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Company TIN: **005-011-651**

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C O V E R S H E E T
for
AUDITED FINANCIAL STATEMENTS

SEC Registration Number

A 1 9 9 7 - 1 8 9 6 3

COMPANY NAME

ASIA UNITED BANK CORPORATION
AND SUBSIDIARIES

PRINCIPAL OFFICE *(No. / Street / Barangay / City / Town / Province)*

JOY-NOSTALG CENTER, #17 ADB AVENUE ORTIGAS CENTER, PASIG CITY

Form Type	Department requiring the report	Secondary License Type, If Applicable
AAFS		

COMPANY INFORMATION

Company's Email Address	Company's Telephone Number	Mobile Number
www.aub.com.ph	8638-6888 / 8631-3333	

No. of Stockholders	Annual Meeting (Month / Day)	Fiscal Year (Month / Day)
119	June 30	December 31

CONTACT PERSON INFORMATION

The designated contact person ***MUST*** be an Officer of the Corporation

Name of Contact Person	Email Address	Telephone Number/s	Mobile Number
Ms. Soledad O. Reyes	reyessj@aub.com.ph	86351-5161	

CONTACT PERSON's ADDRESS

Joy Nostalg Center, #17 ADB Avenue, Ortigas Center, Pasig City

NOTE 1 *In case of death, resignation or cessation of office of the officer designated as contact person, such incident shall be reported to the Commission within thirty (30) calendar days from the occurrence thereof with information and complete contact details of the new contact person designated.*

2 *All Boxes must be properly and completely filled-up. Failure to do so shall cause the delay in updating the corporation's records with the Commission and/or non-receipt of Notice of Deficiencies. Further, non-receipt of Notice of Deficiencies shall not excuse the corporation from liability for its deficiencies.*

INDEPENDENT AUDITOR'S REPORT

The Board of Directors and Stockholders
Asia United Bank Corporation
Joy-Nostalg Center
17 ADB Avenue, Ortigas Center, Pasig City

Report on the Consolidated and Parent Company Financial Statements

Opinion

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

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

Basis for Opinion

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

Key Audit Matters

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

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

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

Allowance for expected credit losses (ECL)
The Group's and the Parent Company's application of the expected credit losses (ECL) model in calculating allowance for expected credit losses is significant to our audit as it involves the exercise of significant management judgment. Key areas of judgment include: segmenting the Group's and the Parent Company's credit risk exposures; determining the method to estimate ECL; defining default; identifying exposures with significant deterioration in credit quality, taking into account the extension of payment terms and payment holidays provided as a result of the coronavirus pandemic; determining assumptions to be used in the ECL model such as the counterparty credit risk rating, the expected life of the financial asset, expected recoveries from defaulted accounts and incorporating forward-looking information (called overlays), including the impact of the coronavirus pandemic, in calculating ECL. Provision for credit losses of the Group and the Parent Company in 2020 amounted to ₱5.43 billion and ₱5.24 billion, respectively.

Refer to Notes 4 and 16 of the financial statements for the disclosures on the details of the allowance for credit losses using the ECL model.

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

We (a) assessed the Group's and the Parent Company's segmentation of its credit risk exposures based on homogeneity of credit risk characteristics; (b) tested the definition of default and significant increase in credit risk criteria against historical analysis of accounts, credit risk management policies and practices in place, and management's assessment of the impact of the coronavirus pandemic on the counterparties; (c) tested the Group's and the Parent Company's application of internal credit risk rating system, including the impact of the coronavirus pandemic on the borrowers, by reviewing the ratings of sample credit exposures; (d) assessed whether expected life is different from the contractual life by testing the maturity dates reflected in the Group's and the Parent Company's records and considering management's assumptions regarding future collections, advances, extensions, renewals and modifications;

(e) tested loss given default by inspecting historical recoveries and related costs, write-offs and collateral valuations, (f) tested exposure at default considering outstanding commitments and repayment scheme; (g) checked the forward-looking information used for overlay through statistical test and corroboration using publicly available information and our understanding of the Group's and the Parent Company's lending portfolios and broader industry knowledge, including the impact of the coronavirus pandemic; and (h) tested the effective interest rate used in discounting the expected credit loss.

Further, we checked the data used in the ECL models by reconciling data from source system reports to the data warehouse and from the data warehouse to the loss allowance analysis/models and financial reporting systems. To the extent that the loss allowance analysis is based on credit exposures that have been disaggregated into subsets of debt financial assets with similar risk characteristics, we traced or re-performed the disaggregation from source systems to the loss allowance analysis. We also assessed the assumptions used where there are missing or insufficient data.

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

Recoverability of goodwill and branch licenses
Under PFRS, the Group and the Parent Company perform impairment testing of goodwill and intangible assets with indefinite useful life (i.e., branch licenses) annually or more frequently if events or changes in circumstances indicate that the carrying values may be impaired. As of December 31, 2020, the Group's and the Parent Company's goodwill and branch licenses totaling ₱3.83 billion and ₱3.45 billion, respectively, are considered significant to the consolidated and parent company financial statements. The goodwill is attributable to the Parent Company's branch banking group and the operation of a subsidiary, while the branch licenses are also attributable to the branch banking group. In addition, management's assessment process requires significant judgment and is based on assumptions which are subject to higher level of estimation uncertainty due to the current economic conditions which have been impacted by the coronavirus pandemic, specifically on revenue growth rate, discount rate and long-term growth rate.

The disclosures in relation to the cash-generating units (CGUs) to which the goodwill and branch licenses are allocated, and the Group's and the Parent Company's impairment assessment are included in Notes 3, 13 and 14 to the financial statements

Audit response
We involved our internal specialist in evaluating the methodologies and the assumptions used. These assumptions include revenue growth rate, discount rate and long-term growth rate. We compared the key assumptions used, such as revenue growth rate and long-term growth rate against the historical performance of the CGU, industry/market outlook and other relevant external data, taking into consideration the impact associated with coronavirus pandemic. We tested the parameters used in the determination of the discount rate against market data. We also reviewed the Group's and the Parent Company's disclosures about those assumptions to which the outcome of the impairment test is most sensitive; specifically those that have the most significant effect on the determination of the recoverable amount of goodwill and branch licenses

Accounting for Disposal of Investment Securities held under the Hold-to-Collect (HTC) Business Model
In 2020, the Group and the Parent Company disposed investment securities managed under the hold-to-collect (HTC) business model with aggregate carrying amount of ₱16.58 billion and ₱15.96 billion, respectively. The disposals resulted in a gain of ₱1.66 billion for the Group and ₱1.56 billion for the Parent Company. Investment securities held under the HTC business model, which are classified as 'Investment securities at amortized cost', are managed to realize cash flows by collecting contractual payments over the life of the instrument.

The accounting for the disposals is significant to our audit because the amounts involved are material to the Group and the Parent Company financial statements (72.76% and 72.68% of the total investment securities at amortized cost of the Group and the Parent Company, respectively, and 11.00% and 10.95% of the total operating income of the Group and Parent Company, respectively). Moreover, it involves the exercise of significant judgment by management in assessing that the disposals are consistent with the HTC business model and that it would not impact the measurement of the remaining securities in the affected portfolios.

The disclosures relating to the disposals from its HTC portfolio are included in Notes 3 and 8 to the financial statements.

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

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

Other Information

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion.

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

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

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

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

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information required under BSP Circular No. 1074 in Note 37 and Revenue Regulations 15-2010 in Note 38 to the financial statements is presented for purposes of filing with the BSP and Bureau of Internal Revenue, respectively, and is not a required part of the basic financial statements. Such information is the responsibility of the management of Asia United Bank Corporation. 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.

The engagement partner on the audit resulting in this independent auditor's report is Janet A. Paraiso.

SYCIP GORRES VELAYO & CO.

Janet A. Paraiso
Partner
CPA Certificate No. 92305
SEC Accreditation No. 0778-AR-3 (Group A),
June 19, 2018, valid until June 18, 2021
Tax Identification No. 193-975-241
BIR Accreditation No. 08-001998-062-2020,
December 3, 2020, valid until December 2, 2023
PTR No. 8534211, January 4, 2021, Makati City

May 17, 2021

ASIA UNITED BANK CORPORATION AND SUBSIDIARIES
STATEMENTS OF CONDITION
(In Thousands)

	December 31			
	Consolidated		Parent	
	2020	2019	**2020**	2019
ASSETS				
Cash and Other Cash Items	**₱4,062,491**	₱4,050,052	**₱4,033,875**	₱4,018,694
Due from Bangko Sentral ng Pilipinas (Note 17)	**54,777,810**	39,089,525	**54,692,266**	39,003,212
Due from Other Banks	**5,795,284**	3,662,395	**5,286,106**	3,364,310
Interbank Loans Receivable and Securities Purchased Under Repurchase Agreements (Note 7)	**13,548,438**	3,541,226	**13,548,438**	3,541,226
Financial Assets at Fair Value Through Profit or Loss (Note 8)	**3,470,465**	884,998	**3,453,627**	857,802
Investment Securities at Fair Value Through Other Comprehensive Income (Note 8)	**51,938,491**	18,163,589	**51,938,491**	18,163,589
Investment Securities at Amortized Cost (Note 8)	**6,208,051**	16,951,550	**5,998,854**	16,292,345
Loans and Receivables (Notes 9 and 30)	**168,797,274**	172,539,286	**165,719,854**	168,789,906
Investments in Subsidiaries (Note 10)	**–**	–	**1,182,358**	1,029,137
Property and Equipment (Note 11)	**1,912,763**	2,104,345	**1,738,543**	1,895,966
Investment Properties (Note 12)	**464,928**	439,573	**313,432**	278,759
Deferred Tax Assets (Note 28)	**314,904**	71,298	**366,305**	150,627
Goodwill (Note 13)	**1,961,446**	1,961,446	**1,577,081**	1,577,081
Intangible Assets (Note 14)	**2,026,338**	2,003,674	**2,025,309**	2,002,564
Other Assets (Note 15)	**281,797**	531,210	**247,491**	485,379
	₱315,560,480	₱265,994,167	**₱312,122,030**	₱261,450,597

LIABILITIES AND EQUITY				
LIABILITIES				
Deposit Liabilities (Notes 17 and 30)				
Demand	**₱141,868,856**	₱96,699,883	**₱141,866,088**	₱96,691,460
Savings	**69,475,648**	76,201,181	**69,003,868**	75,756,695
Time	**45,991,227**	37,324,805	**44,156,073**	35,296,483
	257,335,731	210,225,869	**255,026,029**	207,744,638
Bills Payable and Securities Sold Under Repurchase Agreements (Note 18)	**2,669,372**	3,207,991	**2,255,917**	2,222,080
Bonds Payable (Note 19)	**6,955,272**	6,932,424	**6,955,272**	6,932,424
Subordinated Debt (Note 19)	**4,978,438**	4,974,730	**4,978,438**	4,974,730
Manager's Checks	**863,627**	717,310	**863,627**	717,310
Income Tax Payable	**174,688**	21,169	**138,221**	–
Accrued Taxes, Interest and Other Expenses (Note 20)	**1,255,365**	1,257,955	**1,175,230**	1,169,173
Other Liabilities (Note 21)	**6,094,775**	5,497,632	**5,644,587**	4,674,968
	280,327,268	232,835,080	**277,037,321**	228,435,323
EQUITY				
Equity Attributable to Equity Holders of the Parent Company				
Capital stock (Note 23)	**4,853,105**	4,853,105	**4,853,105**	4,853,105
Additional paid-in capital (Note 23)	**6,622,819**	6,622,819	**6,622,819**	6,622,819
Surplus reserves (Note 29)	**544,950**	1,202,151	**544,950**	1,202,151
Surplus (Note 23)	**22,994,133**	20,106,705	**22,994,133**	20,106,705
Fair value reserves on investment securities at fair value through other comprehensive income (Note 8)	**27,728**	170,719	**27,728**	170,719
Cumulative translation adjustment	**41,974**	59,775	**41,974**	59,775
	35,084,709	33,015,274	**35,084,709**	33,015,274
Non-controlling Interest	**148,503**	143,813	**–**	–
	35,233,212	33,159,087	**35,084,709**	33,015,274
	₱315,560,480	₱265,994,167	**₱312,122,030**	₱261,450,597

See accompanying Notes to Financial Statements.

ASIAUNITED BANK CORPORATION AND SUBSIDIARIES

STATEMENTS OF INCOME
(In Thousands, Except Earnings per Share)

	Years Ended December 31					
	Consolidated			Parent		
	2020	2019	2018	**2020**	2019	2018
INTEREST INCOME						
Loans and receivables (Notes 9 and 30)	**₱11,427,226**	₱11,694,452	₱9,177,691	**₱10,852,998**	₱11,095,142	₱8,649,713
Investment securities at fair value through other comprehensive income and at amortized cost (Note 8)	**1,309,269**	1,624,955	1,108,444	**1,285,691**	1,604,094	1,099,586
Deposit with banks and others	**548,628**	269,913	63,641	**545,999**	262,731	53,655
Interbank loans receivable and securities purchased under resale agreements (Note 7)	**206,001**	132,871	95,475	**206,001**	132,871	95,475
Financial assets at fair value through profit or loss (Note 8)	**191,157**	89,904	159,884	**191,157**	89,904	159,884
Others (Note 21)	**108,308**	86,572	78,188	**95,854**	86,572	78,188
	13,790,589	13,898,667	10,683,323	**13,177,700**	13,271,314	10,136,501
INTEREST EXPENSE						
Deposit liabilities (Notes 17 and 30)	**2,060,325**	3,821,538	2,477,772	**1,995,689**	3,738,965	2,434,149
Bills payable, subordinated debt and other borrowings (Notes 18, 19 and 24)	**889,030**	660,297	442,903	**841,796**	583,465	402,555
	2,949,355	4,481,835	2,920,675	**2,837,485**	4,322,430	2,836,704
NET INTEREST INCOME	**10,841,234**	9,416,832	7,762,648	**10,340,215**	8,948,884	7,299,797
Gain on sale of investment securities at amortized cost (Note 8)	**1,657,569**	–	–	**1,561,993**	–	–
Trading and securities gain - net (Note 8)	**1,230,888**	1,161,153	269,232	**1,231,245**	1,161,706	269,232
Service charges, fees and commissions (Note 26)	**796,386**	878,736	825,514	**716,808**	839,516	806,508
Foreign exchange gain - net	**203,174**	244,677	197,555	**195,281**	236,898	186,095
Trust income (Note 29)	**89,866**	71,497	47,051	**89,866**	71,497	47,051
Miscellaneous (Note 27)	**253,952**	374,071	464,037	**126,324**	172,346	281,187
TOTAL OPERATING INCOME	**15,073,069**	12,146,966	9,566,037	**14,261,732**	11,430,847	8,889,870
Provision for credit and impairment losses (Note 16)	**5,430,459**	1,138,565	796,825	**5,236,284**	703,664	608,691
Compensation and fringe benefits (Notes 25 and 30)	**1,951,110**	1,715,635	1,509,685	**1,750,728**	1,531,882	1,368,297
Taxes and licenses	**1,018,094**	1,023,807	658,042	**960,709**	941,564	607,021
Depreciation and amortization (Notes 11, 12 and 15)	**692,115**	663,375	410,149	**607,526**	569,180	322,289
Insurance	**573,735**	509,251	430,985	**557,578**	484,417	411,456
Security, messengerial and janitorial	**150,926**	147,551	136,631	**136,595**	133,375	126,578
Postage, telephone, cables and telegrams	**148,285**	127,087	105,743	**134,774**	115,414	98,094
Transportation and travel	**141,055**	117,114	112,001	**138,240**	114,561	110,560
Repairs and maintenance	**127,947**	106,390	91,387	**123,646**	102,311	88,504
Freight expenses	**71,608**	69,360	88,610	**69,987**	67,308	85,999
Power, light and water	**58,099**	69,321	69,780	**53,276**	63,843	65,144
Amortization of intangibles (Note 14)	**53,608**	44,498	40,541	**53,526**	44,414	39,474
Rent (Note 24)	**31,975**	107,806	398,259	**32,901**	98,930	380,910
Management and other professional fees	**24,547**	31,033	125,692	**20,973**	26,499	123,240
Miscellaneous (Note 27)	**742,255**	870,101	583,651	**710,947**	844,412	554,069
TOTAL OPERATING EXPENSES	**₱11,215,818**	₱6,740,894	₱5,557,981	**₱10,587,690**	₱5,841,774	₱4,990,326

(Forward)

	Years Ended December 31					
	Consolidated			Parent		
	2020	2019	2018	**2020**	2019	2018
INCOME BEFORE SHARE IN NET INCOME FROM SUBSIDIARIES	**₱3,857,251**	₱5,406,072	₱4,008,056	**₱3,674,042**	₱5,589,073	₱3,899,544
SHARE IN NET INCOME (LOSS) OF SUBSIDIARIES (Note 10)	–	–	–	**157,489**	(174,280)	119,215
INCOME BEFORE INCOME TAX	**3,857,251**	5,406,072	4,008,056	**3,831,531**	5,414,793	4,018,759
PROVISION FOR INCOME TAX (Note 28)	**829,590**	965,252	720,591	**808,550**	968,021	705,418
NET INCOME	**₱3,027,661**	₱4,440,820	₱3,287,465	**₱3,022,981**	₱4,446,772	₱3,313,341

Attributable to:			
Equity holders of the Parent Company	**₱3,022,981**	₱4,446,772	₱3,313,341
Non-controlling Interest	**4,680**	(5,952)	(25,876)
	₱3,027,661	₱4,440,820	₱3,287,465
Basic/Diluted Earnings per Share Attributable to Equity Holders of the Parent Company (Note 32)	**₱6.23**	₱9.16	₱6.83

See accompanying Notes to Financial Statements.

