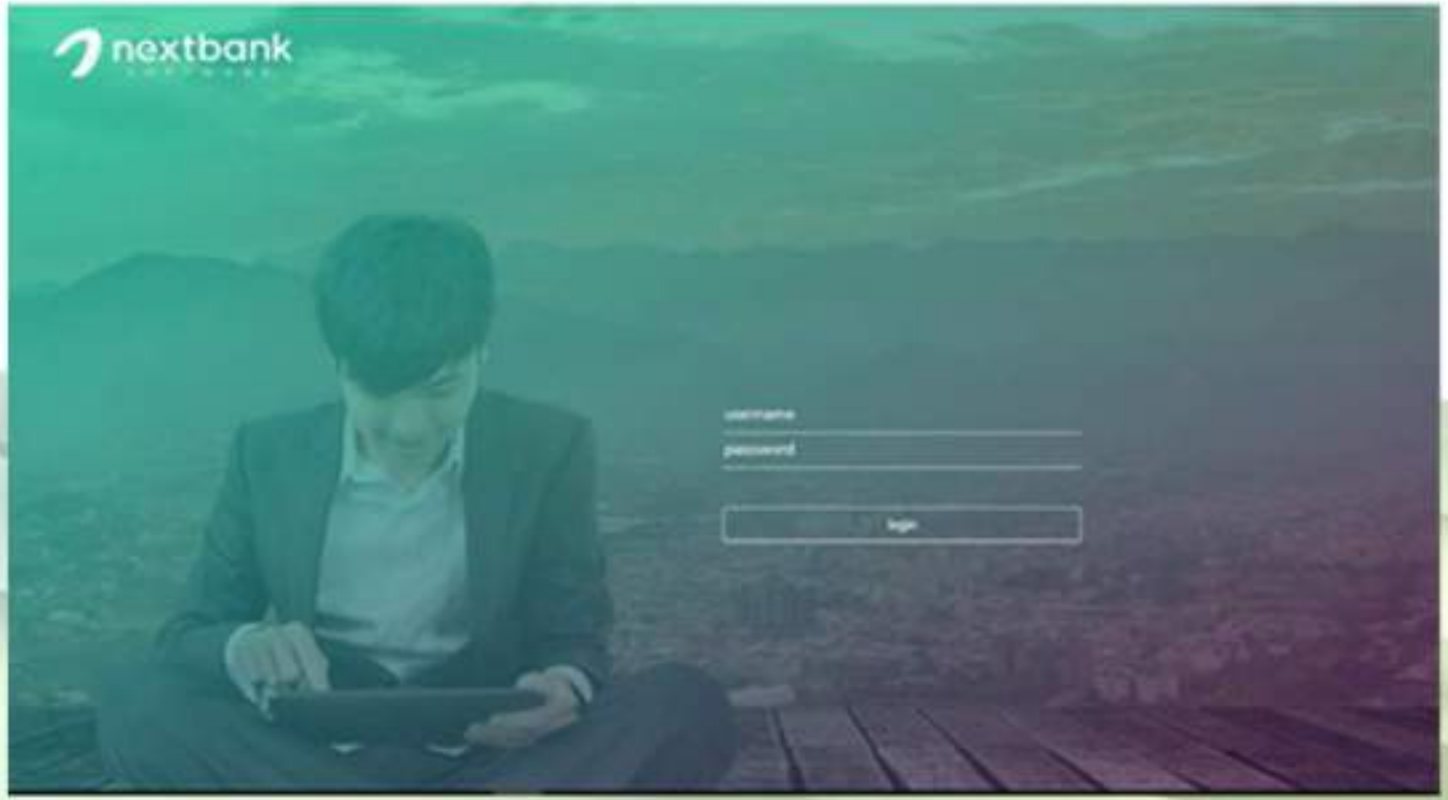
Cloud banking has become an essential lifeline, regardless of time and place, during the uncertainties brought by the COVID-19 pandemic. This has made various transactions more efficient by a tap-and-go approach readily available with the internet.

To provide a more robust and automated core banking system and a new and improved digital platform accessible to its partners, the Nextbank Cloud Core Banking System was introduced and implemented in 2020 despite the challenges presented by the COVID-19 pandemic to the global economy.

We are strengthening the trust and relationship with our customers and expanding what Nextbank can offer.

The Nextbank Cloud Core Banking System is offering continuity of service through its seamless transition of its entire cloud support group to a work from home environment. At the same time, it is continuously reducing the time to resolve any issues experienced by our partners and providing immediate responses to partners' inquiries and requests. In addition to what we normally do, we are helping employees become more agile at their own comfort by allowing them to work remotely during these times of crisis.

Our cloud operations team enjoyed a very successful year by continuing to make progress on the journey towards boosting digitalization and becoming a better bank through the Nextbank Cloud Core Banking System.



BOARD OF DIRECTORS

(On this page from left to right)
MYKEL D. ABAD – Director, ELFREN ANTONIO S. SARTE – Vice Chairman, OMAR BYRON T. MIER – Chairman, and ANGELITO V. EVANGELISTA – Director.

(On this page from left to right)
HERMOGENES S. ROXAS – Independent Director, ROBERTO S. GAERLAN – Independent Director, ERIC B. SANTOS – Director, ANDRO M. YEE – Director, and VICTOR V. LAYNES – Independent Director

**All directors have nominal shares of one (1) unit of the Bank's Stockholdings.*

BOARD OF DIRECTOR’S PROFILE

OMAR BYRON T. MIER
Chairman, Filipino,
73 years old

He is the Chairman of the Board of Directors of the Bank. He is also a member of its Audit Committee, Corporate Governance Committee, and Risk Oversight Committee. He was appointed as a Director of the Parent Bank (RBC) in 2015, and he also serves as a member of its IT Steering Committee, Risk Oversight Committee and an alternate member of its Executive Committee. He also serves as an independent director of RCBC Leasing and Finance Corporation (since 2018) and Paymaya Corp. where he also sits as the chairman and member of its Audit Committee and of its Risk and Compliance Committee, respectively, since 2016. Before joining RBC, he holds around four (4) decades of experience in the banking industry, including Citibank N.A., where he served as Country Risk Manager in Manila (1983 to 1985), Public Sector Group Head (1985 to 1987), Country Risk Officer in Malaysia (1992 to 1995), Head of Risk Management Group and World Corporate Group Head (1992 to 1995); Deutsche Bank, as Deputy General Manager and Corporate Banking Head (1995 to 2002); and Philippine National Bank (2005 to 2014), where he held various senior positions the last of which as President and Chief Executive Officer (CEO). He has a Bachelor of Science degree in Business Administration Major in Accounting, Bachelor of Arts degree in Economics, and Master of Arts in Economics from University of the Philippines. He is also a Certified Public Accountant. He has been in the service for five (5) years.

ELFREN ANTONIO S. SARTE
Vice Chairman, Filipino,
61 years old

He is the Vice Chairman of the Board of Directors of the Bank; a Resource Person of its Audit Committee, Corporate Governance Committee, and Risk Oversight Committee; and a Chairman of its Executive Committee. He is the President and CEO of RBC and is a member of its Executive Committee, Risk Management Committee, and IT Steering Committee. He is a director of Bankers Association of the Philippines and the Chairman of its Operations Committee. He is also the Chairman of the Board of Directors of Philippine Clearing House Corporation. Prior to joining the Bank in November 2014, he was the President, Director and CEO of Allied Savings Bank (2013 to 2014); Consumer Finance Group Head (2013) and Head of Consumer Credit and Collection Division (2010 to 2013) of Philippine National Bank; and Head of Consumer Credit Risk Management Division (2006 to 2010), Credit Services Division (1996 to 2006) and Credit Investigation and Appraisal Division (1995 to 1996) of Union Bank of the Philippines. He was also a Manager at the Credit Information Bureau (1983 to 1985). He has a Bachelor of Science degree in Industrial Management Engineering minor in Mechanical Engineering from the De La Salle University. He has been in the service for six (6) years.

MYKEL D. ABAD
President/Director,
Filipino, 52 years old

He is the President and Director of the Board of Directors of the Bank; a member of its Executive Committee and IT Steering Committee; and Chairman of its Credit Committee. He is the Executive Vice President of RBC. Prior to becoming LSB's President, he has held senior management positions in UCPB, International Bank Exchange, and Robinsons Savings Bank. He finished his Bachelor of Science degree in Statistics from the University of the Philippines and he has a Masters degree in Applied Business Economics from the University of Asia and the Pacific. He has attended numerous trainings abroad such as the Youth Marketing Seminar conducted in Kuala Lumpur Malaysia and ICAAP Master Class and Asset Liability Management seminars, both of which were conducted in Singapore. He also underwent extensive trainings on anti-money laundering, corporate governance, treasury operations, and risk management. He has also completed the Executive Development Program of JG Summit, conducted by visiting professors from Harvard and INSEAD among others. He has been in the service for seven (7) years.

ANGELITO V. EVANGELISTA
Director, Filipino,
69 years old

He is the Director of the Board of Directors of the Bank and a member of its Audit Committee, Corporate Governance Committee, and Risk Oversight Committee. He is also the Executive Vice President, and the RBC's Chief Operating Officer until September 30, 2019. Currently, he is a consultant of the RBC. He has been in the banking industry for more than forty-five (45) years. He started his career with Bank of Asia, which later became Insular Bank of Asia and America (IBAA) and has held senior management positions in PCIBANK and PCI Savings Bank. He was part of the original team that organized Robinsons Savings Bank Corporation in 1997. He was a former Independent Director of Meycauayan College and was previously a Director of Bancnet where he currently sits as Bancnet's OPSCOM adviser. He graduated from the University of the East where he earned his Bachelor of Science degree in Business Administration, Major in Accounting. He also has a Masters degree in Business Administration from the University of the Philippines Diliman. Over the years, he has attended numerous trainings and seminars conducted in the Philippines and abroad such as the ATM Debit & Prepaid Forum held in Las Vegas, Nevada, U.S.A. and the Bank Administration Institute's (BAI) Retail Delivery Conference in Boston, Massachusetts, U.S.A, among others. He is also a Certified Public Accountant. He has been in the service for seven (7) years.

BOARD OF DIRECTOR'S PROFILE

ERIC B. SANTOS
Director, Filipino,
61 years old

Director of Legazpi Savings Bank, resource person of Risk Oversight Committee, member of Executive Committee & Credit Committee. He has been with the banking industry for over 40 years and has held senior management positions in various banks such as United Coconut Planters Bank (UCPB), UCPB Savings Bank, Planters Development Bank and Premiere Development Bank prior to joining the Bank in 2012 as Chief Credit Officer. He graduated from the Polytechnic University of the Philippines (PUP) with a degree of Bachelors of Science in Accountancy. He has attended extensive trainings on corporate governance, risk management, anti-money laundering, leadership, credit, and equity and debt financing. He has been in the service for four (4) years.

ANDRO M. YEE
Director, Filipino,
56 years old

He is the Director of Board of Directors of the Bank. He is also the Executive Vice President, and is the Bank's Chief Financial Officer of RBC. He joined RBC in 1997 and became the Bank's Compliance Officer (concurrent Chief Audit Executive) (1997-2009), Chief Audit Executive (2009-2010), and Controller (2010-2013). He also sat as a Director of Bancnet, Inc. (2009-2011). He was also the head of the Bank's Community Banking Group (2013-2018) that spearheaded RBC's effort to offer financially inclusive products (i.e., Microfinance and Motorcycle Loans) to the unbanked and underbanked sector of the society in the country. Over the years, he has had numerous trainings and seminars on anti- money laundering, compliance, corporate governance, internal auditing, trust operations and investment management, IT security, corporate fraud control, and risk based audit. He earned his Bachelor of Science degree in Business Administration, Major in Accounting, from the University of the Philippines in the Visayas. He is also a Certified Public Accountant. He has been in the service for two (2) years.

HERMOGENES S. ROXAS
Independent Director,
Filipino, 68 years old

He is the Independent Director of the Bank; Chairman of its Audit Committee; Vice Chairman of its Corporate Governance Committee; and member of its Risk Oversight Committee. He is also the Chairman of the RBC's IT Steering Committee and a Vice-Chairman of its RPT Committee. He has more than three (3) decades of experience in banking and has held various senior positions at Commercial Banking & Trust Company and United Coconut Planters Bank and its subsidiaries. He was also the President of UCPB Savings Bank; a Director at UCPB Leasing & Finance Corp., UCPB Foreign Exchange Corp., UCPB Capital Corp., UCPB Rural Bank, and UCPB Securities Inc. He has a Bachelor of Science degree in Business Administration from the University of the Philippines. He has been in the service for six (6) years.

VICTOR V. LAYNES
Independent Director,
Filipino, 48 years old

He is the Independent Director of the Bank; Vice Chairman of its Audit Committee; member of its Corporate Governance Committee; and Chairman of Risk Oversight Committee and its IT SteeringCommittee. He was also the Independent Director of Vision Bank (Catanduanes) (2007 to 2009). He had banking experiences in Robinsons Savings Bank as IT Head (1997 to 2004); Senior Manager in Export and Industry Bank (1997); and held various positions in Equitable Banking Corporation (1991 to 1997). He has a Bachelor of Science degree in Computer Science from University of the Philippines. He has been in the service for seven (7) years.

BOARD OF DIRECTOR'S PROFILE

ROBERTO S. GAERLAN
Independent Director, Filipino,
67 years old

He is the Independent Director of the Bank; member of its AuditCommittee; Chairman of its Corporate Governance Committee; and Vice Chairman of its Risk Oversight Committee. He is also the Independent Director of RBC, Chairman of its Risk Oversight Committee and Vice-Chairman of its Corporate Governance Committee. His career in banking spans over three (3) decades, working with First United Bank (1973 to 1979) and with United Coconut Planters Bank (1979 to 2003) where he was the Vice President for Branch Banking (2001 to 2003). He graduated with a Bachelor of Arts degree in Economics from the University of Santo Tomas and Advanced Bank Management from the Asian Institute of Management. He has been in the service for three (3) years.

EXECUTIVE OFFICERS

ROMEL D. MENIADO
Chief Operating Officer
47 years old

He is the First Vice President of Robinsons Bank Corporation and seconded to Legazpi Savings Bank as Chief Operating Officer. Before his appointment as COO of LSB, he was RBank's Chief Compliance Officer (2013-2018), Chief Audit Officer & Head of Internal Audit Group (2010-2013) and Assistant Controller (2009-2010). Before joining RBank, he was a former Bank Examiner of the Bangko Sentral ng Pilipinas (1996-2008). He is the Bank's representative to the Bankers Institute of the Philippines and an active member since 2011 i.e, a member and/or chairperson of several committees and became a director in 2016 up to present. He is a Certified Public Accountant and earned his Bachelor of Science in Accountancy from the Polytechnic University of the Philippines in 1995 and completed his Masters in Business Administration at De La Salle University in 2008.

MA. SOCORRO S. LIGANOR
Retail Banking Group Head
61 years old

She is the Head of Legazpi Savings Bank Retail Banking Group which has fourteen (14) full branches and four (4) Branch-Lite She is the Head of Legazpi Savings Bank Retail Banking Group and has oversight over fourteen (14) full branches and four (4) Branch-Lite Units (BLU). As RBG Head she also handles the Customer Experience Department which has under its responsibility: Digital, Marketing and Customer Care. She is a member of the Executive Committee (EXCOM), AMLA , Risk and Corporate Governance Committee, PERCOM , ALCO and Bids Committee. Prior to joining the Bank in 2013, she has various exposures in the banking industry. Bank of America NT & SA (Manila Branch) – 1979 to 1986. Where she held positions from New Accounts, Commercial Banking Group (Foreign Remittance, Cash Departments and Treasury) as well as Private Banking as liaison assistant of its BA-San Francisco Branch-Manila based clients and as an Account Officer of its Manila Branch private banking clients. Account Officer RCBC Head Office who together with Ms Yvonne S. Yuchengco pioneered and launched the RCBC Private Banking Group catering to its High Networth (HNW) clients (1987 – 2000). Customer Care Service Officer at HSBC- HDPP Card handling customer care of HSBC Credit Card. (2006 – 2007) Assistant Vice President HSBC Savings Bank at its Premier Banking Group BF Homes Branch (2007 – 2009) Assistant Vice President Sales Officer Security Bank for its Sucat, ASEANA, Las Pinas and Ayala Alabang Branches (2011 to 2012) She was the Executive Assistant to the Executive Trustee of the Ramon Magsaysay Awards Foundation/Rockefeller Foundation in 1987. She has a Liberal Arts degree in Business Management from the Assumption College. Took Trust Course at the Trust Institute of the Philippines; Insurance Course from the Insurance Services Commission. Advance Bank Management at the AIM in 2013. Units (BLU). As RBG Head she also handles the Customer Experience Department which has under its responsibility: Digital Marketing and Customer Care. She is a member of the Executive Committee (EXCOM), AMLA , Risk, Compliance Committee, PERCOM , ALCO and Bids Committee. Prior to joining the Bank in 2013, she has various exposures in the banking industry. Bank of America NT & SA (Manila Branch) – 1979 to 1986. Where she held positions from New Accounts, Commercial Banking Group (Foreign Remittance, Cash Departments and Treasury) as well as Private Banking as liaison assistant of its BA-San Francisco Manila based clients and as an Account Officer of its Manila Branch private banking clients. Account Officer who together with Ms Yvonne S. Yuchengco pioneered and launched the RCBC Private Banking Group catering to High Networth (HNW) clients (1987 – 2000). Customer Care Service Officer at HSBC- HDPP Card handling customer concerns of HSBC Credit Card. (2006 – 2007) HSBC Savings as Assistant Vice President at its Premier Group BF Homes Branch (2007 – 2009) Security Bank as Assistant Vice President of Sales of its Paranaque, ASEANA, Las Pinas and Ayala Alabang Branches (2011 to 2012). She had a short stint as Executive Assistant to the Executive Trustee of the Ramon Magsaysay Award Foundation (that handled the Ramon Magsaysay Awards in 1987). She has a Liberal Arts degree in Business Management from the Assumption College.Took Trust Course at the Trust Institute of the Philippines; Insurance Course from the Insurance Services Commission. She also took Advance Bank Management at the AIM in 2013.

ERLINDA O. DEL VILLAR
Operations Head
51 years old

She is currently the Head of Operations which handles the following units/departments:

(1)Controllership
(2)Loans & Discount Unit
(3)Cash Management Unit
(4) ATM Center Unit
(5) Systems and Methods Unit.

She is a member of the Management Committee (MANCOM), Acquired Assets and Disposal Committee, ALCO, AMLC, Bid Committee, CEC, PERCOM and ITSC.

She joined the Bank in 1998 as Control Officer and climbed the corporate ladder to Supervising Accountant, Controller and as Operations Head. Prior to joining LSB, she worked at Westbank as Branch Accountant.

She graduated with a Degree of Bachelor of Science in Business Administration Major in Accounting from Aquinas University of Legazpi now University of Sto. Tomas Legazpi, Magna Cum Laude. She is also a Certified Public Accountant.

VICTOR C. DELA CRUZ, JR.
Lending Head
54 years old

Currently the Lending Group Head of Legazpi Savings Bank (LSB) since July 2019. He is a member of the following committee;

Credit Committee
Executive Committee

Prior to his stint as Lending Group Head of LSB, He worked as Account Officer of Union Bank of the Philippines from 1996 to 1999 under the Commercial Loans Department. Occupied various position with United Coconut Planters Bank (UCPB). Relationship Manager from 2006 to 2013 under the Corporate and Commercial Banking Group. In 2013, He became the Head of Small Business Loan Department under the Consumer Banking Group until 2015. He organized and became the Department Head of Metro Manila Business Center Department from 2015 to 2016. Head of Consumer Finance Business Center from January 2017 to 2018, where he was awarded as the "Department Head of the Year 2017", also under the Consumer Banking Group. Started his career at The Philippine Banking Corporation in 1989 as Account Assistant. He has a Bachelor of Arts Degree in Economics from San Sebastian College-Recoletos, Manila. Born on October 28, 1966, in Quezon City.

KEY OFFICERS

ADRIAN T. LLANA
CREDIT CYCLE AND OPERATIONS HEAD

JASON-DENNIS R. SAMBITAN
INFORMATION TECHNOLOGY
DEPARTMENT HEAD

KAREEN R. VILLAREAL
CHIEF COMPLIANCE
OFFICER

ROEL S. COSTUNA
CORPORATE SECRETARY
AND LEGAL UNIT HEAD

KEY OFFICERS

AILEEN MARY C. EJERCITO
ASST. CORPORATE SECRETARY

LAARNI V. ONA
HUMAN RESOURCE MANAGEMENT GROUP FVP & HEAD

CYNTHIA S. BAUTISTA
CHIEF AUDIT OFFICER

RODOLFO T. QUINTO
CHIEF SECURITY OFFICER

KEY OFFICERS

CARMELA MONICA C. BORROMEO
CONTROLLERSHIP HEAD

ABUNDIO B. BLANQUISCO, JR.
BRANCH AND ADMINISTRATION OPERATIONS DEPARTMENT HEAD

ELEANOR LENI M. ANTE
TREASURER

TRISHA MARIE GERETTE B. GUTIERREZ
OFFICER IN CHARGE FOR RISK MANAGEMENT UNIT HEAD

BOARD GOVERNANCE

The Board of Directors of the Bank ensures to continuously improve its shareholders value and achieve a successful and long-term business. The Board is actively responsible to ensure that the Bank is properly governed and managed to attain its business goals and objectives. It also has the responsibility to its customers, employees, government and the depositing public, in general.

The Board is primarily responsible for the governance, including business and risk strategies, organization, and financial soundness of the Bank. Corollary to setting the policies for the accomplishment of the corporate objectives, it shall provide an independent check on and effective oversight of Management.

Composition of the Board

As provided in the Bank's By-Laws, the Board is composed of nine(9) members elected by the stockholders, three (3) of whom are independent. All members of the Board are Filipinos and possess all the qualifications and none of the disqualifications to hold directorship as prescribed under the Corporation Code and existing rules and regulations of the Bangko Sentral ng Pilipinas (BSP) and the Securities and Exchange Commission (SEC). They all passed the fit and proper test for the position of a director of the Bank taking into account their integrity and probity, physical and mental fitness, competence, relevant education, financial literacy and training, diligence and knowledge, and expertise. They are known for their independence and professionalism, and make decisions with complete fidelity to the Bank while cognizant of their responsibilities under existing applicable laws, rules and regulations.

The Board determines the appropriate number of its members to ensure that the number thereof is commensurate with the size and complexity of the Bank's operations. To the extent practicable, the members of the Board of Directors have been selected from a broad pool of qualified candidates. With this respect, the Board is composed of non-executive directors (including the Chairman), executive directors and independent directors.

The Chairman of the Board holds the authority on the Board and provides leadership to the entire organization. He ensures that the Bank's duties to shareholders are being fulfilled by acting as a link between the Board and Management. He also ensures that the meetings of the Board are held in accordance with the by-laws, makes certain that the meeting agenda focus on the strategic matters including the overall risk appetite of the Bank.

The Board has sufficient number of qualified non-executive directors who have been elected to promote independence of the Board from the views of the Senior Management. These are those who are not part of the day-to-day management of operations of the Bank. On the other hand, elected executive directors are those who are part of senior management and involved in the day-to-day operations of the Bank. ters including the overall risk appetite of the Bank.

The Board also has three (3) independent directors who are independent of Management and free from any business or other relationship which could or could reasonably be perceived to materially interfere with their exercise of independent judgment in carrying out their responsibilities as a director. They hold no interests or relationships with the Bank that may hinder their independence from the bank or Management or will interfere with the exercise or independent judgment in fulfilling their responsibilities. They comply with all the qualifications required of an independent director and none of the disqualifications as provided in the BSP's Manual of Regulations for Banks.

An independent director only serves for a maximum nine (9) years and will be barred perpetually to become as such thereafter. However, they are not precluded to sit as regular directors.

There was no change in composition of the Board of Directors for the year.

BOARD MEETINGS AND CORPORATE SECRETARY

The Corporate Secretary assists the Board in its duties and responsibilities primarily to the corporation and its shareholders. In the conduct of board meetings, the Corporate Secretary provides directors the notice, agenda and meeting materials prior to each meeting. Proceedings of the meetings are property documented and duly minuted.

As provided for in the Bank's By-laws, the Board schedules and holds regular monthly meetings and convenes special meetings, when necessary. The members of the Board attend regular and/or special meetings in person or through teleconferencing and video conferencing which allows the directors to actively participate in the deliberations on matters taken up. The Bank ensures availability of teleconferencing facilities if and when a director cannot physically attend due to unavoidable circumstances, the director may also attend the meetings by submitting written comments on the agenda to the Corporate Secretary and the Chairman prior to the meeting.

In 2020, all members of the Board have substantially complied with the attendance requirement and actively participated in the deliberations on matters taken up during the regular and/or special meetings.

BOARD COMMITTEES

To allow deeper focus and increase efficiency, the Board has created committees. which are relative and consistent to the size, complexity of operations, long-term strategies and risk tolerance level of the Bank. The scope, authority and responsibilities of these committees are defined in their respective board-approved charter which is subject to regular review and updated at least annually or whenever there are significant changes.

The board has appointed the members of the committees taking into account the optimal mix of skills and experience which allow them to fully understand, be critical and objectively evaluate the issues. To promote objectivity, the Board has appointed independent directors and non-executive directors to the greatest extent possible and ensures that such mix will not impair the collective skills, experience and effectiveness of the committees. Each of these committees maintains appropriate records (e.g., minutes of meeting) of their deliberations and decisions, subject to notation and/or confirmation of the Board. The records document the committees' fulfillment of their responsibilities and facilitate the assessment of the effective performance of their functions which is regularly and periodically being conducted.

The Board has established and designated responsibilities to the following board-level committees:

CORPORATE GOVERNANCE COMMITTEE

In order to pro-actively assist the Board in its fulfillment of its corporate governance responsibilities and ensure transparency in all of the Bank's transactions, it created the Corporate Governance Committee. The Committee ensures the Board's effectiveness and due observance of corporate governance principles, best practices and guidelines which are necessary component of what constitutes sound strategic business management. It creates awareness of corporate governance within the Bank.

In particular, the Committee oversees the development and implementation of corporate governance principles and policies; reviews and evaluates the qualifications of the persons nominated to the Board as well as those nominated for election to other positions requiring appointment by the Board; decides the manner by which the Board's performance is evaluated and assists the Board in the periodic performance evaluation of the Board and its committees and executive management; and oversees the development and implementation of professional development programs for directors and officers.

The Committee is composed of five members, three of whom are independent directors including the Chairperson and Vice-Chairperson. The Committee holds regular meetings and may call for special meetings as deemed necessary. To properly evaluate its performance, the Committee meetings are properly and duly minuted.

CORPORATE GOVERNANCE COMMITTEE

OMAR BYRON T. MIER	12/12
ANGELITO V. EVANGELISTA	12/12
VICTOR V. LAYNES	12/12
HERMOGENES S. ROXAS	12/12
ROBERTO S. GAERLAN	12/12

EXECUTIVE COMMITTEE

The Bank's Executive Committee has been created as the highest credit approving body of the Bank after the Board. The Committee provides the necessary approvals for applications, deviations other loan transactions. Resolutions of the Committee may be overruled only by the Board.

The Executive Committee provides decisions regarding applications for critical loan accounts and deviations that require careful deliberation. Approvals made are in compliance with internal policies and those required under existing laws, rules and regulations. Decisions made are figures of on account or loan product. Credit proposals and recommendations are being routed for consideration and approval.

RISK OVERSIGHT COMMITTEE

To aid the Board to efficiently carry out its functions on risk management, it created the Risk Oversight Committee which oversees the development and oversight of the Bank's risk management program and ensures an acceptable level of risk while minimizing losses. The Committee oversees the system of limits to discretionary authority that the Board delegates to Management, supervises the system and ensures its effectiveness, provides and set limits and ensures that these are properly observed and that immediate corrective actions are taken should breaches occur.

> *"The Risk Oversight Committee which oversees the development and oversight of the Bank's risk management program and ensures an acceptable level of risk while minimizing losses."*

The Board has appointed five members of the Committee who possess a broad-range of expertise as well as adequate knowledge of the Bank's risk exposures which enable them to develop appropriate strategies for preventing losses when they occur. The committee members meet regularly and may call for special meetings whenever necessary.

CORPORATE GOVERNANCE

RISK OVERSIGHT COMMITTEE

OMAR BYRON T. MIER	12/12
ANGELITO V. EVANGELISTA	12/12
VICTOR V. LAYNES	12/12
HERMOGENES S. ROXAS	12/12
ROBERTO S. GAERLAN	12/12

AUDIT COMMITTEE

The Board has constituted an Audit Committee to provide oversight over the Bank's financial reporting policies, practices and control and internal and external audit functions. In particular, the Committee aids the Board in monitoring and evaluating the adequacy, effectiveness and efficiency of the Bank's internal control system. Further, the Committee assists the Board in fulfilling its oversight responsibilities with regard to integrity of the Bank's financial reporting process; the independence and performance of the Bank's external and internal auditors; the compliance of corporate governance policies and guidelines; and the Bank's compliance with regulatory requirements.

> *"The Board has constituted an Audit Committee to provide oversight over the Bank's financial reporting policies, practices and control and internal and external audit functions. In particular, the Committee aids the Board in monitoring and evaluating the adequacy, effectiveness and efficiency of the Bank's internal control system."*

To carry-out its mandate, the Committee has explicit authority to any matter within its terms of reference, full access to and cooperation by Management and full discretion to invite any director or executive officer to attend its meetings, and adequate resources to enable it to effectively discharge its functions.

As prescribed under existing rules and regulations, the Committee is composed of to the greatest extent possible, sufficient number of independent and non-executive board members. All members of Committee, including the Chairperson who is an independent director, possess the required qualifications and none of the disqualifications. The Committee holds regular meetings and may call special meetings upon the request of the Chairperson or by at least two (2) of its members, which proceedings are duly minuted.

AUDIT COMMITTEE

OMAR BYRON T. MIER	8/8
ANGELITO V. EVANGELISTA	8/8
VICTOR V. LAYNES	8/8
HERMOGENES S. ROXAS	8/8
ROBERTO S. GAERLAN	8/8

INFORMATION TECHNOLOGY STEERING COMMITTEE

In compliance with BSP regulations. the Board has created the Information Technology (IT) Steering Committee which oversees a safe, sound, controlled and efficient information technology operating environment that supports the Bank's goals and objectives. In particular, the Committee among others: reviews and monitors the performance all IT projects; reviews the Bank's current IT infrastructure, system performance, associated risks and other significant issues and events, and institutes appropriate actions to achieve the desired results; monitors and evaluate the performance of third-party service providers on all technology initiatives subject of the service contract; and reports to the Board relevant and adequate information regarding IT performance, status of major IT projects and significant issues affecting the Bank's IT operations.