ASIA UNITED BANK CORPORATION AND SUBSIDIARIES
STATEMENTS OF COMPREHENSIVE INCOME
(In Thousands)

	Years Ended December 31					
	Consolidated			Parent Company		
	2020	2019	2018	**2020**	2019	2018
NET INCOME	**₱3,027,661**	₱4,440,820	₱3,287,465	**₱3,022,981**	₱4,446,772	₱3,313,341
OTHER COMPREHENSIVE INCOME (LOSS)						
Other comprehensive income (loss), net of income tax, to be reclassified in profit or loss in subsequent periods:						
Changes in net unrealized gain (loss) on investment in debt securities at fair value through other comprehensive income (Note 8)	**(142,991)**	667,015	(1,080,652)	**(139,802)**	658,838	(1,080,652)
Cumulative translation adjustment	**(17,801)**	(36,865)	2,407	**(16,722)**	(35,615)	(1,433)
Share in the change in net unrealized gain (loss) on investment on debt securities at fair value through other comprehensive income of subsidiaries (Note 10)	–	–	–	**(3,189)**	3,189	–
Share in the cumulative translation adjustment of a subsidiary (Note 10)	–	–	–	**(1,079)**	(1,250)	3,840
Other comprehensive income (loss), net of income tax, not to be reclassified in profit or loss in subsequent periods:						
Gain (loss) on remeasurement of retirement obligation (Note 25)	**177,878**	(254,584)	23,016	**177,878**	(247,399)	21,485
Share in the gain (loss) on remeasurement of retirement obligation of subsidiaries (Note 25)	–	–	–	–	(7,155)	1,522
	17,086	375,566	(1,055,229)	**17,076**	370,608	(1,055,238)
TOTAL COMPREHENSIVE INCOME	**₱3,044,747**	₱4,816,386	₱2,232,236	**₱3,040,057**	₱4,817,380	₱2,258,103

Attributable to:			
Equity holders of the Parent Company	**3,040,057**	₱4,817,380	₱2,258,103
Non-controlling interest	**4,690**	(994)	(25,867)
	₱3,044,747	₱4,816,386	₱2,232,236

See accompanying Notes to Financial Statements.

ASIA UNITED BANK CORPORATION AND SUBSIDIARIES

STATEMENTS OF CHANGES IN EQUITY

(In Thousands)

	Consolidated									
	Equity Attributable to Equity Holders of the Parent Company									
	Capital Stock (Note 23)	Additional Paid-in Capital (Note 23)	Surplus Reserves (Note 29)	Surplus (Note 23)	Fair value reserves on Financial Assets at Fair Value through Other Comprehensive Income (Note 8)	Remeasurement of Retirement Obligation (Note 25)	Cumulative Translation Adjustment	Total	Non-Controlling Interest (Note 10)	Total Equity
Balance at January 1, 2020	**₱4,853,105**	**₱6,622,819**	**₱1,202,151**	**₱20,106,705**	**₱170,719**	**₱–**	**₱59,775**	**₱33,015,274**	**₱143,813**	**₱33,159,087**
Net income for the year	–	–	–	**3,022,981**	–	–	–	**3,022,981**	**4,680**	**3,027,661**
Other comprehensive income (loss) for the year	–	–	–	–	**(142,991)**	**177,868**	**(17,801)**	**17,076**	**10**	**17,086**
Total comprehensive income (loss) for the year	–	–	–	**3,022,981**	**(142,991)**	**177,868**	**(17,801)**	**3,040,057**	**4,690**	**3,044,747**
Transfer to surplus reserves (Notes 8 and 29)	–	–	**(657,201)**	**657,201**	–	–	–	–	–	–
Gain on remeasurement of retirement obligation transferred to surplus	–	–	–	**177,868**	–	**(177,868)**	–	–	–	–
Cash dividends (Note 23)	–	–	–	**(970,622)**	–	–	–	**(970,622)**	–	**(970,622)**
Balance at December 31, 2020	**₱4,853,105**	**₱6,622,819**	**₱544,950**	**₱22,994,133**	**₱27,728**	**₱–**	**₱41,974**	**₱35,084,709**	**₱148,503**	**₱35,233,212**
Balance at January 1,2019	₱4,853,105	₱6,622,819	₱1,034,312	₱16,955,885	(₱491,308)	₱–	₱96,640	₱29,071,453	₱144,807	₱29,216,260
Net income for the year	–	–	–	4,446,772	–	–	–	4,446,772	(5,952)	4,440,820
Other comprehensive income (loss) for the year	–	–	–	–	662,027	(254,554)	(36,865)	370,608	4,958	375,566
Total comprehensive income (loss) for the year	–	–	–	4,446,772	662,027	(254,554)	(36,865)	4,817,380	(994)	4,816,386
Transfer to surplus reserves (Notes 8 and 29)	–	–	167,839	(167,839)	–	–	–	–	–	–
Loss on remeasurement of retirement obligation transferred to surplus	–	–	–	(254,554)	–	254,554	–	–	–	–
Cash dividends (Note 23)	–	–	–	(873,559)	–	–	–	(873,559)	–	(873,559)
Balance at December 31, 2019	₱4,853,105	₱6,622,819	₱1,202,151	₱20,106,705	₱170,719	₱–	₱59,775	₱33,015,274	₱143,813	₱33,159,087
Balance at January 1, 2018	4,853,105	6,622,819	54,321	15,376,025	589,344	–	94,233	27,589,847	170,674	27,760,521
Net income for the year	–	–	–	3,313,341	–	–	–	3,313,341	(25,876)	3,287,465
Other comprehensive income (loss) for the year	–	–	–	–	(1,080,652)	23,007	2,407	(1,055,238)	9	(1,055,229)
Total comprehensive income (loss) for the year	–	–	–	3,313,341	(1,080,652)	23,007	2,407	2,258,103	(25,867)	2,232,236
Transfer to surplus reserves (Notes 8 and 29)	–	–	979,991	(979,991)	–	–	–	–	–	–
Gain on remeasurement of retirement obligation transferred to surplus	–	–	–	23,007	–	(23,007)	–	–	–	–
Cash dividends (Note 23)	–	–	–	(776,497)	–	–	–	(776,497)	–	(776,497)
Balance at December 31, 2018	₱4,853,105	₱6,622,819	₱1,034,312	₱16,955,885	(₱491,308)	₱–	₱96,640	₱29,071,453	₱144,807	₱29,216,260

See accompanying Notes to Financial Statements.

	Parent							
	Capital Stock (Note 23)	**Additional Paid-in Capital** (Note 23)	**Surplus Reserves** (Note 29)	**Surplus** (Note 23)	**Fair value reserves on Financial Assets at Fair Value through Other Comprehensive Income** (Note 8)	**Remeasurement of Retirement Obligation** (Note 25)	**Cumulative Translation Adjustment**	**Total**
Balance at January 1, 2020	**₱4,853,105**	**₱6,622,819**	**₱1,202,151**	**₱20,106,705**	**₱170,719**	**₱–**	**₱59,775**	**₱33,015,274**
Net income for the year	**–**	**–**	**–**	**3,022,981**	**–**	**–**	**–**	**3,022,981**
Other comprehensive income (loss) for the year	**–**	**–**	**–**	**–**	**(142,991)**	**177,868**	**(17,801)**	**17,076**
Total comprehensive income (loss) for the year	**–**	**–**	**–**	**3,022,981**	**(142,991)**	**177,868**	**(17,801)**	**3,040,057**
Transfer to surplus reserves (Notes 8 and 29)	**–**	**–**	**(657,201)**	**657,201**	**–**	**–**	**–**	**–**
Gain on remeasurement of retirement obligation transferred to surplus	**–**	**–**	**–**	**177,868**	**–**	**(177,868)**	**–**	**–**
Cash dividends (Note 23)	**–**	**–**	**–**	**(970,622)**	**–**	**–**	**–**	**(970,622)**
Balance at December 31, 2020	**₱4,853,105**	**₱6,622,819**	**₱544,950**	**₱22,994,133**	**₱27,728**	**₱–**	**₱41,974**	**₱35,084,709**
Balance at January 1, 2019	₱4,853,105	₱6,622,819	₱1,034,312	₱16,955,885	(₱491,308)	₱–	₱96,640	₱29,071,453
Net income for the year	–	–	–	4,446,772	–	–	–	4,446,772
Other comprehensive income (loss) for the year	–	–	–		662,027	(254,554)	(36,865)	370,608
Total comprehensive income (loss) for the year	–	–	–	4,446,772	662,027	(254,554)	(36,865)	4,817,380
Transfer to surplus reserves (Notes 8 and 29)	–	–	167,839	(167,839)	–	–	–	–
Loss on remeasurement of retirement obligation transferred to surplus	–	–	–	(254,554)	–	254,554	–	–
Cash dividends (Note 23)	–	–	–	(873,559)	–	–	–	(873,559)
Balance at December 31, 2019	₱4,853,105	₱6,622,819	₱1,202,151	₱20,106,705	₱170,719	₱–	₱59,775	₱33,015,274
Balance at January 1, 2018	4,853,105	6,622,819	54,321	15,376,025	589,344	–	94,233	27,589,847
Net income for the year	–	–	–	3,313,341	–	–	–	3,313,341
Other comprehensive income (loss) for the year	–	–	–		(1,080,652)	23,007	2,407	(1,055,238)
Total comprehensive income (loss) for the year	–	–	–	3,313,341	(1,080,652)	23,007	2,407	2,258,103
Transfer to surplus reserves (Notes 8 and 29)	–	–	979,991	(979,991)	–	–	–	–
Gain on remeasurement of retirement obligation transferred to surplus	–	–	–	23,007	–	(23,007)	–	–
Cash dividends paid (Note 23)	–	–	–	(776,497)	–	–	–	(776,497)
Balance at December 31, 2018	₱4,853,105	₱6,622,819	₱1,034,312	₱16,955,885	(₱491,308)	₱–	₱96,640	₱29,071,453

See accompanying Notes to Financial Statements.

ASIA UNITED BANK CORPORATION AND SUBSIDIARIES
STATEMENTS OF CASH FLOWS
(In Thousands)

	Years Ended December 31					
	Consolidated			Parent Company		
	2020	2019	2018	**2020**	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES						
Income before income tax	**₱3,857,251**	₱5,406,072	₱4,008,057	**₱3,831,531**	₱5,414,793	₱4,018,759
Adjustments for:						
Provision for credit and impairment losses (Note 16)	**5,430,459**	1,138,565	796,825	**5,236,284**	703,664	608,691
Gain on sale of investment securities at FVOCI (Note 8)	**(1,000,218)**	(1,019,507)	(339,523)	**(1,000,218)**	(1,019,507)	(339,523)
Gain on sale of investment securities at AC (Note 8)	**(1,657,569)**	–	–	**(1,561,993)**	–	–
Depreciation and amortization (Notes 11, 12 and 15)	**692,115**	663,375	410,149	**607,526**	569,180	322,289
Interest expense on lease liabilities	**85,579**	81,884	–	**81,877**	78,926	–
Gain on foreclosure and dacion transactions (Note 27)	**(7,559)**	(49,397)	(7,084)	**(329)**	(30,517)	(7,084)
Gain on disposal of property and equipment (Note 27)	**(7,921)**	(44,950)	(9,749)	**(1,749)**	(9,187)	(9,749)
Amortization of intangible assets (Note 14)	**53,608**	44,498	39,494	**53,526**	44,414	39,474
Gain on sale of investment properties and chattels (Note 27)	**(38,863)**	(42,668)	(89,571)	**(13,114)**	(16,749)	(52,745)
Amortization of transaction costs of subordinated debt and bonds payable	**26,555**	7,010	3,305	**26,555**	7,010	3,305
Dividend income	**(8,055)**	(3,242)	(4,422)	**(6,550)**	(1,622)	(2,801)
Share in net loss (income) of subsidiaries (Note 10)	**–**	–	–	**(157,489)**	174,280	(119,215)
Changes in operating assets and liabilities:						
Decrease (increase) in the amounts of:						
Financial assets at fair value through profit or loss	**(2,585,467)**	(6,904)	7,655,153	**(2,595,825)**	(6,879)	7,655,153
Loans and receivables	**(1,778,000)**	(18,031,273)	(24,649,637)	**(2,244,357)**	(17,129,443)	(23,756,819)
Interbank loans and receivables	**(63,703)**	750	30,424	**(63,703)**	750	30,424
Other assets	**190,620**	(135,883)	(124,360)	**221,635**	(262,198)	(44,491)
Increase (decrease) in the amounts of:						
Deposit liabilities	**47,109,861**	18,042,002	33,697,883	**47,281,392**	17,295,510	33,396,882
Manager's checks	**146,317**	397,922	(309,840)	**146,317**	397,922	(309,840)
Accrued taxes, interest and other expenses	**(2,590)**	(88,681)	384,940	**6,057**	(108,002)	360,081
Other liabilities	**869,192**	279,706	595,853	**1,246,085**	134,047	484,668
Net cash generated from operations	**51,311,612**	6,639,279	22,087,897	**51,093,458**	6,236,392	22,277,459
Income taxes paid	**(996,630)**	(936,689)	(705,511)	**(962,235)**	(921,162)	(693,139)
Dividends received	**8,055**	3,242	4,422	**6,550**	1,622	2,801
Net cash provided by operating activities	**50,323,037**	5,705,832	21,386,808	**50,137,773**	5,316,852	21,587,121
CASH FLOWS FROM INVESTING ACTIVITIES						
Acquisitions of:						
Investment securities at fair value through OCI	**(187,955,896)**	(107,273,035)	(17,155,172)	**(187,955,896)**	(107,273,035)	(17,107,404)
Investment securities at amortized cost	**(7,696,167)**	(2,738,054)	(15,460,882)	**(7,148,675)**	(2,129,899)	(15,460,882)
Property and equipment (Note 11)	**(170,599)**	(348,258)	(322,223)	**(135,364)**	(282,440)	(260,906)
Software costs (Note 14)	**(76,121)**	(70,162)	(29,881)	**(76,121)**	(70,137)	(29,660)
Proceeds from maturities/sale of						
Investment securities at fair value through OCI	**155,038,377**	111,673,447	4,460,938	**155,041,555**	111,378,977	4,413,908
Investment securities at amortized cost	**20,097,236**	903,919	10,059,122	**19,004,159**	954,969	10,059,122
Investment properties and chattels	**141,495**	169,469	230,957	**50,757**	119,152	220,527
Property and equipment	**24,467**	108,264	66,981	**7,828**	13,775	12,754
Software	–	–	296	–	–	296
Net cash provided by (used in) investing activities	**(20,597,208)**	2,425,590	(18,149,864)	**(21,211,757)**	2,711,362	(18,152,245)
CASH FLOWS FROM FINANCING ACTIVITIES						
Payments of bills payable	**(4,092,356)**	(31,503,770)	(1,939,666)	–	(25,482,997)	(906,601)
Proceeds from bills payable	**3,519,901**	29,702,903	2,932,662	–	23,613,738	2,043,650
Foreign exchange movement of bills payable	**(62,018)**	–	–	**(62,018)**	–	–
Payments of principal portion of lease liabilities	**(325,811)**	(241,762)	–	**(307,113)**	(229,229)	–
Payments of cash dividends	**(970,622)**	(873,559)	(776,497)	**(970,622)**	(873,559)	(776,497)
Proceeds from bonds payable issuance	**–**	6,928,718	–	–	6,928,718	–
Payments of LTNCD	**–**	(900,000)	–	–	(900,000)	–
Net cash provided by (used in) financing activities	**(1,930,906)**	3,112,530	216,499	**(1,339,753)**	3.056,671	360,552

(Forward)

	Years Ended December 31					
	Consolidated			Parent Company		
	2020	2019	2018	**2020**	2019	2018
EFFECT OF FOREIGN CURRENCY DIFFERENCES	**(₱17,801)**	(₱36,865)	₱2,407	**(₱16,723)**	(₱35,614)	(₱1,433)
NET INCREASE IN CASH AND CASH EQUIVALENTS	**27,777,122**	11,207,087	3,455,850	**27,569,540**	₱11,049,271	₱3,793,996
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR						
Cash and other cash items	**4,050,052**	3,764,798	4,323,324	**4,018,694**	3,720,202	4,294,228
Due from Bangko Sentral ng Pilipinas	**39,089,525**	29,011,848	26,562,142	**39,003,212**	28,949,346	26,512,281
Due from other banks	**3,662,395**	3,551,322	1,290,303	**3,364,310**	3,400,480	773,174
Interbank loans receivable and securities purchased under resale agreements	**3,539,905**	2,806,822	3,503,171	**3,539,905**	2,806,822	3,503,171
	50,341,877	39,134,790	35,678,940	**49,926,121**	₱38,876,850	35,082,854
CASH AND CASH EQUIVALENTS AT END OF YEAR						
Cash and other cash items	**4,062,491**	4,050,052	3,764,798	**4,033,875**	4,018,694	3,720,202
Due from Bangko Sentral ng Pilipinas	**54,777,810**	39,089,525	29,011,848	**54,692,266**	39,003,212	28,949,346
Due from other banks	**5,795,284**	3,662,395	3,551,322	**5,286,106**	3,364,310	3,400,480
Interbank loans receivable and securities purchased under resale agreements	**13,483,414**	3,539,905	2,806,822	**13,483,414**	3,539,905	2,806,822
	₱78,118,999	₱50,341,877	₱39,134,790	**₱77,495,661**	₱49,926,121	₱38,876,850

OPERATIONAL CASH FLOWS FROM INTEREST AND DIVIDENDS						
Interest received	**₱13,663,792**	₱14,045,478	₱9,381,310	**₱13,074,110**	₱13,721,751	₱9,590,310
Interest paid	**3,076,198**	4,614,915	2,704,332	**2,977,511**	4,466,346	2,622,501
Dividends received	**8,170**	3,242	4,422	**6,550**	1,622	2,801

ASIAUNITED BANK CORPORATIONAND SUBSIDIARIES
NOTES TO FINANCIALSTATEMENTS

1. General Information

Asia United Bank Corporation (the Parent Company) was granted authority as a commercial bank under the Monetary Board (MB) Resolution No. 1149 dated September 3, 1997 and commenced operations on October 31, 1997.

The Parent Company is a domestic corporation registered with the Securities and Exchange Commission (SEC) on October 3, 1997. The Parent Company provides commercial banking services such as deposit products, loans and trade finance, domestic and foreign fund transfers, treasury, foreign exchange and trust services. In addition, the Parent Company is licensed to enter into regular financial derivatives as a means of reducing and managing the Parent Company's and its customers' foreign exchange exposure.

On February 28, 2013, the MB approved the Parent Company's application for a universal banking license, which authorizes the Parent Company, in addition to its general powers as a commercial bank, to exercise the following: (i) the power of an investment house, including securities underwriting and trading, loan syndication, financial advisory, private placement of debt and equity securities, project finance and direct equity investment; and (ii) the power to invest in allied and non-allied enterprises, subject to regulatory caps on the amount of investment relative to the Parent Company's capital and ownership percentage.

The Parent Company's common shares were listed at the main board of the Philippine Stock Exchange (PSE) on May 17, 2013.

The Parent Company's principal place of business is located at Joy-Nostalg Center, 17 ADB Avenue, Ortigas Center, Pasig City. The Parent Company operates through its 228 and 226 domestic branches as at December 31, 2020 and 2019, respectively.

2. Summary of Significant Accounting Policies

Basis of Preparation

The accompanying financial statements include the consolidated financial statements of the Parent Company and its subsidiaries (collectively referred to as "the Group") as at December 31, 2020 and 2019 and for each of the three years in the period ended December 31, 2020, and of the Parent Company as at December 31, 2020 and 2019 and for each of the three years in the period ended December 31, 2020.