> *"The Committee among others: reviews and monitors the performance all IT projects; reviews the Bank's current IT infrastructure, system performance"*

The Committee is chaired by an independent director, assisted by the Head of IT Department and executive officers of the Bank. The heads of Audit, Risk and Compliance are also invited in the regular and/or special meetings of the Committee as resource persons.

IT STEERING COMMITTEE

VICTOR V. LAYNES	12/12
MYKEL D. ABAD	12/12
ANGELITO V. EVANGELISTA	12/12
ROMEL D. MENIADO	12/12
ERLINDA O. DEL VILLAR	12/12
ADRIAN T. LANA	12/12
JASON-DENNIS R. SAMBITAN	12/12
KAREEN R. VILLAREAL	12/12
CYNTHIA C. BAUTISTA	12/12

CORPORATE GOVERNANCE

BOARD TRAININGS

In accordance with the Corporate Governance Manual and existing BSP regulations, the Corporate Governance Committee is responsible for making recommendations to the Board on the required trainings and continuing education of the directors. Relative thereto, all members of the Board have attended the required corporate governance seminar for bank directors at BSP-accredited training providers, a pre-requisite for Monetary Board confirmation. These include topics on risk and governance, audit and control, and accountability.

To remain relevant and abreast with the evolving corporate governance landscape, the directors attend refresher courses on corporate governance provided by accredited training service providers.

Committed to ptoviding continuing professional education and ensuring that senior management continuously possess the qualifications for their positions, LSB provides seminars and trainings given by accredited external training providers and trainings provided in coordination with the Parent Bank and/or JG Summit Human Resource. These are, but not limited to, trainings and seminars on governance, leadership, risk management, accounting, compliance and AMLA.

SELECTION PROCESS FOR BOARD AND SENIOR MANAGEMENT

Every year, the Bank holds stockholders meeting where new sets of board of directors are being elected. The Bank has transparent procedures in place tor the nomination and election of the new sets of directors to the Board. Shareholders nominate candidates who shall be evaluated based on qualifications and none of the disqualifications per existing BSP and SEC regulations and a pool of candidates is formed. Nine (9) will be elected from the pool of candidates. During the organizational meeting, chairmanship and membership of the different board-level committees, including principal officers are appointed.

Candidates for Senior Management positions are carefully screened based on their qualifications and are subjected to the fit-and-proper rule test. Appointment of Senior officers are submitted for approval of the Corporate Governance Committee and confirmation of the Board of Directors. For positions that needs regulatory approval/ confirmation, appropriate request for approval/ confirmation of the Bangko Sentral ng Pilipinas is also sought.

PERFORMANCE EVALUATION

The Bank has performance evaluation process in place to assess the performance of the Board and its board-level committees based on their their respective mandates. This is through a Peer Assessment Questionnaire. Similarly, the President is evaluated as a member of the Board and Senior Management, the results of which is discussed and approved by the Corporate Governance Committee confirmed by the Board.

COMPENSATION POLICY

The Board of Directors compensation is a fee or per diem in an amount as may be determined by the Board which shall be paid to each director for attendance to any meeting of the Board, subject to the approval of the stockholders; provided, however, that nothing herein contained shall be construed to preclude any directors from serving in any capacity and receiving compensation therefor. The Board, as may delegated by the stockholder, shall fix the compensation and other-remunerations. Pursuant to a delegated authority, the Board may fix the compensation and other renumeration of any Director of any other officer of the Bank should they be designated to perform executive functions or any special service to the Bank. In no case shall the total yearly compensation of directors as such directors, exceed ten percent: (10%) of the net income before income tax of the Bank during the preceding year.

The Bank's Senior Management and Key Executive remuneration program encourage the attraction and retention of high caliber professionals possessing the required experience and capabilities to drive the success of the business. The compensation structure is designed to be at par with the prevailing savings banking industry rates. Consistent with the Bank's principleof pay for performance and Remuneration Policy, the Board approved compensation and BSP approved fringe benefit program consists of car plan, various types of leave benefits, allowances and financial assistance in the form of employee loans are provided to rank and file, junior officers, Senior Management and Key Executives. The health and well-being of a regular rank and file employees up to senior management and executives are likewise given importance as their Group Hospitalization Plan/ Health Management Organization (HMO) provides extensive Executive Check-up Package.

Granting of compensation agreements/ offers, recommendations for annual merit increases and promotion increases, variable bonuses are approved by the Chairman of the Board.

RENUMERATION POLICYFOR EMPLOYEES

The Bank's employee's compensation structure is designed to be at par with the prevailing banking industry rates. The compensation package is composed of guaranteed compensation, inclusive of statutory and company-initiated bonuses. Its policy is pay for performance or meritocracy, highlighted by a competitive salary scale, annual merit increase, and employee promotion which are hinged on employee performance and attainment of the Bank's Key indicator. Competitive fringe benefit programs such as various types of leave benefits, uniform assistance, and financial assistance programs in the form of employee bereavement assistance, personal loan, motorcycle loan, car plan loan. and housing loan are provided to eligible employees aimed to assist them in their time of financial need and to improve their standard of living. The health and well-being of the employees are given importance in the form of Group Hospitalization Plan or HMO Card, the Group Life Insurance and Personal Accident Insurance and Hazard Pay.

> *"The compensation package is composed of guaranteed compensation, inclusive of statutory and company-initiated bonuses."*

RETIREMENT AND SUCCESSION POLICY

Except for independent directors who are subject to maximum term limit to remain so, directors may remain on the Board for as long as he/ she remains to be physically and mentally fit and proper for the position of a director, able to discharge his duties pursuant to regulatory requirements for banks. For succession, replacement, or vacancy, the Bank's by-Laws provide that vacancies in the Board may be filled by appointment or election of the remaining directors, if still constituting a quorum; otherwise, the stockholders shall fill such vacancy in a regular meeting called for this purpose.

Members of the Senior Management are covered by the rank's Multi-employer Retirement Plan under its parent company JG Summit; it is a non-contributory defined benefit plan covering all regular and permanent employees of the conglomerate. The Retirement Plan covers early or optional retirement, compulsory retirement as well resignation payment schemes for qualified employees based on set criteria.

The Bank bas a Succession Management Program for Senior Management whereby high potential candidates from critical functions were identified by the incumbent officers and, in coordination with the Human Resources Management Department, came up with an Individual JGS Advancement Planning Process to prepare such candidate to take on the critical positions in case of vacancies. The development plan is updated annually.

RELATED PARTY TRANSACTIONS

In compliance with BSP Circular 895, as amended, all material related party transactions are being approved by the Bank's Board of Directors. With this respect, the Bank did not create a separate RPT Committee. Nevertheless, it has RPT policy which defines related parties which include directors, officers, stockholders or related interests (DOSRI) of the Bank and their close family members. It also Includes corresponding persons in affiliated companies, subsidiaries and affiliates, any party that the Bank exerts control over or that exerts control over the Bank, and such other entity whose interest may pose potential conflict with the interest of the Bank.

The Board evaluates material RPTs to ensure that these are not undertaken on more favorable economic terms (e.g. price, rates, fees, tenor, collateral requirement) to such related parties that similar- transactions with non-related parties under similar circumstances and that no corporate or business resources of the Bank are misappropriated or misapplied, and to determine any potential reputational risk issues that may arise as result of or in connection with the transactions. Refer to the Notes to Financial Statements for the Bank's related party transactions.

SELF-ASSESSMENT FUNCTIONS:

COMPLIANCE SYSTEM

The BSP issued Circular No. 747 – Revised Compliance Framework for Banks as amended by Circular No. 972, in order to actively promote the safety and soundness of the Philippine Banking System through an enabling policy and oversight environment. Such environment is governed by the high standards and accepted practices of good corporate governance as collectively designed by the BSP and its supervised institutions. Toward this end, a robust, dynamically responsive and distinctly appropriate Compliance Risk Management System has been put in place as an integral component of the Bank's culture and risk governance framework. In this respect, it is the responsibility and shared accountability of all personnel, officers, and the Board of Directors.

> *"Toward this end, a robust, dynamically responsive and distinctly appropriate Compliance Risk Management System has been put in place as an integral component of the Bank's culture*

Part of the Compliance Risk Management System is the Bank's strong compliance infrastructure. The Board of Directors, through the Corporate Governance Committee, exercises oversight implementation of compliance policy, ensuring policies and procedures are followed and corrective actions are taken by the management to address breaches, failures and control deficiencies identified. In its effort to address compliance risk effectively, the Board established the Compliance function and appointed a Chief Compliance Officer who is the lead operating officer on compliance.

The Senior Management sees to it that applicable law and regulations are complied with and, through the Chief Compliance Officer, render periodic reporting of compliance issues that the Bank is beset with. As Bank employee, everyone should conduct business activities in adherence to high standards of honesty and integrity and shall abide by the laws, regulations, rules, standards and codes of conduct and good governance applicable to our banking activities. This may cover observing market rules, managing conflict of interest, proper accounting and recording,applying best practices, compliance with tax laws, developing new products and electronic delivery channels, providing e-banking services and may also include special areas such as prevention of money laundering and terrorist and proliferation financing.

The Bank's Compliance Risk Management System is anchored on a program that ensures proper dissemination of laws, rules and regulations, self-assessment of compliance therewith, validation of self-assessment and monitoring to ensure that all are compliant therewith. The Compliance Unit disseminate laws, rules and regulations, including revisions or updates thereon, which affecting the different operational areas of the Bank. The different business units conduct periodic self-assessment of its compliance with relevant laws, rules and regulations through the Compliance Self-Assessment Checklist. Results of the self-assessment shall then be validated by an independent testing conducted by the Compliance Unit. Any exceptions found in the self-assessment as well as the independent testing are then reported to the Corporate Governance Committee and the outstanding findings are subjected to close monitoring to ensure these are properly addressed. The compliance program is subject for review and revision as may be necessary to be updated with new issuances and depending on its effectiveness to achieving excellent compliance and monitoring risks.

MONEY LAUNDERING AND TERRORIST FINANCING PREVENTION PROGRAM

As approved by the Board and required by the Bangko Sentral ng Pilipinas (BSP) and consistent with the Parent Bank, the Bank is implementing a program to combat money laundering, terrorist and proliferation financing. The Program has been issued and regularly being updated to comply with Republic Act No. 9160 also known as the "Anti-Money Laundering Act of 2001", its Implementing Rules and Regulations, BSP Circular No. 1022 and regulatory Issuances of the Anti-Money Laundering Council. The Program is intended to protect the integrity and confidentiality of the accounts of the clients, and ensure that the Bank is not used to launder illicit proceeds or to raise or move funds in support of terrorism taking into consideration best practices to combat terrorist financing.

The Program has been developed to disseminate information which will help the employees understand money laundering activities and their prevention, detection and report suspicious transactions, know better the Bank's customers; understand the penalties for non-compliance; conduct the required AML training for responsible officers and personnel of the Bank; satisfy legal and ethical responsibilities with a minimal adverse impact on the Bank's overall daily business responsibilities and performance goals. Moreover, the Program has been promulgated to protect the Bank as well as its employee's interests.

Laws governing secrecy or bank deposits have been strictly being complied with by the Bank when implementing procedures related to combating money laundering, and terrorist and proliferation financing. The Program provides guidance in complying with the Arti-Money Laundering Law as well as other applicable regulations without violating relevant and without losing or clients in the process.

INTERNAL CONTROL AND AUDIT

The Bank has implemented its internal control processes which are designed and effected by its Board of Directors, Senior Management and all levels of personnel to provide reasonable assurance on the achievement of objectives through efficient and effective operations: reliable, complete and timely financial and management information; and compliance with applicable laws, regulations, supervisory requirements and the Bank's policies and procedures.

The Bank put in place adequate and effective internal control framework for the conduct of its business taking into account the size, risk profile and complexity of operations. The framework embodies management oversight and control culture; risk recognition and assessment; control activities; information and communication; and monitoring activities and correcting deficiencies.

> *"The Bank put in place adequate and effective internal control framework for the conduct of its business taking into account the size, risk profile and complexity of operations."*

The control environment of the Bank consists of: (a) the Board which ensures that the Bank is properly and effectively managed and supervised; (b) Management that actively manages and operates the Bank in a sound and prudent manner; (c) the organizational and procedural controls supported by effective management information and risk management support systems; and (d) on independent audit mechanism to monitor the accuracy and effectiveness of the Bank's governance, operations and information systems, including the reliability and integrity of financial and operational information, the effectiveness and efficiency of operations, the safeguarding of assets, and compliance with laws, rules, regulations and contracts.

The Bank has an internal audit system that reasonably assures the Board, Management and stockholders that the Bank's key organizational and operational controls are faithfully complied with. The Board appointed an Internal Auditor to perform the function, and required the Auditor to report to the Audit Committee, a board-level committee, which allows the internal audit activity to fulfill its mandate. The Internal Auditor is being guided by the International Standards on Professional Practice of Internal Auditing and existing laws, rules and regulations. With the Board appointment, the Chief Audit Officer (CAO) oversees the implementation of the internal audit system. Currently, the CAO has been appointed as the concurrent Head of Audit of the parent bank.

OTHER GOVERNANCE POLICIES

CORPORATE GOVERNANCE MANUAL

Consistent with the Parent Bank, the Board adopted corporate governance framework or the Corporate Governance Manual (or "Manual") that embodies the roles, systems and processes in the Bank. The framework governs the performance of the Board and Management of their respective duties and responsibilities to stockholders and other stakeholders. The Manual is being periodically reviewed with the objective of continually aligning the Bank's policies with the BSP and SEC circulars or issuances on corporate governance including best practices issued by the Basel Committee on Banking Supervision. This ensures that the interests of stockholders and other stakeholders are always taken into account, the directors, officers, and employees are aware of their responsibilities and the business of the Bank is conducted in a safe and sound manner.

CODE OF CONDUCT

Similar to the Parent Bank, the Code of Conduct for Employees exists to develop or pattern behavior according to the Bank's standards, to ensure professional conduct, and to enforce discipline and order. The Code is implemented by the Human Resources Management Department. Copies of the Code of Conduct are given to employees upon hiring, while seminars are conducted regularly and regular issuances of advisories in order to further expound on the ubject.

> *"Copies of the Code of Conduct are given to employees upon hiring, while seminars are conducted regularly and regular issuances of advisories in order to further expound on the subject."*

WHISTLE-BLOWING POLICY

Consistent with the Parent Bank, all employees of the Bank are encouraged and should impose upon themselves to perform the duty of disclosing to their immediate superior the existing or potential violations and wrongdoings that they are or may become aware of. The Bank's Policy on Timely Reporting of Concerns and Incidents, otherwise known the Whistle-Blowing Policy, serves as a guide for all employees for reporting matters that breach integrity.

DIVIDEND POLICY

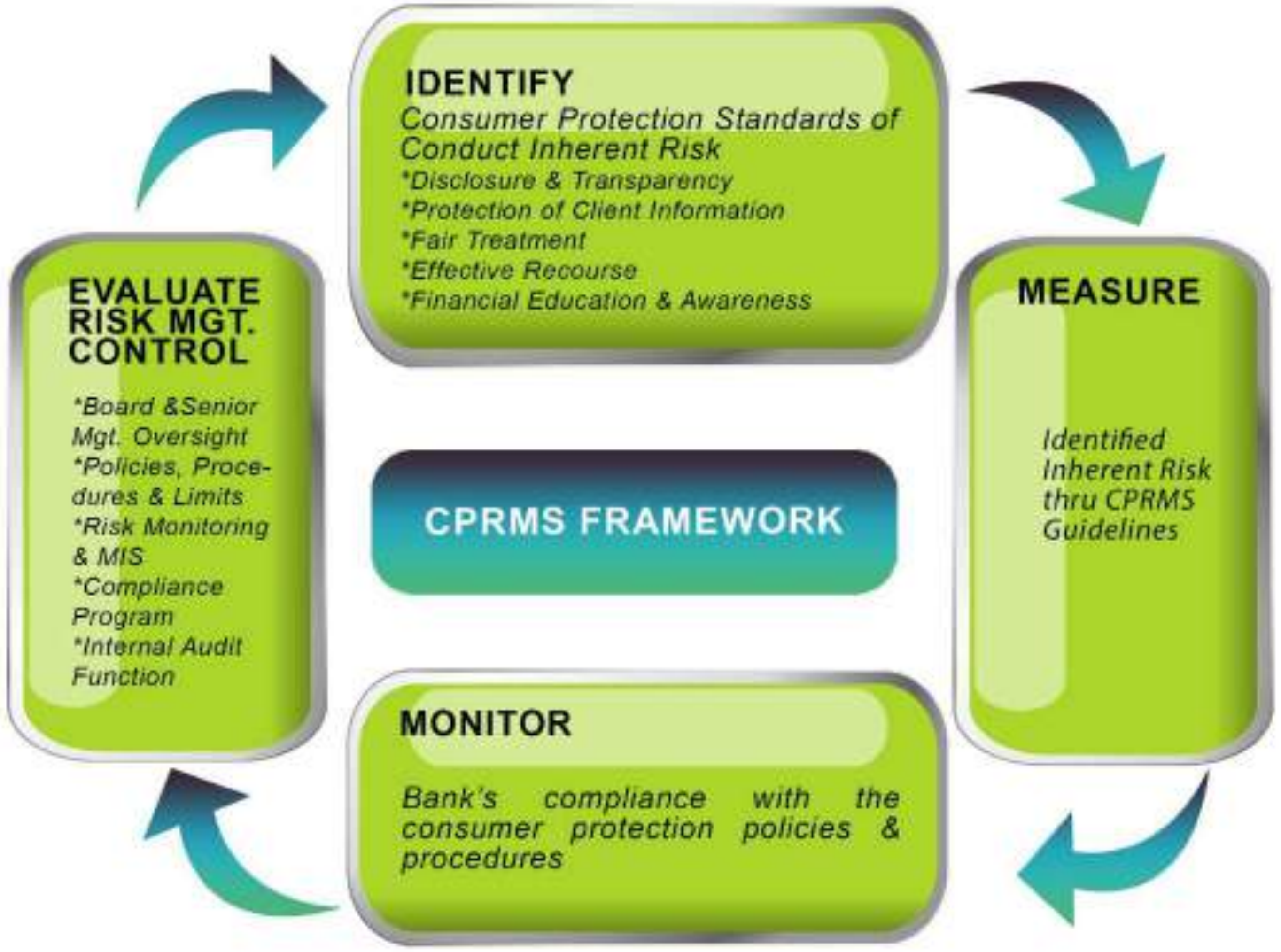
Pursuant to the Bank's by-laws and subject to resolution of the Board, the Bank may declare dividends annually provided the Bank has unrestricted retained earnings or surplus. However, to date, the Bank has not declared any dividends in accordance with existing laws, rules and regulations.

CONSUMER PROTECTION RISK MANAGEMENT SYSTEM (CPRMS)

Pursuant to BSP Circular 857 entitled BSP Regulations on Financial Consumer Protection, Legazpi Savings Bank provides financial consumer protection in accordance with the said BSP Circular. The BSP Framework identifies five consumer protection standards which Banks must observe at all times; Disclosure and Transparency; Fair Treatment; Protection of Clients Information; Financial Education and Awareness; and Effective Recourse

LSB established a Consumer Protection Risk Management System (CPRMS) Guidelines. There are amendments and updates made to the bank's CPRMS to define the roles and responsibilities of other business units and brief description of risk management tools, process and/or procedures.

The CPRMS Guidelines aims to identify, measure, monitor and control consumer protection risks inherent in its operations. These include both risk to the financial consumer and the Bank.



IDENTIFY

Consumer Protection Standards of Conduct Inherent Risk

- **Disclosure & Transparency*
- **Protection of Client Information*
- **Fair Treatment*
- **Effective Recourse*
- **Financial Education & Awareness*

MEASURE

Identified Inherent Risk thru CPRMS Guidelines

MONITOR

Bank's compliance with the consumer protection policies & procedures

EVALUATE RISK MGT. CONTROL

- **Board &Senior Mgt. Oversight*
- **Policies, Procedures & Limits*
- **Risk Monitoring & MIS*
- **Compliance Program*
- **Internal Audit Function*

CPRMS FRAMEWORK

CONSUMER PROTECTION OVERSIGHT FUNCTION

The Senior Management and the Board are responsible for overseeing strategic direction and governance. They are responsible in developing the Bank's consumer protection strategies and establishing an effective management oversight over consumer protection program.

The Risk Management Unit provides foundation for ensuring that the Bank's consumer protection policies, procedures and practices address and prevent identified risk to the Bank and associated risk of financial loss to consumers.

The Compliance Unit ensures that the policies and procedures are consistent with the consumer protection policies approved by the Board and address compliance with the consumer protection laws, rules and regulations.

The Internal Audit Department provides the Senior Management and the Board with analysis, findings, and corrective actions and recommendations in meeting the consumer protection objectives.

The Human Resources Management Group is responsible for a Financial Education and Awareness Program that ensures that all relevant personnel particularly those whose roles and responsibilities have customer interface, receive specific and comprehensive training on consumer protection program of the Bank.

All business units are responsible in the complete and timely reporting of all request, queries and complaints (RQCs) received from all contact points of the Bank. They ensure that all RQCs received are forwarded to the Bank's Customer Care Center (C3) Unit.

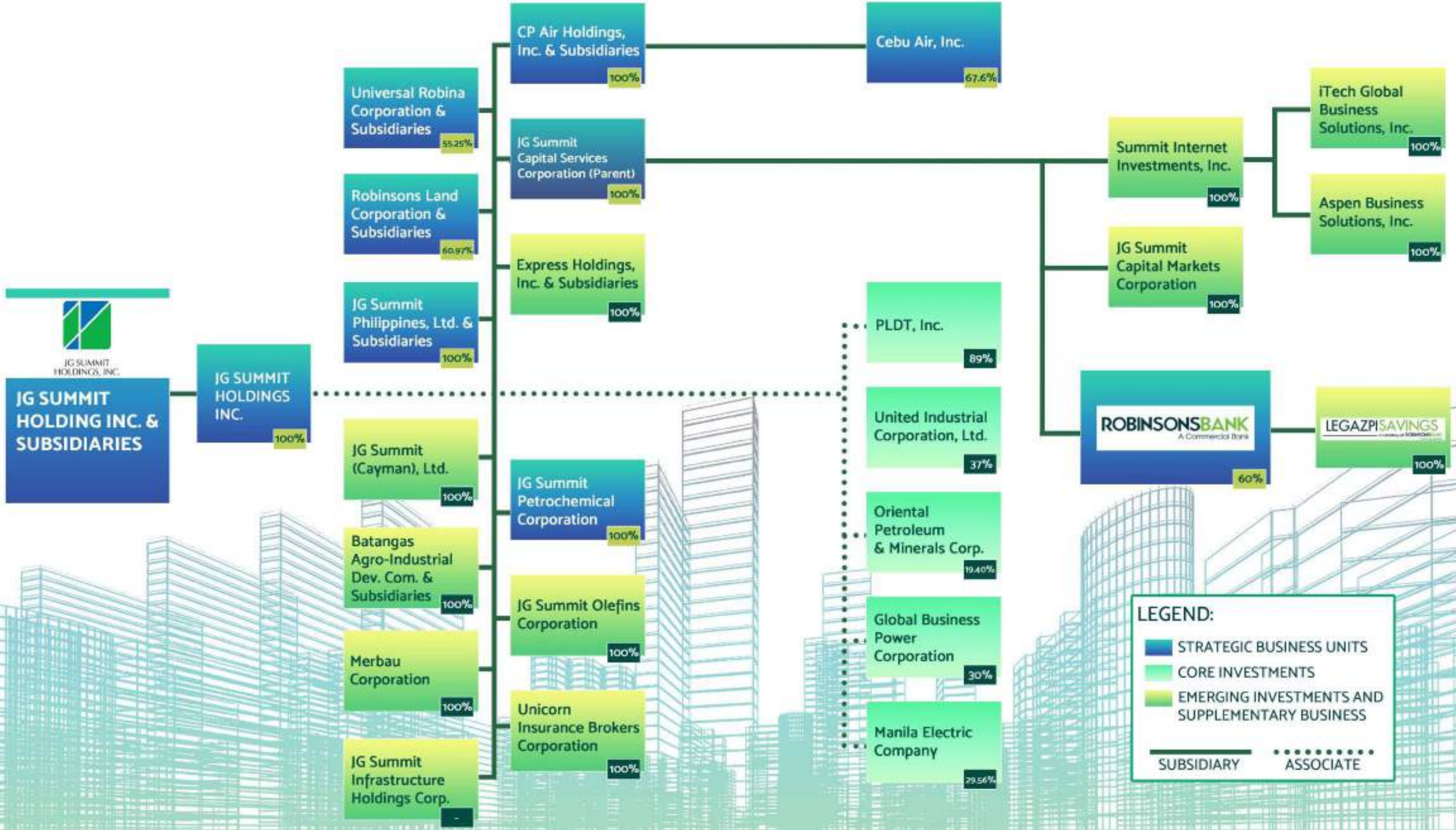
Consumer Assistance Management is handled by the RBG that provides timely and efficient means for resolving complains with Bank's financial transaction. Digitization has opened pathways for Legazpi Savings Bank to build relationships to its customer in order to serve them better. The Bank received inquiries, requests, feedbacks and complaints from customers regarding its products and services through digital platforms. Various communication channels through the Customer Care Center (C3) such as the hotline, email feedback forms, website, social media, etc. are made available to clients so they can easily contact the Bank regarding these concerns.

MONITORS
daily inquiries, requests, and complaints received from customers and reports these to the management to provide solutions on the Bank's products and services to ensure service quality at all times.

MANAGES
the issues received from customers through the different channels, coordinate with concerned units, and respond to clients in efficient and professionl manner within the committed turn-around-time to ensure customer satisfaction.

RECORDS
issues raised by employees regarding concerns within the Bank, and suggestions for improvement. Reports are included in the concerned unit's performance evaluation.

CONGLOMERATE MAP (JG Summit Holdings Inc.)



JG SUMMIT HOLDINGS, INC.

JG SUMMIT HOLDING INC. & SUBSIDIARIES

JG SUMMIT HOLDINGS INC. 100%

Universal Robina Corporation & Subsidiaries 55.25%

Robinsons Land Corporation & Subsidiaries 60.97%

JG Summit Philippines, Ltd. & Subsidiaries 100%

JG Summit (Cayman), Ltd. 100%

Batangas Agro-Industrial Dev. Com. & Subsidiaries 100%

Merbau Corporation 100%

JG Summit Infrastructure Holdings Corp. -

CP Air Holdings, Inc. & Subsidiaries 100%

JG Summit Capital Services Corporation (Parent) 100%

Express Holdings, Inc. & Subsidiaries 100%

JG Summit Petrochemical Corporation 100%

JG Summit Olefins Corporation 100%

Unicorn Insurance Brokers Corporation 100%

Cebu Air, Inc. 67.6%

PLDT, Inc. 89%

United Industrial Corporation, Ltd. 37%

Oriental Petroleum & Minerals Corp. 19.40%

Global Business Power Corporation 30%

Manila Electric Company 29.56%

Summit Internet Investments, Inc. 100%

JG Summit Capital Markets Corporation 100%

ROBINSONSBANK A Commercial Bank 60%

iTech Global Business Solutions, Inc. 100%

Aspen Business Solutions, Inc. 100%

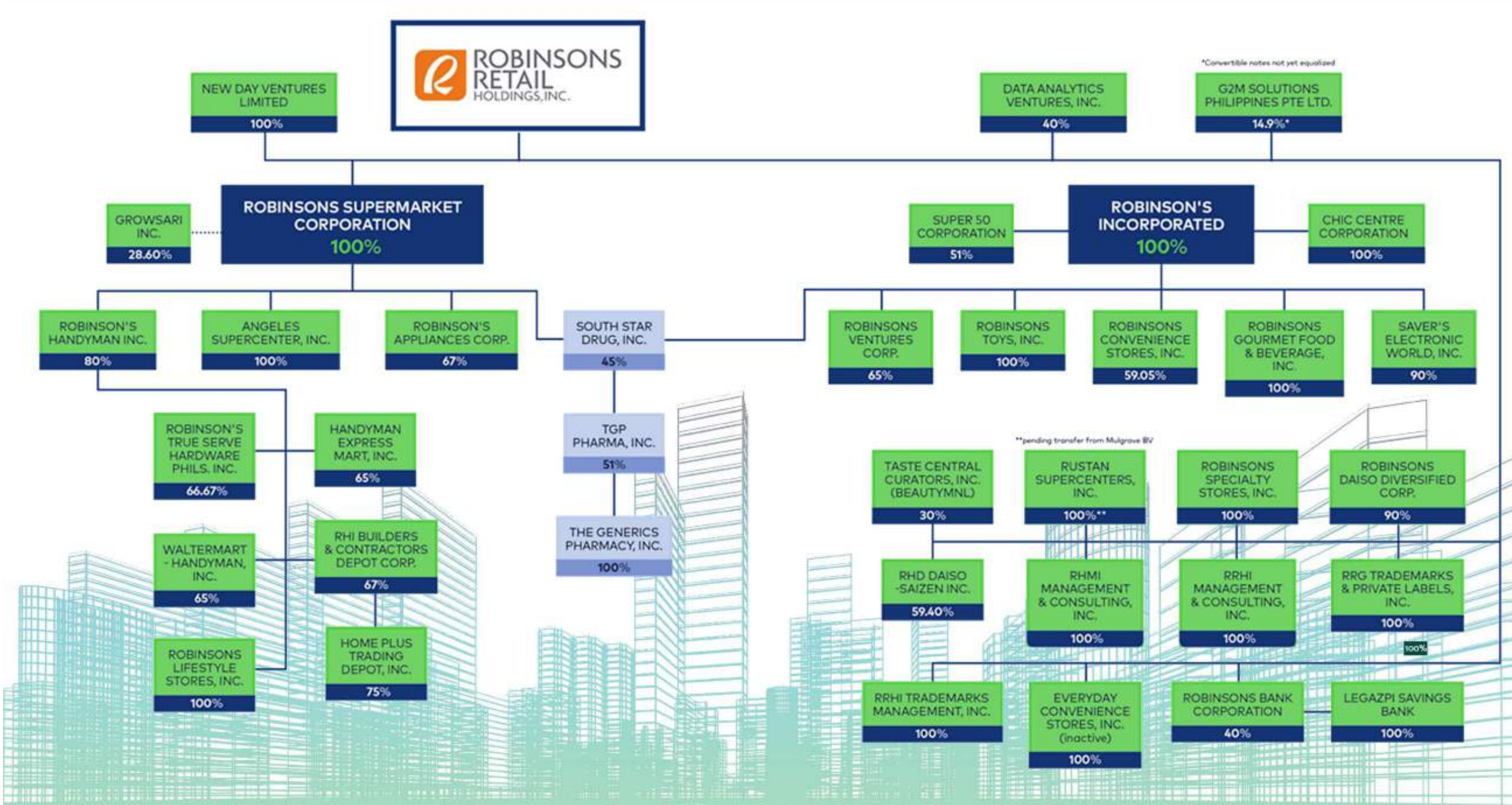
LEGAZPISAVINGS 100%

LEGEND:

- STRATEGIC BUSINESS UNITS
- CORE INVESTMENTS
- EMERGING INVESTMENTS AND SUPPLEMENTARY BUSINESS

━━ SUBSIDIARY ••••••••• ASSOCIATE

CONGLOMERATE MAP (Robinsons Retails Holding Inc.)



ROBINSONS RETAIL HOLDINGS, INC.

NEW DAY VENTURES LIMITED 100%

DATA ANALYTICS VENTURES, INC. 40%

*Convertible notes not yet equalized

G2M SOLUTIONS PHILIPPINES PTE LTD. 14.9%*

GROWSARI INC. 28.60%

ROBINSONS SUPERMARKET CORPORATION 100%

SUPER 50 CORPORATION 51%

ROBINSON'S INCORPORATED 100%

CHIC CENTRE CORPORATION 100%

ROBINSON'S HANDYMAN INC. 80%

ANGELES SUPERCENTER, INC. 100%

ROBINSON'S APPLIANCES CORP. 67%

SOUTH STAR DRUG, INC. 45%

ROBINSONS VENTURES CORP. 65%

ROBINSONS TOYS, INC. 100%

ROBINSONS CONVENIENCE STORES, INC. 59.05%

ROBINSONS GOURMET FOOD & BEVERAGE, INC. 100%

SAVER'S ELECTRONIC WORLD, INC. 90%

ROBINSON'S TRUE SERVE HARDWARE PHILS. INC. 66.67%

HANDYMAN EXPRESS MART, INC. 65%

TGP PHARMA, INC. 51%

**pending transfer from Mulgrove BV

TASTE CENTRAL CURATORS, INC. (BEAUTYMNL) 30%

RUSTAN SUPERCENTERS, INC. 100%**

ROBINSONS SPECIALTY STORES, INC. 100%

ROBINSONS DAISO DIVERSIFIED CORP. 90%

WALTERMART - HANDYMAN, INC. 65%

RHI BUILDERS & CONTRACTORS DEPOT CORP. 67%

THE GENERICS PHARMACY, INC. 100%

RHD DAISO -SAIZEN INC. 59.40%

RHMI MANAGEMENT & CONSULTING, INC. 100%

RRHI MANAGEMENT & CONSULTING, INC. 100%

RRG TRADEMARKS & PRIVATE LABELS, INC. 100%

100%

ROBINSONS LIFESTYLE STORES, INC. 100%

HOME PLUS TRADING DEPOT, INC. 75%

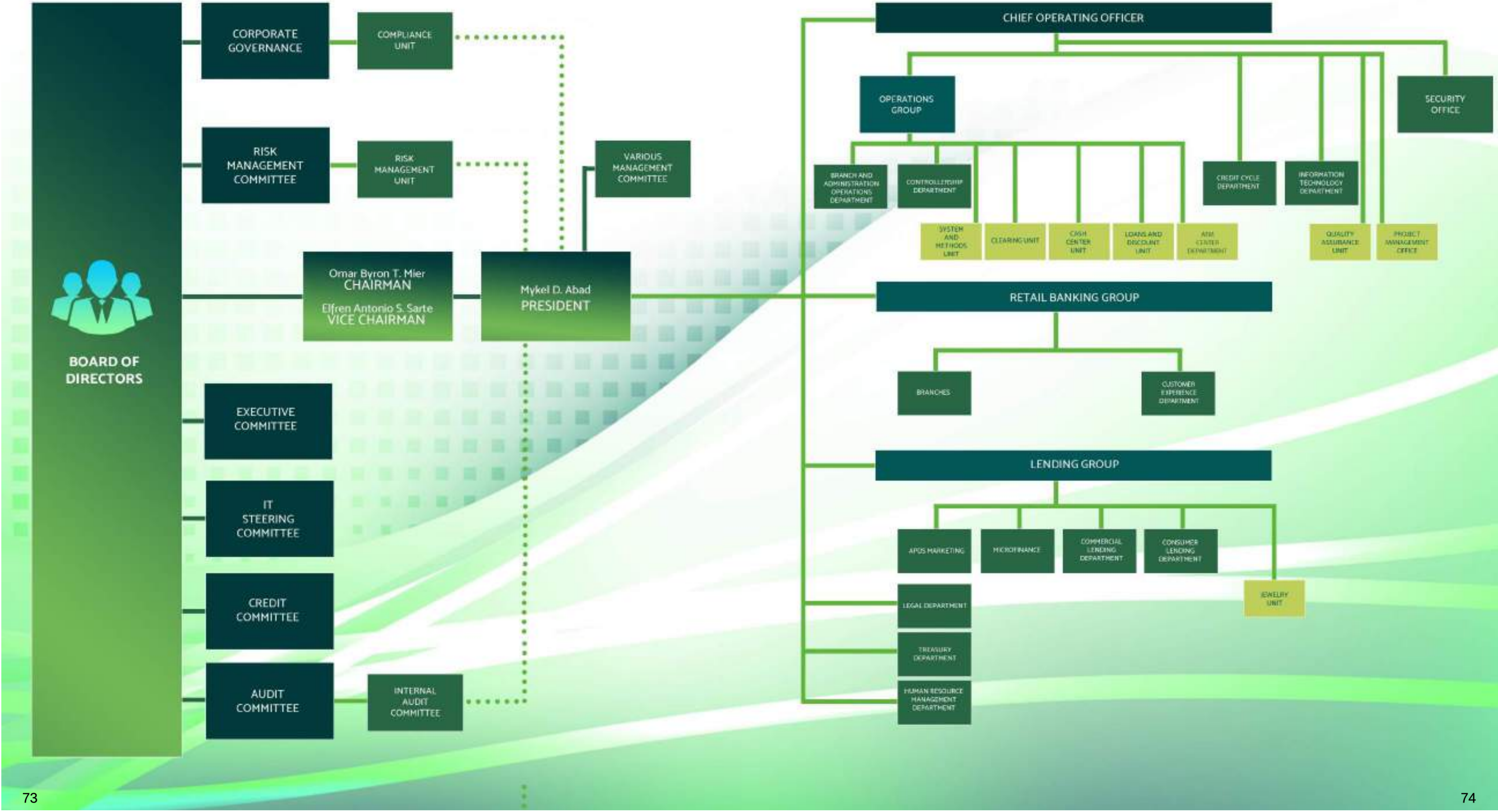
RRHI TRADEMARKS MANAGEMENT, INC. 100%

EVERYDAY CONVENIENCE STORES, INC. (inactive) 100%

ROBINSONS BANK CORPORATION 40%

LEGAZPI SAVINGS BANK 100%

ORGANIZATIONAL STRUCTURE



BOARD OF DIRECTORS

CORPORATE GOVERNANCE

COMPLIANCE UNIT

RISK MANAGEMENT COMMITTEE

RISK MANAGEMENT UNIT

EXECUTIVE COMMITTEE

IT STEERING COMMITTEE

CREDIT COMMITTEE

AUDIT COMMITTEE

INTERNAL AUDIT COMMITTEE

Omar Byron T. Mier
CHAIRMAN

Elfren Antonio S. Sarte
VICE CHAIRMAN

Mykel D. Abad
PRESIDENT

VARIOUS MANAGEMENT COMMITTEE

CHIEF OPERATING OFFICER

OPERATIONS GROUP

BRANCH AND ADMINISTRATION OPERATIONS DEPARTMENT

CONTROLLERSHIP DEPARTMENT

SYSTEM AND METHODS UNIT

CLEARING UNIT

CASH CENTER UNIT

LOANS AND DISCOUNT UNIT

ATM CENTER DEPARTMENT

CREDIT CYCLE DEPARTMENT

INFORMATION TECHNOLOGY DEPARTMENT

QUALITY ASSURANCE UNIT

PROJECT MANAGEMENT OFFICE

SECURITY OFFICE

RETAIL BANKING GROUP

BRANCHES

CUSTOMER EXPERIENCE DEPARTMENT

LENDING GROUP

APDS MARKETING

MICROFINANCE

COMMERCIAL LENDING DEPARTMENT

CONSUMER LENDING DEPARTMENT

JEWELRY UNIT

LEGAL DEPARTMENT

TREASURY DEPARTMENT

HUMAN RESOURCE MANAGEMENT DEPARTMENT

PRODUCTS AND SERVICES

DEPOSIT PRODUCTS

NOW ACCOUNT

The NOW account is a 2-in-1 checking account that allows you to settle your day-to-day payables through its check book and conveniently allows you to monitor your check issuances through passbook.

SAVINGS ACCOUNT

Regular/ ATM Savings

An interest bearing savings account that allows the customer the flexibility of accessing funds anytime through over-the-counter (OTC) / ATM for both savings and transactional purposes.

Bulilit Savings

An interest bearing savings account designed specifically for minors aging from seven (7) to twelve (12) years old.

Like the Regular Savings Account, it allows the customer the flexibility of accessing funds anytime through over-thecounter (OTC) for savings and transactional purposes.

Friendly Savings

A Savings Account that allows clients to earn higher than regular savings rates by maintaining high deposit balances. The earnings potential is largely influenced by the amount of deposit maintained and the prevailing Market Interest Rates.

SPECIAL SAVINGS ACCOUNT

A Peso Term Deposit account that allows clients to earn higher than regular savings rates by maintaining theirdeposit balances for a specified period of time. The earnings potential is largely influenced by the amount of deposit maintained, the tenor of deposit, and the prevailing Market Interest Rates.

TIME DEPOSIT ACCOUNT

A Peso Term Deposit account that is evidenced by a certificate of Time Deposit CTD). It allows clients to earn higher than regular savings rates by maintaining their deposit balances for a specified period of time. The earnings potential is largely influenced by the amount of deposit maintained, the tenor of deposit, and the prevailing Market Interest Rates.

LOAN PRODUCTS

CONSUMER LOANS

Microfinance Loan (Go Micro Regular, Go Micro Plus, Go Micro SME, Power Up)

A loan product managed by the Retail Banking Group that is targeted to microenterprises. It is created to provide an affordable credit facility that will help micro entrepreneurs expand their present business activities that will eventually increase their income. It offers better interest rates and easier payment schemes as compared to the informal money lenders that microentrepreneurs currently deal with.

APDS Loans for teachers

A multi-purpose loan product managed by the Retail Banking Group (RBG) that is targeted to DepEd's teaching and non-teaching personnel. Repayment for APDS obligation is drawn against DepEd teaching personnel's salaries thru automatic payroll education.

Professional Salary Loan

A multi-purpose loan program managed by the Retail Banking Group (RBG) that is targeted to employed individuals. The loan is granted based on the paying capacity of the borrower. Repayment are drawn against the borrower's salaries and other payroll credits.

Housing Loan

An amortizing term loan facility secured by real estate properties under the borrower's name.

Auto Loan

A peso loan available to individuals or entrepreneurs to finance the purchase of brand-new or second-hand vehicles. Re-financing of units already owned by the applicant is also covered by the product.

Jewelry Loan

A multi-purpose loan facility offered to individuals and secured by jewelry or gold items. The loan is payable via advance monthly interest payments with the loan principal payable monthly or upon maturity.

COMMERCIAL LOAN

Small and Medium Enterprise Loan

A loan program that helps build business by providing short and long term facilities to Small and Medium Enterprise to support liquidity or capital build-up, expansion and acquisitions or buyouts, among and other business needs.

Small Business Loan

A loan product that is a fully-secured credit facility (either by real estate or deposits) targeted to Small and Medium Enterprises (SMEs). In the current market, SMEs have limited access to credit.

The SBL product aims to address this need by providing SMEs the cash they need to grow their business. Extending loans to this target market will also help the Bank in increasing its deposits, given that SMEs represent a huge CA/SA market.

BRANCH NETWORK & ATMs

LEGAZPI
Regular Branch
Rizal Comer & Mabini Streets,
4500 Legazpi City
TL- (052) 732-3000 to 30005;
(02) 8396-7460; 0919-063-0926;
0919-0630- 944/945
local 8001; (052) 742-1380
0919-0630-0927

ALBAY
Regular Branch
738 Building, Rizal, Street
Old Albay District 4500
Legazpi City
TL- (052) 732-3000 to 30005;
(02) 8396-7460; 0919-063-0926;
0919-0630- 944/945 local 80006;
80106
0919-0630-0932

MASBATE
Regular Branch
Units 8&9, S&T Building
Cagba Street
Brgy. Tugbo, Masbate City
TL- (052) 732-3000 to 30005;
(02) 8396-7460; 0919-063-0926;
0919-0630- 944/945 local 80010 ;
(056)333-5744
0919-0630-0935

POLANGUI
Regular Branch
National Road, Basud
Polangui, Albay
TL- (052) 732-3000 to 30005;
(02) 8396-7460; 0919-063-0926;
0919-0630- 944/945 local 80004
0919-0630-0930

DAET
Regular Branch
SUBIA Building J Lukban Street
Daet, Camarines Norte
TL- (052) 732-3000 to 30005;
(02) 8396-7460; 0919-063-0926;
0919-0630- 944/945 local 80008;
80108
0919-0630-0934

DARAGA
Regular Branch
Perete Building
Sta. Maria Street
San Roque, Daraga, Albay
TL- (052) 732-3000 to 30005;
(02) 8396-7460; 0919-063-0926;
0919-0630- 944/945 local 8002
0919-0630-0928

DASMARIÑAS
Branch-Lite
WINCORP Building
Molino-Paliparan Road Salawag,
Dasmariñas City, Cavite
TL- (052) 732-3000 to 30005;
(02) 8396-7460; 0919-063-0926;
0919-0630- 944/945 local 80016
0998-565-8874

GOA
Branch-Lite
J. Quinzon Building
Bagumbayan Pequeño
Rizal Street, Goa, Camarines Sur
TL- (052) 732-3000 to 30005;
(02) 8396-7460; 0919-063-0926;
0919-0630- 944/945 local 80012;
80112
0919-0630-0938

GUINOBATAN
Regular Branch
T. Paulate Street
Guinobatan, Albay
TL- (052) 732-3000 to 30005;
(02) 8396-7460; 0919-063-0926;
0919-0630- 944/945 local 80007
0919-0630-0933

LUCENA
Regular Branch
A.M. Lubi Building
corner Tagarao & Elias Streets
Brgy. 5, Lucena City
TL- (052) 732-3000 to 30005;
(02) 8396-7460; 0919-063-0926;
0919-0630- 944/945 local 80014 ;
80114; (042) 717-6765
0919-0630-0940

NAGA
Regular Branch
NEA Building, Triangulo
Naga City
TL- (052) 732-3000 to 30005;
(02) 8396-7460; 0919-063-0926;
0919-0630- 944/945 local 80011;
80111
0919-0630-0936

SAN FERNANDO, PAMPANGA
Regular Branch
4 AND 2 Building
Mc Arthur Highway Sindalan
TL- (052) 732-3000 to 30005;
(02) 8396-7460; 0919-063-0926;
0919-0630- 944/945 local 80015;
(045) 436-60005
0998-565-8865

SORSOGON
Regular Branch
CBA Bldg. Jamoralin Street,
Burabod, Sorsogon City
TL- (052) 732-3000 to 30005;
(02) 8396-7460; 0919-063-0926;
0919-0630- 944/945 local 80005
0919-0630-0931

TABACO
Regular Branch
G/F, N.N. Building
AA Berces Street, Basud
Tabaco City
TL- (052) 732-3000 to 30005;
(02) 8396-7460; 0919-063-0926;
0919-0630- 944/945 local 8003
0919-0630-0929

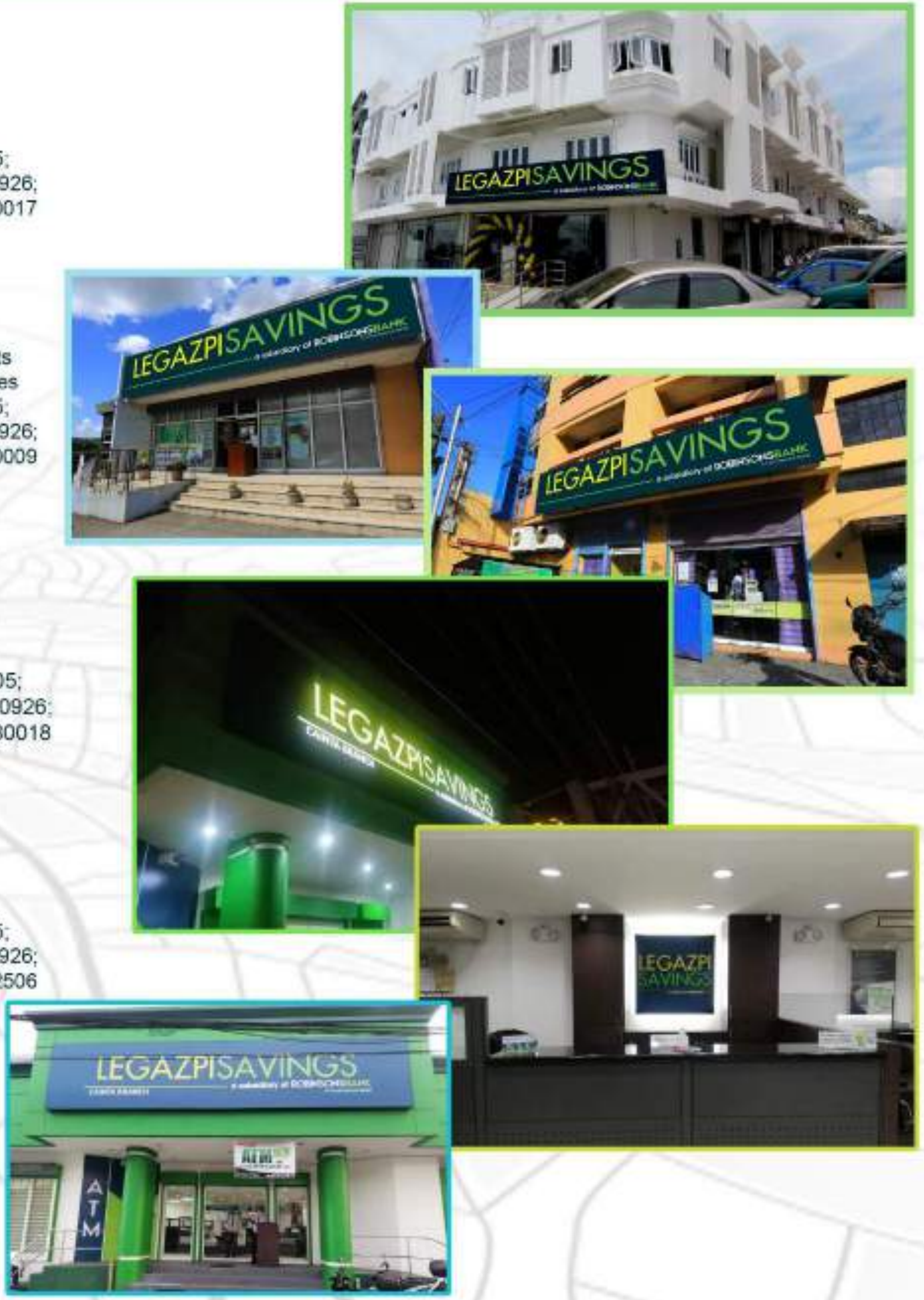
CALAUAG
Branch-Lite
Agravante Building
Rizal Street, Brgy. Sta. Maria
Calauag, Quezon
TL- (052) 732-3000 to 30005;
(02) 8396-7460; 0919-063-0926;
0919-0630- 944/945 local 80013 ;
(042) 717-6763
0919-0630-0937

IRIGA
Branch-Lite
DLS Building, 121-Zone 6
Hi-Way 1, San Isidro
Iriga City
TL- (052) 732-3000 to 30005;
(02) 8396-7460; 0919-063-0926;
0919-0630- 944/945 local 80017
0998-565-8876

VIRAC
Regular Branch
G/F D&L Building
corner Surtida & Rizal Streets
San Jose, Virac, Catanduanes
TL- (052) 732-3000 to 30005;
(02) 8396-7460; 0919-063-0926;
0919-0630- 944/945 local 80009
0919-0630-0919

CAINTA
Regular Branch
"ECCOI Corporate Center,
Ortigas Extension,
St. Anthony Subdivision,
Cainta, Rizal
TL- (052) 732-3000 to 30005;
(02) 8396-7460; 0919-063-0926;
0919-0630- 944/945 local 80018
0998-565-8893

MALOLOS
Branch-Lite
MKTJ Building M2, Fausta,
Subdivision, Mabolo,
Malolos, Bulacan
TL- (052) 732-3000 to 30005;
(02) 8396-7460; 0919-063-0926;
0919-0630- 944/945 local 82506
0919-063-0946



INDEPENDENT AUDITOR'S REPORT

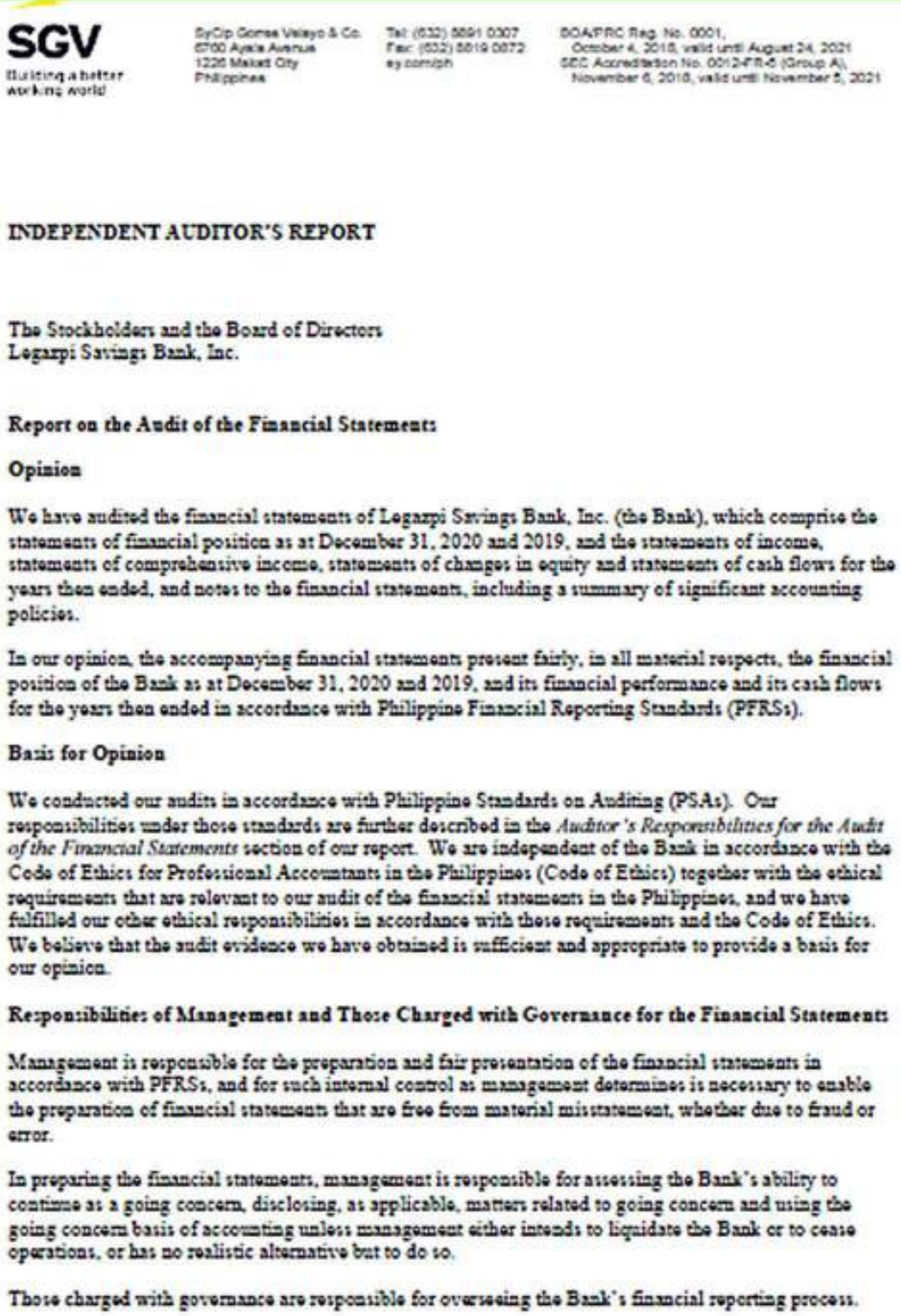
Legazpi Savings Bank, Inc.
(A Wholly Owned Subsidiary of Robinsons Bank Corporation)

Financial Statements
December 31, 2020 and 2019

and

Independent Auditor's Report

SGV



SGV
Building a better
working world

SyCip Gorres Velayo & Co.
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1226 Makati City
Philippines

Tel: (632) 8891 0307
Fax: (632) 8819 0872
ey.com/ph

BOA/PRC Reg. No. 0001,
October 4, 2018, valid until August 24, 2021
SEC Accreditation No. 0012-FR-5 (Group A),
November 6, 2018, valid until November 5, 2021

INDEPENDENT AUDITOR'S REPORT

The Stockholders and the Board of Directors
Legazpi Savings Bank, Inc.

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Legazpi Savings 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 (PFRSs).

Basis for Opinion

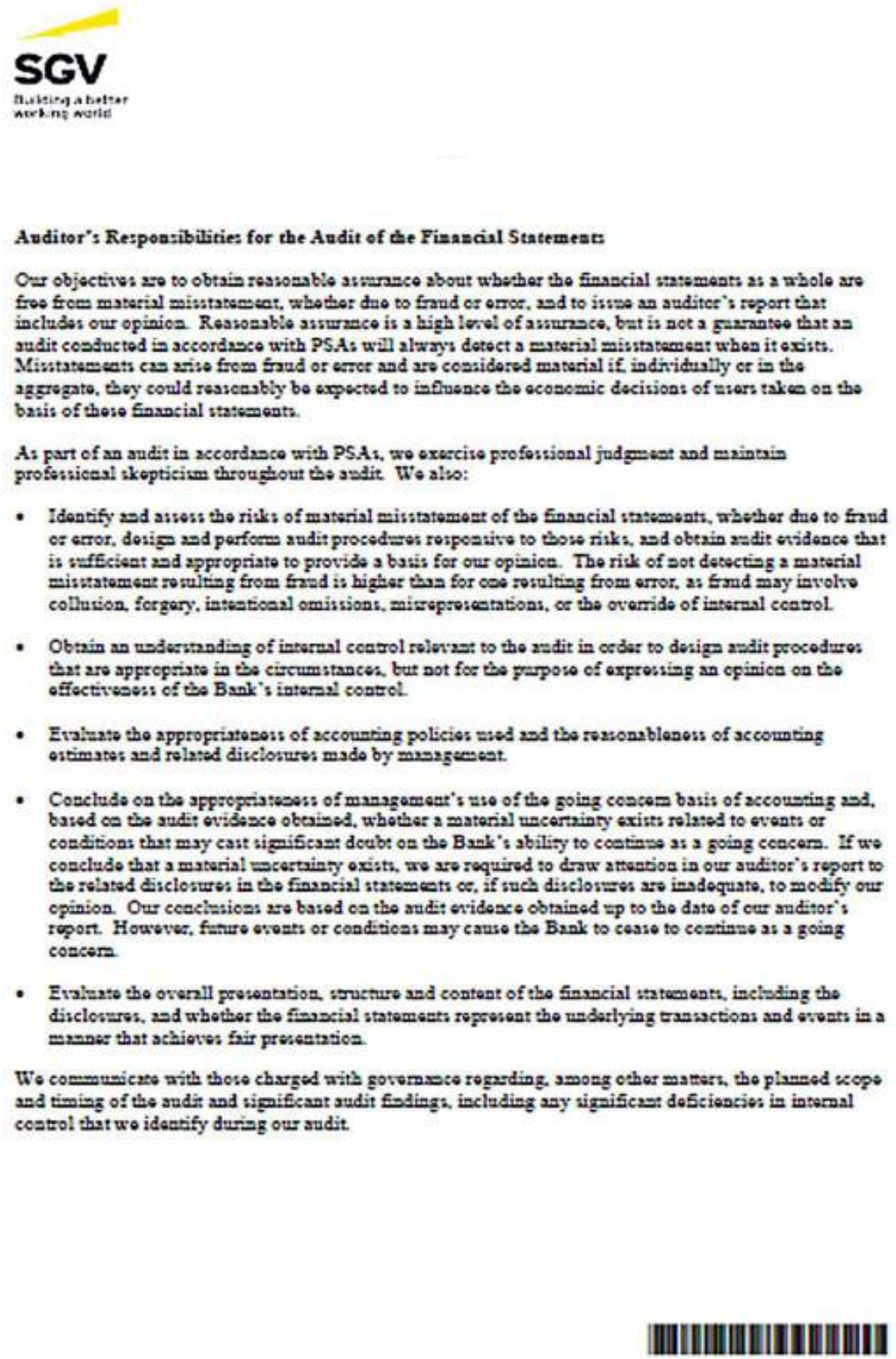
We conducted our audits in accordance with Philippine Standards on Auditing (PSAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Bank in accordance with the Code of Ethics for Professional Accountants in the Philippines (Code of Ethics) together with the ethical requirements that are relevant to our audit 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 PFRSs, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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



Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

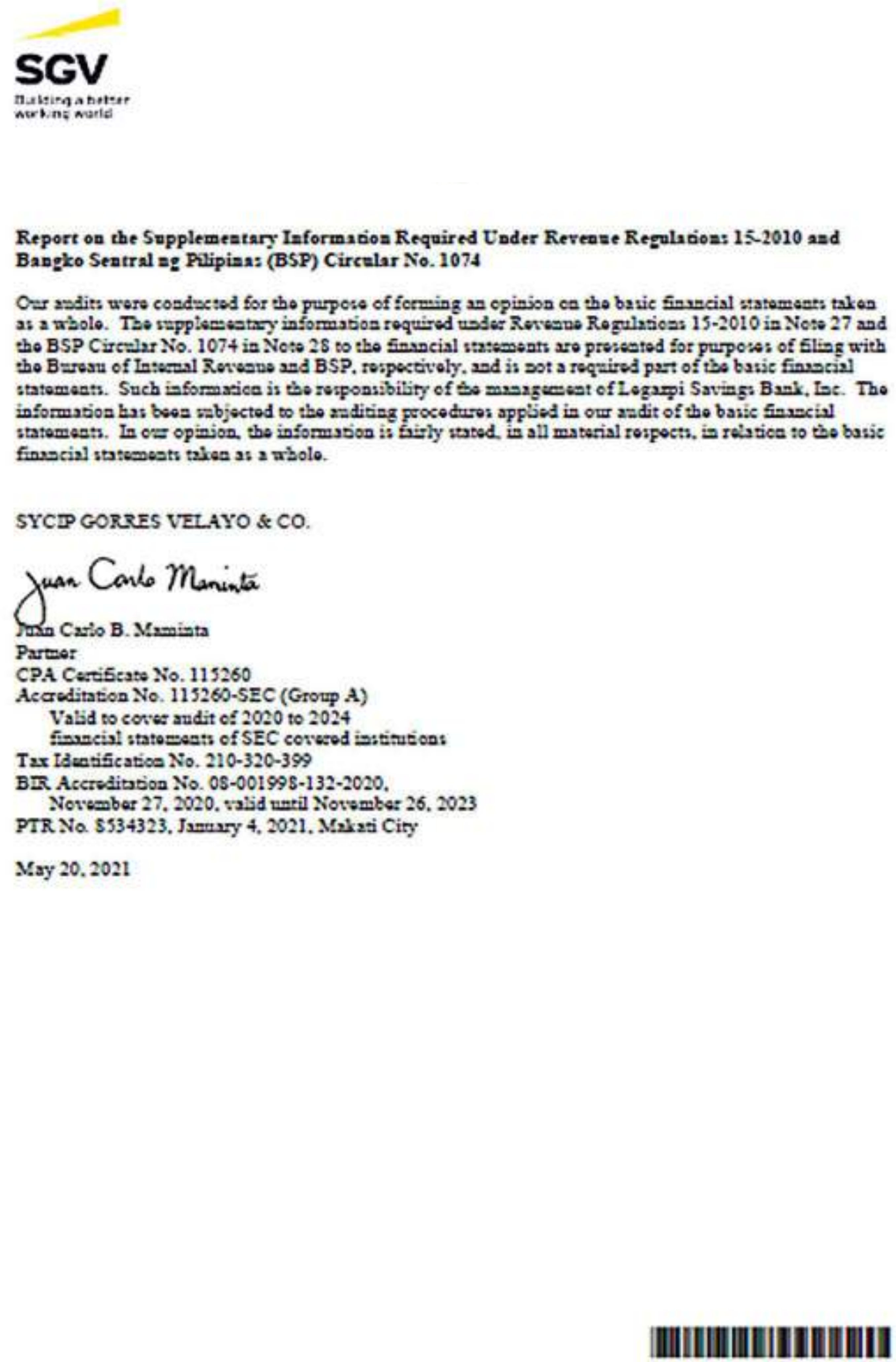
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.