The accompanying financial statements have been prepared on a historical cost basis except for financial assets at fair value through profit or loss (FVTPL) and investment securities at fair value through other comprehensive income (FVOCI) that have been measured at fair value. The financial statements are presented in Philippine peso (₱), and all values are rounded to the nearest thousand except when otherwise indicated.

The accompanying financial statements of the Parent Company reflect the accounts maintained in the Regular Banking Unit (RBU) and Foreign Currency Deposit Unit (FCDU). The books of accounts of the RBU are maintained in Philippine peso, the RBU's functional currency, while those of the FCDU are maintained in United States dollars (USD), the FCDU's functional currency. For financial reporting purposes, FCDU accounts and foreign currency denominated accounts in the

RBU are translated into their equivalents in Philippine peso (see policy on the Foreign Currency Translation). The financial statements individually prepared for these units are combined after eliminating inter-unit accounts.

Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. The functional currency of the subsidiaries is the Philippine peso except for Redi Money Express Pte. Ltd (REPL). in which the functional currency is Singapore Dollar (SGD).

Statement of Compliance
The financial statements of the Group and of the Parent Company have been prepared in compliance with Philippines Financial Reporting Standards (PFRS).

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

The Group assesses that it has a currently enforceable right of offset if the right is not contingent on a future event, and is legally enforceable in the normal course of business, event of default, and event of insolvency or bankruptcy of the Group and all of the counterparties. 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 Group and of the Parent Company. This is not generally the case with master-netting agreements, where the related assets and liabilities are presented gross in the statement of financial position.

Basis of Consolidation
The Group's consolidated financial statements include the financial statements of the Parent Company and the following subsidiaries:

Subsidiary	Principal Activities	Country of Incorporation	Effective Percentage of Ownership
Cavite United Rural Bank (CURB)	Rural banking	Philippines	100.00%
RediMoney Express Pte Ltd. (formerly Pinoy Express Pte Ltd.) (REPL)	Remittance services	Singapore	100.00%
Rural Bank of Angeles (RBA)	Rural banking	Philippines	99.54%
Asia United Leasing and Finance Corporation (AULFC)	Leasing and financing business	- do -	39.00%
Asia United Fleet Management Services, Inc. (AUFMSI)*	Operating lease business	- do -	39.00%

**wholly owned subsidiary of AULFC*

The Group controls the investee if and only if the Group has:
- Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee, and
- The ability to use its power over the investee to affect its returns

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee
- Rights arising from other contractual arrangements
- The Group's voting rights and potential voting rights

The financial policies and operations of AULFC is controlled by the Parent Company by virtue of the irrevocable voting trust agreement that has the effect of transferring the voting rights of the individual shareholders of the subsidiaries to the Parent Company.

The Group reassesses whether or not it has control over an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the statements of condition and statements of income from the date the Group gains control until the date the Group ceases to control the subsidiary.

The financial statements of the subsidiaries are prepared on the same reporting period as the Parent Company using consistent accounting policies. Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the Parent Company and to the non-controlling interests. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies. All significant intra-group balances, transactions, Income and expenses and profits and losses resulting from intra-group transactions are eliminated in full in the consolidation.

A change in the ownership interest of a subsidiary, without loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, the Group:

- Derecognizes the assets (including goodwill) and liabilities of the subsidiary
- Derecognizes the carrying amount of any non-controlling interest
- Derecognizes the cumulative translation differences recorded in equity
- Recognizes the fair value of the consideration received
- Recognizes the fair value of any investment retained
- Recognizes any surplus or deficit in profit or loss
- Reclassifies the parent's share of components previously recognized in OCI to profit or loss or surplus, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities

Non-controlling Interests

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

Non-controlling interests are presented separately in the consolidated statements of income, consolidated statement of comprehensive income, and within equity in the consolidated statements of condition, separately from Parent Company's shareholders' equity. Any losses applicable to the non-controlling interests are allocated against the interests of the non-controlling interest even if this results in the non-controlling interest having a deficit balance. Acquisitions of non-controlling interests that do not result in a loss of control are accounted for as equity transactions, where by any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received shall be recognized directly in equity and attributed to the owners of the Parent Company.

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

Unless otherwise indicated, adoption of these amended standards did not have material impact to the Group

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

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

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

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

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

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

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

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

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

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

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

  The amendments provide relief to lessees from applying the PFRS 16 requirement on lease modifications to rent concessions arising as a direct consequence of the COVID-19 pandemic. A lessee may elect not to assess whether a rent concession from a lessor is a lease modification if it meets all of the following criteria:
  - The rent concession is a direct consequence of COVID-19;
  - The change in lease payments results in a revised lease consideration that is substantially the same as, or less than, the lease consideration immediately preceding the change;
  - Any reduction in lease payments affects only payments originally due on or before June 30, 2021; and
  - There is no substantive change to other terms and conditions of the lease.

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

  The amendments are effective for annual reporting periods beginning on or after June 1, 2020. Early adoption is permitted. The Group adopted the amendments beginning January 1, 2020. The Group determined that the impact of the rent concessions is not material to the consolidated and parent company financial statements.

Significant Accounting Policies

Foreign Currency Translation

The financial statements are presented in Philippine peso, which is the Group and Parent Company's functional currency. The books of accounts of the RBU and its subsidiaries, except REPL, are maintained in Philippine peso, while those of the FCDU and REPL are maintained in US dollar and Singapore dollar, respectively.

RBU

As at reporting date, foreign currency monetary assets and liabilities of the RBU are translated to Philippine peso based on the Banker's Association of the Philippines (BAP) closing rate prevailing at end of the year, and foreign currency-denominated income and expenses, at the exchange rates as at the date of the transaction. Foreign exchange differences arising from translations of foreign currency-denominated assets and liabilities in the RBU are credited to or charged against profit or loss in the year in which the rates change. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

FCDU and Foreign subsidiary

As at the reporting date, the assets and liabilities of the FCDU and the foreign subsidiary are translated to the Parent Company's presentation currency (the Philippine peso) at BAP closing rate prevailing at the statement of condition date, and its income and expenses are translated at BAP weighted average rate for the year. Exchange differences arising on translation to the presentation currency are taken to the statement of comprehensive income under 'Cumulative translation adjustment.' Upon disposal of the FCDU, the deferred cumulative amount recognized in the statement of comprehensive income is recognized in the statements of income.

Fair Value Measurement
The Group measures financial instruments such as financial assets at FVTPL, investment securities at FVOCI and derivative financial instruments at fair value at each reporting date. Also, fair value of financial assets and liabilities carried at amortized cost and investment properties are disclosed in Note 5.

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

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

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

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. If an asset or a liability measured at fair value has a bid price and an ask price, the price within the bid-ask spread that is 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.

For assets and liabilities not listed in an active market, the Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

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

- Level 1- quoted prices (unadjusted) inactive markets for identical assets or liabilities that the Group can access at the measurement date
- Level 2 – inputs other than quoted prices included within Level 1 that are observable either directly or indirectly
- Level 3 – inputs are unobservable inputs for the asset or liability

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period. The Group determines the policies and procedures for both recurring fair value measurement such as financial assets and liabilities at FVTPL and for non-recurring measurement, such as investment properties.

External appraisers are involved for valuation of significant assets, such as investment properties. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained.

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

Financial Instruments-Initial Recognition and Subsequent Measurement

Date of recognition

The Group recognizes financial instruments when, and only when, the Group becomes a party to the contractual terms of the financial instruments. Regular way purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place, are recognized on settlement date - the date that an asset is delivered to by the Group.

Securities transactions are also recognized on settlement date basis. Deposits, amounts due to or from banks and customers and loans are recognized when cash is received by the Group or advanced to the borrowers.

'Day1' difference

Where the transaction price is different from the fair value or from other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Group recognizes the difference between the transaction price and fair value (a 'Day1' difference) in the statements of income in unless it qualifies for recognition as some other type of asset or liability. In cases where use is made of data which is not observable, the difference between the transaction price and model value is only recognized in the statements of income when the inputs become observable or when the instrument is derecognized. For each transaction, the Group determines the appropriate method of recognizing the 'Day 1' difference amount.

Initial recognition of financial instruments

Financial instruments are initially measured at their fair value; except in the case of financial assets and financial liabilities recorded at FVTPL, transaction costs are added to, or subtracted from, this amount. When the fair value of financial instruments at initial recognition differs from the transaction price, the Group accounts for the Day 1 profit or loss, as described above.

Classification and subsequent measurement

Financial assets are classified in their entirety based on the contractual cash flows characteristics of the financial assets and the Group's business model for managing financial assets. The Group classifies its financial assets into financial assets into the following categories: financial assets at FVTPL, investment securities at FVOCI and at amortized cost (AC). The Group classifies and measures its derivative and trading portfolio at FVTPL. The Group may designate financial instruments at FVTPL, if doing so eliminates or significantly reduces measurement or recognition inconsistencies.

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 Group 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 the SPPI 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). In making the assessment of 'interest', the Group 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.

Instruments with cash flows that do not represent as such are classified as at FVTPL.

Business model
The Group'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 Group'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 Group's business model determines whether cash flows will result from collecting contractual cash flows, selling financial assets or both. Relevant factors considered by the Group 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 Group's key management personnel;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how these risks are managed;
- how managers of the business are compensated; and
- the expected frequency, value and timing of sales are also important aspects of the Group's assessment.

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

The Group's measurement categories are described below:

Investment securities at amortized cost
A debt 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 Effective Interest Rate (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 integral part of the EIR. The amortization is included in 'Interest Income' in the profit or loss 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. Losses arising from impairment are recognized in 'Provision for credit and impairment losses' in profit or loss.

The Group's financial assets at amortized costs comprised of Due from BSP, Due from other banks, IBLR, SPURA, Investment securities at amortized cost, Loans and receivables and certain financial assets under 'Other assets'.

Investment securities at fair value through other comprehensive income (FVOCI)
Debt financial assets
A debt financial asset is measured at FVOCI if (i) it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and (ii) its contractual terms give rise on the 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 fair value. Gains and losses arising from changes in fair value are included in other comprehensive income within a separate component of equity. Interest income and foreign exchange gains and losses are recognized in profit and loss until the financial asset is derecognized. Impairment losses or reversals are based on ECL and recognized in 'Provision for credit and impairment losses' in profit or loss, with corresponding credit to other comprehensive income. Upon derecognition, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss under 'Trading and securities gain - net'.

Equity instruments
The Group may also make an irrevocable election to measure at FVOCI on initial recognition with investments in equity instruments that are neither held for trading nor contingent consideration recognized in a business combination in accordance with PFRS 9. Amounts recognized in OCI are not subsequently transferred to profit or loss. However, the Group may transfer the cumulative gain or loss within equity upon adoption date. Dividends on such investments are recognized in profit or loss, unless the dividend clearly represents recovery of part of the cost of the investment.

Dividends are recognized in profit or loss only when:
- the Group's right to receive payment of the dividend is established
- it is probable that the economic benefits associated with the dividend will flow to the Group; and
- the amount of the dividend can be measured reliably.

Financial assets at fair value through profit or loss (FVTPL)
Financial assets are measured at FVTPL unless these are measured at amortized cost or at FVOCI. Included in this classification are equity and debt investments held for trading and debt instruments with contractual terms that do not represent SPPI.

A financial asset is considered as held for trading if:

- it has been acquired principally for the purpose of selling it in the near term;
- on initial recognition, it is part of a portfolio of identified financial instruments that the Group manages together and has evidence of a recent actual pattern of short-term profit-taking; or,
- it is a derivative that is not designated as a hedging instrument or financial guarantee.

Financial assets held at FVTPL are initially recognized at fair value, with transaction costs recognized in the statement of income as incurred. Subsequently, they are measured at fair value and any gains or losses are recognized under 'Trading and securities gain - net' in profit or loss.

Additionally, even if the asset meets the amortized cost or the FVOCI criteria, the Group may choose at initial recognition to designate the financial asset at FVTPL if doing so eliminates or significantly reduces a measurement or recognition inconsistency (an accounting mismatch) that would otherwise arise from measuring financial assets on a different basis.

Interest earned on these investments is measured using the modified effective interest rate method, where premiums and discounts, excluding origination fees and transaction costs are considered in the effective interest rate, and is reported under 'Interest income' in profit or loss while dividend income is reported under 'Miscellaneous income' in profit or loss when the right of payment has been established.

Furthermore, the Group is a counterparty to derivative contracts, such as currency forwards and swaps and warrants. These derivatives are entered into as a service to customers and as a means of reducing or managing their respective foreign exchange and interest rate exposures, as well as for trading purposes. Such derivative financial instruments are initially recorded at fair value on the date at which the derivative contract is entered into and are subsequently remeasured at fair value.

Any gains or losses arising from changes in fair values of derivatives (except those accounted for as accounting hedges) are taken directly to the statements of income and are included in 'Trading and securities gain - net' for warrants, and in 'Foreign exchange gain (loss) - net' for currency forwards and swaps. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Classification of financial 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 13, *Business Combinations*.

Financial liabilities measured at amortized costs
Issued financial instruments or their components, which are not designated at FVTPL, are classified as liabilities under 'Deposit liabilities,' 'Bills payable', 'Subordinated debt', 'Bonds payable', or other appropriate financial liability accounts, where the substance of the contractual arrangement results in the Group having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash.

After initial measurement, other financial liabilities are subsequently measured at amortized cost using the effective interest method. Amortized cost is calculated by taking into account any discount or premium on the issue and fees that are an integral part of the EIR.

Financial guarantees, letters of credit and undrawn loan commitments
The Group issues financial guarantees, letters of credit and loan commitments.

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

The premium received is recognized in the statement of income on a straight line basis over the life of the guarantee.

Undrawn loan commitments and letters of credits are commitments under which, over the duration of the commitment, the Group is required to provide a loan with pre-specified terms to the customer.

Similar to financial guarantee contracts, these contracts are in the scope of the ECL requirements.

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

Reclassifications of financial instruments
The Group 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 Group and any previously recognized gains, losses or interest shall not be restated.

Impairment of Financial Assets
PFRS 9 requires the Group to record ECL for all loans and other debt financial assets not classified as at FVTPL, together with loan commitments and financial guarantee contracts.

Expected credit loss methodology
ECL represent 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 will be measured at amounts equal to either (i) 12-month ECL or (ii) lifetime ECL. 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 and are computed for those financial instruments which have experienced a significant increase in credit risk (SICR) since initial recognition and for those financial assets which have indications of objective evidence of impairment.

Assessment of Significant Increase in Credit Risk/Staging assessment
For non-credit-impaired financial instruments:
- Stage 1 is comprised of all non-impaired financial instruments which have not experienced a SICR since initial recognition. The Group recognizes a 12-month ECL for Stage 1 financial instruments.
- Stage 2 is comprised of all non-impaired financial instruments which have experienced a SICR since initial recognition. The Group recognizes a lifetime ECL for Stage 2 financial instruments.

For credit-impaired financial instruments:
- Financial instruments are classified as Stage 3 when there is 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. These include those classified as non-performing loans and restructured accounts. The ECL model requires that lifetime ECL be recognized for these impaired financial assets.

Definition of "default"
The Group defines a financial instrument as in default, which is fully aligned with the definition of credit impaired, in all cases when the borrower becomes over 90 days past due on its contractual payments. As a part of a qualitative assessment of whether a customer is in default, the Group also considers a variety of instances that may indicate objective evidence of impairment, which include but not limited to, financial difficulty of the borrowers and significant problems in the operations of

the counterparties. When such events occur, the Group 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., to have cured) when it no longer meets any of the default criteria and has exhibited a satisfactory track record, i.e. consistent no missed payments for a consecutive period of six (6) months for non-restructured accounts and twelve (12) month for restructured accounts.

Credit risk at initial recognition
The Group uses internal borrower rating assessment and approvals at various levels to determine the credit risk of exposures at initial recognition.

Significant increase in credit risk
The criteria for determining whether credit risk has increased significantly vary by portfolio and include quantitative changes in PD, and qualitative factors, including downgrade in risk ratings and 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 Group's risk rating process, the borrowers' risk rating deteriorated by certain notches or the PD increased relatively by certain percentage as of the reporting date. For exposures without internal credit risk rating, the credit risk is deemed to have increased significantly, if based on aging information, the borrower becomes past due on the contractual payments for over a certain number of days. In subsequent reporting periods, if the credit risk of the financial instrument improves such that there is no longer a SICR since initial recognition, the Group shall revert to recognizing a 12-month ECL.

In 2020, the Group considered the impact of the pandemic in the assessment of the accounts as well as performed a portfolio review to identify accounts with significant increase in credit risk which was not captured by the model.

Restructuring
In certain circumstances, the Group modifies the original terms and conditions of a credit exposure to form a new loan agreement or payment schedule. The modifications can be given depending on the borrower's or counterparty's current or expected financial difficulty. The modifications may include, but are not limited to, change in interest rate and terms, principal amount, maturity date, date and amount of periodic payments and accrual of interest and charges. Restructured impaired accounts are purchased or originated credit impaired accounts where lifetime ECL is provided.

ECL calculation
ECL is a function of the PD, LGD and 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 represents the likelihood that a credit exposure will be in default either in the next 12 months for Stage 1 or during its lifetime for Stage 2. The PD for each individual financial asset is modelled based on historic data and is estimated based on current market conditions and reasonable and supportable information about future economic conditions. The Group segmented its credit exposures based on homogenous risk characteristics (i.e. loan product basis) 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.

EAD is modelled on historic data and represents an estimate of the outstanding amount of credit exposure at the time a default may occur. For off-balance sheet and undrawn amounts, EAD includes an estimate of any further amounts to be drawn at the time of default. LGD is the amount that may not be recovered in the event of default and is modelled based on historical cash flow recovery and reasonable and supportable information about future economic conditions, where appropriate. LGD takes into consideration the amount and quality of any collateral held.

The Group incorporates overlays in its measurement of ECL. These overlays are based on broad range of macro-economic variables, which based on management's expert credit judgment and available and supportable information, reflect the reasonable expectation of future credit losses.

Collateral valuation
To mitigate its credit risks on financial assets, the Group seeks to use collateral, where possible. The collateral comes in various forms, such as cash, real estates, other non-financial assets and credit enhancements such as netting agreements. Collateral, unless repossessed, is not recorded on the Group's statement of condition.

Write-offs
Financial assets are written off either partially or in their entirety only when the Group has stopped pursuing the recovery. If the amount to be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount. Any subsequent recoveries are credited to 'Provision for credit and impairment losses' in the profit or loss.

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 financial assets) is derecognized when:

- the rights to receive cash flows from the asset have expired; or
- the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or
- the Group 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 the risk and rewards of the asset but has transferred the control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset or has entered into a "pass-through" arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of original carrying amount of the asset and the maximum amount of consideration that the Group could be required to pay.