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

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

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

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



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

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information required under Revenue Regulations 15-2010 in Note 27 and the BSP Circular No. 1074 in Note 28 to the financial statements are presented for purposes of filing with the Bureau of Internal Revenue and BSP, respectively, and is not a required part of the basic financial statements. Such information is the responsibility of the management of Legazpi Savings Bank, Inc. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

Juan Carlo Maminta

Juan Carlo B. Maminta
Partner
CPA Certificate No. 115260
Accreditation No. 115260-SEC (Group A)
Valid to cover audit of 2020 to 2024
financial statements of SEC covered institutions
Tax Identification No. 210-320-399
BIR Accreditation No. 08-001998-132-2020,
November 27, 2020, valid until November 26, 2023
PTR No. 8534323, January 4, 2021, Makati City

May 20, 2021

LEGAZPI SAVINGS BANK, INC.
STATEMENTS OF FINANCIAL POSITION

	December 31	
	2020	2019
ASSETS		
Cash and Other Cash Items	₱113,070,533	₱72,868,361
Due from Bangko Sentral ng Pilipinas (Note 13)	444,968,492	391,666,967
Due from Other Banks	98,109,462	91,869,631
Securities Purchased Under Resale Agreement (Note 6)	129,666,175	66,578,028
Investment Securities at Amortized Cost (Note 7)	19,998,100	200,309,182
Loans and Receivables (Notes 8 and 22)	1,624,488,820	1,579,602,409
Property and Equipment (Note 9)	138,431,131	142,812,646
Investment Properties (Note 10)	105,813,713	115,890,079
Deferred Tax Asset (Note 21)	128,598,596	113,377,046
Other Assets (Note 11)	18,247,783	14,986,695
	₱2,821,392,805	₱2,789,961,044
LIABILITIES AND EQUITY		
LIABILITIES		
Deposit Liabilities (Notes 13 and 22)		
Demand	₱171,545,768	₱175,869,191
Savings	1,523,699,167	1,415,340,652
Time	362,276,750	380,821,370
	2,057,521,685	1,972,031,213
Accrued Expenses (Note 14)	20,651,593	26,950,414
Redeemable Preferred Shares (Note 15)	30,700,000	30,700,000
Other Liabilities (Note 14)	97,037,615	92,639,101
	2,205,910,893	2,122,320,728
EQUITY		
Capital Stock (Note 17)	1,245,960,000	1,245,960,000
Deficit	(631,839,217)	(580,805,189)
Surplus Reserve (Note 17)	6,451,913	6,451,913
Remeasurement Loss on Retirement Liability (Note 19)	(5,090,784)	(3,966,408)
	615,481,912	667,640,316
	₱2,821,392,805	₱2,789,961,044

See accompanying Notes to Financial Statements.

LEGAZPI SAVINGS BANK, INC.
STATEMENTS OF INCOME

	Years Ended December 31	
	2020	2019
INTEREST INCOME		
Loans and receivables (Notes 8 and 22)	₱367,743,622	₱330,641,740
Due from Bangko Sentral ng Pilipinas and other banks	9,642,645	10,333,621
Securities Purchased Under Resale Agreement (Note 6)	4,014,132	5,463,332
Investment securities at amortized cost (Note 7)	3,594,339	8,350,307
	384,994,738	354,789,000
INTEREST EXPENSE		
Deposit liabilities (Notes 13 and 22)	31,717,668	26,757,084
Lease liability (Notes 14 and 20)	4,778,928	4,334,866
	36,496,596	31,091,950
NET INTEREST INCOME	348,498,142	323,697,050
Service fees and commission income (Note 18)	1,381,573	1,672,222
Service fees and commission expense (Note 18)	4,568,001	8,884,263
NET SERVICE FEES AND COMMISSION INCOME (EXPENSE) (Note 18)	(3,186,428)	(7,212,041)
Gain on sale of investment securities at amortized cost (Note 7)	2,931,859	–
Profit from assets sold (Notes 9, 10 and 11)	1,846,258	13,015,692
Gain on foreclosure - net (Notes 10 and 11)	358,177	12,418,272
Loss on modification of loans (Note 8)	(79,838,113)	–
Miscellaneous (Notes 18)	17,597,382	14,365,935
TOTAL OPERATING INCOME	288,207,277	356,284,908
OPERATING EXPENSES		
Compensation and fringe benefits (Notes 19 and 22)	126,080,121	118,135,657
Provision for credit and impairment losses (Note 12)	51,435,707	595,843
Depreciation and amortization (Note 9)	42,713,948	36,982,860
Security, messengerial and janitorial	35,759,849	46,856,172
Taxes and licenses	17,427,615	25,557,007
Information technology	14,988,225	10,256,315
Transportation and travel	11,355,413	17,250,978
Occupancy and equipment-related (Note 20)	10,734,384	13,534,478
Power, light and water	8,227,197	8,959,091
Insurance	7,846,365	6,537,224
Communication	3,483,680	4,852,505
Management and professional fees	1,991,845	1,997,137
Entertainment, amusement, and recreation (Note 21)	1,842,193	2,078,971
Miscellaneous (Note 18)	13,054,219	13,949,959
TOTAL OPERATING EXPENSES	346,940,761	307,544,197
INCOME BEFORE INCOME TAX	(58,733,484)	48,740,711
BENEFIT FROM INCOME TAX (Note 21)	(7,699,456)	(76,925,802)
NET INCOME (LOSS)	(₱51,034,028)	₱125,666,513

See accompanying Notes to Financial Statements.

LEGAZPI SAVINGS BANK, INC.
STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31	
	2020	2019
NET INCOME (LOSS)	**(₱51,034,028)**	P125,666,513
OTHER COMPREHENSIVE INCOME (LOSS)		
Item that may not be reclassified to profit or loss:		
Remeasurement loss on retirement liability (Note 19)	(5,090,784)	(5,228,610)
TOTAL COMPREHENSIVE INCOME (LOSS)	**(₱56,124,812)**	P120,437,903

See accompanying Notes to Financial Statements.

LEGAZPI SAVINGS BANK, INC.
STATEMENTS OF CHANGES IN EQUITY

	Capital stock (Note 17)	Deficit	Surplus reserve (Note 17)	Remeasurement gain (loss) on retirement liability (Note 19)	Total
Balance at January 1, 2020	**₱1,245,960,000**	**(₱580,805,189)**	**₱6,451,913**	**(₱3,966,408)**	**₱667,640,316**
Total comprehensive income	–	(51,034,028)	–	(1,124,376)	(52,158,404)
Balance at December 31, 2020	**₱1,245,960,000**	**(₱631,839,217)**	**₱6,451,913**	**(₱5,090,784)**	**₱615,481,912**
Balance at January 1, 2019	₱1,245,960,000	(₱706,471,702)	₱6,451,913	₱1,262,202	₱547,202,413
Total comprehensive income	–	125,666,513	–	(5,228,610)	120,437,903
Balance at December 31, 2019	₱1,245,960,000	(₱580,805,189)	₱6,451,913	(₱3,966,408)	₱667,640,316

See accompanying Notes to Financial Statements.

LEGAZPI SAVINGS BANK, INC.

STATEMENTS OF CASH FLOWS

	Years Ended December 31	
	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	(₱58,733,484)	₱48,740,711
Adjustments for:		
Provision for credit and impairment losses (Note 12)	51,435,707	595,843
Depreciation and amortization (Note 9)	42,713,948	36,982,860
Interest on lease liability (Notes 14 and 20)	4,778,928	4,334,866
Retirement expense (Note 19)	4,472,827	4,407,881
Gain on sale of investment securities at amortized cost (Note 7)	(2,931,859)	–
Profit from assets sold (Notes 9, 10 and 11)	(1,846,258)	(13,015,692)
Gain on foreclosure (Notes 10 and 11)	(358,177)	(12,418,272)
Changes in operating assets and liabilities:		
Increase in:		
Loans and receivables	(99,871,780)	(540,158,551)
Other assets	(1,979,993)	(3,200,594)
Increase (decrease) in:		
Deposit liabilities	85,490,472	364,586,324
Accrued expenses	(6,298,821)	15,341,007
Other liabilities	(7,797,861)	7,572,235
Net cash used in operations	9,073,649	(86,231,382)
Income taxes paid	(7,282,240)	(8,724,834)
Net cash provided by (used in) operating activities	1,791,409	(94,956,216)
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisitions of:		
Property and equipment (Note 9)	(20,595,895)	(33,711,589)
Software costs (Note 11)	(1,359,528)	(1,108,893)
Branch licenses (Note 11)	(310,000)	–
Proceeds from sale of:		
Investment securities at amortized cost (Note 7)	183,242,931	–
Investment properties (Notes 10 and 24)	10,299,419	12,979,410
Property and equipment (Note 9)	241,499	2,091,165
Repossessed chattels (Note 11)	14,500	427,000
Net cash used in investing activities	171,532,926	(19,322,907)
CASH FLOWS FROM FINANCING ACTIVITY		
Payment of principal portion of lease liability (Note 20)	(10,492,660)	(8,144,547)
NET DECREASE IN CASH AND CASH EQUIVALENTS	162,831,675	(234,347,737)

(Forward)

	Years Ended December 31	
	2020	2019
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		
Cash and other cash items	₱72,868,361	₱70,058,658
Due from Bangko Sentral ng Pilipinas	391,666,967	521,361,553
Due from other banks	91,869,631	65,986,446
Securities purchased under resale agreement	66,578,028	88,000,000
	₱622,982,987	₱745,406,657
CASH AND CASH EQUIVALENTS AT END OF YEAR		
Cash and other cash items	₱113,070,533	₱72,868,361
Due from Bangko Sentral ng Pilipinas	444,968,492	391,666,967
Due from other banks	98,109,462	91,869,631
Securities purchased under resale agreement	129,666,175	66,578,028
	₱785,814,662	₱622,982,987
OPERATIONAL CASH FLOWS FROM INTEREST		
Interest received	₱336,688,052	₱356,111,841
Interest paid	₱37,187,846	₱27,450,469

See accompanying Notes to Financial Statements.

1. Corporate Information

Legazpi Savings Bank, Inc. (the Bank) was incorporated and registered with the Philippine Securities and Exchange Commission (SEC) on May 8, 1976. The Bank offers a wide range of financial services that includes checking, savings, special savings, time, automated teller machine (ATM) accounts, market vendors loan, agricultural loan, salary loan for employees, real estate loan, consumption loan, commercial loan, credit line, bills purchased line, back-to-back loan, auto loan, housing loan, developmental loan, and other financial services.

The Bank operates and provides its services through a network of nineteen (19) banking units including its head office and a main branch in the area of Albay.

The Bank's principal place of business is at 738 Bldg. Rizal Street, Old Albay District, Legazpi City.

Robinsons Bank Corporation (the Parent Bank) acquired effective control and management of the Bank on December 26, 2012, in accordance with Philippine Financial Reporting Standards (PFRS) 3, *Business Combinations*.

The Parent Bank is 60.00% and 40.00% owned by JG Summit Capital Services Corporation and Robinsons Retail Holdings, Inc., respectively. The ultimate parent company of the Bank is JG Summit Holdings, Inc.

2. Summary of Significant Accounting Policies

Basis of Preparation

The accompanying financial statements of the Bank have been prepared on a historical cost basis. The financial statements are presented in Philippine Peso (PHP), the Bank's functional and presentation currency and all amounts are rounded to the nearest peso (₱), unless otherwise indicated.

Statement of Compliance

The Bank's financial statements have been prepared in compliance with PFRSs.

Presentation of Financial Statements

The Bank presents its statements of financial position broadly in the order of liquidity. An analysis regarding the recovery or settlement within twelve (12) months after the statement of financial position date (current) and more than twelve (12) months after the statement of financial position date (non-current) is presented in Note 16.

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously.

The Bank assessed that it has a currently enforceable legal right of offset if the right is not contingent on a future event, and is legally enforceable in the normal course of business, and in the event of solvency or bankruptcy of the Bank and all of the counterparties. Income and expense are not offset in the statement of income unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the accounting policies of the Bank.

Changes in Accounting Policies and Disclosures

The accounting policies adopted are consistent with those of the previous financial year except for the following new, amendments and improvements to PFRS, Philippine Accounting Standards (PAS) and Philippine Interpretation which became effective starting January 1, 2020. Except as otherwise indicated, these changes in the accounting policies did not have any significant impact on the financial position or performance of the Bank:

- Amendments to PFRS 3, *Business Combinations, Definition of a Business*
- Amendments to PFRS 7, *Financial Instruments: Disclosures* and PFRS 9, *Financial Instruments, Interest Rate Benchmark Reform*
- Amendments to PAS 1, *Presentation of Financial Statements,* and PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors, Definition of Material*
- Conceptual Framework for Financial Reporting issued on March 29, 2018

Standard that has been adopted and that is deemed to have significant impact on the financial statements or performance of the Bank is described below:

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

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

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

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

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

  The Bank adopted the relief granted by the amendments applying early adoption beginning January 1, 2020. The adoption of the amendments resulted in an increase in Miscellaneous income amounting to ₱0.62 million for the year ended December 31, 2020 (see Note 20).

Significant Accounting Policies

Fair Value Measurement

For measurement and disclosure purposes, the Bank determines the fair value of an asset or a liability at initial measurement date or at each statement of financial position date. Fair value is the estimated price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

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

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

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

If the asset or liability measure at fair value has a bid and ask price, the price within the bid-ask spread that is the most representative of fair value in the circumstances shall be used to measure fair value, regardless of where the input is categorized within the fair value hierarchy.

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

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

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

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

<u>Cash and Cash Equivalents</u>
Cash and cash equivalents include 'Cash and other cash items (COCI)', 'Due from Bangko Sentral ng Pilipinas (BSP)', 'Due from other banks' and 'Securities Purchased Under Resale Agreement (SPURA)' with original maturities of three (3) months or less from dates of placements and that are subject to insignificant risk of changes in value. Due from BSP includes statutory reserves required by the BSP which the Bank considers as cash equivalents wherein withdrawals can be made to meet the Bank's cash requirements as allowed by the BSP.

<u>Financial Instruments - Initial Recognition and Subsequent Measurement</u>
Date of recognition
Purchases or sales of financial instruments that require delivery of assets within the time frame established by regulation or convention in the marketplace are recognized on the settlement date. Settlement date accounting refers to (a) recognition of an asset on the day it is received by the Bank, and (b) the derecognition of an asset and recognition of any gain or loss on disposal on the day that it is delivered by the Bank. Deposits, amounts due from banks and customers and loans are recognized when cash is received by the Bank or advanced to the borrowers.

Initial recognition of financial instruments
All financial assets and financial liabilities are recognized initially at fair value plus any directly attributable cost of acquisition or issue, except in the case of financial assets and financial liabilities at financial assets at fair value through profit or loss.

'Day 1' difference
Where the transaction price in a non-active market is different from the fair value from other observable current market transactions in the same instrument or computed based on a valuation technique whose variables include only data from observable markets, the Bank recognizes the difference between the transaction price and the fair value (a 'Day 1' difference) in the statement of income, unless it qualifies for recognition as some other type of asset or liability. In cases where fair value is determined using data which are not observable from the market, the difference between the transaction price and the model value is only recognized in the statement of income when the inputs become observable or when the instrument is derecognized. For each transaction, the Bank determines the appropriate method of recognizing the amount of 'Day 1' difference.

<u>Classification and Measurement of Financial Assets</u>
Financial assets are classified in their entirety based on the contractual cash flows characteristics of the financial assets and the Bank's business model for managing financial assets. The Bank classifies its financial assets into the following categories: financial assets at fair value through profit or loss (FVTPL), financial assets at fair value through other comprehensive income (FVOCI) with recycling of cumulative gains and losses (debt instruments), financial assets designated at FVOCI with no recycling of cumulative gains and losses upon derecognition (equity instruments) and financial assets measured at amortized cost (AC). For purposes of classifying financial assets, an instrument is an 'equity instrument' if it is a non-derivative and meets the definition of 'equity' for the issuer (under PAS 32, *Financial Instruments: Presentation*), except for certain non-derivative puttable instruments presented as equity by the issuer. All other non-derivative financial assets are 'debt instruments'.

As of December 31, 2020 and 2019, the Bank do not have financial assets at FVTPL and FVOCI.

Contractual cash flows characteristics
If the financial asset is held within a business model whose objective is to hold assets to collect contractual cash flows or within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, the Bank assesses whether the cash flows from the financial asset represent solely payments of principal and interest (SPPI) on the principal amount outstanding. 'Principal' for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset (e.g. if there are repayments of principal or amortization of the premium or discount). Instruments that do not pass this test are automatically classified at FVTPL.

In making this assessment, the Bank determines whether the contractual cash flows are consistent with a basic lending arrangement, i.e., interest includes consideration only for the time value of money, credit risk and other basic lending risks and costs associated with holding the financial asset for a particular period of time.

Business model
The Bank's business model is determined at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. The Bank's business model does not depend on management's intentions for an individual instrument, rather it refers to how it manages its financial assets in order to generate cash flows.

The Bank's business model determines whether cash flows will result from collecting contractual cash flows, selling financial assets or both. Relevant factors considered by the Bank in determining the business model for a group of financial assets include how the performance of the business model and the financial assets held within that business model are evaluated and reported to the Bank's key management personnel, the risks that affect the performance of the business model (and the financial assets held within that business model) and how these risks are managed and how managers of the business are compensated.

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

Financial assets at amortized cost

A financial asset is measured at amortized cost if (i) it is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and (ii) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. These financial assets are initially recognized at fair value plus directly attributable transaction costs and subsequently measured at amortized cost using the EIR method, less any impairment in value. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the EIR. The amortization is included in 'Interest income' in the statement of income and is calculated by applying the EIR to the gross carrying amount of the financial asset, except for (i) purchased or originated credit-impaired financial assets and (ii) financial assets that have subsequently become credit-impaired, where, in both cases, the EIR is applied to the amortized cost of the financial asset.

The Bank classified 'Cash and other cash items', 'Due from BSP', 'Due from other banks', Securities purchased under resale agreements', 'Investment securities at amortized cost', 'Loans and receivables' and refundable security deposits (included under 'Other assets') as financial assets at amortized cost.

The Bank may irrevocably elect at initial recognition to classify a debt financial asset that meets the amortized cost criteria above as at FVTPL if that designation eliminates or significantly reduces an accounting mismatch had the debt financial asset been measured at amortized cost.

As of December 31, 2020 and 2019, the Bank has not made such designation.

Reclassifications of financial instruments

The Bank reclassifies its financial assets when, and only when, there is a change in the business model for managing the financial assets. Reclassifications shall be applied prospectively by the Bank and any previously recognized gains, losses or interest shall not be restated. The Bank does not reclassify its financial liabilities.

The Bank is required to reclassify the following financial assets:

- from amortized cost to FVTPL if the objective of the business model changes so that the amortized cost criteria are no longer met;
- 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 instrument's contractual cash flows meet the amortized cost criteria.; and

- from FVOCI to amortized cost if the objective of the business model changes so that the fair value criteria are no longer met but the amortized cost criteria is still met and the instrument's contractual cash flows meet the amortized cost criteria.

<u>Impairment of Financial Assets</u>

The Bank records expected credit loss (ECL) for all loans and other debt financial assets not classified as FVTPL, together with loan commitments and financial guarantee contracts.

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

Staging assessment

For non-credit-impaired financial instruments:

- Stage 1 is comprised of all financial instruments which have not experienced a SICR since initial recognition or is considered of low credit risk as of the reporting date. In determining whether an account should be assessed under Stage 1, the Bank considers the number of days past due as its criteria. Loans past due up to 30 days except for microfinance loans wherein days past due for Stage 1 accounts is 0 - 6 days are considered Stage 1. The Bank recognizes a 12-month ECL for Stage 1 financial instruments.
- Stage 2 is comprised of all financial instruments which have experienced a SICR since initial recognition. A SICR is generally deemed present in accounts with more than 30 days up to 90 days past due, except for microfinance loans. The Bank recognizes a lifetime ECL for Stage 2 financial instruments.

For credit-impaired financial instruments:

- Stage 3 is comprised of all financial assets that have objective evidence of impairment as a result of one or more loss events that have occurred after initial recognition with a negative impact on the estimated future cash flows of a loan or a portfolio of loans. The Bank recognizes a lifetime ECL for Stage 3 financial instruments.

Definition of "default"

The Bank classifies a financial instrument as in default when it is credit impaired, or becomes past due on its contractual payments for more than 90 days except for microfinance loans wherein days past due is more than 10 days. As part of a qualitative assessment of whether a customer is in default, the Bank considers a variety of instances that may indicate unlikeliness to pay. When such events occur, the Bank carefully considers whether the event should result in treating the customer as defaulted. An instrument is considered to be no longer in default (i.e. restored) if there is sufficient evidence to support that full collection is probable and payments are received for at least six months.

Credit risk at initial recognition

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

Significant increase in credit risk
The assessment of whether there has been a significant increase in credit risk is based on an increase in the probability of a default occurring since initial recognition. The SICR criteria vary by portfolio and include quantitative changes in probabilities of default and qualitative factors, including a backstop based on delinquency. The credit risk of a particular exposure is deemed to have increased significantly since initial recognition if, based on the Bank's internal credit assessment, the borrower or counterparty is determined to require close monitoring or with well-defined credit weaknesses.

For exposures without internal credit grades, if contractual payments are more than 30 days (except for microfinance loans wherein the threshold for SICR is 7 - 10 days), the credit risk is deemed to have increased significantly since initial recognition. Days past due are determined by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received. Due dates are determined without considering any grace period that might be available to the borrower. In subsequent reporting periods, if the credit risk of the financial instrument improves such that there is no longer a SICR since initial recognition, the Bank shall revert to recognizing a 12-month ECL.

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

The PD is an estimate of the likelihood of default over a 12-month horizon for Stage 1 or lifetime horizon for Stage 2. The PD for each individual instrument is modelled based on historic data and is estimated based on current market conditions and reasonable and supportable information about future economic conditions. The Bank segmented its credit exposures based on homogenous risk characteristics and developed a corresponding PD methodology for each portfolio. The PD methodology for each relevant portfolio is determined based on the underlying nature or characteristic of the portfolio, behavior of the accounts and materiality of the segment as compared to the total portfolio.

LGD is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from any collateral.

EAD is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, and expected drawdowns on committed facilities.

Forward-looking information
The Bank incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL. A broad range of forward-looking information are considered as economic inputs, such as GDP growth, exchange rate, interest rate, inflation rate and other economic indicators. The inputs and models used for calculating ECL may not always capture all characteristics of the market at the date of the financial statements. To reflect this, qualitative adjustments or overlays are occasionally made as temporary adjustments when such differences are significantly material.

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

Restructured loans
Where possible, the Bank seeks to restructure past due loans rather than take possession of the related collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, any impairment is measured using the original EIR as calculated before the modification of terms and the loan is no longer considered past due. Management continually reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original EIR. The difference between the recorded value of the original loan and the present value of the restructured cash flows, discounted at the original EIR, is recognized as part of interest income in the statement of income.

Financial Liabilities
Financial liabilities are classified as financial liabilities at FVTPL and other financial liabilities. The classification of financial liabilities at initial recognition depends on the purpose for which the financial liabilities are incurred and their characteristics.

As of December 31, 2020 and 2019, the Bank has no financial liabilities at FVTPL.

Other financial liabilities
This pertains to financial liabilities that are not held for trading or not designated as at FVTPL at the inception of the liability. Other financial liabilities are recognized initially at fair value and are subsequently carried at amortized cost, taking into account the impact of applying the effective interest method of amortization (or accretion) for any related premium, discount and any directly attributable transaction costs.

This category includes 'Deposit liabilities', 'Redeemable preferred shares', and certain items under 'Accrued expenses' and 'Other liabilities'.

Financial liabilities are measured at amortized cost, except for the following:

- financial liabilities measured at fair value through profit or loss;
- financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the Bank retains continuing involvement;
- financial guarantee contracts;
- commitments to provide a loan at a below-market interest rate; and
- contingent consideration recognized by an acquirer in accordance with PFRS 3.

A financial liability may be designated at fair value through profit or loss if it eliminates or significantly reduces a measurement or recognition inconsistency (an accounting mismatch) or:

- if a host contract contains one or more embedded derivatives; or
- if a group of financial liabilities or financial assets and liabilities is managed and its performance evaluated on a fair value basis in accordance with a documented risk management or investment strategy.

Where a financial liability is designated at fair value through profit or loss, the movement in fair value attributable to changes in the Bank's own credit quality is calculated by determining the changes in credit spreads above observable market interest rates and is presented separately in other comprehensive income.

Offsetting Financial Instruments

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

Income and expenses are not offset in the statement of income unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the accounting policies of the Bank.

Derecognition of Financial Assets and Liabilities

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized when:

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

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

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

The Bank derecognizes a financial asset when the terms and conditions have been renegotiated to the extent that, substantially, it becomes a new asset, with the difference between its carrying amount and the fair value of the new asset recognized as a derecognition gain or loss in profit or loss, to the extent that an impairment loss has not already been recorded.

The Bank considers both qualitative and quantitative factors in assessing whether a modification of financial asset is substantial or not. When assessing whether a modification is substantial, the Bank considers the following factors, among others:

- Change in currency
- Introduction of an equity feature
- Change in counterparty
- If the modification results in the asset no longer considered "solely payment for principal and interest"

The Bank also performs a quantitative assessment similar to that being performed for modification of financial liabilities. In performing the quantitative assessment, the Bank considers the new terms of a financial asset to be substantially different if the present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10.00% different from the present value of the remaining cash flows of the original financial asset.

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

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

Financial liability

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or has expired. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in statement of income.

Property and Equipment

Land is stated at cost less any impairment in value. Depreciable property and equipment are carried at cost less accumulated depreciation and amortization, and any impairment in value.

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

Depreciation and amortization are calculated using the straight-line method over the estimated useful life of the depreciable assets. Leasehold improvements are amortized over the shorter of the terms of the covering leases and the estimated useful lives of the improvements.

The estimated useful lives of property and equipment follow:

Building	25 years
Furniture and fixtures	1 to 3 years
Information technology (IT) and other office equipment	1 to 3 years
Transportation equipment	1 to 5 years
Leasehold improvements	10 years

The useful lives and the depreciation and amortization method are reviewed periodically to ensure that the period and the method of depreciation and amortization are consistent with the expected pattern of economic benefits from the items of property and equipment and adjusted prospectively, if appropriate.

The carrying values of the property and equipment and any significant part initially recognized are reviewed for impairment when events or changes in circumstances indicate the carrying values may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, an impairment loss is recognized in the statement of income (see accounting policy on Impairment of Non-financial Assets).

An item of property and equipment and any significant part initially recognized is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. 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 asset) is included in the statement of income in the year the asset is derecognized.

The Bank classifies right-of-use assets as part of property and equipment. The Bank recognizes right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are initially measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The initial cost of right-of-use assets includes the amount of lease liabilities recognized, initial direct costs incurred, lease payments made at or before the commencement date less any less any lease incentives received and estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories. Unless the Bank is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognized right-of-use assets are depreciated on a straight-line basis over the shorter of their estimated useful life and lease term. Right-of-use assets are subject to impairment.

Investment Properties

Investment properties are measured initially at cost, including transaction costs. Transaction costs represent nonrefundable taxes such as capital gains tax and documentary stamp tax that are for the account of the Bank. An investment property acquired through an exchange transaction is measured at fair value of the asset acquired unless the fair value of such an asset cannot be measured in which case the investment property acquired is measured at the carrying amount of asset given up. Foreclosed properties are classified as investment properties upon: a) entry of judgment in case of judicial foreclosure; b) execution of the Sheriff's Certificate of Sale in case of extra-judicial foreclosure; or c) notarization of the Deed of Dacion in case of dation in payment (dacion en pago). The difference between the fair value of the asset acquired and the carrying amount of the asset given up is recognized as 'Gain on foreclosure - net' in the statement of income.

Subsequent to initial recognition, depreciable investment properties are carried at cost less accumulated depreciation and impairment in value, if any.

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

Expenditures incurred after the investment properties have been put into operations, such as repairs and maintenance costs, are normally charged against income in the year in which the costs are incurred.

Depreciation is calculated on a straight-line basis using the remaining useful lives from the time of acquisition of the investment properties but not to exceed ten (10) years for buildings.

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

For a transfer from investment property to owner-occupied property, the deemed cost of property for subsequent accounting is its carrying value at the date of change in use. If the property occupied by the Bank as an owner-occupied property becomes an investment property, the Bank accounts for such property in compliance with the policy stated under property and equipment up to the date of change in use.

Other assets - Repossessed chattels

Repossessed chattels comprise repossessed vehicles and jewelries. Repossessed chattels are stated at cost less accumulated depreciation and impairment in value, if any. Depreciation is calculated on a straight-line basis using the remaining useful lives of the vehicles from the time of acquisition. The useful lives of repossessed chattels are estimated to be three (3) years.

Intangible Assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is its fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and expenditure is reflected in the statement of income in the year in which the expenditure is incurred.

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible assets may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life is reviewed at least at each statement of financial position date. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortization period or method, as appropriate, and treated as change in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the statement of income consistent with the function of the intangible asset.

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash generating unit (CGU) level. Such intangibles are not amortized. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is made on a prospective basis.

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

Branch licenses
Branch licenses arise from the acquisition of licenses to operate new branches from the BSP. Branch licenses have indefinite useful lives and are tested for impairment on an annual basis.

Software costs
Software costs are carried at cost less accumulated amortization and any accumulated impairment loss. Software costs are amortized on a straight-line basis over the estimated useful life which is three (3) years.

Impairment of Non-financial Assets

Property and equipment, investment properties and repossessed chattels
At each statement of financial position date, the Bank assesses whether there is any indication that its non-financial assets may be impaired. When an indicator of impairment exists or when an annual impairment testing for an asset is required, the Bank makes a formal estimate of recoverable amount.

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

Where the carrying amount of an asset (or CGU) exceeds its recoverable amount, the asset (or CGU) is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset (or CGU).

An impairment loss is charged to operations in the year in which it arises. An assessment is made at each statement of financial position date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset (or CGU) is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation and amortization, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the statement of income unless the asset (or CGU) is carried at a revalued amount, in which case the reversal is treated as a revaluation increase. After such a reversal, the depreciation and amortization expense is adjusted in future years to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining life.

Intangible assets
Intangible assets with indefinite useful lives are tested for impairment annually at the statement of financial position date either individually or at the CGU level, as appropriate. Intangible assets with finite lives are assessed for impairment whenever there is an indication that the intangible asset may be impaired.

Revenue Recognition

Revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The Bank follows a five-step model to account for revenue arising from contracts with customers. The five-step model is as follows:

a. Identify the contract(s) with a customer
b. Identify the performance obligations in the contract
c. Determine the transaction price
d. Allocate the transaction price to the performance obligation in the contract
e. Recognize revenue when (or as) the entity satisfies a performance obligation

The Bank exercises judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The Bank has concluded that it is acting as a principal in all of its revenue arrangements.

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

Revenues within the scope of PFRS 15

Service fees and commission income
These fees include service fees on deposit-related accounts and management fees. Fees on deposit-related accounts are recognized only upon collection or accrued when there is reasonable degree of certainty as to its collection.

Income from sale of property and equipment, investment property and repossessed chattels
Income from sale of property and equipment, investment property and repossessed chattels are recognized upon completion of the earning process and the collectability of the sales price is reasonably assured.

Other income
Other income is recognized when earned at a point in time and is recorded under 'Miscellaneous income' in the statement of income.

Revenues outside the scope of PFRS 15

Interest income
For all financial instruments measured at amortized cost and interest-bearing financial instruments, interest income is recorded at the EIR, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options), includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the EIR, but not future credit losses.

The carrying amount of the financial asset or financial liability is adjusted if the Bank revises its estimation of payment or receipts. The adjusted carrying amount is calculated based on the original EIR and the change in carrying amount is recorded as 'Interest income'.

Once the recorded value of a financial asset or group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognized using the original EIR applied to the new carrying amount.

Interest income - finance lease

The excess of aggregate lease rentals plus the estimated residual value over the cost of the leased investment property constitutes the unearned lease income. Residual values represent estimated proceeds from the disposal of investment property at the time lease is estimated. The unearned lease income is amortized over the term of the lease, commencing on the month the lease is executed using the EIR method.

Unearned lease income ceases to be amortized when the lease contract receivables become past due for more than three months.

Rental income

Rental income arising from operating leased properties is accounted for on a straight-line basis over the lease terms on ongoing leases and is recorded in the statement of income under 'Miscellaneous income'.

Expense Recognition

Expenses are recognized when it is probable that decrease in future economic benefits related to the decrease in asset or an increase in liability has occurred and that the decrease in economic benefits can be measured reliably. Expenses that may arise in the course of ordinary regular activities of the Bank include, among others, the operating expenses on the Bank's operation. Expenses are recognized as incurred.

Borrowing Cost

Borrowing costs are capitalized if they are directly attributable to the acquisition of a qualifying asset. Capitalization of borrowing costs commences when the activities to prepare the qualifying assets are in progress and expenditures and borrowing costs are incurred. Borrowing costs are capitalized until the qualifying assets are substantially ready for their intended use. All other borrowing costs are expensed as incurred.

Leases

The Bank determines at contract inception whether a contract is, or contains, a lease by assessing whether the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Bank as a lessor

Finance leases, where the Bank transfers substantially all the risks and benefits incidental to ownership of the leased item to the lessee, are included in the statement of financial position under 'Loans and receivables' account. A lease receivable is recognized at an amount equal to the net investment in the lease. All income resulting from the receivables is included in 'Interest income on loans and receivables' in the statement of income.

Leases where the Bank does not transfer substantially all the risks and benefits of ownership of the assets are classified as operating leases. Initial direct costs incurred in negotiating operating leases are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as the rental income. Contingent rents are recognized as revenue in the year in which they are earned.

Bank as a lessee

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

Lease liabilities

At the commencement date of the lease, the Bank recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Bank and payments of penalties for terminating a lease, if the lease term reflects the Bank exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognized as expense in the period on which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Bank uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset. Lease liabilities are presented under 'Other liabilities' in the statement of financial position.

Short-term leases and leases of low-value assets

The Bank applies the short-term lease recognition exemption to its leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option, and low-value assets recognition exemption to its leases of kiosk spaces on offsite locations and other equipment that are considered of low value (i.e., below ₱250,000). Lease payments on short-term leases and leases of low-value assets are recognized as expense under 'Occupancy and equipment-related' on a straight-line basis over the lease term.

Retirement Cost

The Bank has noncontributory defined benefit plan covering substantially all its officers and regular employees. Under this retirement plan, all covered officers and regular employees are entitled to cash benefits after satisfying certain age and service requirements.

The net defined benefit liability or asset is the aggregate of the present value of the defined benefit obligation at the end of the reporting period reduced by the fair value of plan assets (if any), adjusted for any effect of limiting a net defined benefit asset to the asset ceiling. The asset ceiling is the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

The cost of providing benefits under the defined benefit plans is actuarially determined using the projected unit credit method.

Defined benefit costs comprise the following:

- Service cost
- Net interest on the net defined benefit liability or asset
- Remeasurements of net defined benefit liability or asset

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

Net interest on the net defined benefit liability or asset is the change during the period in the net defined benefit liability or asset that arises from the passage of time which is determined by applying the discount rate based on government bonds to the net defined benefit liability or asset.

Net interest on the net defined benefit liability or asset is recognized as expense or income in the statement of income.

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

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

Termination benefit
Termination benefits are employee benefits provided in exchange for the termination of an employee's employment as a result of either an entity's decision to terminate an employee's employment before the normal retirement date or an employee's decision to accept an offer of benefits in exchange for the termination of employment.

A liability and expense for a termination benefit is recognized at the earlier of when the entity can no longer withdraw the offer of those benefits and when the entity recognizes related restructuring costs. Initial recognition and subsequent changes to termination benefits are measured in accordance with the nature of the employee benefit, as either post-employment benefits, short-term employee benefits, or other long-term employee benefits.

Provisions
Provisions are recognized when the Bank has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Bank expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the OCI, net of any reimbursement. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as an 'Interest expense' in the statement of income.

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

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

Effective January 1, 2019, management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretations and establishes provisions where appropriate.

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

Deferred tax liabilities are recognized for all taxable temporary differences, except:

- When the deferred tax liability arises from the initial recognition or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry forward of unused tax credits and unused tax losses can be utilized, except:

- When the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.
- In respect of deductible temporary differences associated with investment in subsidiaries, associates and interest in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each statement of financial position date and reduced to the extent that it is no longer probable that sufficient future taxable income will be available to allow all or part of the deferred tax assets to be utilized. Unrecognized deferred tax assets are reassessed at each statement of financial position date and are recognized to the extent that it has become probable that future taxable income will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settles, based on the tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognized outside profit or loss is recognized outside profit or loss. Deferred tax items are recognized in correlation to the underlying transactions either in OCI or directly in equity.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and same taxation authority. Tax benefits acquired as part of a business combination, but not satisfying criteria for separate recognition at that date, are recognized subsequently if new information about facts and circumstances change. The adjustment is either treated as a reduction in goodwill (as long as it does not exceed goodwill) if it was incurred during the measurement period or recognized in profit or loss.

Events After the Reporting Period

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

Standards Issued but Not Yet Effective

Standards issued but not yet effective up to the date of issuance of the Company's financial statements are listed below. The listing consists of standards and interpretations issued, which the Company reasonably expects to be applicable at a future date. The Company intends to adopt these standards when they become effective. Except as otherwise indicated, the Company does not expect the adoption of these new and amended PAS, PFRS and Philippine Interpretations to have significant impact on the financial statements.

Effective beginning on or after January 1, 2021

- Amendments to PFRS 9, PFRS 7, PFRS 4 and PFRS 16, *Interest Rate Benchmark Reform - Phase 2*

  The amendments provide the following temporary reliefs which address the financial reporting effects when an interbank offered rate (IBOR) is replaced with an alternative nearly risk-free interest rate (RFR):

  - Practical expedient for changes in the basis for determining the contractual cash flows as a result of IBOR reform
  - Relief from discontinuing hedging relationships
  - Relief from the separately identifiable requirement when an RFR instrument is designated as a hedge of a risk component

  The Bank shall also disclose information about:

  - The about the nature and extent of risks to which the entity is exposed arising from financial instruments subject to IBOR reform, and how the entity manages those risks; and
  - Their progress in completing the transition to alternative benchmark rates, and how the entity is managing that transition

  The amendments are effective for annual reporting periods beginning on or after January 1, 2021 and apply retrospectively, however, the Bank is not required to restate prior periods.

Effective beginning on or after January 1, 2022

Amendments to PFRS 3, *Reference to the Conceptual Framework*
The amendments added an exception to the recognition principle of PFRS 3, Business Combinations to avoid the issue of potential 'day 2' gains or losses arising for liabilities and contingent liabilities that would be within the scope of PAS 37, *Provisions, Contingent Liabilities and Contingent Assets* or Philippine-IFRIC 21, Levies, if incurred separately. It also clarified that contingent assets do not qualify for recognition at the acquisition date. The Group applies these amendments prospectively for annual reporting periods beginning on or after January 1, 2022.

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

The amendments are effective for annual reporting periods beginning on or after January 1, 2022 and must be applied retrospectively to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented when the entity first applies the amendment.

Amendments to PAS 37, *Onerous Contract – Costs of Fulfilling a Contract*
The amendments specify which costs an entity needs to include when assessing whether a contract is onerous or loss-making. The amendments apply a "directly related cost approach". The costs that relate directly to a contract to provide goods or services include both incremental costs and an allocation of costs directly related to contract activities. General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract. The amendments are effective for annual reporting periods beginning on or after January 1, 2022. The Group will apply these amendments to contracts for which it has not yet fulfilled all its obligations at the beginning of the annual reporting period in which it first applies the amendments.

Annual Improvements to PFRSs 2018-2020 Cycle

Amendments to PFRS 1, First-time Adoption of *Philippines Financial Reporting Standards, Subsidiary as a first-time adopter*
The amendments permit a subsidiary, joint venture or associate that elects to apply paragraph D16(a) of PFRS 1 to measure cumulative translation differences using the amounts reported by the parent, based on the parent's date of transition to PFRS. The amendment is effective for annual reporting periods beginning on or after January 1, 2022 with earlier adoption permitted.

Amendments to PFRS 9, *Financial Instruments, Fees in the '10 per cent' test for derecognition financial liabilities*
The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment. The amendment is effective for annual reporting periods beginning on or after January 1, 2022 with earlier adoption permitted. The Group will apply the amendments to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment.

Amendments to PAS 41, *Agriculture, Taxation in fair value measurements*
The amendment removes the requirement in paragraph 22 of PAS 41 that entities exclude cash flows for taxation when measuring the fair value of assets within the scope of PAS 41. An entity applies the amendment prospectively to fair value measurements on or after the beginning of the first annual reporting period beginning on or after January 1, 2022 with earlier adoption permitted.

Effective beginning on or after January 1, 2023

PFRS 17, *Insurance Contracts*
PFRS 17 provides updated information about the obligation, risks and performance of insurance contracts, increases transparency in financial information reported by insurance companies, and introduces consistent accounting for all insurance contracts based on a current measurement model. The standard is effective for annual periods beginning on or after January 1, 2023. Early application is permitted but only if the entity also applies PFRS 9 and PFRS 15.

Amendments to PAS 1, *Classification of Liabilities as Current and Non-Current*
The amendments clarify the following to specify the requirements for classifying liabilities as current or non-current:

- What is meant by a right to defer settlement;
- That a right to defer must exist at the end of the reporting period;
- That classification is unaffected by the likelihood that an entity will exercise its deferral right;
- That only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification.

Deferred effectivity
Amendments to PFRS 10, *Consolidated Financial Statements* and PAS 28, *Investments in Associates and Joint Ventures - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

The amendments address the conflict between PFRS 10 and PAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that a full gain or loss is recognized when a transfer to an associate or joint venture involves a business as defined in PFRS 3, *Business Combinations*. Any gain or loss resulting from the sale or contribution of assets that does not constitute a business, however, is recognized only to the extent of unrelated investors' interests in the associate or joint venture. On January 13, 2016, the FRSC postponed the original effective date of January 1, 2016 of the said amendments until the IASB has completed its broader review of the research project on equity accounting that may result in the simplification of accounting for such transactions and of other aspects of accounting for associates and joint ventures.

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3. Significant Accounting Judgments and Estimates

The preparation of the Bank's financial statements requires the management to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses and the disclosures of contingent assets and contingent liabilities. Future events may occur which can cause the assumptions used in arriving at the estimates to change. The effects of any change in estimates are reflected in the financial statements as they become reasonably determinable.

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.

The following are the critical judgments and key assumptions that have a significant risk of material adjustment to the carrying amounts of assets and liabilities within the next financial year:

Judgments

a) *Evaluation of business model in managing financial instruments*
The Bank manages its financial assets based on business models that maintain an adequate level of financial assets to match its expected cash outflows, largely arising from customers' withdrawals and continuing loan disbursements to borrowers, while maintaining a strategic portfolio of financial assets for investment and trading activities consistent with its risk appetite.

In determining the classification of a financial instrument under PFRS 9, 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 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). The Bank evaluates in which business model a financial instrument or a portfolio of financial instruments belong to taking into consideration the objectives of each business model established by the Bank.

In addition, PFRS 9 emphasizes that if more than an infrequent and more than an insignificant 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.

In 2020, the Bank disposed government securities classified as HTC securities with carrying amount of ₱180.98 million which resulted in a gain of ₱2.93 million recorded in the statement of income under 'Profit from assets sold'. The sale was due to a change in management's intention from holding the instrument to collect principal and interest to realizing the gain from the disposal of the securities in view of the impact of the COVID-19 pandemic. The remaining HTC securities of the Bank will remain to be under HTC business model (see Note 7).

b) *Leases*
Determination of the lease term for lease contracts with renewal and termination options
The Bank determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Bank has several lease contracts that include extension and termination options. Upon the adoption of PFRS 16, the Bank applies judgement in evaluating whether it is reasonably certain or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination. After the commencement date, the Bank reassesses the lease term if there is a significant event or change in circumstances that is within its control that affects its ability to exercise or not to exercise the option to renew or the terminate.

c) *Uncertainties over income tax treatments*
The Bank applies significant judgement in identifying uncertainties over income tax treatments. Since the Bank operates in a highly regulated environment, it assessed whether the Interpretation had an impact on its financial statements.

The Bank applies significant judgment whether it is probable that a particular uncertain income tax treatment will be acceptable to the taxation authority. The Bank considers the following:

- Past experience related to similar tax treatments
- Legal advice or case law related to other entities
- Practice guidelines published by the taxation authority that are applicable to the case

The Bank reassesses the judgement if the facts and circumstances on which the judgement was based change or as a result of new information that affects the judgement.

d) *Contingencies*
The Bank is currently involved in various legal proceedings. The estimate of the probable cost for the resolution of claims has been developed in consultation with the outside legal counsel handling the Bank's defense in this matter and is based upon an analysis of potential results. Management does not believe that the outcome of this matter will affect the results of operations. It is probable, however, that future results of operations could be materially affected by changes in the estimates or in the effectiveness of the strategies relating to these proceedings (see Note 23).

Estimates

a) *Impairment of financial assets*
The measurement of impairment losses under PFRS 9 across all categories of financial assets requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances.

Elements of the ECL models that are considered accounting judgements and estimates include:

- Internal credit grading model, which assigns PDs to the individual grades
- Criteria for assessing if there has been a significant increase in credit risk and so allowances for financial assets should be measured on a life time CL basis and the qualitative assessment
- The segmentation of financial assets when their ECL is assessed on a collective basis
- Development of ECL models, including the various formulas and the choice of inputs
- Determination of associations between macroeconomic scenarios and, economic inputs, such as unemployment levels and collateral values, and the effect on PDs, EADs and LGDs
- Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models

The ECL models and all ECL-related policies are approved by the Risk Management Committee and the Board of Directors. The Risk Management Unit calculates the ECL for all credit risk exposures. The total ECL that will be booked by the General Accounting Division is approved by both the Chief Operating Officer and the Chief Risk Officer.

The carrying value of and the allowance for credit losses on loans and receivables of the Bank as of December 31, 2020 and 2019 are disclosed in Notes 8 and 12, respectively.

b) *Impairment of non-financial assets*
Property and equipment, investment properties and repossessed chattels
The Bank assesses impairment on property and equipment, investment properties and repossessed chattels whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The factors that the Bank considers important which could trigger an impairment review include the following:

- significant underperformance relative to expected historical or projected future operating results;
- significant changes in the manner of use of the acquired assets or the strategy for overall business; and
- significant negative industry or economic trends.

An impairment loss is recognized whenever the carrying amount of an asset exceeds its recoverable amount. The recoverable amount is computed using the value in use approach for property and equipment and fair value less costs to sell for investment properties and repossessed chattels. Recoverable amounts are estimated for individual assets or, if it is not possible, for the CGU to which the asset belongs.

The Bank's reversal for allowance for impairment losses pertains to increase in recoverable amount of its investment properties which has been determined based on its fair value less cost to sell, using the valuation techniques as discussed in Note 5.

The details of the carrying values of and the allowance for impairment losses, if any, on property and equipment, investment properties and repossessed chattels are discussed in Notes 9, 10, 11 and 12.

Branch licenses
Branch license is considered an intangible asset with an indefinite useful life and it is required to be tested for impairment annually by comparing its carrying amount with its recoverable amount, irrespective of whether there is any indication that it may be impaired. The recoverable amount of the CGU has been determined based on a value in use calculations using cash flow projections from financial budgets approve by senior management covering a five-year period. The Bank used the cost of equity as discount rate. Key assumptions used in the value in use calculation are pre-tax discount rate and growth rate, which are at 10.54% and 5.00%, respectively in 2020. Management believes that no reasonably possible change in any of the key assumptions used would cause the carrying value of the CGUs to exceed their recoverable amount. As of December 31, 2020 and 2019, the licensing fee for establishment of a branch and a branch-lite unit of a thrift bank is ₱0.20 million and ₱0.01 million, respectively. The carrying values of and the allowance for impairment losses on branch licenses of the Bank are disclosed in Notes 11 and 12, respectively. In 2020 and 2019, the Bank has not recognized provision for impairment losses on branch licenses (see Note 12).

c) *Present value of retirement liability*
The cost of pension and other employee benefits as well as the present value of the pension obligation are determined using actuarial valuations. The actuarial valuation involves making various assumptions. These include the determination of the discount rates, future salary increases, mortality rates and future pension increases. Due to the complexity of the valuation, the underlying assumptions and its long-term nature, defined benefit obligations are highly sensitive to changes in these assumptions. All assumptions are reviewed at each statement of financial position date.

As of December 31, 2020 and 2019, the present value of retirement obligation of the Bank amounted to ₱22.64 million and ₱16.56 million, respectively (see Note 19).

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

The mortality rate is based on publicly available mortality tables for the specific country and is modified accordingly with estimates of mortality improvements. Future salary increases and pension increases are based on expected future inflation rates for the specific country.

d) *Present value of lease liabilities*
The Bank cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate ('IBR') to measure lease liabilities. The IBR is the rate of interest that the Bank would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Bank 'would have to pay', which requires estimation when no observable rates are available (such as for subsidiaries that do not enter into financing transactions) or when they need to be adjusted to reflect the terms and conditions of the lease.

The Bank estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific adjustments (such as the credit spread for a stand-alone credit rating, or to reflect the terms and conditions of the lease).

The carrying amount of lease liabilities as of December 31, 2020 and 2019 is disclosed in Note 20.

e) *Recognition of deferred tax assets*
Deferred tax assets are recognized for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

The estimates of future taxable income indicate that certain temporary differences will be realized in the future. The details of the temporary differences with unrecognized deferred tax assets and recognized deferred tax assets and liabilities are disclosed in Note 21.

4. Financial Risk Management Objectives and Policies

The main risks arising from the Bank's financial instruments are credit, market and liquidity risks. In general, the Bank's risk management objective is to ensure that risks taken are within the Bank's risk appetite, which is assessed based on the Bank's capital adequacy framework. The risk management process involves risk identification, measurement, monitoring and control.

The Bank recognizes that risk management is the responsibility of the entire organization. Accordingly, all employees are expected to manage risks relating to their own responsibilities. Still, there are specialized entities within the Bank that perform certain risk management functions.

The Board of Directors (BOD) ultimately oversees and approves significant matters related to risk management throughout the Bank. The BOD directly carries out its primary responsibilities as required by law and through committees and subcommittees for specific areas of focus. The Management Committee approves all major risk taking activities of the Bank, and functions as the BOD's operating committee for approval of all major credit risks.

Among the Bank's committees are:

- the Risk Management Committee (RMC), which formulates policies and strategies to identify, measure, manage and limit the Bank's risks;
- the Audit Committee (AC), which examines the Bank's framework of risk management, control and governance process to ensure that these are adequate and functional; and
- the Corporate Governance Committee (CGC), which ensures the BOD's effectiveness and due observance of the corporate governance principles and guidelines.

The following units within the Bank jointly perform risk management functions on a daily basis:

- Compliance for regulatory risk;
- Treasury for funding and liquidity risk;
- Credit Cycle and Operations for credit risk;
- Risk Management for various risks, including market, credit and operational risks; and
- Internal Audit for the evaluation of the adequacy of internal control systems, covering operational risk.

These units submit various risk reports to the Management Committee, the RMC, the AC, the CGC and the BOD, among others.

Further specific risk management disclosures, including mitigation, measurement and control, are in the succeeding sections.

<u>Credit Risk</u>
Credit risk may be defined as the possibility of loss due to the failure of a customer/borrower or counterparty to perform its obligation to the Bank.

The Bank has several credit risk mitigation practices:

- The Bank offers a variety of loan products with substantial collateral values. The latter part of this credit risk section discusses collateral and other credit enhancements.
- Limits are set on the amount of credit risk that the Bank is willing to take for customers and counterparties, and exposures are monitored against such credit limits.
- The Bank also observes related regulatory limits such as the single borrower's limit (SBL) and directors, officers, stockholders and related interests (DOSRI) ceiling.
- The Bank assesses the probability of default by its borrowers using an internal loan classification system.
- Past due and non-performing loan (NPL) ratios are also used to measure and monitor the quality of the loan portfolio.

Maximum exposure to credit risk after collateral held or other credit enhancements

The table below shows the Bank's net credit risk exposure for some items in loans and receivables after considering the financial effect of collateral and other credit enhancements:

	2020			
	Carrying Amount	**Fair Value of Collateral**	**Financial Effect of Collateral**	**Maximum Exposure to Credit Risk**
Loans and receivables				
Receivables from customers				
Consumption	₱1,332,142,721	₱205,513,546	₱141,170,687	₱1,190,972,034
Commercial	97,398,209	280,578,397	57,114,321	40,283,888
Real estate	83,486,396	197,692,525	83,486,396	–
Other receivables				
Accrued interest receivable	52,725,905	–	–	52,725,905
Accounts receivable	38,227,277	–	–	38,227,277
Sales contract receivable	20,508,312	112,880,782	20,508,312	–
Total	₱1,624,488,820	₱796,665,250	₱302,279,716	₱1,322,209,104

	2019			
	Carrying Amount	Fair Value of Collateral	Financial Effect of Collateral	Maximum Exposure to Credit Risk
Loans and receivables				
Receivables from customers				
Consumption	₱1,382,286,256	₱275,531,784	₱173,435,891	₱1,208,850,365
Commercial	82,465,342	227,854,681	79,051,760	3,413,582
Real estate	46,703,562	89,609,194	46,703,562	–
Other receivables				
Accrued interest receivable	11,488,854	–	–	11,488,854
Accounts receivable	29,590,448	–	–	29,590,448
Sales contract receivable	27,067,947	64,822,960	27,067,947	–
Total	₱1,579,602,409	₱657,818,619	₱326,259,160	₱1,253,343,249

Offsetting of financial assets and financial liabilities

The Bank has also entered into a reverse sale and repurchase agreements with various counterparties that are accounted for as a collateralized lending. These transactions are subject to a global master repurchase agreement with a right of set-off only against the collateral securities upon default and insolvency or bankruptcy and therefore do not meet the offsetting criteria under PAS 32. Consequently, the related SPURA is presented separately from the collateral securities in the Bank's statements of financial position.

The table below presents the recognized financial instruments of the Bank that are offset, or subject to enforceable master netting agreements or other similar arrangements but not offset, as at December 31, 2020 and 2019, taking into account the effects of over-collateralization.

	Gross amounts of recognized financial instruments	Gross amounts set-off in accordance with the PAS 32 offsetting criteria	Net amount presented in statements of financial position	Effect of remaining rights of set-off that do not meet PAS 32 offsetting criteria		
				Financial instruments	Financial collateral	Net exposure
2020						
Financial Assets						
SPURA	₱ 129,666,175	₱–	₱ 129,666,175	₱–	₱ 129,666,175	₱–
2019						
Financial Assets						
SPURA	₱66,578,028	₱–	₱66,578,028	₱–	₱66,578,028	₱–

Collateral and other credit enhancement

The amount and type of collateral required depends on an assessment of credit risk. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters.

The main types of collateral obtained are as follows:

- Real Estate Mortgages (REM) over real estate for housing loan, consumption, and SME loans; and
- Chattels Mortgages (CM) over vehicle and inventory for auto loans, consumption loan, SME loans, and small business loans.

It is the Bank's policy to dispose of repossessed properties in an orderly fashion. In general, the proceeds are used to reduce or repay the outstanding claim, and are not occupied for business use.

Concentration of credit

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

The tables below show the distribution of maximum credit exposure to credit risk by industry sector of the Bank before taking into account collateral held and other credit enhancements:

	2020				
	Loans and Receivables	**Advances to Banks***	**Investment securities at amortized cost**	**Refundable deposits**	**Total**
Personal consumption	₱977,192,433	₱–	₱–	₱–	₱977,192,433
Financial intermediaries	577,708	672,744,129	–	–	673,321,837
Other service activities	404,783,078	–	–	–	404,783,078
Wholesale and retail trade, repair of motor vehicles and motorcycles	210,835,862	–	–	–	₱210,835,862
Real estate activities	121,589,849	–		1,968,719	123,558,568
Agriculture, forestry and fishing	82,119,136	–	–	–	82,119,136
Construction	21,516,068	–	–	–	21,516,068
Education	15,113,410	–	–	–	15,113,410
Manufacturing	8,678,165	–	–	–	8,678,165
Accommodation & food services activities	6,880,351	–	–	–	6,880,351
Professional, scientific and technical services	6,461,810	–	–	–	6,461,810
Transportation and storage	2,571,447	–	–	–	2,571,447
Others	1,707,545	–	20,000,000	–	21,707,545
	1,860,026,862	672,744,129	20,000,000	1,968,719	2,554,739,710
Less allowance for credit losses	235,538,042	–	1,900	–	235,539,942
	₱1,624,488,820	₱672,744,129	₱19,998,100	₱1,968,719	₱2,319,199,768

**Comprised of Due from BSP, Due from other banks and SPURA*

	2019				
	Loans and Receivables	Advances to Banks*	Investment securities at amortized cost	Refundable deposits	Total
Financial intermediaries	₱10,811,687	₱550,114,626	₱150,286,636	₱–	₱711,212,949
Other service activities	651,487,136	–	–	–	651,487,136
Personal consumption	642,491,123	–	–	–	642,491,123

(Forward)

	2019				
	Loans and Receivables	Advances to Banks*	Investment securities at amortized cost	Refundable deposits	Total
Wholesale and retail trade, repair of motor vehicles and motorcycles	P277,425,943	P–	P–	P–	P277,425,943
Agriculture, forestry and fishing	106,456,784	–	–	–	106,456,784
Real estate activities	90,006,155	–	15,000,000	1,246,981	106,253,136
Construction	33,349,146	–	–	–	33,349,146
Education	15,877,478	–	–	–	15,877,478
Manufacturing	7,730,599	–	–	–	7,730,599
Accommodation & food services activities	6,373,837	–	–	–	6,373,837
Professional, scientific and technical services	5,879,647	–	–	–	5,879,647
Transportation and storage	2,770,498	–	–	–	2,770,498
Others	3,664,323	–	35,029,268	–	38,693,591
	1,854,324,356	550,114,626	200,315,904	1,246,981	2,606,001,867
Less allowance for credit losses	274,721,947	–	6,722	–	274,728,669
	P1,579,602,409	P550,114,626	P200,309,182	P1,246,981	P2,331,273,198

**Comprised of Due from BSP, Due from other banks and SPURA*

Credit quality
In ensuring a quality investment portfolio, the Bank monitors credit risk from investment securities using credit ratings based on Standard and Poor (S&P).