Modification of financial assets
The Group 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 less has not already been recorded.

The Group also performed a quantitative assessment similar to that being performed for modification of financial liabilities. In performing the quantitative assessment, the Group considered 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% difference from the present value of the remaining cash flows of the original financial asset.

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

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

Financial liabilities
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 statements of income.

Repurchase and Reverse repurchase agreements
Securities sold under repurchase agreements (SSURA) at a specified future date (‘repos’) are not derecognized from the statement of condition as the Group retains substantially all of the risks and rewards of ownership. The corresponding cash received is recognized in the statement of condition as an asset with a corresponding obligation to return it, including accrued interest as a liability, reflecting the transaction’s economic substance as a loan to the Group.

Conversely, securities purchased under agreements to resell at a specified future date (‘reverse repos’) are not recognized in the statement of condition. The corresponding cash paid, including accrued interest, is recognized in the statement of condition as SPURA, and is considered a loan to the counterparty. The difference between the purchase price and resale price is treated as interest income and is accrued over the life of the agreement using the effective interest method.

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

Cash and Cash Equivalents
For purposes of reporting cash flows, cash and cash equivalents include cash and other cash items, amounts due from BSP and other banks, and IBLR and SPURA with maturities of three months or less from original dates of placements and that are subject to insignificant risk of changes in value.

Revenue Recognition
Revenue from contracts with customers (scoped in under PFRS 15) is recognized when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services.

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

Revenues within the scope of PFRS 9
Interest income on investment securities at amortized cost and FVOCI
For all investment securities measured at amortized cost and FVOCI, interest income is based on EIR. EIR 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.

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 used to discount future cash flows. Interest income on Stage 1 and 2 accounts are recognized based on their gross carrying amounts while interest income on Stage 3 accounts are recognized on their net carrying amounts.

Interest income on financial assets at FVTPL
Interest income on all trading assets and financial assets mandatorily required to be measured at FVTPL is recognized using the modified EIR method which considers amortization of premium and discount and is included under "Interest income on financial assets at FVTPL".

Trading and securities gain - net
This results from trading activities including all gains and losses from changes in fair value of financial assets and financial liabilities at FVTPL and gains and losses from the disposal of financial assets at fair value through other comprehensive income. Cost of investment securities sold is determined using the specific identification method.

Gain or loss from disposals of investment securities at amortized costs are presented separately in the profit or loss.

Fees and commissions
Loan commitment fees for loans that are likely to be drawn are deferred (together with any incremental costs) and recognized as an adjustment to the EIR on the loan.

Dividend income
Dividend income is recognized when the Group's right to receive the payment is established.

Penalty income
Penalty income on past due accounts are recognized only upon collection or accrued when there is reasonable certainty as to its collectability. Penalty income is presented under "Miscellaneous income".

Recoveries from charged-off loan accounts
Recoveries are recognized upon collection of previously written-off accounts. Recoveries are presented under "Miscellaneous income".

Revenues within the scope of PFRS 15
The performance obligations, as well as the timing of their satisfaction, are identified, and determined, at the inception of the contract. When the Group provides a service to its customers, consideration is invoiced and generally due immediately upon satisfaction of a service provided at a point in time or at the end of the contract period for a service provided over time.

The Group has generally concluded that it is the principal in its revenue arrangements because it typically controls the services before transferring them to the customer.

Fees and commissions
The Group earns fee and commission income from a diverse range of financial services it provides to its customers. Fee and commission income is recognized at an amount that reflects the consideration to which the Group expects to be entitled in exchange for providing the services. Fee income can be divided into the following two categories:

a. *Fee income earned from services that are provided over a certain period of time*
   Fees earned for the provision of services over a period of time are accrued over that period. Loan commitment fees in which it is unlikely that the borrower will draw down the loan, are recognized as earned on a time proportionate basis over the commitment period where there is a reasonable degree of certainty as to their collectability. Loan commitment fees for loans that are likely to be drawn are deferred (together with any incremental costs) and recognized as an adjustment to the EIR on the loan.

b. *Fee income from providing transaction services*
   Fees arising from negotiating or participating in the negotiation of a transaction for a third party such as fees for the arrangement of the loans are recognized on completion of the underlying transaction. Loan syndication fees are recognized in the statements of income when the syndication has been completed and the Group retains no part of the loans for itself or retains part at the same EIR as for the other participants.

Service charges, fees and commissions
Service charges, fees and commissions charged on loans- and deposits-related transactions are generally recognized when the services are rendered.

Income from sale of properties
Income from sale of properties (i.e. property and equipment, investment properties and chattels) is recognized upon transfer of control of the non-financial assets to the customers and the collectability of the sales price is reasonably assured.

Income from trust operations
Trust fees related to investment funds are recognized in reference to the net asset value of the funds. The same principle is applied for wealth management, financial planning and custody services that are continuously provided over a period of time.

Revenues outside the scope of PFRSs 9 and 15
Leasing income
a. Finance lease
   The excess of aggregate lease rentals plus the estimated residual value (gross finance lease receivables) over the cost of the leased asset (present value of the lease receivables) constitutes the unearned lease income. The unearned lease income is amortized over the term of the lease, commencing on the month the lease is executed, using the effective interest rate method. Leasing income on finance lease receivables is included in ‘Interest income’.

b. Operating lease
Rent income under operating lease is recognized on a straight-line basis over the lease terms on ongoing leases. These are recorded in statements of income under ‘Miscellaneous income’.

Expense Recognition
Expenses are recognized when decrease in future economic benefits related to a decrease in an asset or an increase of a liability has arisen that can be measured reliably. Operating expenses arises in the normal business operations. These expenses are recognized when incurred.

Property and Equipment
Property and equipment are stated at cost less accumulated depreciation and amortization, and any accumulated impairment in value. The initial cost of property and equipment consists of its purchase price, including import duties, taxes and any directly attributable costs of bringing the assets to their working condition and location for their intended use. Expenditures incurred after the assets have been put into operation, such as repairs and maintenance are normally charged to operations in the year in which the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as an additional cost of the assets. When assets are retired or otherwise disposed of, the cost and the related accumulated depreciation and amortization and any accumulated impairment in value are removed from the accounts and any resulting gain or loss is credited to or charged against statements of income.

Depreciation and amortization are computed using the straight-line method over the estimated useful lives (EUL) of the respective assets. EUL of property and equipment are as follows:

Building	20 years
Furniture, fixtures and equipment	3 and 5 years
Transportation equipment	5 years
Leasehold improvements	5 years or the terms of the related leases, whichever is shorter
Equipment for lease	5 years

The EUL 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 items of property and equipment.

The Group’s policy is to classify right-of-use assets as part of property and equipment. Refer to accounting policy for Leases below.

Unless the Group 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. An investment property acquired through an exchange transaction is measured at fair value of the asset acquired unless the fair value of such 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 under investment properties from foreclosure date.

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

Investment properties are derecognized when they have either been disposed of or when the investment properties are permanently withdrawn from use and no future benefit is expected from their disposal. Any gain or loss on derecognition of an investment property is recognized in the statements of income in the year of derecognition.

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. Buildings are depreciated over maximum useful life of ten (10) years.

Transfers are made to investment properties when, and only when, there is a change in use as 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 as evidenced by commencement of owner occupation or commencement of development with a view to sale.

<u>Other Assets - Chattels</u>
Other assets - chattel acquired through an exchange transaction is measured at fair value of the asset acquired unless the fair value of such asset cannot be determined, in which case, it is measured at the carrying amount of the asset given up.

Subsequent to initial recognition, repossessed chattels are stated at cost less accumulated depreciation and any impairment in value. Depreciation is calculated on a straight-line basis using the remaining useful lives from the time of acquisition of the chattels. The useful lives of repossessed chattels are estimated to be ranging from 3 to 25 years.

<u>Investments in Subsidiaries</u>
Investments in subsidiaries in the Parent Company’s separate financial statements are accounted for under the equity method.

Under the equity method, an investment in subsidiary is carried in the statement of condition at cost plus post-acquisition changes in the Parent Company’s share of the net assets of the subsidiary. Post-acquisition changes in the share of net assets of the subsidiaries include the share in the: (a) income or losses; and (b) other comprehensive income (i.e. net unrealized gains/losses in FVOCI investments, cumulative translation adjustments and remeasurement gains/losses on retirement obligations). Dividends received are treated as a reduction in the carrying amount of the investments. The statement of income reflects the share of the results of operations of the subsidiary. Where there has been a change recognized directly in the equity of the subsidiary, the Parent Company recognizes its share of any changes and thus, when applicable, discloses in the statement of changes in equity. If the Parent Company’s share of losses in a subsidiary equals or exceeds its interest in the subsidiary, the Parent Company discontinues recognizing its share in further losses.

Goodwill
Goodwill is initially measured at cost being the excess of the acquisition cost over the net fair value of the acquired identifiable assets, liabilities and contingent liabilities.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. Impairment testing is done by comparing the recoverable amount of each CGU (i.e., the higher between the fair value less costs to sell and value in use) with its' carrying amount. For the purpose of impairment testing, goodwill acquired is allocated to each of the cash generating units that are expected to benefit from the synergies of the combination, irrespective of whether the acquired other assets or liabilities are assigned to those units.

Impairment is determined for goodwill by assessing the recoverable amount of the cash generating unit (or group of cash generating units) to which the goodwill relates. Where the recoverable amount of the cash generating unit (or group of cash generating units) is less than the carrying amount of the cash generating unit (or group of cash generating units) to which goodwill has been allocated, an impairment loss is recognized immediately in the statements of income. Impairment losses relating to goodwill cannot be reversed for subsequent increases in its recoverable amount in future periods.

Where goodwill forms part of a cash generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash generating unit retained.

Intangibles
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.

The useful lives of intangible assets are assessed as 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 asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the statements of income.

Intangible assets with indefinite useful lives i.e. branch licenses are not amortized, but are tested for impairment annually or more frequently, either individually or at the cash generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Gains or losses arising from 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 statements of income when the asset is derecognized.

Software cost
Software costs are capitalized on the basis of the cost incurred to acquire and bring to use the specific software. These are being amortized using straight line basis over three and five years. Costs associated with maintaining the computer software programs are recognized as expense when incurred.

Branch licenses
Branch licenses are recognized based on the cost incurred to acquire and bring to use in operation. Branch licenses acquired through business combination, including the branch licenses granted by the BSP, are recognized at fair value at the date of acquisition. Branch licenses are determined to have indefinite useful lives as there is no foreseeable limit to the period over which they are expected to generate net cash inflows for the Group. These are tested for impairment annually either individually or at the cash- generating unit level.

Business Combinations
Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed and included in operating expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through statements of income.

Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration, which is deemed to be an asset or liability, will be recognized in accordance with PAS 39 either in statements of income or as a change to OCI. If the contingent consideration is classified as equity, it should not be remeasured until it is finally settled within equity.

Goodwill is initially measured at cost being the excess of the aggregate of fair value of the consideration transferred and the amount recognized for non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognized in the statements of income as gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Impairment of Nonfinancial Assets

Property and equipment, investment properties, investments in subsidiaries, software costs and right-of-use assets

The Group assesses impairment on nonfinancial assets whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. An impairment loss is recognized whenever the carrying amount of an asset exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. The fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction less cost of disposal while value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life.

Recoverable amounts are estimated for individual assets or, if it is not possible, for the cash-generating unit to which the asset belongs.

In determining the present value of estimated future cash flows expected to be generated from the continued use of the assets, the Group is required to make estimates and assumptions that can materially affect the financial statements.

Goodwill and branch licenses

Goodwill and branch licenses (arising from business combination) with no indefinite useful life are reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of the cash generating unit (CGU) (or group of CGUs) to which the goodwill and branch licenses relates. Where the recoverable amount of the CGU (or group of CGUs) is less than the carrying amount of the CGU (or group of CGUs) to which goodwill and branch licenses have been allocated, an impairment loss is recognized immediately in the statement of income. The Group uses the higher of fair value less cost to sell and VIU using cash flow projections from financial budgets approved by senior management in determining the recoverable amount.

Leases

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

Group as lessor

Leases, which do not transfer to the lessee substantially all the risks and benefits of ownership of the asset, are classified as operating leases. Lease income from operating leases is recognized as rental income under 'Miscellaneous income' on a straight-line basis over the lease term.

Group as a lessee

Policy applicable beginning January 1, 2019

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

i. *Right-of-use assets*

   The Group recognizes ROU assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). ROU assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of ROU assets includes the amount of lease liabilities recognized, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received.

The Group presents the right-of-use assets in 'Property and equipment' and subjects it to impairment in line with the Group's policy on impairment of nonfinancial assets.

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

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest recognized under 'Interest expense of bills payable, bonds payable, subordinated debt and other borrowings' and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.

iii. *Short-term leases and leases of low-value assets*
The Group applies the short-term lease recognition exemption to its short-term leases for some branches and the related parking spaces (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of ATM offsite locations that are considered of low value (i.e. ₱250,000 and below). Lease payments on short-term leases and leases of low-value assets are recognized as expense on a straight-line basis over the lease term as is recognized as part of 'Rent' in the statements of income.

Policies applicable prior to January 1, 2019
The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset. A reassessment is made after inception of the lease only if one of the following applies:
a. there is a change in contractual terms, other than a renewal or extension of the arrangement;
b. a renewal option is exercised or extension granted, unless that term of the renewal or extension was initially included in the lease term;
c. there is a change in the determination of whether fulfillment is dependent on a specified asset; or
d. there is a substantial change to the asset.

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

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

Group as lessor
Finance leases, where the Group transfers substantially all the risk and benefits incidental to ownership of the leased item to the lessee, are included in the statement of condition under 'Loans and receivables' account. A lease receivable is recognized at an amount equivalent to the net investment in the lease. All income resulting from the receivable is included in 'Interest income' in the statements of income.

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

Residual Value of Leased Assets and Deposits on Finance Leases
The residual value of leased equipment, included in 'Finance lease receivables', is the estimated proceeds from the disposal of the leased asset at the end of the lease term which approximates the amount of guaranty deposit paid by the lessee, at the inception of the lease. At the end of the lease term, the residual value is generally applied against the guaranty deposit of the lessee

<u>Retirement Cost</u>
Defined Benefit Plan
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 profit or loss. 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 single 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 profit or loss.

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 other comprehensive income in the period in which they arise. Remeasurements are not reclassified to profit or loss in subsequent periods. Remeasurements are closed to Surplus at the end of every reporting period.

Plan assets are assets that are held by a long-term employee benefit fund or qualifying insurance policies. Plan assets are not available to the creditors of the Group, nor can they be paid directly to the Group. Fair value of plan assets is based on market price information. When no market price is available, the fair value of plan assets is estimated by discounting expected future cash flows using a discount rate that reflects both the risk associated with the plan assets and the maturity or expected disposal date of those assets (or, if they have no maturity, the expected period until the settlement of the related obligations). If the fair value of the plan assets is higher than the present value of the defined benefit obligation, the measurement of the resulting defined benefit asset is limited to the present value of economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

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

Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of assets embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provision are determined by discounting the expected future cash flows at pre-tax rate that reflects current market assessments of the time value of money and where, appropriate, the risk specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as interest expense in the statements 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.

Government Grants

Government grants are recognized when there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant relates to an expense item, it is recognized as income on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed. When the grant relates to an asset, it is recognized as income in equal amounts over the expected useful life of the related asset.

When the Group receives non-monetary assets, the asset and the grant are recorded at nominal amounts and released to profit or loss over the expected useful life in a pattern of consumption of the benefit of the underlying asset.

When loans or similar assistance are provided by government or related institutions, with an interest rate below the current applicable market rate, the effect of this favorable interest is regarded as a government grant. The government grant component is measured as the difference between the fair value of the loan granted and cash received at the date of grant. Such amount shall be recognized in the statements of income on a systematic basis over the periods in which the Group recognizes the related costs as expense for which the grants are intended to compensate.

Income Taxes

Current taxes

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws to compute such amount are those that are enacted or substantively enacted at the statement of condition date.

Deferred taxes

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

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

- where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting income nor taxable income; and
- in respect of taxable temporary differences associated with investments in subsidiaries, where the timing of reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

DTL is not provided on non-taxable temporary differences associated with investments in subsidiaries as it is not expected to reverse in foreseeable future.

Deferred tax assets (DTA) are recognized for all deductible temporary differences, carryforward of unused tax credits from the excess of minimum corporate income tax (MCIT) over the regular corporate income tax (RCIT) and unused net operating loss carryover (NOLCO), to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carryforward of unused tax credits from MCIT and unused NOLCO can be utilized, except:

- where the DTA 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 income nor taxable income; and
- in respect of taxable temporary differences associated with investments in subsidiaries, deferred tax assets are recognized only to the extent that is probable that the temporary differences will reverse in the foreseeable future and taxable income will be available against which the temporary differences can be utilized.

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

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

Deferred tax relating to items recognized directly in equity is also recognized in equity and not in the statements of income.

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

Equity
Capital stock is measured at par value for all shares issued and outstanding. When the shares are sold at a premium, the difference between the proceeds and the par value is credited to 'Additional Paid-in Capital' account. Direct costs incurred related to equity issuance, such as underwriting, accounting and legal fees, printing costs and taxes are charged against 'Additional Paid-in Capital' account. If the additional paid-in capital is not sufficient, the excess is charged against the 'Surplus'.

When the Parent Company issues more than one class of stock, a separate account is maintained for each class of stock and the number of shares issued.

Surplus represents accumulated earnings of the Parent Company less dividends declared.

Earnings per Share (EPS)
Basic EPS is determined by dividing the net income for the year attributable to common shares by the weighted average number of common shares outstanding during the year while diluted EPS is computed by dividing net income for the year attributable to common shares by the weighted average number of outstanding and dilutive potential common shares. Basic and diluted EPS are given retroactive adjustments for any stock dividends declared in the current year.

Segment Reporting
A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is one that provides products or services within a particular economic environment that is subject to risks and returns that are different from those segments operating in other economic environments.

The Group's operations are organized according to the nature of products and services provided. Financial information of business segments is presented in Note 6.

Events After Statement of Condition Date
Any post year-end events that provide additional information about the Group's position at the statement of condition date (adjusting events) are reflected in the financial statements. Any post year-end events that are not adjusting events are disclosed when material to the financial statements.

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

Future Changes in Accounting Policies
Pronouncements issued but not yet effective up to the date of issuance of the Group's financial statements are listed below. Except as otherwise indicated, the Group does not expect the future adoption of these pronouncements will have a significant impact on the financial statements. The Group intends to adopt the following pronouncements when they become effective.