Credit quality of due from BSP and other banks and interbank loans receivable are based on available accredited international and local credit raters using Fitch as standard of rating.

The Bank assigns the following credit quality groupings based on ratings:

Credit Quality	Fitch	Moody's	S&P	Stage
High Grade	AAA to A-	Aaa to A3	AAA to A-	1
Standard Grade	BBB+ to BB-	Baa1 to Ba3	BBB+ to BB-	1
Substandard Grade	B+ to C-	B1 to Ca	B+ to C	2
Past due and impaired	D	C	D	3

For consumer loans (i.e., auto, housing, credit card) that are covered by application scorecards which provide either a pass/fail score, the basis for credit quality rating is the BSP classification and/or the status of the account.

Neither past due nor individually impaired
The Bank classifies those accounts under current status having the following loan grades:

- High grade
  This pertains to accounts with a very low probability of default as demonstrated by the borrower's long history of stability, profitability and diversity. The borrower has the ability to raise substantial amounts of funds through the public markets. The borrower has a strong debt service record and a moderate use of leverage.

- Standard grade
  The borrower has no history of default. The borrower has sufficient liquidity to fully service its debt over the medium term. The borrower has adequate capital to readily absorb any potential losses from its operations and any reasonably foreseeable contingencies. The borrower reported profitable operations for at least the past three (3) years.

- Substandard grade
  The borrower is expected to be able to adjust to the cyclical downturns in its operations. Any prolonged adverse economic conditions would however ostensibly create profitability and liquidity issues.

- Unrated grade
  Other credit assets which cannot be classified as High, Standard or Sub-standard are tagged as Unrated.

Impaired
Accounts which show evidence of impairment as of statement of financial position date.

Below are the staging parameters adopted by the Bank effective January 1, 2018 in relation to its PFRS 9 adoption.

Staging Parameter	Stage	Description
Staging by Days Past Due		*Applicable to all loan products.*
	1	Accounts with 0 – 30 days past due (applicable for all loan products except for microfinance loans wherein days past due for Stage 1 accounts is 0 - 6 days).
	2	Accounts with 31- 90 days past due (applicable for all loan products except for microfinance loans wherein days past due for Stage 2 accounts is 7 - 10 days).
	3	Accounts with days past due of 91 days and above (applicable for all loan products except for microfinance loans wherein days past due for Stage 3 accounts more than 10 days).
Staging by Status		*Applicable to all loan products except for Microfinance.*
	1	Accounts tagged as Current in its Status are classified under Stage 1.
	3	Accounts tagged as ITL in its Status are classified under Stage 3
Staging by Maturity Date vs Cut-off date		*Applicable to all loan products.*
	1	If Maturity Date of the account is after the cut-off date of the ECL Calculation, and if the days leading up to the cut-off date from the maturity date is less than 30 days, the account is tagged under Stage 1 (For Microfinance loans, if Maturity Date of the account is after the cut-off date of the ECL Calculation, and if the days leading up to the cut-off date from the maturity date is less than 10 days, the account is tagged under Stage 1).
	3	If Maturity Date of the account is prior to the cut-off date of the ECL Calculation, and if the days leading up to the cut-off date from the maturity date is more than 30 days, the account is tagged under Stage 3 (For Microfinance loans, if Maturity Date of the account is prior the cut-off date of the ECL Calculation, and if the days leading up to the cut-off date from the maturity date is more than 10 days, the account is tagged under Stage 3).

The following tables show the credit quality per class of investments and other financial assets of the Bank:

	December 31, 2020			
	Stage 1	Stage 2	Stage 3	Total
Due from BSP				
Standard	₱444,968,492	₱–	₱–	₱444,968,492
Due from other banks				
Standard	98,109,662	–	–	98,109,662
Securities purchased under resale agreement				
Standard	129,666,175	–	–	129,666,175
Investment securities at amortized cost				
Government securities				
Standard	–	–	–	–
Private bonds				
Standard	19,998,100	–	–	19,998,100
Refundable deposits				
Unrated	1,961,974	–	–	1,961,974
	₱694,704,203	₱–	₱–	₱694,704,203

	December 31, 2019			
	Stage 1	Stage 2	Stage 3	Total
Due from BSP				
Standard	₱391,666,967	₱–	₱–	₱391,666,967
Due from other banks				
Standard	91,869,631	–	–	91,869,631
Securities purchased under resale agreement				
Standard	66,578,028	–	–	66,578,028
Investment securities at amortized cost				
Government securities				
Standard	₱150,286,636	₱–	₱–	₱150,286,636
Private bonds				
Standard	50,029,268	–	–	50,029,268
Refundable deposits				
Unrated	1,246,981	–	–	1,246,981
	₱751,677,511	₱–	₱–	₱751,677,511

The following tables show the credit quality per class of loans and receivables, gross of allowance for credit losses and unearned interest and discount of the Bank:

	December 31, 2020			
	Stage 1	Stage 2	Stage 3	Total
Receivable from customers				
Consumption				
Neither Past Due nor Individually Impaired				
High grade	₱–	₱–	₱–	₱–
Standard/Medium grade	1,220,035,479	–	–	1,220,035,479
Substandard/Low grade	116,043,164		–	116,043,164
Past due but not impaired	–	21,663,103	–	21,663,103
Past due and impaired	–	–	195,347,903	195,347,903
	1,336,078,643	21,663,103	195,347,903	1,553,089,649
Commercial				
Neither Past Due nor Individually Impaired				
High grade	–	–	–	–
Standard/Medium grade	76,232,407	–	–	76,232,407
Substandard/Low grade	2,297,180	–	–	2,297,180
Past due but not impaired	–	6,488,228	–	6,488,228
Past due and impaired	–	–	66,818,532	66,818,532
	78,529,587	6,488,228	66,818,532	151,836,347
Real estate				
Neither Past Due nor Individually Impaired				
High grade	–	–	–	–
Standard/Medium grade	70,477,528	–	–	70,477,528
Substandard/Low grade	12,192,582	–	–	12,192,582
Past due but not impaired	–	–	–	–
Past due and impaired	–	–	2,052,748	2,052,748
	82,670,110	–	2,052,748	84,722,858

(Forward)

	December 31, 2020			
	Stage 1	Stage 2	Stage 3	Total
Other receivables				
Neither Past Due nor Individually Impaired				
High grade	₱171,460	₱–	₱–	₱171,460
Standard/Medium grade	50,285,667	–	–	50,285,667
Substandard/Low grade	42,733,535	–	–	42,733,535
Past due but not impaired	–	2,774,469	–	2,774,469
Past due and impaired	–	–	49,004,148	49,004,148
	93,190,662	2,774,469	49,004,148	144,969,279
	₱1,590,468,802	₱30,925,800	₱313,223,331	₱1,934,617,933

	December 31, 2019			
	Stage 1	Stage 2	Stage 3	Total
Receivable from customers				
Consumption				
Neither Past Due nor Individually Impaired				
High grade	₱–	₱–	₱–	₱–
Standard/Medium grade	1,338,745,755	–	–	1,338,745,755
Substandard/Low grade	26,325,325	22,923,801	–	49,249,126
Individually impaired	–	–	206,159,217	206,159,217
	1,365,071,080	22,923,801	206,159,217	1,594,154,098
Commercial				
Neither Past Due nor Individually Impaired				
High grade	–	–	–	–
Standard/Medium grade	53,697,745	–	–	53,697,745
Substandard/Low grade	4,300,498	13,334,989	–	17,635,487
Individually impaired	–	–	104,598,498	104,598,498
	57,998,243	13,334,989	104,598,498	175,931,730
Real estate				
Neither Past Due nor Individually Impaired				
High grade	–	–	–	–
Standard/Medium grade	42,574,172	–	–	42,574,172
Substandard/Low grade	4,118,936	53,115	–	4,172,051
Individually impaired	–	–	5,587,314	5,587,314
	46,693,108	53,115	5,587,314	52,333,537
Other receivables				
Neither Past Due nor Individually Impaired				
High grade	2,539,218	–	–	2,539,218
Standard/Medium grade	28,257,819	–	–	28,257,819
Substandard/Low grade	24,141,887	6,854,932	–	30,996,819
Individually impaired	–	–	26,745,799	26,745,799
	54,938,924	6,854,932	26,745,799	88,539,655
	₱1,524,701,355	₱43,166,837	₱343,090,828	₱1,910,959,020

Liquidity Risk

Liquidity risk may be defined as the possibility of loss due to the Bank's inability to meet its financial obligations when they become due. Liquidity risk is considered in the Bank's assets and liabilities management. The Bank seeks to lengthen liability maturities, diversify existing fund sources, and continuously develop new instruments that cater to different segments of the market.

The Bank also keeps credit lines with financial institutions, as well as a pool of liquid or highly marketable securities. Reserves management is another specialized function within the Bank, complying with BSP reserve requirements, which may be a buffer against unforeseen liquidity drains.

The liquidity or maturity gap report is another tool for measuring liquidity risk. Although available contractual maturity dates are generally used for putting instruments into time bands, expected liquidation periods, often based on historical data, are used if contractual maturity dates are unavailable. The liquidity gap per time band is computed by getting the difference between the inflows and outflows within the time band. A positive liquidity gap is an estimate of the Bank's net excess funds for the time band. A negative liquidity gap is an estimate of a future funding requirement of the Bank. Although such gaps are a normal part of the business, a significant negative amount may bring significant liquidity risk. To help control liquidity risk arising from negative liquidity gaps, maximum cumulative outflow (MCO) targets are set for time bands up to one (1) year.

Analysis of financial instruments by remaining maturities

The table below summarized the maturity profile of the Bank's financial instruments based on contractual undiscounted cash flows:

	December 31, 2020					
	On demand	Up to 3 months	Over 3 up to 12 months	Over 1 to 5 Years	Over 5 years	Total
Financial Assets						
Cash and other cash items	₱72,868,361	₱–	₱–	₱–	₱–	₱72,868,361
Due from BSP*	61,968,492	383,076,600	–	–	–	445,045,092
Due from other banks	98,109,462	–	–	–	–	98,109,462
Securities purchased under resale agreement*		129,700,753	–	–	–	129,700,753
Investment securities at amortized cost*		–	–	21,863,023		21,863,023
Loans and receivables*	245,867,439	60,846,837	236,095,794	1,636,609,817	190,806,610	2,370,225,697
Refundable deposits*		107,387	79,615	1,007,707	767,265	1,961,974
	₱478,813,754	₱573,730,777	₱236,175,409	₱1,659,480,547	₱191,573,875	₱3,139,774,362
Financial Liabilities						
Deposit liabilities*	₱1,287,010,431	₱250,779,889	₱213,575,035	₱356,335,383	₱1,632,011	₱2,109,332,949
Redeemable preferred shares	30,700,000	–	–	–	–	30,700,000
Accrued expenses and other liabilities						–
Accrued expenses	–	20,651,593	–	–	–	20,651,593
Other liabilities**	14,403,903	2,493,356	8,236,912	33,287,693	13,832,690	72,254,554
	₱1,332,114,334	₱273,924,838	₱221,811,947	₱389,623,276	₱15,464,701	₱2,232,939,096

**Include future interests*

***Exclude nonfinancial liabilities amounting to ₱18,816,213*

	December 31, 2019					
	On demand	Up to 3 months	Over 3 up to 12 months	Over 1 to 5 Years	Over 5 years	Total
Financial Assets						
Cash and other cash items	₱72,868,361	₱–	₱–	₱–	₱–	₱72,868,361
Due from BSP*	76,666,967	315,360,888	–	–	–	392,027,855
Due from other banks	91,869,631	–	–	–	–	91,869,631
Securities purchased under resale agreement*	–	66,611,317	–	–	–	66,611,317
Investment securities at amortized cost*	–	–	–	155,583,646	69,696,850	225,280,496
Loans and receivables*	282,767,398	101,387,759	280,977,501	1,526,718,674	162,363,463	2,354,214,795
Refundable deposits*	184,655	–	100,000	1,087,316	325,283	1,697,254
	₱524,357,012	₱483,359,964	₱281,077,501	₱1,683,395,636	₱232,385,596	₱3,204,575,709
Financial Liabilities						
Deposit liabilities*	₱1,355,681,978	₱163,390,670	₱137,507,503	₱313,032,317	₱3,006,821	₱1,972,619,289
Redeemable preferred shares	30,700,000	–	–	–	–	30,700,000
Accrued expenses and other liabilities						–
Accrued expenses	–	26,950,414	–	–	–	26,950,414
Other liabilities**	21,391,121	1,181,589	3,869,969	29,110,063	18,270,146	73,822,888
	₱1,407,773,099	₱191,522,673	₱141,377,472	₱342,142,380	₱21,276,967	₱2,104,092,591

**Include future interests*

***Exclude nonfinancial liabilities amounting to ₱6,538,022*

Market Risk

Market risk may be defined as the possibility of loss due to adverse movements in market factors such as rates and prices. Market risk is present in both trading and non-trading activities.

These are the risk to earnings or capital arising from changes in the value of traded portfolios of financial instruments. The risk arises from market-making, dealing and position-taking in quoted debt securities and foreign exchange.

The Bank observes market risk limits, which are approved by the BOD and reviewed at least annually. Limits are set in such a way as to ensure that risks taken are based on the Bank's existing capital adequacy framework, and corresponding monitoring reports are prepared regularly by an independent risk management unit.

When limits are breached, approval is sought from successive levels of authority depending on the amount of the excess. Limit breaches are periodically presented to the BOD.

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments.

The Bank's ALCO surveys the interest rate environment, adjusts the interest rates for the Bank's loans and deposits, assesses investment opportunities and reviews the structure of assets and liabilities. The Bank uses Earnings-at-Risk (EaR) as a tool for measuring and managing interest rate risk in the banking book.

Earnings-at-Risk objectives and methodology

EAR is a statistical measure of the likely impact of changes in interest rates to the Bank's net interest income (NII). To do this, repricing gaps (difference between interest rate-sensitive assets and liabilities) are classified according to time to repricing and multiplied with applicable historical interest rate volatility, although available contractual repricing dates are generally used for putting instruments into time bands, contractual maturity dates (e.g., for fixed rate instruments) or expected liquidation periods often based on historical data are used alternatively. The repricing gap per time band is computed by getting the difference between the inflows and outflows within the time band. A positive repricing gap implies that the Bank's NII could decline if interest rates decrease upon repricing. A negative repricing gap implies that the Bank's NII could decline if interest rates increase upon repricing. Although such gaps are a normal part of the business, a significant change may bring significant interest rate risk. To help control interest rate risk arising from repricing gaps, maximum repricing gap and EaR/NII targets are set for time bands up to one year. EaR is prepared and reported to the RMC monthly, starting December 2015.

The change in interest rate is calculated using historical simulation. It is computed as the 99th percentile rank change in rates if the gap is negative (liability-sensitive) or the 1st percentile rank change in rates if the gap is positive (asset-sensitive).

The Bank's EaR figures as of December 31, 2020 and 2019 are as follows (in PHP millions):

	2020			
	Average	Highest	Lowest	December 31
Instruments sensitive to local interest rates	₱0.54	₱0.42	(₱7.38)	₱0.00

	2019			
	Average	Highest	Lowest	December 31
Instruments sensitive to local interest rates	₱0.10	₱0.71	(₱0.11)	₱0.00

Foreign currency risk

Foreign currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. The Bank's policy is to maintain foreign currency exposure within acceptable limits.

Changes in foreign exchange rates have no significant impact on the Banks's foreign exchange gain or loss on 'Due from other banks' as of December 31, 2020 and 2019.

5. Fair Value Measurement

As of December 31, 2020 and 2019, the carrying amounts of the Bank's financial instruments are reasonable approximations of fair values except for investment securities at amortized cost, loans and receivables, refundable deposits and deposit liabilities with terms of more than one (1) year.

The methods and assumptions used by the Bank in estimating the fair value of the financial instruments are as follows:

Investment securities at amortized cost - Debt securities
Fair values are generally based on quoted market prices. If the market prices are not readily available, fair values are estimated using adjusted quoted market prices of comparable investments or using the discounted cash flow methodology.

As of December 31, 2020 and 2019, fair value of investments at amortized cost is classified under Level 2, and Level 1 and 2, respectively.

Receivables from customers, sales contract receivable, finance lease receivable and refundable deposits
Fair values are estimated using the discounted cash flow methodology, using the average market price of savings banks for similar types of receivables with maturities consistent to the receivable being valued. Where the instruments reprice on a short-term basis or have a relatively short maturity, the carrying amounts approximate fair values.

Time and special savings deposits
Fair values are estimated using the discounted cash flow methodology using the Bank's current incremental borrowing rates for similar borrowings with maturities consistent with those remaining for the liability being valued.

Investment properties
Fair value of investment properties are based on market data (or direct sales comparison) approach. This approach relies on the comparison of recent sale transactions or offerings of similar properties which have occurred and/or offered with close proximity to the subject property.

The fair values of the Bank's investment properties have been determined by appraisers, including independent external appraisers, in the basis of the recent sales of similar properties in the same areas as the investment properties and taking into account the economic conditions prevailing at the time of the valuations are made. The Bank has determined that the highest and best use of the property used for the land and building is its current use.

Financial liabilities at amortized cost except time and special savings deposits
Carrying amounts approximate fair values due to either the demand nature or the relatively short-term maturities of these liabilities.

As of December 31, 2020 and 2019, fair values of loans and receivables, investment properties, refundable deposits and deposit liabilities are classified under Level 3.

The following table summarizes the carrying amounts and fair values of loans and receivables and deposit liabilities for which carrying amounts do not approximate fair values:

	2020		2019	
	Carrying Value	**Fair Value**	**Carrying Value**	**Fair Value**
Financial Assets				
Investment securities at amortized cost	**₱19,998,100**	**₱19,442,468**	₱200,309,182	₱196,755,165
Loans and receivables:				
Receivables from customers				
Consumption	**1,331,828,583**	**1,548,530,996**	1,382,286,256	1,554,248,302
Commercial	**97,721,469**	**151,820,361**	82,465,342	92,678,201
Real estate	**83,477,275**	**84,389,009**	46,703,562	50,693,360
Other receivables				
Sales contract receivable	**20,508,312**	**17,016,087**	27,067,947	19,968,393
Refundable deposits	**1,968,719**	**1,792,579**	1,246,981	1,169,443
Non-financial Assets				
Investment properties	**105,813,713**	**210,886,136**	115,890,079	181,451,258
Financial Liabilities				
Deposit liabilities				
Time	**362,276,750**	**364,021,487**	380,821,370	363,425,239
Savings	**452,047,648**	**452,628,300**	282,981,079	282,164,644

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

In 2020, there were no transfers between Level 1 and Level 2 fair value measurements and there were no transfers into and out of the Level 3 category.

Description of significant unobservable inputs to valuation:

Accounts	**Valuation Technique**	**Significant Unobservable Inputs**
Loans and receivables	Discounted cash flow method	6.00% - 7.09% risk premium rate
Investment properties		
Land	Market data approach	Price per square meter, size, shape, location, time element and discount
Building	Cost approach	Cost per square meter, size, shape, location, and time element
Deposit liabilities	Discounted cash flow method	3.63% - 4.39% risk premium rate
Refundable deposits	Discounted cash flow method	5.60% - 6.88% risk premium rate

Significant increases (decreases) in price per square meter and size of investment properties would result in a significantly higher (lower) fair value of the properties. Significant increases (decreases) in discount would result in a significantly lower (higher) fair value of the properties.

<u>Significant Unobservable Inputs</u>

Size	Size of lot in terms of area. Evaluate if the lot size of property or comparable conforms to the average cut of the lots in the area and estimate the impact of the lot size differences on land value.
Shape	Particular form or configuration of the lot. A highly irregular shape limits the usable area whereas an ideal lot configuration maximizes the usable area of the lot which is associated in designing an improvement which conforms with the highest and best use of the property.

Location	Location of comparative properties whether on a main road, or secondary road. Road width could also be a consideration if data is available. As a rule, properties located along a main road are superior to properties located along a secondary road.
Time Element	An adjustment for market conditions is made if general property values have appreciated or depreciated since the transaction dates due to inflation or deflation or a change in investor's perceptions of the market over time. In which case, the current data is superior to historic data.
Discount	Generally, asking prices in ads posted for sale are negotiable. Discount is the amount the seller or developer is willing to deduct from the posted selling price if the transaction will be in cash or equivalent.

6. Securities Purchased Under Resale Agreement

SPURA pertains to lending to BSP and have a remaining maturity of four (4) days. As of December 31, 2020 and 2019, the fair value of the related collateral of SPURA amounted to ₱129.67 million and ₱66.58 million, respectively.

SPURA earns annual interest ranging from 2.00% to 4.00% and 4.00% to 4.75% in 2020 and 2019, respectively. The interest income of the Bank from SPURA amounted to ₱4.01 million and ₱5.46 million in 2020 and 2019, respectively.

7. Investment Securities at Amortized Cost

This account consists of:

	2020	2019
Government securities	₱–	₱150,286,636
Private bonds	20,000,000	50,029,268
	20,000,000	200,315,904
Less allowance for credit losses (Note 12)	1,900	6,722
	₱19,998,100	₱200,309,182

In 2020 and 2019, investment securities at amortized cost were carried at Stage 1 and there were no transfers into and out of Stage 1.

In 2020, the Bank disposed government securities classified as HTC securities with carrying amount of ₱180.98 million which resulted in a gain of ₱2.93 million recorded in the statement of income under 'Profit from assets sold'. The sale was due to a change in the Bank's intention on the instruments from holding to collect principal and interest to realizing the gains from the disposal of the securities in view of the impact of the COVID-19 pandemic. The remaining HTC securities of the Bank will remain to be under HTC business model.

The Bank's effective interest rates on investments in government securities and private bonds classified as investment securities at amortized cost follow:

	2020	2019
Government securities	–	3.77% - 4.12%
Private bonds	4.52%	4.52% - 4.85%

In 2020 and 2019, interest income on investment securities at amortized cost follow:

	2020	2019
Government securities	₱1,883,464	₱5,956,115
Private bonds	1,710,875	2,394,192
	₱3,594,339	₱8,350,307

8. Loans and Receivables

This account consists of:

	2020	2019
Receivables from customers:		
Consumption	₱1,553,089,649	₱1,594,154,098
Commercial	151,836,347	175,931,730
Real estate	84,722,858	52,333,537
	1,789,648,854	1,822,419,365
Less unearned interest and discount	50,193,981	56,634,664
Discount on loan modification	24,397,000	–
	1,715,057,783	1,765,784,701
Other receivables:		
Accrued interest receivable	76,603,136	28,296,450
Accounts receivable (Note 22)	46,554,431	33,000,256
Sales contract receivable	21,811,512	27,242,949
	1,860,026,862	1,854,324,356
Less allowance for credit losses (Note 12)	235,538,042	274,721,947
	₱1,624,488,820	₱1,579,602,409

An analysis of changes in the gross carrying amount and the corresponding allowance for credit losses in relation to consumption loans follow:

	2020			
	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount				
Beginning balance	₱1,365,071,080	₱22,923,801	₱206,159,217	₱1,594,154,098
New assets originated or purchased	1,185,346,170	–	–	1,185,346,170
Assets derecognized or repaid (excluding write offs)	(1,128,182,553)	22,030,678	(43,336,256)	(1,193,549,487)
Transfers to Stage 1	906,750	(814,323)	(92,427)	–
Transfers to Stage 2	(23,530,989)	23,530,989		–
Transfers to Stage 3	(63,531,815)	(1,946,686)	65,478,501	–
Amounts written off	–	–	(32,861,132)	(32,861,132)
Ending balance	₱1,336,078,643	₱21,663,103	₱195,347,903	₱1,553,089,649

	2020			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Allowance for credit losses				
Beginning balance	**₱13,203,767**	**₱227,663**	**₱141,875,915**	**₱155,307,345**
Provisions for (recovery of) credit losses*	**16,629,243**	**(223,013)**	**9,881,334**	**26,287,564**
Transfers to Stage 1	**57,220**	**(1,002)**	**(56,218)**	**–**
Transfers to Stage 2	**(195,851)**	**195,851**		**–**
Transfers to Stage 3	**(17,005,935)**	**(27,890)**	**17,033,825**	**–**
Amounts written off	**–**	**–**	**(32,861,132)**	**(32,861,132)**
Ending balance	**₱12,688,444**	**₱171,609**	**₱135,873,724**	**₱148,733,777**

**The net effect on allowance of transfers between Stage 1 to 3 are reflected in provision for (recovery of) credit losses*

	2019			
	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount				
Beginning balance	₱883,592,646	₱18,681,237	₱196,837,782	₱1,099,111,665
New assets originated or purchased	2,038,369,394	–	–	2,038,369,394
Assets derecognized or repaid (excluding write offs)	(1,479,677,345)	(15,187,268)	(43,868,314)	(1,538,732,927)
Transfers to Stage 1	684,938	(262,626)	(422,312)	–
Transfers to Stage 2	(24,065,653)	24,181,158	(115,505)	–
Transfers to Stage 3	(53,832,900)	(4,488,700)	58,321,600	–
Amounts written off	–	–	(4,594,034)	(4,594,034)
Ending balance	₱1,365,071,080	₱22,923,801	₱206,159,217	₱1,594,154,098
Allowance for credit losses				
Beginning balance	₱11,978,928	₱1,855,954	₱142,324,791	₱156,159,673
Provisions for (recovery of) credit losses*	1,963,335	(536,584)	2,314,955	3,741,706
Transfers to Stage 1	77,588	(2,626)	(74,962)	–
Transfers to Stage 2	(81,535)	155,201	(73,666)	–
Transfers to Stage 3	(734,549)	(1,244,282)	1,978,831	–
Amounts written off	–	–	(4,594,034)	(4,594,034)
Ending balance	₱13,203,767	₱227,663	₱141,875,915	₱155,307,345

**The net effect on allowance of transfers between Stage 1 to 3 are reflected in provision for credit losses*

An analysis of changes in the gross carrying amount and the corresponding allowance for credit losses in relation to commercial loans follow:

	2020			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Gross carrying amount				
Beginning balance	**₱57,998,243**	**₱13,334,989**	**₱104,598,498**	**₱175,931,730**
New assets originated or purchased	**81,930,669**	**–**	**–**	**81,930,669**
Assets derecognized or repaid (excluding write offs)	**(19,027,221)**	**(14,654,690)**	**(27,319,471)**	**(61,001,382)**
Transfers to Stage 1	**3,588,373**	**(3,588,373)**		**–**
Transfers to Stage 2	**(12,447,409)**	**12,447,409**	**–**	**–**
Transfers to Stage 3	**(33,513,068)**	**(1,051,107)**	**34,564,175**	**–**
Amounts written off	**–**	**–**	**(45,024,670)**	**(45,024,670)**
Ending balance	**₱78,529,587**	**₱6,488,228**	**₱66,818,532**	**₱151,836,347**
Allowance for credit losses				
Beginning balance	**₱179,508**	**₱961**	**₱93,211,752**	**₱93,392,221**
Provisions for credit losses*	**2,265,148**	**–**	**–**	**–**
Transfers to Stage 1	**–**	**–**	**–**	**–**
Transfers to Stage 2	**(1,632,500)**	**1,632,500**	**–**	**–**
Transfers to Stage 3	**(518,964)**	**(961)**	**519,925**	**–**
Amounts written off	**–**	**–**	**(45,024,670)**	**(45,024,670)**
Ending balance	**₱293,192**	**₱1,632,500**	**₱50,532,022**	**₱52,457,714**

**The net effect on allowance of transfers between Stage 1 to 3 are reflected in recovery of credit losses*

	2019			
	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount				
Beginning balance	₱43,304,754	₱23,955,617	₱105,038,985	₱172,299,356
New assets originated or purchased	82,039,000	–	–	82,039,000
Assets derecognized or repaid (excluding write offs)	(60,883,125)	(2,702,226)	(6,333,765)	(69,919,116)
Transfers to Stage 1	2,331,684	(1,551,471)	(780,213)	–
Transfers to Stage 2	(7,397,623)	7,397,623	–	–
Transfers to Stage 3	(1,396,447)	(13,764,554)	15,161,001	–
Amounts written off	–	–	(8,487,510)	(8,487,510)
Ending Balance	57,998,243	13,334,989	104,598,498	175,931,730
Allowance for credit losses				
Beginning balance	₱396,814	₱8,831,817	₱97,859,899	₱107,088,530
Recovery of credit losses*	(157,169)	(147,593)	(4,904,037)	(5,208,799)
Transfers to Stage 1	23,317	(15,515)	(7,802)	–
Transfers to Stage 2	(59,881)	59,881	–	–
Transfers to Stage 3	(23,573)	(8,727,629)	8,751,202	–
Amounts written off	–	–	(8,487,510)	(8,487,510)
Ending balance	₱179,508	₱961	₱93,211,752	₱93,392,221

**The net effect on allowance of transfers between Stage 1 to 3 are reflected in provision for (recovery of) credit losses*

An analysis of changes in the gross carrying amount and the corresponding allowance for credit losses in relation to real estate loans follow:

	2020			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Gross carrying amount				
Beginning balance	**₱46,693,108**	**₱53,115**	**₱5,587,314**	**₱52,333,537**
New assets originated or purchased	**58,296,000**	**–**	**–**	**58,296,000**
Assets derecognized or repaid (excluding write offs)	**(20,624,257)**	**(53,115)**	**(153,680)**	**(20,831,052)**
Transfers to Stage 1	**–**	**–**	**–**	**–**
Transfers to Stage 2	**–**	**–**	**–**	**–**
Transfers to Stage 3	**(1,694,741)**	**–**	**1,694,741**	**–**
Amounts written off	**–**	**–**	**(5,075,627)**	**(5,075,627)**
Ending balance	**₱82,670,110**	**₱–**	**₱2,052,748**	**₱84,722,858**
Allowance for credit losses				
Beginning balance	**₱42,661**	**₱–**	**₱5,587,314**	**₱5,629,975**
Provision for credit losses*	**116,189**	**–**	**168,428**	**284,617**
Transfers to Stage 1	**–**	**–**	**–**	**–**
Transfers to Stage 2	**–**	**–**	**–**	**–**
Transfers to Stage 3	**(1,636)**	**–**	**1,636**	**–**
Amounts written off	**–**	**–**	**(5,075,627)**	**(5,075,627)**
Ending balance	**₱157,214**	**₱–**	**₱681,751**	**₱838,965**

**The net effect on allowance of transfers between Stage 1 to 3 are reflected in recovery of credit losses*

	2019			
	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount				
Beginning balance	₱12,963,602	₱–	₱5,746,150	₱18,709,752
New assets originated or purchased	35,561,600	–	–	35,561,600
Assets derecognized or repaid (excluding write offs)	(1,686,186)	(92,793)	(158,836)	(1,937,815)
Transfers to Stage 1	–	–	–	–
Transfers to Stage 2	(145,908)	145,908	–	–
Transfers to Stage 3	–	–	–	–
Amounts written off	–	–	–	–
Ending balance	₱46,693,108	₱53,115	₱5,587,314	₱52,333,537

	2019			
	Stage 1	Stage 2	Stage 3	Total
Allowance for credit losses				
Beginning balance	₱141,471	₱–	₱5,587,314	₱5,728,785
Recovery of credit losses*	(98,810)	–	–	(98,810)
Transfers to Stage 1	–	–	–	–
Transfers to Stage 2	–	–	–	–
Transfers to Stage 3	–	–	–	–
Amounts written off	–	–	–	–
Ending balance	₱42,661	₱–	₱5,587,314	₱5,629,975

*The net effect on allowance of transfers between Stage 1 to 3 are reflected in provision for (recovery of) credit losses

An analysis of changes in the gross carrying amount and the corresponding allowance for credit losses in relation to other receivables follow:

	2020			
	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount				
Beginning balance	₱54,938,924	₱6,854,932	₱26,745,799	₱88,539,655
New assets originated or purchased	92,999,456	–	–	92,999,456
Assets derecognized or repaid (excluding write offs)	(22,437,431)	(5,888,567)	(962,012)	(29,288,010)
Transfers to Stage 1	824,855	(194,182)	(630,673)	–
Transfers to Stage 2	(1,143,880)	2,280,736	(1,136,856)	–
Transfers to Stage 3	(31,991,462)	(278,450)	32,269,912	–
Amounts written off	–	–	(7,282,022)	(7,282,022)
Ending balance	₱93,190,462	2,774,469	49,004,148	₱144,969,079
Allowance for credit losses				
Beginning balance	₱673,793	₱608,990	₱19,109,623	₱20,392,406
Provisions for credit losses*	16,563,517	(454,828)	4,288,512	20,397,201
Transfers to Stage 1	50,644	(196)	(50,448)	–
Transfers to Stage 2	(160,733)	160,733	–	–
Transfers to Stage 3	(16,235,462)	(148,541)	16,384,003	–
Amounts written off	–	–	(7,282,022)	(7,282,022)
Ending balance	₱891,759	₱166,158	₱32,449,668	₱33,507,585

*The net effect on allowance of transfers between Stage 1 to 3 are reflected in provision for credit losses

	2019			
	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount				
Beginning balance	₱36,126,339	₱3,852,817	₱31,013,686	₱70,992,842
New assets originated or purchased	56,989,486	–	–	56,989,486
Assets derecognized or repaid (excluding write offs)	(29,498,023)	(119,146)	(2,082,389)	(31,699,558)
Transfers to Stage 1	933,754	(931,642)	(2,112)	–
Transfers to Stage 2	(6,846,801)	6,850,510	(3,709)	–
Transfers to Stage 3	(2,765,831)	(2,797,607)	5,563,438	–
Amounts written off	–	–	(7,743,115)	(7,743,115)
Ending balance	₱54,938,924	₱6,854,932	₱26,745,799	₱88,539,655
Allowance for credit losses				
Beginning balance	₱124,738	₱181,063	₱25,677,784	₱25,983,585
Provisions for credit losses*	1,677,614	275,673	198,649	2,151,936
Transfers to Stage 1	496	(87)	(409)	–
Transfers to Stage 2	(624,192)	627,901	(3,709)	–
Transfers to Stage 3	(504,863)	(475,560)	980,423	–
Amounts written off	–	–	(7,743,115)	(7,743,115)
Ending balance	₱673,793	₱608,990	₱19,109,623	₱20,392,406

*The net effect on allowance of transfers between Stage 1 to 3 are reflected in provision for (recovery of) credit losses

Sales contract receivable earn interest at annual fixed rates ranging from 8.00% to 14.00% in 2020 and 2019.

Interest income on loans and receivables consists of:

	2020	2019
Receivables from customers:		
Consumption	₱285,126,789	₱314,733,644
Commercial	18,244,709	11,020,612
Real estate	6,498,957	2,169,016
Sales contract receivable	2,432,144	2,718,468
	₱312,302,599	₱330,641,740

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

Based on the Bank's assessment, the modifications in the contractual cash flows as a result of the above reliefs are not substantial and therefore do not result in the derecognition of the affected financial assets. Total modification losses resulting from Bayanihan 1 Act and Bayanihan 2 Act amounted to ₱79.84 million. As of December 31, 2020, accretion of interest on the modified loans amounted to ₱55.44 million.

9. Property and Equipment

The composition of and movements in this account follow:

	2020						
	Land	Building	Furniture, Fixtures and Equipment	Transportation Equipment	Leasehold Improvements	Right-of-use Assets (Note 20)	Total
Cost							
Balances at beginning of year	₱20,354,527	₱19,101,702	₱112,597,747	₱17,821,067	₱72,343,190	₱59,551,460	₱301,769,693
Additions	–	73,000	10,912,171	1,361,900	8,248,824	12,384,404	32,980,299
Disposals	–	–	–	(1,757,947)	–	–	(1,757,947)
Reclassifications (Note 11)	–	–	–	1,455,000	–	–	1,455,000
Balances at end of year	20,354,527	19,174,702	123,509,918	18,880,020	80,592,014	71,935,864	334,447,045
Accumulated depreciation and amortization							
Balances at beginning of year	–	8,627,299	88,955,621	10,089,622	29,362,183	9,342,731	146,377,456
Depreciation and amortization	–	1,279,527	12,836,877	2,273,333	9,997,833	11,959,203	38,346,773
Disposals	–	–	–	(1,730,962)	–	–	(1,730,962)
Reclassifications (Note 11)				433,056			433,056
Balances at end of year	–	9,906,826	101,792,498	11,065,049	39,360,016	21,301,934	183,426,323
Allowance for impairment losses (Note 12)	11,385,054	1,194,537	–	–	–	–	12,579,591
Net book value at end of year	₱8,969,473	₱8,073,339	₱21,717,420	₱7,814,971	₱41,231,998	₱50,633,930	₱138,441,131

	2019						
	Land	Building	Furniture, Fixtures and Equipment	Transportation Equipment	Leasehold Improvements	Right-of-use Assets (Note 20)	Total
Cost							
Balances at beginning of year, as previously reported	₱12,014,527	₱18,185,925	₱98,737,491	₱16,639,989	₱59,773,974	₱–	₱205,351,906
Effect of adoption of PFRS 16 (Note 2)	–	–	–	–	–	47,688,122	47,688,122
Balances at beginning of year, as restated	12,014,527	18,185,925	98,737,491	16,639,989	59,773,974	47,688,122	253,040,028
Additions	–	765,777	15,222,497	5,112,279	12,611,036	11,863,338	45,574,927
Disposals	–	–	(1,362,241)	(3,931,201)	(41,820)	–	(5,335,262)
Reclassifications (Note 10)	8,340,000	150,000	–	–	–	–	8,490,000
Balances at end of year	20,354,527	19,101,702	112,597,747	17,821,067	72,343,190	59,551,460	301,769,693
Accumulated depreciation and amortization							
Balances at beginning of year	–	7,435,844	77,088,997	11,501,705	20,596,648	–	116,623,194
Depreciation and amortization	–	1,191,455	12,522,979	1,933,635	8,767,858	9,342,731	33,758,658
Disposals	–	–	(656,355)	(3,345,708)	(2,323)	–	(4,004,386)
Balances at end of year	–	8,627,299	88,955,621	10,089,632	29,362,183	9,342,731	146,377,466
Allowance for impairment losses (Note 12)							
Balances at beginning of year	11,385,054	1,050,745	–	–	–	–	12,435,799
Reclassifications (Note 10)	–	143,792	–	–	–	–	143,792
Balances at end of year	11,385,054	1,194,537	–	–	–	–	12,579,591
Net book value at end of year	₱8,969,473	₱9,279,866	₱23,642,126	₱7,731,435	₱42,981,007	₱50,208,729	₱142,812,636

Gain on sale of items of property and equipment reported under 'Profit from assets sold' amounted to ₱0.20 million and ₱0.76 million in 2020 and 2019, respectively.

As of December 31, 2020 and 2019, the cost of fully depreciated items of property and equipment still in use amounted to ₱91.14 million and ₱81.49 million, respectively.

The details of depreciation and amortization follow:

	2020	2019
Property and equipment	₱38,346,773	₱33,758,658
Software costs (Note 11)	1,601,911	1,729,323
Repossessed chattels (Note 11)	1,490,198	272,442
Investment properties (Note 10)	1,275,066	1,222,437
	₱42,713,948	₱36,982,860

10. Investment Properties

The composition of and movements in this account follow:

	2020		
	Land	Building	Total
Cost			
Balances at beginning of year	₱130,275,862	₱28,771,720	₱159,047,582
Additions	720,000	596,000	1,316,000
Disposals	(7,018,808)	(4,165,000)	(11,183,808)
Balances at end of year	123,977,054	25,202,720	149,179,774
Accumulated depreciation			
Balances at beginning of year	-	18,995,783	18,995,783
Depreciation (Note 9)	-	1,275,066	1,275,066
Disposals	-	(628,495)	(628,495)
Balances at end of year	-	19,642,354	19,642,354

(Forward)

	2020		
	Land	Building	Total
Allowance for impairment losses (Note 12)			
Balances at beginning of year	₱23,882,611	₱279,109	₱24,161,720
Provision for the year	8,679	144,448	153,127
Disposals	(567,014)	(24,126)	(591,140)
Balances at end of year	23,324,276	399,431	23,723,707
Net book value at end of year	₱100,652,778	₱5,160,935	₱105,813,713

	2019		
	Land	Building	Total
Cost			
Balances at beginning of year	₱143,809,304	₱34,711,456	₱178,520,760
Additions	13,527,900	4,315,000	17,842,900
Disposals	(18,721,342)	(10,104,736)	(28,826,078)
Reclassifications (Note 9)	(8,340,000)	(150,000)	(8,490,000)
Balances at end of year	130,275,862	28,771,720	159,047,582
Accumulated depreciation			
Balances at beginning of year	-	22,360,384	22,360,384
Depreciation (Note 9)	-	1,222,437	1,222,437
Disposals	-	(4,587,038)	(4,587,038)
Balances at end of year	-	18,995,783	18,995,783
Allowance for impairment losses (Note 12)			
Balances at beginning of year	26,169,518	1,098,848	27,268,366
Disposals	(2,195,305)	(767,549)	(2,962,854)
Reclassifications (Note 9)	(91,602)	(52,190)	(143,792)
Balances at end of year	23,882,611	279,109	24,161,720
Net book value at end of year	₱106,393,251	₱9,496,828	₱115,890,079

Rental income on investment properties included in other income under 'Miscellaneous income' amounted to nil and ₱0.03 million in 2020 and 2019, respectively (see Note 18).

Direct operating expenses on investment properties included in 'Litigation and other expense on assets acquired' under 'Miscellaneous expense' amounted to ₱2.66 million and ₱4.11 million in 2020 and 2019, respectively (see Note 18).

Net gain from sale of investment properties reported under 'Profit from assets sold' amounted to ₱1.63 million and ₱12.21 million in 2020 and 2019, respectively.

Gain on foreclosure of investment properties reported under 'Gain on foreclosure - net' in the statements of income amounted ₱0.76 million and ₱12.14 million in 2020 and 2019, respectively.

11. Other Assets

This account consists of:

	2020	2019
Branch licenses	₱16,810,000	₱16,500,000
Prepaid expenses	4,331,356	5,448,369
Repossessed chattels - net	3,811,148	2,286,316
Refundable deposits	1,968,719	1,246,981
Software costs – net	1,207,683	1,450,066
Documentary stamps	514,414	788,339
Others	151,658,463	149,320,624
	180,301,783	177,040,695
Allowance for impairment losses (Note 12)	(162,054,000)	(162,054,000)
	₱18,247,783	₱14,986,695

'Others' mainly represent miscellaneous assets in process of reconciliation which have been fully provided for as of December 31, 2020 and 2019. The allowance for impairment losses pertains to branch licenses and other assets amounting to ₱15.90 million and ₱146.15 million, respectively (see Note 12).

Movements in 'Repossessed chattels' follow:

	2020	2019
Cost		
Balances at beginning of year	₱2,732,490	₱259,597
Additions	4,260,000	2,891,889
Disposals	(84,000)	(415,601)
Reclassifications (Note 9)	(1,455,000)	(3,395)
Balances at end of year	5,453,490	2,732,490
Accumulated depreciation		
Balances at beginning of year	442,291	192,765
Depreciation (Note 9)	1,490,198	272,442
Disposals	(83,998)	(22,916)
Reclassifications (Note 9)	(433,056)	–
Balances at end of year	1,415,435	442,291
Allowance for impairment losses (Note 12)		
Balances at beginning of year	3,883	8,654
Provisions for the year	223,024	3,883
Disposals	–	(8,654)
Balances at end of year	226,907	3,883
Net book value at end of year	₱3,811,148	₱2,286,316

Net gain from sale of repossessed chattel reported under 'Profit from assets sold' amounted to ₱0.01 million and ₱0.05 million in 2020 and 2019, respectively.

Loss on foreclosure of repossessed chattels amounted to ₱0.40 million in 2020 and gain on foreclosure of repossessed chattels amounted to ₱0.28 million in 2019 reported under 'Gain on foreclosure - net' in the statement of income.

Movements in 'Software costs' follow:

	2020	2019
Cost		
Balances at beginning of year	₱19,244,274	₱18,135,381
Additions	1,359,528	1,108,893
Balances at end of year	20,603,802	19,244,274
Accumulated amortization		
Balances at beginning of year	17,794,208	16,064,885
Amortization (Note 9)	1,601,911	1,729,323
Reclassification	–	–
Balances at end of year	19,396,119	17,794,208
Net book value at end of year	₱1,207,683	₱1,450,066

12. Allowance for Credit and Impairment Losses

Changes in the allowance for credit and impairment losses follow:

	2020	2019
Balances at beginning of year		
Investment at amortized cost (Note 7)	₱6,722	₱795
Loans and receivables (Note 8)	274,721,947	294,960,573
Property and equipment (Note 9)	12,579,591	12,435,799
Investment properties (Note 10)	24,161,720	27,268,366
Branch licenses (Note 11)	15,900,000	15,900,000
Repossessed chattels (Note 11)	3,883	8,654
Other assets (Note 11)	146,154,000	146,154,000
	473,527,863	496,728,187
Provisions for the year	51,435,707	595,843
Reversal of allowance on assets sold (Notes 7, 10 and 11)	(595,972)	(2,971,508)
Accounts written-off	(90,243,451)	(20,824,659)
Balances at end of year		
Investment securities at amortized cost (Note 7)	1,900	6,722
Loans and receivables (Note 8)	235,538,042	274,721,947
Property and equipment (Note 9)	12,579,591	12,579,591
Investment properties (Note 10)	23,723,707	24,161,720
Branch licenses (Note 11)	15,900,000	15,900,000
Repossessed chattels (Note 11)	226,907	3,883
Other assets (Note 11)	146,154,000	146,154,000
	₱434,124,147	₱473,527,863

A reconciliation of the allowance for credit losses by class of loans and receivables in 2020 and 2019 follows:

	2020				
	Consumption	Commercial	Real estate	Others	Total
Balances at beginning of year	₱155,307,345	₱93,392,221	₱5,629,975	₱20,392,406	₱274,721,947
Provisions	26,287,564	4,090,163	284,617	20,397,202	51,059,546
Accounts written-off	(32,867,612)	(45,024,670)	(5,075,627)	(7,282,022)	(90,249,931)
Balances at end of year	₱148,733,777	₱52,457,715	₱838,965	₱33,507,585	₱235,538,042

	2019				
	Consumption	Commercial	Real estate	Others	Total
Balances at beginning of year	₱156,159,673	₱107,088,530	₱5,728,785	₱25,983,585	₱294,960,573
Provisions (reversals)	3,741,706	(5,208,799)	(98,810)	2,151,936	586,033
Accounts written-off	(4,594,034)	(8,487,510)	-	(7,743,115)	(20,824,659)
Balances at end of year	₱155,307,345	₱93,392,221	₱5,629,975	₱20,392,406	₱274,721,947

Below is the breakdown of provision for credit and impairment losses:

	2020	2019
Loans and receivables (Note 8)	₱51,059,546	₱586,033
Investment securities at amortized cost (Note 7)	10	5,927
Repossessed chattels (Note 11)	223,024	3,883
Property and equipment (Note 9)	-	-
Investment properties (Note 10)	153,127	-
	₱51,435,707	₱595,843

13. Deposit Liabilities

Of the total deposit liabilities of the Bank as of December 31, 2020 and 2019, 48.10% and 43.66%, respectively, are subject to periodic interest repricing. Remaining deposit liabilities bear annual fixed interest rates ranging from 3.00% to 4.50% and 3.75% to 4.50% in 2020 and 2019.

The Monitory Board (MB) approved the decrease in reserve requirement ratio (RRR) against non-foreign currency deposit unit (FCDU) deposit liabilities of thrift banks through the issuance of BSP Circular 1092 – Resolution No. 423 dated March 23, 2020. RRR, from 4.00% in 2019, was reduced to 3.00% effective July 31, 2020.

The required reserves shall be kept in the form of deposits maintained in the Demand Deposit Accounts (DDA) with the BSP and any government securities which are previously used as compliance until they mature. As of December 31, 2020 and 2019, the Bank was in compliance with such regulations.

As of December 31, 2020 and 2019, the Bank's liquidity and statutory reserves as reported to the BSP amounting to ₱61.97 million and ₱76.67 million, respectively, are included under 'Due from BSP'.

Interest expense on deposit liabilities consists of:

	2020	2019
Time	₱14,677,654	₱12,971,834
Savings	17,040,014	13,785,250
	₱31,717,668	₱26,757,084

14. Accrued Expenses and Other Liabilities

Accrued expenses account consists of:

	2020	2019
Accrued expenses	₱17,187,077	₱22,489,553
Accrued interest payable	3,464,516	4,155,766
Rent payable (Note 20)	-	305,095
	₱20,651,593	₱26,950,414

Accrued expenses consist of accruals for professional fees and other administrative expenses.

Accrued interest payable pertains to accruals of interest expense on deposit liabilities (see Note 13).

Other liabilities account consists of:

	2020	2019
Lease liability (Note 20)	₱57,850,651	₱52,431,767
Accounts payable (Note 22)	13,163,808	20,153,744
Retirement liability (Note 19)	22,642,535	16,563,457
Income tax payable	801,318	1,354,693
Withholding taxes and other taxes payable	1,339,209	898,063
Others	1,240,094	1,237,377
	₱97,037,615	₱92,639,101

Interest expense on lease liability amounted to ₱4.78 million and ₱4.33 million in 2020 and 2019, respectively (see Note 20).

Accounts payable consist of payables to service providers and advance payments from customers.

Others consist mainly of payables to agencies servicing employee welfare such as Social Security System, Home Development Mutual Fund and Medicare.

15. Redeemable Preferred Shares

The details of the Bank's redeemable preferred shares follow:

	Shares	Amount
Preferred stock - ₱1,000 par value		
Authorized	50,000	₱50,000,000
Issued and outstanding		
Balances at beginning and end of year	30,700	₱30,700,000

The preferred stock has the following features:

a. The minimum subscription is 100 shares and payable in cash;
b. The shares shall earn a monthly interest at a rate to be fixed by the BOD, but such interest shall not be less than the prevailing market interest rates and said shares shall not be treated as time deposit, deposit substitute or as other form of borrowings;
c. The interest shall be paid in the form of dividends cumulatively, which may be declared annually or as often as the BOD may determine;

d. The shares shall have preference in the distribution of dividends and in the distribution of assets in case of liquidation or dissolution, provided, however that no dividend shall be declared or paid on redeemable shares in the absence of sufficient undivided profits, free surplus and approval of the BSP;
e. The shares are non-voting on matters provided for in the last paragraph of Section 6 of the Corporation Code;
f. Pre-emptive rights are not available on preferred shares nor shall they be subject to one and the shares shall be held for five (5) years with a right of alienation or encumbrance of the same to any third person within the period of five (5) years from the original date of subscription, provided, however, that on the 5th year the holder shall be obliged to surrender the same to the corporation and upon prior approval of the BSP and in compliance with the provisions of the Manual of Regulations for Banks (MORB) and the BSP's circulars regarding this matter, the corporation shall be obliged to take up the subscription at the price when the preferred shares of stock were originally subscribed. Provided that shares redeemed are replaced with at least an equivalent amount of newly paid-in shares so that the total paid-in capital stock is maintained at the same level immediately prior to redemption and provided further, that the corporation is not insolvent or if such redemption will not cause insolvency, impairment of capital or inability of the corporation to meet its debts as they mature; and
g. A sinking fund for the redemption of preferred shares is to be created upon their issuance. This is to be effected by the transfer of free surplus to a restricted surplus account. The fund shall not be available for dividends. As of December 31, 2020, the Bank has not yet created a sinking fund pending request from the BSP to redeem and retire the preferred shares. The fund that will be used to redeem the preferred shares will be taken from the equity infused by the Parent Bank.

The shares may again be disposed of by the Bank for a price fixed by the BOD. Based on the BOD resolution on March 6, 2013, the entire redeemable preferred shares of the Bank will be retired after its redemption subject to BSP's approval. As of December 31, 2020 and 2019 the entire redeemable preferred shares are still subject to BSP's approval.

As of December 31, 2020 and 2019 the Parent Bank owns 30,200 shares or ₱30.20 million of the outstanding redeemable preferred shares of the Bank.

16. Maturity Analysis of Assets and Liabilities

The following table shows an analysis of assets and liabilities analyzed according to whether they are expected to be recovered or settled within one year and beyond one year from statements of financial position date (amounts in millions):

	December 31, 2020			December 31, 2019		
	Due Within One Year	Due Beyond One Year	Total	Due Within One Year	Due Beyond One Year	Total
Financial assets						
Cash and other cash items	₱113	₱–	₱113	₱73	₱–	₱73
Due from BSP	445	–	445	392	–	392
Due from other banks	98	–	98	92	–	92
Securities purchased under resale agreement	129	–	129	67	–	67
Investment securities at amortized cost	–	20	20	–	200	200
Loans and receivables	540	1,395	1,935	623	1,288	1,911
Other assets	–	2	2	–	1	1
	1,325	1,417	2,743	1,247	1,489	2,736

(Forward)

	December 31, 2020			December 31, 2019		
	Due Within One Year	Due Beyond One Year	Total	Due Within One Year	Due Beyond One Year	Total
Non-financial assets						
Property and equipment	₱–	₱334	₱334	₱–	₱302	₱302
Investment properties	–	149	149	–	159	159
Deferred tax asset	–	128	128	–	113	113
Other assets	156	43	199	156	38	194
	156	654	811	156	612	768
	₱1,481	₱2,071	3,552	₱1,403	₱2,101	3,504
Less:						
Unearned interest and discount			50			57
Discount on loan modification			24			
Accumulated depreciation and amortization			222			183
Allowance for credit and impairment losses			434			474
			₱2,821			₱2,790
Financial liabilities						
Deposit liabilities	₱1,747	₱310	₱2,057	₱1,657	₱315	₱1,972
Redeemable preferred shares	31	–	31	31	–	31
Accrued expenses	20	–	20	27	–	27
Other liabilities	24	47	71	26	47	73
	1,822	357	2,179	1,741	362	2,103
Non-financial liabilities						
Other liabilities	3	23	26	3	16	19
	₱1,825	₱380	₱2,205	₱1,744	₱378	₱2,122

17. Equity

Capital Stock
Details of the Bank's capital stock as of December 31, 2020 and 2019 follow:

	Shares	Amount
Common stock - ₱100.00 par value		
Authorized	20,000,000	₱2,000,000,000
Issued and outstanding		
Balances at beginning and end of year	12,459,600	₱1,245,960,000

Surplus Reserve
The Bank's accumulated reserves amounting to ₱6.45 million was appropriated under the old management and BOD in previous years, prior to the acquisition by the Parent Bank.

As provided in the Articles of Incorporation, the Bank shall accumulate and maintain a surplus reserve of not less than 5.00% of its total assets and shall be available for meeting losses incurred by the Bank. Upon the required amount thereof being reached, a sinking fund pursuant to the BSP rules and regulations shall be set aside in the amount necessary for the redemption of redeemable preferred shares. The BOD may, at its discretion, provide for such other reserves as it may seem necessary. The appointment of net earnings for such reserves shall be made before effecting the distribution of net earnings.

The Bank is presently reviewing the propriety of this provision. Any required revision will be recommended for approval to the Bank's BOD and stockholders. No additional appropriation has been made as of December 31, 2020 and 2019.

Under BSP Circular No. 1011, the Bank shall treat Stage 1 provisions for loan accounts as General Provisions (GP) while Stage 2 and 3 provisions shall be treated as Specific Provisions (SP). The Bank shall set up GLLP equivalent to 1% of all outstanding on-balance sheet loan accounts, except for accounts considered as credit risk-free under existing regulations. In cases when the computed allowance for credit losses on Stage 1 accounts is less than the 1% required GP, the deficiency shall be recognized by appropriating the 'Surplus Reserve' account. GP recognized in profit or loss as allowance for credit losses for Stage 1 accounts and the amount appropriated in surplus shall be considered as Tier 2 capital subject to the limit provided under the CAR framework.

In 2020 and 2019, the Bank 's allowance for credit losses is less than the required GP of 1.00% for Stage 1 accounts amounting to ₱10.43 million and ₱9.40 million, respectively.

Capital Management

The primary objectives of the Bank's capital management are to ensure that the Bank complies with externally imposed capital requirements, as mandated by the BSP, and that the Bank maintains healthy capital ratios in order to support its business and to maximize shareholder's value.

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

Regulatory Qualifying Capital

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

In addition, the risk-based capital ratio of a bank or Capital Adequacy Ratio (CAR), expressed as a percentage of qualifying capital to risk-weighted assets, should not be less than 10.00% for both solo basis and consolidated basis. Qualifying capital and risk-weighted assets are computed based on BSP regulations. Risk-weighted assets consist of total assets less 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 determined by the Monetary Board of the BSP.

On January 15, 2013, the BSP issued Circular No. 781, Basel III Implementing Guidelines on Minimum Capital Requirements, which provides the implementing guidelines on the revised risk-based capital adequacy framework particularly on the minimum capital and disclosure requirements for universal banks and commercial banks, as well as their subsidiary banks and quasi-banks, in accordance with the Basel III standards. The Circular is effective on January 1, 2014. Effective January 1, 2014, the Bank followed the same risk-based capital adequacy framework adopted by its Parent Bank.

The Circular sets out a minimum Common Equity Tier 1 (CET1) ratio of 6.00% and Tier 1 capital ratio of 7.50%. It also introduces a capital conservation buffer of 2.50% comprised of CET1 capital. The BSP's existing requirement for total CAR remains unchanged at 10.00% and these ratios shall be maintained at all times.

The table below shows the Bank's CAR as of December 31, 2020 and 2019 as reported to the BSP (amounts in millions).

	2020	2019
Tier 1 capital	₱571	₱573
Tier 2 capital	22	15
Gross qualifying capital	593	588
Less required deductions	–	–
Total qualifying capital	₱593	₱588
Risk weighted assets	₱2,590	₱2,386
Tier 1 capital ratio	22.05%	24.02%
Tier 2 capital ratio	0.85%	0.63%
Risk-based capital adequacy ratio	22.90%	24.64%

The computed CAR of 22.90% and 24.64% as of December 31, 2020 and 2019, respectively, as reported to the BSP, were based on the commercial bank's CAR template as required by the BSP since the Parent Bank is a commercial bank.

Regulatory capital consists of Tier 1 capital, which comprises paid-up common stock, surplus, surplus reserves including current year profit, less required deductions total outstanding unsecured credit accommodations, both direct and indirect, to DOSRI.

The other component of regulatory capital is Tier 2 capital, which represents the general loan loss provisions capped at a maximum of 1.00% of gross risk weighted assets. The general loan loss provisions are based on regulatory accounting principle.

On May 22, 2014, the MB of the BSP approved the adoption of a prudential Real Estate Stress Testing (REST) limit for universal/commercial banks and thrift banks on a solo and consolidated basis on their aggregate real estate exposures, as provided under BSP Circular No. 839, Real Estate Stress Test Limit for Real Estate Exposures, dated June 27, 2014. The REST limit combines a macro prudential overlay of a severe stress test scenario, the principle of loss absorbency through minimum capital ratio thresholds and heightened supervisory response. The Circular sets out a minimum REST limit of 6.00% CET1 capital ratio and 10.00% risk-based capital adequacy ratio, on a solo and consolidated basis, under a prescribed write-off rate of 25.00% on the Bank's real estate exposure. These limits shall be complied with at all times.

On October 29, 2014, the BSP issued amendments to Circular No. 854 which requires a new minimum capitalization for Banks. The Bank, as a thrift bank with 11 to 100 branches, was required to increase its capitalization to ₱400.00 million. The Bank has complied with this requirement.

On June 9, 2015, the BSP issued Circular No. 881, Implementing Guidelines on the Basel III Leverage Ratio Framework, which provides implementing guidelines for universal, commercial, and their subsidiary banks/quasi banks. The circular sets out a minimum leverage ratio of 5.00%. The Bank has complied with this requirement.