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*

Effective beginning on or after January 1, 2022

- Amendments to PFRS 3, *Reference to the Conceptual Framework*
- Amendments to PAS 16 , *Plant and Equipment: Proceeds before Intended Use*
- Amendments to PAS 37, *Onerous Contracts – Costs of Fulfilling a Contract*
- *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*
  - Amendments to PFRS 9, *Financial Instruments*, *Fees in the '10 per cent' test for derecognition of financial liabilities*
  - Amendments to PAS 41, *Agriculture, Taxation in fair value measurements*

Effective beginning on or after January 1, 2023

- Amendments to PAS 1*, Classification of Liabilities as Current or Non-current*
- PFRS 17, *Insurance Contracts*

Deferred effectivity

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

3. Significant Accounting Judgments and Estimates

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

Unless otherwise stated, below significant judgments and estimates apply as of and for the years ended December 31, 2020, 2019 and 2018.

Judgments

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

(a) Evaluation of business model in managing financial instruments

The Group manages its financial assets based on business models that maintain adequate liquidity level and preserve capital requirements, while maintaining a strategic portfolio of financial assets for accrual and trading activities consistent with its risk appetite.

The Group developed business models which reflect how it manages its portfolio of financial instruments. The Group'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 Group) and not on an instrument-by-instrument basis (i.e., not based on intention or specific characteristics of individual financial instrument).

In determining the classification of a financial instrument under PFRS 9, the Group 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 Group.

In addition, PFRS 9 emphasizes that if more than an infrequent and more than an insignificant sale is made out of a portfolio of investment securities 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 Group 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 Group can explain the reasons for those sales and why those sales do not reflect a change in the Group's objective for the business model.

In 2020, the Parent Company sold investment securities classified as Investment securities at amortized cost with carrying amount totaling ₱15.96 billion, resulting in Gain on sale of investment securities at amortized cost totaling ₱1.56 billion. The sales were made as Parent Company's response to unanticipated significant changes in the current market conditions brought about by the COVID 19 pandemic. The Parent Company also sold certain investment securities due to significant credit deterioration of certain issuers of the securities. In addition, RBA sold investment securities measured at amortized cost that were pledged as collateral on PDIC borrowings and with carrying amount of ₱0.62 billion in order to settle the PDIC borrowings in 2020. The sale resulted in a gain on sale totaling to ₱0.10 billion. Overall, the Group sold investment securities classified as investment securities at amortized cost with carrying amount totaling to ₱16.58 billion, resulting in Gain on sale of investment securities at amortized cost totaling ₱1.66 billion.

The Group assessed that these sales resulted from changes in intention for certain investment securities and do not reflect a change in the Group's objectives for the hold to collect business model. Accordingly, the remaining securities in the affected portfolio are continued to be measured at amortized cost. Refer to Note 8 for more details.

(b) Testing the cash flow characteristics of financial assets

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

(c) Functional currency

PAS 21, *The Effects of Changes in Foreign Exchange Rates*, requires management to use its judgment to determine the entity's functional currency such that it most faithfully represents the economic effects of the underlying transactions, events and conditions that are relevant to the entity. The Parent Company determined that the RBU and FCDU's functional currency are Philippine peso and USD, respectively. In addition, the subsidiaries determined that their respective functional currency is in Philippine peso except for REPL in which the functional currency is SGD. In making this judgment, the Group considers the following:

a. the currency that mainly influences sales prices for financial instruments and services (this will often be the currency in which sales prices for its financial instruments and services are denominated and settled);
b. the currency in which funds from financing activities are generated; and
c. the currency in which receipts from operating activities are usually retained.

Based on the economic substance of the underlying circumstances (transactions, revenue, expenses) relevant to the RBU, FCDU and subsidiaries the functional currency has been determined to be the currency that were mentioned above.

(d) Leases

Operating lease

Group as lessor

The Group has entered into commercial property leases of its investment properties and lease of vehicles. The Group has determined that it retains all the significant risks and rewards of ownership of these assets. Accordingly, this is accounted for as operating lease. In determining whether or not there is indication of operating lease treatment, the Group considers retention of ownership title to the leased property, period of lease contract relative to the estimated useful economic life of the leased property and the present value of minimum lease payments relative to the fair value of leased asset, among others.

Group as lessee

Applicable prior to January 1, 2019

The Group has entered into leases on premises it uses for its operations. The Group has determined, based on the evaluation of the lease agreement (i.e.the lease does not transfer ownership of the asset to the lessee by the end of the lease term and the lease term is not for the major part of the asset's economic life), that all significant risk and rewards of ownership of the properties it leases are not transferred to the Group and thus, accounted for these arrangements as operating lease.

Finance Lease

Group as lessor

As lessor, the Group has entered into finance lease arrangements of vehicles. The Group has determined based on the evaluation of terms and conditions of the arrangement, (i.e. present value of minimum lease payments amounts to at least substantially all of the fair value of leased asset) that it transfers all the significant risks and rewards of ownership of these properties and thus, accounts for these arrangements as finance leases.

(e) *Contingencies*
The Group is currently involved in various legal proceedings arising from the ordinary course of business. The estimate of the probable costs for the resolution of these claims and assessments has been developed in consultation with outside counsel handling the Group's defense in these matters and is based upon an analysis of potential results. The Group currently does not believe that liabilities which may arise from these proceedings will have a material adverse effect on its financial position. It is possible, 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 31).

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

(a) *Estimation of credit losses on financial assets*
The measurement of impairment losses for financial assets at amortized cost, including investment securities at FVOCI, and loans and receivables under PFRS 9 requires judgment, 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.

The Group's ECL calculations are outputs of models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Significant factors affecting the estimates on the ECL model include:
- The Group's internal risk rating process and assignment of PD based on this risk rating;
- The Group's criteria for assessing if there has been a significant increase in credit risk;
- The Group's definition of default, which is consistent with regulatory requirements;
- The segmentation of financial assets when the 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, and the effect on PDs, EADs and LGDs.
- Definition of forward-looking macroeconomic scenario variables.

The Group's impairment policy for financial assets is discussed in Note 4. The carrying values of the investment securities at amortized costs, FVOCI and loans and receivables and related allowance for credit losses of the Group and Parent Company are disclosed in Notes 8, 9 and 16.

In 2020, the BSP issued several memoranda granting temporary relief measures to banks and supervised financial institution (BSFI). The relief includes payment moratorium which defers payment of maturing loans. With the delay of past due information, the Group performed industry analysis to consider significant increase in credit risk for specific accounts that are determined to be severely affected by the COVID 19 pandemic and that would need to be assessed separately for ECL purposes. The status of the accounts and the potential impact of the pandemic to these accounts were considered by the Group in the assessment.

The Group also revised the probability weights of the macroeconomic variables to consider the Group's expectation of the potential impact of the pandemic. The Group also updated the model inputs to incorporate potential impact of the pandemic on the macroeconomic variables selected for overlay determination.

(b) *Impairment of goodwill and branch licenses*
The Group conducts a review for any impairment in value of goodwill and branch licenses annually every December 31 or frequently, if events or changes in the circumstances indicate that the carrying values may be impaired. The Group's impairment assessment requires significant judgement and is based on management's assumptions.

For purposes of impairment testing, the Group measures the recoverable amounts of the CGUs to which the goodwill and branch licenses are allocated, based on a value-in-use calculation using cash flow projections from the financial budgets covering three-to five-years, which are approved by the senior management. The value-in-use calculation is most sensitive to the following assumptions: a) revenue growth rate; b) discount rates; and c) projected growth rates used to extrapolate cash flows beyond the budget period. In 2020, the key assumptions used in the calculation of value-in-use, including revenue/net interest margin and projected growth rates, have been updated to consider the effect impact of the pandemic.

The discussion of key assumptions used in the impairment calculation and the carrying values of goodwill and branch licenses are disclosed in Notes 13 and 14.

(c) *Recognition of deferred tax assets*
Certain subsidiaries have been in a tax loss position for the past several years. Based on this experience, the management assessed that it is not probable that certain subsidiaries will realize their deductible temporary differences, unused NOLCO and excess MCIT before expiration or reversal. The Group have considered the impact of the pandemic on future taxable income and on the recognition of deferred tax assets. Accordingly, the Group did not recognize deferred tax assets on certain deductible temporary differences, unused NOLCO and excess MCIT as of December 31, 2020 and 2019.

The amounts of recognized and unrecognized deferred tax assets of the Group are disclosed in Note 28.

(d) *Fair values of derivatives*
The fair values of derivatives that are not quoted in active markets are determined using valuation techniques. Where valuation techniques are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of the area that developed them. All models are reviewed before they are used, and models are calibrated to ensure that outputs reflect actual data and comparative market prices.

To the extent practical, models use only observable data. Changes in assumptions about these factors could affect reported fair value of financial instruments. Refer to Note 5 for information on the fair values of these instruments.

(e) *Present value of retirement obligation*
The cost of defined benefit obligation and other post-employment benefits is determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates and future salary increases. Due to the long-term nature of these plans and complexity of the valuation, the present value of the retirement obligation are sensitive to changes in these assumptions.

The discount rates used were determined using the market yields of Philippine government bonds with terms consistent with the expected employee benefit payout as at statement of condition date. Future salary increases are based on historical annual merit, market and promotional increase and expected future inflation rates.

The key assumptions in determining the present value of the defined benefit obligation of the Group and Parent Company are disclosed in Note 25.

4. Financial Risk Management Objectives and Policies

The main purpose of the Group's financial instruments is to fund its operations and capital expenditures. The Group's financial instruments consist mainly of government securities, private bonds, loans and receivables, deposit in banks, deposit liabilities, bills payable and other liabilities. Further, the Group is also an active participant in the interbank market and has interbank loans and repurchase agreements. The Group enters into over-the-counter (OTC) derivatives, mainly spot forward, swap exchange contracts, as a service to customers and as a means of reducing and managing the Group's foreign exchange risks.

The Group's policy is to undertake risk positions consistent with its risk philosophy. Financial instruments are entered into within the acceptable risk and return trade off parameters that are consistent with the Group's risk objectives set for the year. Capital is rationally allocated based on risks assumed. This capital allocation policy underlies the risk limits imposed by the board of directors (BOD) that guide the management team in its risk taking activities.

There were no significant changes in the risk management policies of the Group in 2020, 2019 and 2018, except for credit risk in 2020 (refer to the succeeding discussion on 'Overlay' and 'Significant increase in credit risk').

Risk Management Framework

The Parent Company is aware of the highly competitive industry within which it operates and takes on a pro-active management of the risks it faces in its day to day activities. The risk management process is integrated in all facets of the operations, from policy-making down to the transactional level, with the involvement of the directors, senior management and internal auditors.

The Parent Company's Risk Management System is an ongoing process that starts from goal setting to revalidation of the risk methodologies. These goals are consistent with the overall risk management philosophy. The Parent Company's Risk Management System also oversees the subsidiaries and applies the same policies to the subsidiaries.

The Parent Company has a risk functional hierarchical structure that reflects the top-down approach to a focused risk management framework. The BOD, through the Asset Liability Committee (ALCO) and Risk Oversight Committee (ROC), ensures that risk management objectives are achieved.

Each of the risk functional units has well-defined roles in the Parent Company's risk management system and structure.

The risk taking units, consisting of the Branch Banking, Treasury Dealing, Account Management, Private Banking and Trust Banking Groups, are principally involved in the determination of growth opportunities and, together with the Risk Management Group (RMG), ALCO and ROC, evaluate the business risks and define the risk tolerance of the Parent Company. Line managers for the trading activities monitor performance at levels within established price risk limits, which is Value-at-Risk (VaR). The VaR is the amount that defines management's tolerance for accepting daily price risk-related losses on a cumulative month-to-date basis in portfolios that are marked-to-market. VaR limits are set for each price risk taking unit.

The RMG is principally tasked to quantify the risks utilizing methodologies such as VaR, Volatility Studies and Stress Testing. Treasury Operations is responsible for mark-to-market calculations. Benchmarks as prescribed by the regulatory bodies are used in marking to market financial risk exposures of the Parent Company.

The Risk Control and Compliance Units, consisting of the Loans, Trade, Legal, Credit Policy and Treasury Operations, are principally responsible for limit compliance monitoring and control. The internal control system of the Parent Company and the periodic audit review ensure that the risk control functions are administered consistently. The periodic budget review ensures that actual risk taking performance of the Parent Company is reported to and noted by the BOD. The Audit Unit and RMG are responsible for model revalidation at least on an annual basis before a new set of risk limits is submitted for approval for the ensuing year.

Management of credit risk is the principal responsibility of the Credit Committee and the Executive Committee. The role of the Credit Committee is to ensure that the credit risk policies are strictly complied when approving loan proposals. The Executive Committee ensures that credit management processes are consistent with policies covering market, operational, legal, business, event and other residual risks as approved by the BOD.

The Audit Committee, concurrently tasked to oversee management of compliance risk, is responsible for implementing a control system to ensure that operational and legal risks are properly handled from documentation, transaction processing, all the way to regulatory reporting.

Risk Management Philosophy

Effective risk management process and structure are key factors in responsible corporate governance. The maintenance of adequate regulatory capital and preservation of stockholders' capital rely heavily on the management appetite for risk, ability to establish opportunities and expertise to identify, control, and quantify the attendant financial, operational, business and event risks in banking.

Adequate return of capital can only be ensured when activities are undertaken in terms of risk return trade-off.

Risk Measurement and Reporting Systems

The Parent Company's risks are measured using a method which reflects both the expected loss likely to arise in normal circumstances and unexpected losses, which are an estimate of actual loss based on statistical models and scenario analyses. The models make use of probabilities derived from historical experience, adjusted to reflect the current economic environment. The Parent Company also runs worse case scenarios that would arise in the events which are unlikely to occur but do, in fact, occur.

Monitoring and controlling risks is primarily performed based on limits established by the Parent Company. These limits reflect the business strategy and market environment of the Parent Company as well as the level of risk that the Parent Company is willing to accept, with additional emphasis on selected industries. In addition, the Parent Company monitors and measures the overall risk bearing capacity in relation to the aggregate risk exposure across all risk types and activities.

Information compiled from all the businesses is examined and processed in order to analyze, control and identify risks early. This information is presented and explained to the members of the BOD, the ALCO and ROC, and the head of each business division. The report includes aggregate credit exposure, limit exceptions, VaR, liquidity ratios and risk profile changes. On a periodic basis, detailed reporting of industry, customer and geographic risks takes place. Senior Management assesses the appropriateness of the allowance for credit losses on a monthly basis. The Senior Management and the

BOD receive risk reports on a regular basis which are designed to provide the necessary information to assess and conclude on the risks of the Parent Company. For all levels throughout the Parent Company, specifically tailored risk reports are prepared and distributed to ensure that business divisions have access to extensive, necessary and up-to-date information.

A regular briefing is given to the ALCO (fortnightly) and ROC (monthly) and Senior Management team members of the Parent Company on the utilization of market limits, analysis of VaR, proprietary investments and liquidity, plus other risk developments.

Risk Mitigation
The risk profile is assessed before entering into hedge transactions, which are authorized by the appropriate level of seniority within the Group. The Group did not enter into hedging transactions in 2020, 2019 and 2018.

The Group actively uses collateral to reduce its credit risk (see discussion under Collateral and other credit enhancements).

Credit Risk
Credit risk is the risk that the Group will incur a loss because its customers, clients or counterparties failed to discharge their contractual obligations. The Group manages credit risk by setting limits and monitoring credit limits per individual facility, borrower and related entities, and industry and market.

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

To avoid excessive concentrations of risk, the Group's policies and procedures include specific guidelines to focus on maintaining a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly. The Group and the Parent Company considers concentration risk to be present when the total exposure of loans and receivables to a particular industry exceeds 30.0% of the total exposure, which is similar to the BSP requirement. As of December 31, 2020 and 2019, the Group and the Parent Company does not exceed the limit in any of its industry concentration.

Concentrations indicate the relative sensitivity of the Group's performance to developments affecting a particular industry. The distribution of financial assets and off-balance sheet items by industry sector as at December 31, 2020 and 2019 follows:

	Consolidated		**Parent Company**	
	2020	2019	**2020**	2019
Financial intermediaries	**₱141,779,887**	₱86,937,367	**₱140,993,823**	₱85,885,901
Wholesale and retail trade	**34,716,361**	34,129,282	**34,566,067**	33,889,184
Real estate, renting and business services	**39,433,861**	34,303,362	**39,415,643**	34,213,718
Public utilities	**15,691,439**	22,294,431	**15,691,439**	22,294,431
Manufacturing	**15,727,360**	16,496,156	**15,685,157**	16,430,487
Agriculture, fisheries and forestry	**5,774,604**	6,079,497	**3,127,479**	3,192,471
Others	**58,236,124**	59,877,830	**57,981,561**	59,391,535
	₱311,359,636	₱260,117,925	**₱307,461,169**	₱255,297,727

Credit-related commitments risks
The Parent Company provides to its customers guarantees, which may require the Parent Company to make payments on their behalf. Such payments are collected from customers based on the terms of the letter of credit. They expose the Parent Company to similar risks to loans and these are mitigated by the same control processes and policies.

Collateral and other credit enhancements
The Group extends credit in a secured basis whenever possible and ensures that the terms and collateral are appropriate to the nature of credit accommodation extended to clients.

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

The main types of collateral obtained by the Parent Company are as follows:
- for securities lending and reverse repurchase transactions, cash or securities;
- for commercial lending, mortgages over real estate properties, chattels, inventory, trade receivables, and assignment of shares of stocks; and
- for consumer lending, mortgages over residential properties and vehicles.

The Group's policy is to dispose the repossessed properties in an orderly fashion. The proceeds are used to reduce or repay the outstanding claim.