Leverage Ratio

On June 9, 2015, BSP issued circular No. 881, which approved the guidelines for the implementation of the Basel III Leverage Ratio in the Philippines. The Basel III Leverage Ratio is designed to act as a supplementary measure to the risk-based capital requirements. The leverage ratio intends to restrict the build-up of leverage in the banking sector to avoid destabilizing deleveraging processes which can damage the broader financial system and the economy. Likewise, it reinforces the risk-based requirements with a simple, non-risk based "backstop" measure. The Basel III leverage ratio is defined as the capital measure (the numerator) divided by the exposure measure (the denominator). The monitoring of the leverage ratio was implemented as a Pillar 1 minimum requirement effective on 1 July 2018.

The BLR of the Bank as of December 31, 2020 and 2019 as reported to the BSP are shown in the table below (amounts in millions).

	2020	2019
Tier 1 capital	₱571	₱573
Exposure measure	2,947	2,737
Leverage ratio	19.38%	20.93%

Liquidity Coverage Ratio (LCR)
BSP Circular No. 905 provides the implementing guidelines on LCR and disclosure standards that are consistent with the Basel III framework. The LCR is the ratio of high quality liquid assets to total net cash outflows which should not be lower than 100.00%.

As of December 31, 2020 and 2019, the LCR as reported to the BSP is 1307.51% and 1597.05%, respectively.

Net Stable Funding Ratio (NSFR)
On June 6, 2018, the BSP issued BSP Circular No.1007 covering the implementing guidelines on the adoption of the Basel III Framework on Liquidity Standards NSFR. The NSFR is aimed to promote long term resilience against liquidity risk by requiring banks to maintain a stable funding profile in relation to the composition of its assets and off-balance sheet activities. It complements the LCR, which promotes short term resilience of a bank's liquidity profile. Banks shall maintain an NSFR of at least 100 percent (100%) at all times. The implementation of the minimum NSFR shall be phased in to help ensure that covered banks can meet the standard through reasonable measures without disrupting credit extension and financial market activities. An observation period was set from July 1 to December 31, 2018. Effective, January 1, 2019, banks shall comply with the prescribed minimum ratio of 100%.

As of December 31, 2020 and 2019, the NSFR as reported to the BSP is 123.67% and 114.23%, respectively.

18. Income and Expenses

Service fees and commission income consists of:

	2020	2019
Service fees and commission income:		
Deposit-related	₱1,357,858	₱1,307,847
Commissions	23,715	364,375
	1,381,573	1,672,222
Service fees and commission expense:		
Banking fees	(4,568,001)	(8,884,263)
	(₱3,186,428)	(₱7,212,041)

Miscellaneous income consists of:

	2020	2019
Penalties	₱5,796,360	₱4,546,695
Lease concessions	624,879	-
Income on sale of checkbook	261,401	610,049
Others (Note 10)	10,914,742	9,209,191
	₱17,597,382	₱14,365,935

Others include rental income from investment properties, ATM transaction fees, other loan fees and surcharges, and recovery on charged-off assets.

Miscellaneous expenses consist of:

	2020	2019
Litigation and other expense on assets acquired (Note 10)	₱2,656,890	₱4,113,350
Stationery and supplies	3,318,070	3,651,818
Advertising	1,148,633	1,041,320
Documentary stamp used	475,932	382,596
Others	5,454,694	4,760,875
	₱13,054,219	₱13,949,959

Other expenses include sponsorship expenses, appraisal fees, donations, periodicals and magazines, membership dues and fines and penalties.

19. Retirement Liability

The Bank has noncontributory defined benefit plan covering all its regular and permanent employees. Under the retirement plan, all employees are entitled to cash benefits after satisfying certain age and service requirements.

On April 1, 2019, the retirement plan was amended to increase the previous benefit pay of 22.5 days to 26.08 days for every year of credited service based on the final daily basic salary for all service years until separation. The effect of the change in retirement plan is reflected as 'Past service cost' and recognized under 'Retirement expense' in the statement of income for the year ended December 31, 2019.

The existing regulatory framework, Republic Act (RA) 7641, *An Act Amending Article 287 of Presidential Decree No. 442, as Amended, otherwise known as the Labor Code of the Philippines*, requires a provision for retirement pay to qualified private sector employees in the absence of any retirement plan in the entity, provided however that the employee's retirement benefits under any collective bargaining and other agreements shall not be less than those provided under the law.

The law does not require minimum funding of the plan.

The latest actuarial valuation of the retirement plan of the Bank was made as of December 31, 2020.

The status and amounts recognized in the statement of financial position for retirement liability are as follows:

	2020	2019
Balance at beginning of year	₱16,563,457	₱4,686,133
Net benefit cost in statement of income*		
Current service cost	3,646,310	2,654,638
Past Service cost	–	1,162,704
Net interest cost	826,517	590,539
	4,472,827	4,407,881
Contribution	–	–
	4,472,827	4,407,881
Remeasurements in OCI		
Actuarial changes arising from:		
Changes in financial assumptions	2,877,216	3,557,932
Experience adjustments	(1,259,985)	3,213,527
Changes in demographic assumptions	–	376,925
Actual return on plan assets	(10,980)	321,059
	1,606,251	7,469,443
Balance at end of year	₱22,642,535	₱16,563,457

** The net benefit cost is recorded under 'Compensation and fringe benefits' in the statements of income.*

Movements in 'Remeasurement loss on retirement liability' in OCI follows:

	2020	2019
Balance at beginning of year	(₱3,966,408)	₱1,262,202
Remeasurement gain (loss) on retirement liability		
Due to changes in financial assumptions	(2,877,216)	(3,557,932)
Due to changes in experience adjustments	1,259,985	(3,213,527)
Due to changes in demographic assumptions	–	(376,925)
Actual return on plan assets	10,980	(321,059)
Remeasurement loss during the year	(1,606,251)	(7,469,443)
Tax effect	481,875	2,240,833
Remeasurement loss on retirement liability during the year, net of tax	(1,124,376)	(5,228,610)
Balance at end of year, net of tax	(₱5,090,784)	(₱3,966,408)

The principal actuarial assumptions used in determining the retirement liability of the Bank as of December 31, 2020 and 2019 are shown below:

	2020	2019
Discount rate	3.94%	4.99%
Salary increases	5.70%	5.70%
Mortality rate	The 2001 CSO Table - Generational (Scale AA, Society of Actuaries)	2017 PICM
Disability rate	The Disability Study, Period 2 Benefit 5 (Society of Actuaries)	1952 Disability Study, Period 2, Benefit 5
Turnover rate	A scale ranging from 16% at age 18 decreasing to 0% at age 60	A scale ranging from 16% at age 18 decreasing to 0% at age 60

The sensitivity analysis below has been determined based on reasonably possible changes of each significant assumption on the defined benefit obligation as of the end of the reporting period, assuming if all other assumptions were held constant

		Defined benefit obligation	
	Increase (Decrease)	2020	2019
Discount rate	1.00%	₱21,223,259	₱15,840,856
	(1.00%)	27,276,834	20,183,182
Salary increase rate	1.00%	27,183,411	20,231,355
	(1.00%)	21,241,531	15,764,573

Shown below is the maturity analysis of the undiscounted benefit payments:

	2020	2019
Less than 1 year	₱–	₱248,031
More than 1 year to 5 years	6,477,695	4,888,154
More than 5 years to 10 years	19,429,378	16,633,832
More than 10 years to 15 years	27,969,877	24,840,500
More than 15 years to 20 years	35,086,281	33,663,372
More than 20 years	95,730,462	99,177,481

The Bank's weighted average duration of the defined benefit obligation is equivalent to 12.6 years and 21.31 years in 2020 and 2019, respectively.

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20. Leases

Bank as a Lessee

The Bank leases its head office and branch premises for periods ranging from five (2) to fifteen (15) years, renewable upon mutual agreement of both parties. Various lease contracts include escalation clauses, most of which bear annual rent increase ranging from 5.00% to 10.00%.

The Bank also has certain leases of building and branch premises with remaining lease terms of 12 months or less and leases with low value assets. The Bank applies the recognition exemptions for these types of leases.

Rent expense charged against current operations (included in 'Occupancy and equipment-related' expenses in the statements of income) amounted to ₱7.99 million and ₱10.33 million in 2020 and 2019, respectively. Rent expense in 2020 pertains to expenses from short-term leases and leases of low-value assets.

The estimated minimum future annual rentals payable under non-cancellable leases follow:

	2020	2019
Within one year	₱14,855,408	₱9,189,287
Beyond one year but not more than five years	42,564,995	39,432,667
More than five years	14,895,633	20,527,956
	₱72,316,037	₱69,149,910

Right-of-use Assets

Details of the carrying amounts of right-of-use assets recognized and the movements during the year ended December 31, 2020 are disclosed in Note 9.

Lease Liabilities

As of December 31, 2020, the carrying amount of lease liabilities follow:

	2020	2019
Balance at beginning of year	₱52,431,767	₱44,520,658
Additions	11,757,495	11,720,790
Interest expense (Note 14)	4,778,928	4,334,866
Lease concessions	(624,879)	–
Payments	(10,492,660)	(8,144,547)
	₱57,850,651	₱52,431,767

21. Income and Other Taxes

Under Philippine tax laws, the Bank is subject to percentage and other taxes (presented as 'Taxes and licenses' in the statement of income) as well as income taxes. Percentage and other taxes paid consist principally of gross receipts tax (GRT) and documentary stamp taxes. Income taxes consist of final withholding taxes on gross interest income from government securities, and deposits and Regular Corporate Income Tax (RCIT), as discussed below, on net taxable income. These income taxes, as well as the deferred tax benefit, are presented in the statement of income as 'Provision for (benefit from) income tax'.

Current tax regulations provide that the RCIT rate shall be 30.00% and interest allowed as a deductible expense shall be reduced by an amount of 33.00% of interest income subjected to final tax.

The optional standard deduction (OSD) equivalent to 40.00% of gross income may be claimed as an alternative deduction in computing for the RCIT. In 2020 and 2019, the Bank elected to claim itemized expense deductions instead of the OSD in the RCIT computation.

The regulations also provide for MCIT of 2.00% of modified gross income and allow a NOLCO benefit. Both the excess of MCIT over the RCIT and NOLCO may be applied against the regular tax liability and taxable income, respectively, over three (3) years from the year of inception.

On September 30, 2020, the Bureau of Internal Revenue (BIR) has issued Revenue Regulations (RR) No. 25-2020 to implement Section 4 (bbbb) of Republic Act No. 11494, otherwise known as "Bayanihan to Recover as One Act", allowing qualified businesses or enterprises which incurred net operating loss for taxable years 2020 and 2021 to carry over the same as a deduction from its gross income for the next five (5) consecutive taxable years immediately following the year of such loss.

Current tax regulations also provide for the ceiling on the amount of entertainment, amusement and recreation (EAR) expense that can be claimed as a deduction against taxable income. Under the regulation, EAR expense allowed as a deductible expense for a service bank is limited to the actual EAR paid or incurred but not to exceed 1.00% of net revenue. EAR expenses of the Bank amounted to ₱1.84 million and ₱2.08 million in 2020 and 2019, respectively.

Benefit from income tax consists of:

	2020	2019
Current:		
MCIT/RCIT	₱3,570,911	₱8,325,960
Final	3,469,308	4,817,373
	7,040,219	13,143,333
Deferred	(14,739,675)	(90,069,135)
	(₱7,699,456)	(₱76,925,802)

The components of the Bank's net deferred tax asset follow:

	2020	2019
Deferred tax assets on:		
Allowance for credit and impairment losses	₱120,965,867	₱111,827,247
Accumulated depreciation on investment properties and repossessed chattels	6,317,337	5,831,422
Retirement liability	6,792,761	2,728,204
Lease liability	2,165,016	666,911
Rent payable	–	91,529
	136,240,981	121,145,313
Deferred tax liabilities on:		
Unrealized gain on foreclosure of investment Properties	7,642,385	7,768,267
	7,642,385	7,768,267
	₱128,598,596	₱113,377,046

Deferred tax credited to OCI amounted to ₱0.48 million and ₱2.24 million in 2020 and 2019, respectively (see Note 19).

The Bank did not set up any deferred tax assets on the following temporary differences since management believes that it is not highly probable that the related future benefits will be realized in the future.

	2020	2019
Allowance for credit and impairment losses	₱30,904,588	₱100,763,650
Loan modification	24,397,090	–
Excess of MCIT over RCIT	3,570,911	–
NOLCO	79,783,402	–
	₱138,655,991	₱100,763,650

As of December 31, 2020, the Bank has incurred NOLCO in taxable year 2020 which can be claimed as deduction from the regular taxable income for the next five (5) consecutive taxable years pursuant to Bayanihan 2, as follows:

Inception Year	Amount	Used	Expired	Balance	Expiry Year
2020	₱79,783,402	₱–	₱–	₱79,783,402	2025

Details of the Bank's excess MCIT over RCIT follow:

Inception Year	Amount	Used	Expired	Balance	Expiry Year
2020	₱3,570,911	₱	₱–	₱3,570,911	2025

A reconciliation of statutory income tax to the effective income tax is as follows:

	2020	2019
Statutory income tax	(₱17,620,045)	₱14,622,213
Tax effect of:		
Movements in unrecognized deferred tax assets	8,393,564	(92,944,351)
Nondeductible expenses	3,233,052	3,823,141
Tax-paid and nontaxable income	(1,706,027)	(2,426,805)
Effective income tax	(₱7,699,456)	(₱76,925,802)

Corporate Recovery and Tax Incentives for Enterprises (CREATE) Act
President Rodrigo Duterte signed into law on March 26, 2021 the Corporate Recovery and Tax Incentives for Enterprises (CREATE) Act to attract more investments and maintain fiscal prudence and stability in the Philippines. Republic Act (RA) 11534 or the CREATE Act introduces reforms to the corporate income tax and incentives systems. It takes effect 15 days after its complete publication in the Official Gazette or in a newspaper of general circulation or April 11, 2021.

The following are the key changes to the Philippine tax law pursuant to the CREATE Act which have an impact on the Bank:

- Effective July 1, 2020, regular corporate income tax (RCIT) rate is reduced from 30.00% to 25.00% for domestic and resident foreign corporations.

- Minimum corporate income tax (MCIT) rate reduced from 2.00% to 1.00% of gross income effective July 1, 2020 to June 30, 2023.

As clarified by the Philippine Financial Reporting Standards Council in its Philippine Interpretations Committee Q&A No. 2020-07, the CREATE Act was not considered substantively enacted as of December 31, 2020 even though some of the provisions have retroactive effect to July 1, 2020. The passage of the CREATE Act into law on March 26, 2011 is considered as a non-adjusting subsequent event. Accordingly, current and deferred taxes as of and for the year ended December 31, 2020 continued to be computed and measured using the applicable income tax rates as of December 31, 2020 for financial reporting purposes.

Applying the provisions of the CREATE Act, the Company would have been subjected to lower regular corporate income tax of 25.00% and minimum corporate income tax rate of 1.00% effective July 1, 2020.

Based on the provisions of Revenue Regulation (RR) No. 2-2021 dated April 8, 2021 issued by the BIR, the prorated MCIT rate of the Bank for CY2020 is 1.50%. This will result in a lower provision for current income tax for the year ended December 31, 2020 and an overpayment income tax payable as of December 31, 2020, amounting to ₱2.68 million and ₱0.09 million , respectively, or a reduction of ₱0.89 million. The reduced amount will be reflected in the Bank's 2020 annual income tax return. However, for financial reporting purposes, the changes will only be recognized in the 2021 financial statements.

Moreover, this will result in lower deferred tax assets in 2021 and benefits from deferred tax for the year then ended of ₱107.19 million and ₱6.67 million, respectively. These reductions will be recognized in the 2021 financial statements.

22. Related Party Transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions or if they are subjected to common control of common significant influence such as subsidiaries and associates of subsidiaries or other related parties. Related parties may be individuals or corporate entities.

The Bank has several business relationships with related parties. Transactions with such parties are made in the ordinary course of business and on substantially same terms, including interest and collateral, as those prevailing at the time of comparable transactions with other parties. These transactions also did not involve more than the normal risk of collectability or present other unfavorable conditions.

Details on significant related party transactions of the Bank follow:

			2020		2019	
Related Party	Nature of Transaction	Terms and Condition	Amount/ Volume	Outstanding Balance	Amount/ Volume	Outstanding Balance
Parent	Accounts receivable	Unsecured, noninterest-bearing, payable on demand	₱765,073	₱5,583,708	₱1,933,409	₱4,818,635
	Accounts payable	Unsecured, noninterest-bearing, payable on demand	24,584	5,506,741	1,805,846	5,481,157
	Due from other banks	Regular checking account, non-interest bearing	(9,800,513)	2,555,282	(4,335,362)	12,355,795
Key employees	Receivables from customers	Personal loans to directors, officers and stockholders with interest rates ranging 6.25% - 9.00%; Secured and unimpaired	191,793	4,545,944	(20,555,447)	4,353,251
Key employees	Deposit liabilities	Deposits of directors, officers and stockholders with interest rates ranging 0.5% - 5.5%	1,051,458	1,339,827	(3,617,646)	288,369
	Interest income	Interest earned from loans of directors, officers and stockholders	191,793	–	101,045	–
	Interest expense	Interest expense on deposit liabilities	1,757	–	2,783	–
	Compensation and fringe benefits	Remuneration and benefits to directors and key management personnel	15,240,975	–	14,537,909	–
	Post-employment benefits	Post-employment benefits	856,399	–	772,446	–

23. Contingencies

The Bank is also involved in a number of legal proceedings. The estimate of the probable costs for the resolutions of these claims has been developed in consultation with outside counsel handling the Bank's defense and is based on an analysis of potential results. The Bank does not believe that these proceedings will have a material adverse effect on the financial statements.

Following is a summary of the Bank's commitments and contingent liabilities at their equivalent peso contractual amounts:

	2020	2019
Late deposit/payment received	₱644,091	₱598,473
Items held for safekeeping	15,491	16,134
Other contingent account	6,098	5,221
Total	₱665,680	₱619,828

Other contingent account includes post-dated checks and items held as collateral valued at ₱1 per item.

24. Note to the Statement of Cash Flows

Non-cash investing and financing activities that relate to the analysis of the statement of cash flows of the Bank are as follows:

	2020	2019
Increase in repossessed chattels due to foreclosure	₱4,664,015	₱2,615,186
Sale of investment properties on account	1,292,000	20,509,200
Increase in property equipment due to reclassifications from investment property	1,021,944	-
Increase in investment properties due to foreclosure	553,808	5,701,330
Effect of PFRS 16		
Increase in property and equipment	12,384,404	47,688,122
Increase in lease liability	12,382,374	44,520,658
Decrease in other assets	-	5,768,470
Decrease in accrued expenses	-	3,195,119
Recognition of right-of-use of asset and lease liability	-	142,548
Lease concessions	624,879	-

25. COVID-19 Outbreak

Key actions were implemented to prevent and control the Coronavirus Disease 2019 (COVID-19) outbreak in the country. On March 13, 2020, a Memorandum on Stringent Social Distancing Measures and Further Guidelines for the Management of the COVID-19 Situation issued by the Executive Secretary of the Philippines placed National Capital Region (NCR) under these measures for 30 days starting March 15. On March 16, 2020, Presidential Proclamation No. 929 was issued declaring a state of calamity throughout the Philippines for a period of six (6) months and imposed an Enhanced Community Quarantine (ECQ) throughout the island of Luzon until April 14, 2020, unless earlier lifted or extended. These measures have caused disruptions to businesses and economic activities, and its impact on businesses continue to evolve. On March 24, Republic Act No. 11469 was enacted declaring the existence of a national emergency arising from COVID-19 situation and a national policy in connection therewith, and authorizing the President of the Republic of the Philippines for a limited period and subject to restrictions, to exercise powers necessary and proper to carry out the declared national policy and for other purposes. On April 1, 2020, the Implementing Rules and Regulations (IRR) of Section 4(aa) of Republic Act No. 11469, Otherwise Known as the "Bayanihan to Heal As One Act" was released.

Under the ECQ guidelines, the government identified banks as one of the essential business establishments that needs to be operational. The Bank ensures continued operations and uninterrupted services and triggered business continuity plan. The Bank is committed to provide the financial requirements of clients, as well as to support the entire financial system given the limitations of the ECQ. The head office implemented measures and operated under business continuity plan.

In order to alleviate difficulties faced by the general public, the BSP issued guidelines on which will encourage the BSP-Supervised Financial Institutions (BSFIs) to provide financial relief to their retail customers, corporate clients and employees affected by the outbreak of the COVID-2019. BSFIs under rehabilitation programs may be given a moratorium on their monthly payments that are due to the BSP. Banks which intend to avail or have availed of the BSP rediscounting facility are entitled to (i) a 60-day grace period on the settlement of outstanding rediscounting obligations with the BSP, without penalty charges, (ii) restructuring of rediscounted loans of their end-user borrowers affected by the COVID-19, and (iii) relaxed eligibility criteria. The measures may already be availed up to one (1) year from 8 March 2020. This period may be extended depending on the developments of the COVID-19 situation.

The Bank carried out skeletal crew and rotation schedules for highly critical functions, opened as much feasible branches, and ensured cash availability in ATMs. Online loan application for APDS products is available. To ease the burden of clients, the Bank offered 30 to 90 days grace period for loan payments. This resulted to a modification loss amounting to ₱79.84 million. As of December 31, 2020, the net impact of the loan modification after subsequent accretion of the modified loans amounted to ₱24.40 million (see Note 8).

26. Approval of the Release of the Financial Statements

The accompanying financial statements of the Bank were approved and authorized for issue by the BOD on May 20, 2021.

27. Supplementary Information Required under Revenue Regulations (RR) No. 15-2010

On November 25, 2010, the Bureau of Internal Revenue (BIR) issued RR No. 15-2010 prescribing the manner of compliance in connection with the preparation and submission of financial statements accompanying the tax returns. It includes provisions for additional disclosure requirements in the notes to the financial statements, particularly on taxes, duties and licenses paid or accrued during the year.

The Bank reported and/or paid the following types of taxes for the year:

Taxes and Licenses
In 2020, taxes and licenses of the Bank consist of:

Gross receipts tax	₱15,133,504
License, permits and others	2,294,111
	₱17,427,615

Documentary Stamp Taxes
In 2020, the Bank has paid documentary stamps tax amounting to ₱2,622,218.

Withholding Taxes

The following table shows the breakdown of taxes withheld and remitted in 2020:

	Amount	Total Remittances	Balance
Withholding taxes on compensation and benefits	₱3,219,328	₱2,502,097	₱717,231
Withholding tax on deposits	3,294,244	3,116,234	178,010
Expanded withholding taxes	2,052,695	1,608,727	443,968
	₱8,566,267	₱7,227,058	₱1,339,209

As of December 31, 2020, there are no outstanding tax cases under investigation, litigation or prosecution in courts or bodies outside BIR.

28. Supplementary Information Required under BSP Circular No. 1074

On February 7, 2020, the BSP issued Circular No. 1074 to amend certain provisions of the MORB and Manual of Regulations for Foreign Exchange Transactions (MORFXT). The Circular provides for new and amended disclosure requirements to the audited financial statements, which are to be presented either (i) on specific notes to the financial statements, or (ii) in a separate note containing supplementary information as required by the BSP. This supplementary information is not a required disclosure under PFRS.

In compliance with the requirements set forth by Circular No. 1074, hereunder are the supplementary information:

Financial performance indicators

The following basic ratios measure the financial performance of the Bank:

	2020	2019
Return on average equity	-7.95%	20.69%
Return on average assets	-1.82%	5.02%
Net interest margin on average earnings assets	15.20%	15.29%

The following formulas were used to compute the indicators:

Performance Indicator	BSP Prescribed Formula
Return on Average Equity	Net Income (or Loss) after Income Tax x 100 Average Total Capital Accounts*
Return on Average Assets	Net Income (or Loss) after Income Tax x 100 Average Total Assets*
Net Interest Margin	Net Income Income x 100 Average Interest Earning Assets*

*Average amount is calculated based on current year-end and previous year-end balances

Capital instruments

As of December 31, 2020 and 2019, the Bank has outstanding capital stock as shown below:

	Shares	Amount
Common stock - ₱100.00 par value		
Authorized	20,000,000	₱2,000,000,000
Issued and outstanding		
Balances at beginning and end of year	12,459,600	₱1,245,960,000

Breakdown of total loans as to security and status

The following table shows the breakdown of receivable from customers as to secured and unsecured and the breakdown of secured receivables from customers as to the type of security as of December 31, 2020 and 2019:

	2020		2019	
	Amount	%	Amount	%
Secured by:				
Real estate	₱174,089,430	9.73	₱160,477,914	8.81
Chattel	129,001,546	7.21	153,527,609	8.42
Deposit hold-outs	927,764	0.05	512,812	0.03
Jewelry	20,277,723	1.13	15,225,520	0.84
	324,296,463	18.12	329,743,855	18.09
Unsecured	1,465,352,391	81.88	1,492,675,510	81.91
	₱1,789,648,854	100.00	₱1,822,419,365	100.00

As of December 31, 2020 and 2019, details of status of loans follow:

	Performing		Non-Performing	
	2020	2019	2020	2019
Consumption	₱1,357,741,746	₱1,387,994,881	₱195,347,903	₱206,159,217
Commercial	85,017,815	71,333,232	66,818,532	104,598,498
Real estate	82,670,110	46,746,223	2,052,748	5,587,314
	₱1,525,429,671	₱1,506,074,336	₱264,219,183	₱316,345,029

Under banking regulations, financial institutions shall adopt the ECL model in measuring credit impairment, in accordance with the provisions of PFRS 9. With the issuance of BSP Circular 941, *Amendments to the Regulations on Past Due and Non-Performing loans*, loans and lease receivables, or any financial asset shall be considered non-performing, even without any missed contractual payments, when it is considered impaired under existing accounting standards, classified as doubtful or loss, in litigation, and/or there is evidence that full repayment of principal and/or interest is unlikely without foreclosure of collateral, if any.

All other loans, even if not considered impaired, shall be considered non-performing if any principal and/or interest are:

1. Unpaid for more than ninety (90) days from contractual due date, or accrued interests for more than ninety (90) days have been capitalized, refinanced, or delayed by agreement.
2. Microfinance and other small loans with similar credit characteristics shall be considered non-performing after contractual due date or after it has become past due for more than 7-10 days.
3. Restructured loans shall be considered non-performing. However, if prior to restructuring, the loans were categorized as performing, such classification shall be retained.

Restructured receivables which do not meet the requirements to be treated as performing receivables shall also be considered as NPLs. Restructured receivables as of December 31, 2020 and 2029 amounted to ₱60.03 million and ₱72.40 million, respectively.

As of December 31, 2020 and 2019, details of gross NPLs follow:

	2020	2019
Secured	₱48,666,699	₱53,380,542
Unsecured	215,552,484	262,964,487
	₱264,219,183	₱316,345,029

The NPLs of the Bank not fully covered by allowance for credit losses as reported to BSP follow:

	2020	2019
Total NPLs	₱264,219,183	₱316,345,029
Allowance for credit losses*	159,009,408	239,576,780
	₱105,209,775	₱76,768,249

**Allowance for credit losses per BSP*

Significant credit exposures as to industry/economic sector
As of December 31, 2020 and 2019, information on the concentration of credit as to industry, net of unearned interest and discount, follows:

	2020		2019	
	Amount	%	Amount	%
Consumption Purposes	₱948,861,108	55.33	₱641,225,119	36.31
Other service activities	339,101,327	19.77	605,521,571	34.29
Wholesale and retail trade, repair of motor vehicles and motorcycles	190,398,026	11.10	273,770,176	15.50
Real estate activities	98,181,710	5.72	61,038,435	3.46
Agriculture, hunting and fishing	78,106,485	4.55	103,743,489	5.88
Construction	20,579,371	1.20	32,536,244	1.84
Education	14,730,202	0.86	14,683,298	0.83
Manufacturing	8,178,142	0.48	7,666,565	0.43
Professional, scientific and technical services	6,292,244	0.37	5,847,104	0.33
Accommodation and food services activities	6,355,502	0.37	5,959,865	0.34
Transportation and storage	2,384,984	0.14	2,754,396	0.16
Financial intermediaries	393,901	0.02	8,228,847	0.47
Others	1,494,782	0.09	2,809,592	0.16
	₱1,715,057,783	100.00	₱1,765,784,701	100.00

The BSP considers that concentration risk exists when the total loan exposure to a particular industry or economic sector exceeds 30.00% of the total loan portfolio.

Information on related party loans
In the ordinary course of business, the Bank has loan transactions with affiliates and with certain DOSRI. Existing banking regulations limit the amount of individual loans to DOSRI, 70.00% of which must be secured, to the total of their respective deposits and book value of their respective investments in the Bank. In the aggregate, loans to DOSRI generally should not exceed the Bank's total regulatory capital or 15.00% of total loan portfolio, whichever is lower.

On January 31, 2007, BSP Circular No. 560 was issued providing the rules and regulations that govern loans, other credit accommodations and guarantees granted to subsidiaries and affiliates of banks and quasi-banks. Under the said circular, the total outstanding exposures to each of a bank's subsidiaries and affiliates shall not exceed 10.00% of bank's net worth, the unsecured portion of which shall not exceed 5.00% of such net worth.

Further, the total outstanding exposures to subsidiaries and affiliates shall not exceed 20.00% of the net worth of the lending bank. BSP Circular No. 560 is effective on February 15, 2007.

The following table shows information relating to DOSRI accounts of the Bank:

	2020	2019
Total outstanding DOSRI accounts	₱ 4,869,293	₱4,353,251
Total outstanding DOSRI accounts prior to effectivity of BSP Circular No. 423	4,869,293	4,353,251
Percent of DOSRI accounts to total loans	0.27%	0.24%
Percent of unsecured DOSRI accounts to total DOSRI accounts	51.98%	67.17%
Percent of nonperforming DOSRI accounts to total DOSRI accounts	0.96%	1.61%
Percent of past due DOSRI accounts to total DOSRI accounts	0.96%	1.61%

As of December 31, 2020 and 2019, DOSRI loans include real estate loans to bank officers which were granted under the Bank's Financial Assistance Program, as approved by the BSP, amounting to ₱0.50 million and ₱0.57 million, respectively.

Commitments and contingent liabilities
Following is a summary of the Bank's commitments and contingent liabilities at their equivalent peso contractual amounts:

	2020	2019
Late deposit/payment received	₱644,091	₱598,473
Items held for safekeeping	15,491	16,134
Other contingent account	6,098	5,221
Total	₱665,680	₱619,828