Maximum exposure to credit risk after collateral held or other credit enhancements
An analysis of the maximum exposure to credit risk after taking into account any collateral held or other credit enhancements is shown below as at December 31, 2020 and 2019:

	2020			
	Consolidated			
	Maximum Exposure	**Fair Value of Collaterals**	**Financial Effect of Collaterals**	**Net Exposure to Credit Risk**
IBLR and SPURA	**₱13,548,438**	**₱13,225,950**	**₱13,225,950**	**₱322,488**
Loans and receivables				
Loans and discounts	**168,393,272**	**67,362,808**	**55,293,286**	**113,099,986**
Finance lease receivables	**678,948**	**1,290,915**	**602,285**	**76,663**
Loans and receivables financed	**228,159**	**333,011**	**127,672**	**100,487**
Sales contract receivable	**110,558**	**277,684**	**103,766**	**6,792**
Total	**₱182,959,375**	**₱82,490,368**	**₱69,352,959**	**₱113,606,416**

	2019			
	Consolidated			
	Maximum Exposure	Fair Value of Collaterals	Financial Effect of Collaterals	Net Exposure to Credit Risk
IBLR and SPURA	₱3,541,226	₱3,328,901	₱3,328,901	₱212,325
Loans and receivables				
Loans and discounts	168,694,728	61,695,486	40,657,945	128,036,783
Finance lease receivables	855,988	1,340,045	855,988	–
Loans and receivables financed	225,304	340,073	217,228	8,076
Sales contract receivable	152,637	119,823	98,449	54,188
Total	₱173,469,883	₱66,824,328	₱45,158,511	₱128,311,372

	2020			
	Parent Company			
	Maximum Exposure	**Fair Value of Collaterals**	**Financial Effect of Collaterals**	**Net Exposure to Credit Risk**
IBLR and SPURA	**₱13,548,438**	**₱13,225,950**	**₱13,225,950**	**₱322,488**
Loans and receivables				
Loans and discounts	**165,837,204**	**67,362,808**	**55,293,286**	**110,543,918**
Sales contract receivable	**92,340**	**261,855**	**92,340**	**–**
Total	**₱179,477,982**	**₱80,850,613**	**₱68,611,576**	**₱110,866,406**

	2019			
	Parent Company			
	Maximum Exposure	Fair Value of Collaterals	Financial Effect of Collaterals	Net Exposure to Credit Risk
IBLR and SPURA	₱3,541,226	₱3,328,901	₱3,328,901	₱212,325
Loans and receivables				
Loans and discounts	165,719,368	59,810,828	39,564,630	126,154,738
Sales contract receivable	136,130	119,823	98,449	37,681
Total	₱169,396,724	₱63,259,552	₱42,991,980	₱126,404,744

The Group has established a credit quality review process to provide early identification of possible changes in the creditworthiness of counterparties, including regular collateral revisions. Counterparty limits are established by the use of a credit risk classification system, which assigns each counterparty a risk rating. Risk ratings are subject to regular revision. The credit quality review process allows the Group to assess the potential loss as a result of the risks to which it is exposed and take corrective action.

The credit risk rating system is duly approved by the regulatory body. It has two components, namely: a) Borrower Risk Rating, which provides an assessment of the credit worthiness of the borrower, and b) Facility Risk Rating, which provides an assessment of the specific facility as enhanced by security arrangements such as security, collateral and credit covenants.

Commercial loans
The Parent Company uses internal credit risk rating system (ICRRS) for commercial loan accounts which are based on risk factors and categorized accordingly. The rating is the major indicator for increase or deduction if not termination of credit facilities extended to clients. The improved risk rating process standardizes pricing of exposure to individual and group accounts as the required credit premium crystallized because of the classifications. It also facilitates impairment tests.

With this already institutionalized process together with the systems for Account Profitability Analysis, the Group has built the necessary foundation to assess and reassess credit exposures at the counterparty levels. The risk/reward profile of individual exposure became the cornerstone of transaction proposals and approval. The execution of diversification tactics are facilitated because of this granular assessment capability. The payment rating system is a supplementary system aimed at generating the necessary data for loss given default to validate the reliability of default rate assigned per risk category under the present ICRRS.

The payment rating system is the basis of the Group in monitoring credit risk on consumer loans. Consumer loans covered by the payment rating system are rated based on historical payment patterns and default history. The rating is the Group's basis for granting suspension, renewal and dis-accreditation of loan application.

The table below presents the classification of credit rating to credit quality and description for each credit rating for commercial loans:

Credit Quality		ICRRS Grade	Description
High	Internal:	Good 1	▪ The borrower exhibits adequate protection parameters, but there are foreseen adverse conditions or circumstances that will, in all likelihood, lead to a weakened capacity of the borrower to pay its debt obligations upon maturity. ▪ The borrowers earning performance and capacity to pay maturing obligations are more vulnerable to possible occurrences than those rated Strong.
	External:	Aaa	▪ Highest quality, with minimal credit risk
		Aa1-Aa3	▪ High quality and is subject to very low credit risk
		Baa1-Baa2	▪ Subject to moderate credit risk
		Baa3	▪ Considered medium-grade and as such may possess certain speculative characteristics
Standard	Internal:	Good 2	▪ The probability of default is somewhat greater than those rated as Good 1. This probability is reflected in volatility of earnings and overall performance. ▪ Borrowers in this category normally have less access to public financial markets. ▪ Borrowers should be able to withstand normal business cycles, but any prolonged unfavorable economic period would create deterioration beyond acceptable levels. ▪ The borrower and its principals still have good credit standing with the creditors and trade suppliers, without any history of past due.
		Good 3	▪ The borrower has very limited access to external funding sources. ▪ The risk elements for the Group are sufficiently pronounced, although borrowers should still be able to withstand normal business cycles. ▪ Any prolonged unfavorable economic and/or market period would create an immediate deterioration beyond acceptable levels.
	External:	Ba1	▪ Have speculative elements and is subject to substantial credit risk
		Ba2-Ba3 B1	▪ Considered speculative and is subject to high credit risk (Actual exposure limited to foreign exchange denominated issues of the Republic of the Philippines hence the Standard Classification)
Substandard	Internal:	Watchlist	▪ The borrower is vulnerable to nonpayment but payments are still being made. ▪ The borrower has a minimal level of, and doubtful sources for, alternative funding to cover possible shortfalls of existing liquidity to pay off maturing obligations.
		Doubtful	▪ The borrower is unable or unwilling to service debt over an extended period of time and near future prospects of orderly debt service is doubtful.
	External:	B2-B3	▪ Material default risk is present, but a limited margin of safety remains.
		Caa1-Caa3 Ca	▪ Financial commitments are currently being met; however, capacity for continued payment is vulnerable to deterioration in the business and economic environment.

The credit quality of other financial instrument exposures, such as trading and investment securities, are managed by reference to external ratings, supplemented by individual assessments.

The Group's policy is to maintain accurate and consistent risk ratings across the credit portfolio. This facilitates comparison of credit exposures across all lines of business and products. The rating system is supported by a variety of financial analytics, combined with processed market information to provide the main inputs for the measurement of counterparty risk. All internal risk ratings are tailored to the various categories and are derived in accordance with the Parent Company's rating policy. The attributable risk ratings are assessed and updated regularly. External rating agencies' equivalent grades are relevant only for certain exposures in each risk rating class. Financial assets with no credit ratings from independent credit rating agencies are evaluated using baseline credit rating.

The Group's Risk Management Unit operates its internal rating models. From these internal rating models, the Group calculates PDs, which are then adjusted to incorporate both current and forward looking information for ECL calculation.

Commercial loans
The credit risk assessment for Commercial loans is based on a credit scoring model that takes into account various historical, current and forward-looking information such as:

- Financial information which include realized and expected results, solvency ratios, liquidity ratios and other relevant ratios to gauge the client's financial performance;
- Macro-economic or geopolitical information which includes the observed default behavior of specific industries as well as the geographical coverage of the client's operations; and
- Any other objectively supportable information on the quality and abilities of the client's management relevant for the company's performance.

The Parent Company's PD model for Commercial loans uses 1 to 10 internal grades, which are mapped to globally understood external rating, as follows:

Internal rating grade	Moody's rating
1	A
2	A
3	Baaa
4	Baa
5	Ba
6	Ba
7	B
8	B
9	Caa-C
10	Caa-C
D	D

The Parent Company has developed through-the-cycle (TTC) PDs which are scaled to the observed point-in-time (PIT) PDs as of the reporting dates.

The Parent Company continuously monitors the movements in the credit risk rating of its commercial loans. In order to determine whether the commercial loan is subject to 12-month ECL or lifetime ECL, the Parent Company assesses whether there has been a significant increase in credit risk since the financial assets was recognized (Stage 2). The Parent Company considers an exposure to have significantly increased when the PD has increased relatively by 200% since its initial recognition.

Furthermore, the Parent Company also checks whether the risk rating has downgraded by at least two notches since its initial recognition. If contractual payments are more than a certain number of days past due, the credit risk with this exposure is deemed to have increased significantly since initial recognition.

Details related to PD calibrations, loss given default and overlay are discussed in the next section.

The table below shows the credit quality and the maximum exposure to credit risk of the Group and the Parent Company's Commercial loans based on the Group and Parent Company's internal credit risk rating system and the stage classification as of December 31, 2020 and 2019. The amounts presented are gross of impairment allowances:

	Consolidated				
	2020				
	ECL Staging				**Total**
Internal rating grade	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	
1	**₱3,717,881**	**₱80,790**	**₱51,286**	**₱–**	**₱3,849,957**
2	**6,714,920**	**176,500**	**65,720**	**–**	**6,957,140**
3	**43,929,367**	**10,054,847**	**520,900**	**–**	**54,505,114**
4	**27,665,947**	**6,593,882**	**1,883,209**	**–**	**36,143,038**
5	**11,828,881**	**15,152,311**	**1,363,100**	**1,691**	**28,345,983**
6	**4,102,017**	**6,240,744**	**4,416,629**	**–**	**14,759,390**
7	**150,902**	**2,553,534**	**158,991**	**–**	**2,863,427**
8	**–**	**17,370**	**2,000**	**–**	**19,370**
9	**91,702**	**–**	**–**	**–**	**91,702**
Unrated	**10,313**	**290**	**9,149**	**–**	**19,752**
Gross carrying amount	**₱98,211,930**	**₱40,870,268**	**₱8,470,984**	**₱1,691**	**₱147,554,873**

**Accounts under POCI pertain to outstanding loan balances acquired from the business acquisition of ATB in 2013.*

	Consolidated				
	2019				
	ECL Staging				Total
Internal rating grade	Stage 1	Stage 2	Stage 3	POCI	
1	₱2,601,059	₱14,768	₱–	₱–	₱2,615,827
2	4,856,161	–	34,745	–	4,890,906
3	31,623,959	21,456	126,234	–	31,771,649
4	40,916,697	186,136	187,135	–	41,289,968
5	32,727,714	7,346,244	424,425	2,781	40,501,164
6	17,837,894	3,520,497	1,653,355	–	23,011,746
7	566,018	1,368,648	57,563	–	1,992,229
8	30,000	2,750	–	–	32,750
9	–	6,620	2,000	–	8,620
Unrated	26,010	73	7,948	–	34,031
Gross carrying amount	₱131,185,512	₱12,467,192	₱2,493,405	₱2,781	₱146,148,890

**Accounts under POCI pertain to outstanding loan balances acquired from the business acquisition of ATB in 2013.*

	Parent Company				
	2020				
	ECL Staging				**Total**
Internal rating grade	**Stage 1**	**Stage 2**	**Stage 3**	**POCI**	
1	**₱3,717,881**	**₱80,790**	**₱51,286**	**₱–**	**₱3,849,957**
2	**6,714,920**	**176,500**	**65,720**	**–**	**6,957,140**
3	**43,929,367**	**10,054,847**	**520,900**	**–**	**54,505,114**
4	**27,665,947**	**6,593,882**	**1,883,209**	**–**	**36,143,038**
5	**11,828,881**	**15,152,311**	**1,363,100**	**1,691**	**28,345,983**
6	**4,102,017**	**6,240,744**	**4,416,629**	**–**	**14,759,390**
7	**150,902**	**2,553,534**	**158,993**	**–**	**2,863,429**
8	**–**	**17,369**	**2,000**	**–**	**19,369**
9	**91,700**	**–**	**–**	**–**	**91,700**
Gross carrying amount	**₱98,201,615**	**₱40,869,977**	**₱8,461,837**	**₱1,691**	**₱147,535,120**

**Accounts under POCI pertain to outstanding loan balances acquired from the business acquisition of ATB in 2013.*

	Parent Company				
	2019				
	ECL Staging				Total
Internal rating grade	Stage 1	Stage 2	Stage 3	POCI	
1	₱2,601,059	₱14,768	₱–	₱–	₱2,615,827
2	4,856,161	–	34,745	–	4,890,906
3	31,623,959	21,456	126,234	–	31,771,649
4	40,916,697	186,136	187,135	–	41,289,968
5	32,727,714	7,346,244	424,425	2,781	40,501,164
6	17,837,894	3,520,497	1,653,355	–	23,011,746
7	566,018	1,368,648	57,563	–	1,992,229
8	30,000	2,750	–	–	32,750
9	–	6,620	2,000	–	8,620
Gross carrying amount	₱131,159,502	₱12,467,119	₱2,485,457	₱2,781	₱146,114,859

**Accounts under POCI pertain to outstanding loan balances acquired from the business acquisition of ATB in 2013.*

An analysis of changes in the gross carrying amounts and expected credit loss of commercial loans is as follows:

	Consolidated									
	Outstanding Balance					**ECL**				
	Stage 1	**Stage 2**	**Stage 3**	**POCI***	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**POCI***	**Total**
January 1, 2020	**₱131,185,512**	**₱12,467,192**	**₱2,493,404**	**₱2,781**	**₱146,148,889**	**₱360,608**	**₱106,862**	**₱793,211**	**₱25**	**₱1,260,706**
New loans**	**259,960,335**	**–**	**–**	**–**	**259,960,335**	**3,191,896**	**–**	**–**	**–**	**3,191,896**
Assets derecognized or repaid**	**(211,176,831)**	**(45,454,132)**	**(266,747)**	**(1,090)**	**(256,898,800)**	**(1,429,997)**	**(900,067)**	**(20,848)**	**(10)**	**(2,350,922)**
Transfer to Stage 1	**3,003,828**	**(3,003,828)**	**–**	**–**	**–**	**122,351**	**(122,351)**	**–**	**–**	**–**
Transfer to Stage 2	**(82,013,478)**	**82,021,082**	**(7,604)**	**–**	**–**	**(1,463,722)**	**1,464,482**	**(760)**	**–**	**–**
Transfer to Stage 3	**(2,354,795)**	**(5,102,767)**	**7,457,562**	**–**	**–**	**(41,261)**	**(28,980)**	**70,241**	**–**	**–**
Write off	**–**	**–**	**(1,203,986)**	**–**	**(1,203,986)**	**–**	**–**	**(1,203,986)**	**–**	**(1,203,986)**
Impact on yearend ECL of exposures transferred between stages during the year	**–**	**–**	**–**	**–**	**–**	**(102,886)**	**(13,589)**	**3,995,326**	**–**	**3,878,851**
Changes to models and inputs used for ECL calculations	**–**	**–**	**–**	**–**	**–**	**(13,473)**	**62,813**	**305,898**	**23**	**355,261**
Foreign exchange adjustment	**(392,641)**	**(57,279)**	**(1,645)**	**–**	**(451,565)**	**(172)**	**(3,008)**	**(2,505)**	**–**	**(5,685)**
December 31, 2020	**₱98,211,930**	**₱40,870,268**	**₱8,470,984**	**₱1,691**	**₱147,554,873**	**₱623,344**	**₱566,162**	**₱3,936,577**	**₱39**	**₱5,126,121**

**Accounts under POCI pertain to outstanding loan balances acquired from the business acquisition of ATB in 2013.*
***Balances presented include revolving loans*

	Consolidated									
	Outstanding Balance					ECL				
	Stage 1	Stage 2	Stage 3	POCI*	Total	Stage 1	Stage 2	Stage 3	POCI*	Total
January 1, 2019	₱114,209,512	₱14,513,855	₱3,110,382	₱6,052	₱131,839,801	₱280,432	₱129,553	₱876,878	₱19	₱1,286,882
New loans**	296,784,159	–	–	–	296,784,159	1,147,824	–	–	–	1,147,824
Assets derecognized or repaid**	(241,872,385)	(37,736,957)	(1,712,168)	(2,645)	(281,324,155)	(754,422)	(288,509)	(117,893)	(7)	(1,160,831)
Transfer to Stage 1	11,491,314	(11,488,582)	(2,732)	–	–	103,042	(102,880)	(162)	–	–
Transfer to Stage 2	(47,694,442)	47,694,442	–	–	–	(338,197)	338,197	–	–	–
Transfer to Stage 3	(1,234,856)	(485,946)	1,721,428	(626)	–	(67,682)	(2,335)	70,022	(5)	–
Write off	–	–	(623,505)	–	(623,505)	–	–	(623,505)	–	(623,505)
Impact on yearend ECL of exposures transferred between stages during the year	–	–	–	–	–	(5,455)	48,207	342,261	–	385,013
Changes to models and inputs used for ECL calculations	–	–	–	–	–	(3,988)	(15,292)	245,618	18	226,356
Foreign exchange adjustment	(497,790)	(29,620)	–	–	(527,410)	(946)	(79)	(8)	–	(1,033)
December 31, 2019	₱131,185,512	₱12,467,192	₱2,493,405	₱2,781	₱146,148,890	₱360,608	₱106,862	₱793,211	₱25	₱1,260,706

**Accounts under POCI pertain to outstanding loan balances acquired from the business acquisition of ATB in 2013.*
***Balances presented include revolving loans*

	Parent Company									
	Outstanding Balance					ECL				
	Stage 1	Stage 2	Stage 3	POCI*	Total	Stage 1	Stage 2	Stage 3	POCI*	Total
January 1, 2020	₱131,159,502	₱12,467,119	₱2,485,457	₱2,781	₱146,114,859	₱359,712	₱106,844	₱789,589	₱25	₱1,256,170
New loans**	259,952,600	–	–	–	259,952,600	3,191,688	–	–	–	3,191,688
Assets derecognized or repaid**	(211,157,084)	(45,454,059)	(264,554)	(1,090)	(256,876,787)	(1,429,934)	(900,049)	(19,849)	(10)	(2,349,842)
Transfer to Stage 1	3,003,828	(3,003,828)	–	–	–	122,351	(122,351)	–	–	–
Transfer to Stage 2	(82,013,188)	82,020,791	(7,603)	–	–	(1,463,714)	1,464,474	(760)	–	–
Transfer to Stage 3	(2,351,402)	(5,102,767)	7,454,169	–	–	(40,503)	(28,980)	69,483	–	–
Write off	–	–	(1,203,986)	–	(1,203,986)	–	–	(1,203,986)	–	(1,203,986)
Impact on yearend ECL of exposures transferred between stages during the year	–	–	–	–	–	(102,886)	(13,667)	3,994,537	–	3,877,984
Changes to models and inputs used for ECL calculations	–	–	–	–	–	(13,566)	62,814	305,915	23	355,186
Foreign exchange adjustment	(392,641)	(57,279)	(1,646)	–	(451,566)	(172)	(3,008)	(2,505)	–	(5,685)
December 31, 2020	**₱98,201,615**	**₱40,869,977**	**₱8,461,837**	**₱1,691**	**₱147,535,120**	**₱622,976**	**₱566,077**	**₱3,932,421**	**₱39**	**₱5,121,515**

**Accounts under POCI pertain to outstanding loan balances acquired from the business acquisition of ATB in 2013.*
***Balances presented include revolving loans*

	Parent Company									
	Outstanding Balance					ECL				
	Stage 1	Stage 2	Stage 3	POCI*	Total	Stage 1	Stage 2	Stage 3	POCI*	Total
January 1, 2019	₱114,156,817	₱14,512,853	₱3,100,327	₱6,052	₱131,776,049	₱279,831	₱129,300	₱871,959	₱19	₱1,281,109
New loans**	296,764,329	–	–	–	296,764,329	1,147,246	–	–	–	1,147,246
Assets derecognized or repaid**	(241,830,642)	(37,736,248)	(1,707,322)	(2,645)	(281,276,857)	(753,797)	(288,331)	(115,774)	(7)	(1,157,909)
Transfer to Stage 1	11,491,255	(11,488,582)	(2,673)	–	–	103,014	(102,880)	(134)	–	–
Transfer to Stage 2	(47,694,369)	47,694,369	–	–	–	(338,196)	338,196	–	–	–
Transfer to Stage 3	(1,230,098)	(485,653)	1,716,377	(626)	–	(66,871)	(2,235)	69,111	(5)	–
Write off	–	–	(621,252)	–	(621,252)	–	–	(621,252)	–	(621,252)
Impact on yearend ECL of exposures transferred between stages during the year	–	–	–	–	–	(5,428)	48,190	339,602	–	382,364
Changes to models and inputs used for ECL calculations	–	–	–	–	–	(5,141)	(15,317)	246,086	18	225,646
Foreign exchange adjustment	(497,790)	(29,620)	–	–	(527,410)	(946)	(79)	(9)	–	(1,034)
December 31, 2019	₱131,159,502	₱12,467,119	₱2,485,457	₱2,781	₱146,114,859	₱359,712	₱106,844	₱789,589	₱25	₱1,256,170

**Accounts under POCI pertain to outstanding loan balances acquired from the business acquisition of ATB in 2013.*
***Balances presented include revolving loans*

Consumer loans
The consumer loan portfolio of the Group is composed of Real estate mortgage (REM), Contract-to-sell (CTS), Auto loans, Salary loans, Agricultural loans, Microfinance loans, Finance lease receivables (FLR) and Loans and receivables - financed. For the Parent Company, the consumer loan portfolio is composed of four (4) main product lines: Real Estate Mortgage, Contract-to-Sell, Auto Loans and Salary Loans. Credit risk associated with these receivables is assessed based on days past due.

The description of each groupings according to stage is explained further as follows:
- Stage 1 - those that are considered current and up to a certain number of days past due, and based on delinquencies and payment history, do not demonstrate significant increase in credit risk;
- Stage 2 - those that are considered more than a certain number of days past due but does not demonstrate objective evidence of impairment as of reporting date, and based on delinquencies and payment history, demonstrate significant increase in credit risk; and
- Stage 3 - those that are considered more than 90 days past due or in default, or demonstrate objective evidence of impairment as of reporting date.

To estimate PD, the Group and the Parent Company developed a transition matrix based on the monthly migration of accounts to each age bucket. This matrix is scaled to the observed point-in-time PDs as of the reporting dates.

Details related to PD calibrations, loss given default and overlay are discussed in the next section.

The table below shows the credit quality and the maximum exposure to credit risk of the Group and Parent Company's consumer loans based on days past due and the classification as of December 31, 2020 and 2019. The amounts presented are gross of impairment allowances:

	2020			
	Consolidated			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Real estate mortgage	**₱6,864,873**	**₱1,957,382**	**₱431,501**	**₱9,253,756**
Contract-to-sell	**3,660,002**	**630,909**	**54,486**	**4,345,397**
Auto loans	**4,186,243**	**17,118**	**97,679**	**4,301,040**
Salary loans	**2,953,139**	**10,952**	**83,959**	**3,048,050**
Other receivables*	**2,755,686**	**105,224**	**594,802**	**3,455,712**
	₱20,419,943	**₱2,721,585**	**₱1,262,427**	**₱24,403,955**

**Other receivables consist of agricultural loans, microfinance loans, finance lease receivables and loans receivables financed.*

	2019			
	Consolidated			
	Stage 1	Stage 2	Stage 3	Total
Real estate mortgage	₱9,022,017	₱51,748	₱264,115	₱9,337,880
Contract-to-sell	3,243,788	12,890	23,152	3,279,830
Auto loans	5,275,038	5,762	48,928	5,329,728
Salary loans	3,103,846	13,509	34,013	3,151,368
Other receivables*	3,412,937	181,139	299,766	3,893,844
	₱24,057,626	₱265,048	₱669,974	₱24,992,648

**Other receivables consist of agricultural loans, microfinance loans, finance lease receivables and loans receivables financed.*

	2020			
	Parent Company			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Real estate mortgage	**₱6,864,873**	**₱1,957,382**	**₱431,501**	**₱9,253,756**
Contract-to-sell	**3,660,002**	**630,909**	**54,486**	**4,345,397**
Auto loans	**4,186,243**	**17,118**	**97,679**	**4,301,040**
Salary loans	**2,944,554**	**10,952**	**83,958**	**3,039,464**
	₱17,655,672	**₱2,616,361**	**₱667,624**	**₱20,939,657**

	2019			
	Parent Company			
	Stage 1	Stage 2	Stage 3	Total
Real estate mortgage	₱9,022,017	₱51,748	₱264,115	₱9,337,880
Contract-to-sell	3,243,788	12,890	23,152	3,279,830
Auto loans	5,275,038	5,762	48,928	5,329,728
Salary loans	3,097,082	12,956	34,013	3,144,051
	₱20,637,925	₱83,356	₱370,208	₱21,091,489

An analysis of changes in the gross carrying amount and the corresponding ECL allowances in relation to consumer loans is, as follows:

Real estate mortgage

	Consolidated/ Parent Company							
	Outstanding Balance				ECL			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
January 1, 2020	₱9,022,017	₱51,748	₱264,115	₱9,337,880	₱17,824	₱2,533	₱20,206	₱40,563
New loans	1,283,438	–	–	1,283,438	6,712	–	–	6,712
Assets derecognized or repaid	(1,244,004)	(43,292)	(80,266)	(1,367,562)	(2,915)	(993)	(5,331)	(9,239)
Transfer to Stage 1	199,916	(105,814)	(94,102)	–	11,309	(4,968)	(6,341)	–
Transfer to Stage 2	(2,309,811)	2,351,313	(41,502)	–	(12,626)	15,160	(2,534)	–
Transfer to Stage 3	(86,683)	(296,573)	383,256	–	(542)	(11,763)	12,305	–
Impact on yearend ECL of exposures transferred between stages during the year	–	–	–	–	4,035	12,667	12,425	29,127
Changes to models and inputs used for ECL calculations	–	–	–	–	(12,023)	(3,219)	(10,475)	(25,717)
December 31, 2020	**₱6,864,873**	**₱1,957,382**	**₱431,501**	**₱9,253,756**	**₱11,774**	**₱9,417**	**₱20,255**	**₱41,446**

	Consolidated/ Parent Company							
	Outstanding Balance				ECL			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
January 1, 2019	₱7,001,479	₱52,740	₱184,165	₱7,238,384	₱17,636	₱2,403	₱13,976	₱34,015
New loans	3,409,712	–	–	3,409,712	8,143	–	–	8,143
Assets derecognized or repaid	(1,261,361)	(9,128)	(39,727)	(1,310,216)	(3,058)	(416)	(3,041)	(6,515)
Transfer to Stage 1	113,404	(40,680)	(72,724)	–	7,408	(1,894)	(5,514)	–
Transfer to Stage 2	(96,267)	96,267	–	–	(1,210)	1,210	–	–
Transfer to Stage 3	(144,950)	(47,451)	192,401	–	(817)	(2,245)	3,062	–
Impact on yearend ECL of exposures transferred between stages during the year	–	–	–	–	(5,420)	3,344	11,542	9,466
Changes to models and inputs used for ECL calculations	–	–	–	–	(4,858)	131	181	(4,546)
December 31, 2019	₱9,022,017	₱51,748	₱264,115	₱9,337,880	₱17,824	₱2,533	₱20,206	₱40,563

Contract-to-sell

	Consolidated/ Parent Company							
	Outstanding Balance				ECL			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
January 1, 2020	₱3,243,788	₱12,890	₱23,152	₱3,279,830	₱2,647	₱2,144	₱9,998	₱14,789
New loans	2,417,334	–	–	2,417,334	1,988	–	–	1,988
Assets derecognized or repaid	(1,302,669)	(27,606)	(21,492)	(1,351,767)	(902)	(374)	(3,749)	(5,025)
Transfer to Stage 1	27,659	(21,958)	(5,701)	–	3,570	(2,326)	(1,244)	–
Transfer to Stage 2	(716,142)	716,364	(222)	–	(2,739)	2,758	(19)	–
Transfer to Stage 3	(9,968)	(48,781)	58,749	–	(158)	(4,558)	4,716	–
Written off	–	–	–	–	–	–	–	–
Impact on yearend ECL of exposures transferred between stages during the year	–	–	–	–	(3,689)	4,681	4,460	5,452
Changes to models and inputs used for ECL calculations	–	–	–	–	3,306	(363)	(9,071)	(6,128)
December 31, 2020	**₱3,660,002**	**₱630,909**	**₱54,486**	**₱4,345,397**	**₱4,023**	**₱1,962**	**₱5,091**	**₱11,076**

	Consolidated/ Parent Company							
	Outstanding Balance				ECL			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
January 1, 2019	₱3,480,158	₱3,415	₱17,475	₱3,501,048	₱12,180	₱791	₱7,447	₱20,418
New loans	2,169,917	–	–	2,169,917	3,094	–	–	3,094
Assets derecognized or repaid	(2,381,025)	(418)	(6,387)	(2,387,830)	(8,605)	(171)	(2,718)	(11,494)
Transfer to Stage 1	2,544	(1,783)	(761)	–	694	(370)	(324)	–
Transfer to Stage 2	(14,605)	14,605	–	–	(658)	658	–	–
Transfer to Stage 3	(13,201)	(2,929)	16,130	–	(250)	(562)	812	–
Written off	–	–	(3,305)	(3,305)	–	–	(3,305)	(3,305)
Impact on yearend ECL of exposures transferred between stages during the year	–	–	–	–	1,018	2,732	6,007	9,757
Changes to models and inputs used for ECL calculations	–	–	–	–	(4,825)	(934)	2,078	(3,681)
December 31, 2019	₱3,243,788	₱12,890	₱23,152	₱3,279,830	₱2,648	₱2,144	₱9,997	₱14,789

Auto loans

	Consolidated/ Parent Company							
	Outstanding Balance				ECL			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
January 1, 2020	₱5,275,038	₱5,762	₱48,928	₱5,329,728	₱19,816	₱906	₱15,851	₱36,573
New loans	1,996,686	–	–	1,996,686	5,966	–	–	5,966
Assets derecognized or repaid	(2,949,879)	(11,575)	(33,707)	(2,995,161)	(10,256)	(1,566)	(8,344)	(20,166)
Transfer to Stage 1	29,491	(21,724)	(7,767)	–	5,649	(3,193)	(2,456)	–
Transfer to Stage 2	(133,955)	146,832	(12,877)	–	(7,755)	10,573	(2,818)	–
Transfer to Stage 3	(31,138)	(102,177)	133,315	–	(1,397)	(14,986)	16,383	–
Written off	–	–	(30,213)	(30,213)	–	–	(30,213)	(30,213)
Impact on yearend ECL of exposures transferred between stages during the year	–	–	–	–	5,865	9,352	15,411	30,628
Changes to models and inputs used for ECL calculations	–	–	–	–	11,990	513	21,578	34,081
December 31, 2020	₱4,186,243	₱17,118	₱97,679	₱4,301,040	₱29,878	₱1,599	₱25,392	₱56,869

	Consolidated/ Parent Company							
	Outstanding Balance				ECL			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
January 1, 2019	₱5,711,827	₱7,833	₱36,398	₱5,756,058	₱19,036	₱1,197	₱11,892	₱32,125
New loans	2,976,780	–	–	2,976,780	7,731	–	–	7,731
Assets derecognized or repaid	(3,372,306)	(4,498)	(12,856)	(3,389,660)	(10,666)	(686)	(4,284)	(15,636)
Transfer to Stage 1	4,282	(3,781)	(501)	–	754	(592)	(162)	–
Transfer to Stage 2	(12,413)	12,764	(351)	–	(402)	515	(113)	–
Transfer to Stage 3	(33,132)	(6,556)	39,688	–	(774)	(1,029)	1,803	–
Written off	–	–	(13,450)	(13,450)	–	–	(13,450)	(13,450)
Impact on yearend ECL of exposures transferred between stages during the year	–	–	–	–	2,675	1,460	11,024	15,159
Changes to models and inputs used for ECL calculations	–	–	–	–	1,462	41	9,141	10,644
December 31, 2019	₱5,275,038	₱5,762	₱48,928	₱5,329,728	₱19,816	₱906	₱15,851	₱36,573

Salary loans

	Consolidated							
	Outstanding Balance				ECL			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
January 1, 2020	₱3,103,845	₱13,509	₱34,013	₱3,151,367	₱43,455	₱9,700	₱33,210	₱86,365
New loans	1,071,915	–	–	1,071,915	10,027	–	–	10,027
Assets derecognized or repaid	(1,040,495)	(5,431)	(78,414)	(1,124,340)	(13,888)	(1,948)	(16,973)	(32,809)
Transfer to Stage 1	319,396	(7,982)	(311,414)	–	69,483	(4,923)	(64,560)	–
Transfer to Stage 2	(123,939)	125,236	(1,297)	–	(41,907)	42,665	(758)	–
Transfer to Stage 3	(377,583)	(114,380)	491,963	–	(59,453)	(77,136)	136,589	–
Written off	–	–	(50,892)	(50,892)	–	–	(50,892)	(50,892)
Impact on yearend ECL of exposures transferred between stages during the year	–	–	–	–	22,831	33,744	16,795	73,370
Changes to models and inputs used for ECL calculations	–	–	–	–	24,408	423	(4,726)	20,105
December 31, 2020	₱2,953,139	₱10,952	₱83,959	₱3,048,050	₱54,956	₱2,525	₱48,685	₱106,166

	Consolidated							
	Outstanding Balance				ECL			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
January 1, 2019	₱2,985,678	₱6,912	₱54,483	₱3,047,073	₱109,492	₱6,161	₱52,514	₱168,167
New loans	1,839,359	–	–	1,839,359	50,520	–	–	50,520
Assets derecognized or repaid	(1,626,872)	(3,700)	(26,671)	(1,657,248)	(15,090)	(2,973)	(24,755)	(42,818)
Transfer to Stage 1	673	(31)	(642)	–	642	(28)	(614)	–
Transfer to Stage 2	(13,509)	13,509	–	–	(591)	591	–	–
Transfer to Stage 3	(81,483)	(3,181)	84,664	–	(50,068)	(3,159)	53,227	–
Written off	–	–	(77,816)	(77,816)	–	–	(77,816)	(77,816)
Impact on yearend ECL of exposures transferred between stages during the year	–	–	–	–	(612)	11,120	30,647	41,155
Changes to models and inputs used for ECL calculations	–	–	–	–	(50,838)	(2,012)	7	(52,843)
December 31, 2019	₱3,103,846	₱13,509	₱34,013	₱3,151,368	₱43,455	₱9,700	₱33,210	₱86,365

	Parent Company							
	Outstanding Balance				ECL			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
January 1, 2020	₱3,097,082	₱12,956	₱34,013	₱3,144,051	₱43,388	₱9,429	₱33,210	₱86,027
New loans	1,067,022	–	–	1,067,022	9,978	–	–	9,978
Assets derecognized or repaid	(1,037,508)	(5,348)	(78,414)	(1,121,270)	(13,859)	(1,907)	16,973	(32,738)
Transfer to Stage 1	319,379	(7,965)	(311,414)	–	69,479	(4,919)	(64,560)	–
Transfer to Stage 2	(123,939)	125,236	(1,297)	–	(41,907)	42,665	(758)	–
Transfer to Stage 3	(377,482)	(113,927)	491,409	–	(59,452)	(76,910)	136,362	–
Written off	–	–	(50,339)	(50,339)	–	–	(50,339)	(50,339)
Impact on yearend ECL of exposures transferred between stages during the year	–	–	–	–	22,835	33,744	14,648	73,047
Changes to models and inputs used for ECL calculations	–	–	–	–	24,408	423	(4,726)	20,105
December 31, 2020	₱2,944,554	₱10,952	₱83,958	₱3,039,464	₱54,870	₱2,525	₱48,684	₱106,080

	Parent Company							
	Outstanding Balance				ECL			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
January 1, 2019	₱2,985,678	₱6,912	₱54,483	₱3,047,073	₱109,492	₱6,161	₱52,514	₱168,167
New loans	1,831,633	–	–	1,831,633	50,443	–	–	50,443
Assets derecognized or repaid	(1,626,463)	(3,700)	(26,676)	(1,656,839)	(15,086)	(2,973)	(24,755)	(42,814)
Transfer to Stage 1	673	(31)	(642)	–	642	(28)	(614)	–
Transfer to Stage 2	(12,956)	12,956	-	–	(585)	585	–	–
Transfer to Stage 3	(81,482)	(3,181)	84,664	–	(50,068)	(3,159)	53,227	–
Written off	–	–	(77,816)	(77,816)	–	–	(77,816)	(77,816)
Impact on yearend ECL of exposures transferred between stages during the year	–	–	–	–	(612)	11,070	30,647	41,105
Changes to models and inputs used for ECL calculations	–	–	–	–	(50,838)	(2,227)	7	(53,058)
December 31, 2019	₱3,097,082	₱12,956	₱34,013	₱3,144,051	₱43,388	₱9,429	₱33,210	₱86,027

Other receivables

Other receivables consist of Agricultural loans, Microfinance loans, Finance lease receivables and Loans and receivables – financed.

	Consolidated/Parent Company							
	Outstanding Balance				ECL			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
January 1, 2020	₱3,412,937	₱181,139	₱299,766	₱3,893,842	₱132,723	₱63,630	₱183,329	₱379,682
New loans	2,706,863	–	–	2,706,863	112,707	–	–	112,707
Assets derecognized or repaid	(2,918,792)	(78,238)	(58,629)	(3,055,659)	(142,242)	(28,152)	(36,396)	(206,790)
Transfer to Stage 1	5,614	(5,002)	(612)	–	897	(674)	(223)	–
Transfer to Stage 2	(103,484)	103,484	–	–	(2,772)	2,772	–	–
Transfer to Stage 3	(347,452)	(96,159)	443,611	–	(26,018)	(34,656)	60,674	–
Written off	–	–	(89,334)	(89,334)	–	–	(89,333)	(89,333)
Impact on yearend ECL of exposures transferred between stages during the year	–	–	–	–	(827)	22,577	219,694	241,444
Changes to models and inputs used for ECL calculations	–	–	–	–	19,041	(6,646)	9,859	22,254
December 31, 2020	₱2,755,686	₱105,224	₱594,802	₱3,455,712	₱93,509	₱18,851	₱347,604	₱459,964

	Consolidated/Parent Company							
	Outstanding Balance				ECL			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
January 1, 2019	₱2,735,115	₱77,321	₱271,323	₱3,083,759	₱27,788	₱12,745	₱175,683	₱216,216
New loans	4,519,313	3,598	7,386	4,530,297	169,056	441	6,651	176,148
Assets derecognized or repaid	(3,414,032)	(31,449)	(73,465)	(3,518,946)	(159,324)	(12,916)	(42,027)	(214,267)
Transfer to Stage 1	12,135	(9,208)	(2,927)	–	2,975	(1,575)	(1,400)	–
Transfer to Stage 2	(183,378)	187,712	(4,334)	–	(5,333)	7,411	(2,078)	–
Transfer to Stage 3	(256,216)	(37,896)	294,112	–	(19,035)	(15,679)	34,714	–
Written off	–	(8,939)	(192,329)	(201,268)	–	(8,939)	(192,361)	(201,300)
Impact on yearend ECL of exposures transferred between stages during the year	–	–	–	–	14,674	58,856	198,460	271,990
Changes to models and inputs used for ECL calculations	–	–	–	–	101,922	23,286	5,687	130,895
December 31, 2019	₱3,412,937	₱181,139	₱299,766	₱3,893,842	₱132,723	₱63,630	₱183,329	₱379,682

Other receivables from customers

Other receivables from customers of the Group include small portfolios such as credit card receivables, accounts receivables, accrued interest receivables and sales contract receivables. Credit risk associated with these receivables is assessed based on days past due.

The description of each groupings according to stage is explained further as follows:

- Stage 1 - those that are considered current and up to 30 days past due, and based on change in rating, delinquencies and payment history, does not demonstrate significant increase in credit risk.
- Stage 2 - those that are considered more 30 days past due but does not demonstrate objective evidence of impairment as of reporting date, and, based on change in rating, delinquencies and payment history, demonstrates significant increase in credit risk.
- Stage 3 - Those that are considered default or demonstrates objective evidence of impairment as of reporting date.

Below is a summary as of December 31, 2020 and 2019 of the Group's and Parent Company's other receivables from customers (outstanding balance and accrued interest):

	2020				
	Stage 1	**Stage 2**	**Stage 3**	**Total**	**ECL**
Group	**₱2,565,459**	**₱133,801**	**₱68,854**	**₱2,768,114**	**₱88,182**
Parent Company	**2,473,547**	**129,831**	**52,009**	**2,655,387**	**71,310**

	2019				
	Stage 1	Stage 2	Stage 3	Total	ECL
Group	₱4,495,762	₱81,202	₱43,638	₱4,620,602	₱72,982
Parent Company	4,285,540	80,047	43,459	4,409,096	49,602

Treasury assets

Treasury assets include investment securities at amortized cost and FVOCI. The credit quality of the treasury assets is managed by reference to external ratings and supplemented by individual assessments. External ratings of the Group's exposures to sovereigns, governments, financial institutions and corporates are obtained from Moody's, a globally recognized external rating agency, and from Philippine Rating System, as applicable.

The Group applies the low credit risk simplification provided under PFRS 9 in the staging assessment of its treasury assets. Under this operational simplification, the Group assumes that the credit risk on a financial instrument has not increased significantly since initial recognition (i.e. under 'Stage 1') if the financial instrument is determined to have a low credit risk at the reporting date. In this case, an external rating of 'investment grade' is considered as having low credit risk. Otherwise, those financial instruments that are 'non-investment grade' are under 'Stage 2'.

The Group uses the available external data, which include the annual and recovery studies for sovereign and corporate issuers, in its PD estimation. Based on this historical information, the Group has developed through-the-cycle PDs which are scaled to the observed point-in-time PDs as of the reporting dates.

Details related to PD calibrations, loss given default and overlay are discussed in the next section.

Investment securities at amortized cost and Investment securities at FVOCI
The Group determined that these investments are rated as investment grade and are considered low credit risk financial assets. The Group assessed that the impact of 12-month ECL ("Stage 1") is not material.

The Group's total investment securities at amortized cost amounting to ₱6.21 billion and ₱16.95 billion as of December 31, 2020 and 2019, respectively, and investment securities at FVOCI amounting to ₱51.89 million and ₱18.11 million as of December 31, 2020 and 2019, respectively, are classified under Stage 1.

Loan commitments and Financial guarantees
As at December 31, 2020 and 2019, the Group and the Parent Company's loan commitments and financial guarantees with carrying amount of ₱6.93 billion and ₱5.32 billion have recorded allowance based on 12-month ECL ("Stage 1") amounting to ₱16.70 million and ₱6.10 million, respectively. There were no transfers out of stage 1 in 2020 and 2019.

Due from BSP, Due from other banks, Interbank loan receivable and SPURA
The Group's funds are deposited only in banks that are directly, or comparably with the peer institutions, rated as investment grade by the global external rating agency. Accordingly, placements in BSP and these banks are considered to be low credit risk investments. As at December 31, 2020 and 2019, the Group and the Parent Company determined that the impact of 12-month ECL ("Stage 1") is not material.

<u>PD calibration</u>
It is the Group's policy to calibrate PDs on quarterly basis for all commercial loans, consumer loans and treasury assets. Calibration requires estimation of the observed default rate (ODR). The Parent Company scales the TTC PDs for each risk rating (for commercial loans and treasury assets) or delinquency buckets (for consumer loans) to the PIT PDs by matching the portfolio PD estimate to the latest ODR.

<u>Loss given default</u>
For commercial and consumer loans, the Group estimates the LGD using four (4) workout methods: curing, restructuring, writing-off and liquidation. For each workout method, the Parent Company computed for the weighted average portfolio LGD. For treasury assets, the Parent Company uses the LGD rates from a study conducted by an external rating agency.

<u>Overlay</u>
Calibration of overlay multipliers is done annually. In the model development process, the Group has chosen a final selection of relevant macroeconomic factors for each portfolio and designed a model that takes into consideration the impact of changes in these macroeconomic factors in the Group's forecast of ECL.

In 2020 and 2019, after model reviews, the Parent Company relied on the following as economic inputs in measuring ECL.
- Gross Domestic Product (GDP)
- Gross National Income (2019 only)
- Inflation
- Consumer Price Index (CPI)
- Philippine Stock Market Composite Index
- Unemployment rates

After model reviews, the Subsidiaries relied on the following as economic inputs in measuring ECL.
2020
- Inflation
- Consumer Price Index (CPI)
- Philippine Stock Market Composite Index
- Unemployment and Employment rates
- Value of Production for Agriculture
- Volume of Production of Palay
- Average Farmgate Prices for Palay and Pineapple

2019
- Gross Domestic Product (GDP)
- Inflation
- Consumer Price Index (CPI)
- Time Deposit Rate
- Value of Production for Agriculture
- Bank Average Lending Rate

In 2020, the Group also considered the effect of the pandemic in the calibration of the probability weights to reflect the Group's expectation on the movement in the macroeconomic variables.

Carrying amount of financial assets whose terms have been renegotiated
As at December 31, 2020 and 2019, the carrying values of the receivables that were restructured amounted to ₱5.14 billion and ₱1.93 billion, respectively, for the Group and ₱4.91 billion and ₱1.85 billion, respectively, for the Parent Company.

Liquidity Risk
Liquidity risk is the risk that the Group will be unable to meet its payment obligations when they fall due under normal and stress circumstances. It is the Group's primary objective to ensure payment of maturing financial obligations and commitments as these fall due and be able to fund contingency requirements as well when these arise. To limit this risk, management has arranged diversified funding sources in addition to its core deposit base, manages assets with liquidity in mind, and monitors future cash flows and liquidity on a daily basis. This incorporates an assessment of expected cash flows and the availability of high grade collateral which could be used to secure additional funding if required.

The ALCO ensures that at all times, the Group maintains adequate liquidity, has sufficient capital and appropriate funding. The balance between cost and liquidity as well as any issues among business lines are resolved by the ALCO.

It is the Group's policy that proprietary trading and investment positions are taken from long-term deposits. A significant portion of the Group's deposits can be considered long-term, due to a relatively high rollover ratio of its term deposits and its current and savings account. The high-yielding securities, which are relatively easy to liquidate in the event a fund need arises, are used to match the duration profile of the deposits.

It is the Group policy that liquidity risk exposure be limited to what the Group can fund given its available sources of funds. The subject exposure should not exceed the maximum cumulative outflow limits approved for the given period.

In addition, the Parent Company maintains liquidity and statutory reserve with the BSP equivalent to 12.00% and 14.00% of customer deposits for peso-denominated deposits only in 2020 and 2019, respectively. The liquidity position is assessed and managed under a variety of scenarios, giving due consideration to stress factors relating to both the market in general and specifically to the Parent Company.

Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Group expects that many customers will not request repayment on the earliest date the Group could be required to pay and the table does not reflect the expected cash flows indicated by the Group's deposit retention history.

The Parent Company's liquidity risk is managed by holding sufficient liquid assets and of appropriate quality to ensure short-term funding requirements are met and by maintaining a balanced loan portfolio which is repriced on a regular basis. Deposits with banks are made on a short-term basis with almost all being available on demand or within one month.

The Treasury Group uses liquidity forecast models that estimate the Parent Company's cash flow needs based on the observed behavior of the deposits under normal circumstances and extraordinary circumstances. The plans and strategies in the liquidity risk management are contained on the Board-approved Treasury Operational and Contingency Funding Plan. The RMG prepares a Maximum Cumulative Outflow (MCO) report, which quantifies the Parent Company's liquidity mismatch risk monthly.

Financial assets
Analysis of equity securities under FVTPL and Investment securities at FVOCI investments into maturity groupings is based on the expected date on which the assets will be realized. For the other financial assets, the analysis into maturity groupings is based on the remaining period from the end of the period to the contractual maturity date or if earlier, the expected date on which the assets will be realized.

Financial liabilities
The maturity grouping is based on the remaining period from the end of the reporting period to the contractual maturity date, except for certain core deposits in which the Group's maturity groupings is based on behavioral movements. When counterparty has a choice of when the amount is paid, the liability is allocated to the earliest period in which the Group can be required to pay.

Contingent liabilities and commitments
Each undrawn loan commitment is included in the time band containing the earliest date it can be drawn down. For issued financial guarantee contract, the maximum amount of guarantee is allocated in the earliest period in which the guarantee can be called. The Group expects that not all of the contingent liabilities or commitments (see Note 31) will be drawn before expiry of the commitments.

Liquidity is monitored by the Group on a daily basis and further analyzed at predetermined scenarios/situations.

The table below shows the maturity profile of the financial instruments, based on the expected maturity of principal and interest cash flows (in millions):

	2020					
	Consolidated					
	On Demand	1 to 3 months	3 to 12 months	1 to 5 Years	More than 5 years	Total
Financial Assets						
Cash and other cash items	₱4,062	₱–	₱–	₱–	₱–	₱4,062
Due from BSP*	54,778	10	–	–	–	54,788
Due from other banks	5,795	–	–	–	–	5,795
Interbank loans receivables and SPURA*	–	13,483	–	–	65	13,548
Financial assets at FVTPL	–	1,586	1,884	–	–	3,470
Investment securities at FVOCI	–	6,463	45,476	–	–	51,939
Investment securities at amortized cost*	–	169	676	3,883	4,532	9,260
	64,635	21,711	48,036	3,883	4,597	142,862
Loans and receivables						
Loans and discounts	494	35,873	14,543	25,050	92,433	168,393
Finance lease receivables	32	47	121	46	433	679
Loans and receivables financed	–	32	17	46	133	228
Customers' liabilities under acceptances and letters of credit/trust receipts	–	1,535	1,148	–	923	3,606
Bills purchased	–	–	–	–	173	173
Sales contract receivables	–	–	–	–	111	111
Accrued interest receivable	3	151	875	208	32	1,269
Accounts receivables	–	10	17	11	405	443
	₱65,164	₱59,359	₱64,757	₱29,244	₱99,240	₱317,764
Financial Liabilities						
Deposit liabilities						
Demand	₱141,869	₱–	₱–	₱–	₱–	₱141,869
Savings*	4,656	22,664	6,253	245	35,731	69,549
Time*	92	19,144	10,759	17,793		47,788
	146,617	41,808	17,012	18,038	35,731	259,206
Bills payable and SSURA*	–	–	32	2,565	159	2,756
Bonds payable*	–	41	243	7,239		7,523
Manager's check	864	–	–	–	–	864
Subordinated debt*	–	5,021	–	–	–	5,021
Accrued interest and other expense payable	1,049	28	–	9	–	1,086
Other liabilities*	4,506	97	324	840	83	5,850
	153,036	46,995	17,611	28,691	35,973	282,306
Loan commitments and financial guarantees	1,921	2,125	3,435	10	–	7,491
	₱154,957	₱49,120	₱21,046	₱28,701	₱35,973	₱289,797

**Includes future interest*

	2019					
	Consolidated					
	On Demand	1 to 3 months	3 to 12 months	1 to 5 Years	More than 5 years	Total
Financial Assets						
Cash and other cash items	₱4,050	₱–	₱–	₱–	₱–	₱4,050
Due from BSP*	39,090	14	–	–	–	39,104
Due from other banks	3,623	39	–	–	–	3,662
Interbank loans receivables and SPURA*	–	3,542	–	–	–	3,542
Financial assets at FVTPL	134	663	88	–	–	885
Investment securities at FVOCI	–	7,665	10,499	–	–	18,164
Investment securities at amortized cost*	–	469	878	6,404	20,780	28,531
	46,897	12,392	11,465	6,404	20,780	97,938
Loans and receivables						
Loans and discounts	596	29,357	16,601	28,347	93,701	168,603
Finance lease receivables	40	60	152	59	545	856
Loans and receivables financed	–	32	16	46	131	225
Customers' liabilities under acceptances and letters of credit/trust receipts	–	1,478	952	–	237	2,667
Bills purchased	–	–	–	–	257	257
Sales contract receivables	–	–	–	153	–	153
Accrued interest receivable	4	1,312	–	–	–	1,316
Accounts receivables	–	51	–	–	426	477
	₱47,537	₱44,683	₱29,187	₱35,008	₱116,078	₱272,492

(Forward)

	2019					
	Consolidated					
	On Demand	1 to 3 months	3 to 12 months	1 to 5 Years	More than 5 years	Total
Financial Liabilities						
Deposit liabilities						
Demand	₱96,700	₱–	₱–	₱–	₱–	₱96,700
Savings*	4,199	31,906	8,251	398	31,620	76,374
Time*	429	12,908	9,886	17,099	–	40,322
	101,328	44,814	18,137	17,497	31,620	213,396
Bills payable and SSURA*	728	1	33	1,746	826	3,333
Bonds payable*	–	42	243	7,546		7,831
Manager's check	717	–	–	–	–	717
Subordinated debt*	–	42	211	6,100	–	6,353
Derivative Liability	4	–	–	–	–	4
Accrued interest and other expense payable	1,016	63	1	10	17	1,107
Other liabilities*	3,314	139	246	862	126	4,687
	107,107	45,101	18,871	33,760	32,589	237,428
Loan commitments and financial guarantees	1,175	1,881	3,009	–	–	6,065
	₱108,282	₱46,982	₱21,880	₱33,760	₱32,589	₱243,493

**Includes future interest*

	2020					
	Parent Company					
	On Demand	**1 to 3 months**	**3 to 12 months**	**1 to 5 Years**	**More than 5 years**	**Total**
Financial Assets						
Cash and other cash items	**₱4,034**	**₱–**	**₱–**	**₱–**	**₱–**	**₱4,034**
Due from BSP*	**54,692**	**10**	**–**	**–**	**–**	**54,702**
Due from other banks	**5,286**	**–**	**–**	**–**	**–**	**5,286**
Interbank loans receivables*	**–**	**13,483**	**–**	**–**	**65**	**13,548**
Financial assets at FVTPL	**–**	**1,586**	**1,867**	**–**	**–**	**3,453**
Investment securities at FVOCI	**–**	**6,463**	**45,476**	**–**	**–**	**51,939**
Financial assets at amortized cost*	**–**	**159**	**476**	**3,883**	**4,532**	**9,050**
	64,012	**21,701**	**47,819**	**3,883**	**4,597**	**142,012**
Loans and receivables						
Loans and discounts	**282**	**35,275**	**13,110**	**24,790**	**92,380**	**165,837**
Customers' liabilities under acceptances and letters of credit/trust receipts	**–**	**1,535**	**1,148**	**–**	**923**	**3,606**
Bills purchased	**–**	**–**	**–**	**–**	**173**	**173**
Sales contract receivables	**–**	**–**	**–**	**–**	**92**	**92**
Accrued interest receivable	**1**	**151**	**749**	**208**	**32**	**1,141**
Accounts receivables	**–**	**–**	**–**	**–**	**406**	**406**
	₱64,295	**₱58,662**	**₱62,826**	**₱28,881**	**₱98,603**	**₱313,267**
Financial Liabilities						
Deposit liabilities						
Demand	**₱141,866**	**₱–**	**₱–**	**₱–**	**₱–**	**₱141,866**
Savings*	**4,184**	**22,664**	**6,253**	**245**	**35,731**	**69,077**
Time*	**92**	**18,036**	**10,344**	**17,482**	**–**	**45,954**
	146,142	**40,700**	**16,597**	**17,727**	**35,731**	**256,897**
Bills payable and SSURA*	**–**	**–**	**32**	**2,152**	**159**	**2,343**
Bonds Payable*	**–**	**41**	**243**	**7,239**	**–**	**7,523**
Manager's check	**864**	**–**	**–**	**–**	**–**	**864**
Subordinated debt*	**–**	**5,021**	**–**	**–**	**–**	**5,021**
Accrued interest and other expense payable	**978**	**28**	**–**	**9**	**–**	**1,015**
Other liabilities*	**4,134**	**95**	**270**	**819**	**83**	**5,401**
	152,118	**45,885**	**17,142**	**27,946**	**35,973**	**279,064**
Loan commitments and financial guarantees	**1,921**	**2,125**	**3,435**	**10**	**–**	**7,491**
	₱154,039	**₱48,010**	**₱20,577**	**₱27,956**	**₱35,973**	**₱286,555**

**Includes future interest*

	2019					
	Parent Company					
	On Demand	1 to 3 months	3 to 12 months	1 to 5 Years	More than 5 years	Total
Financial Assets						
Cash and other cash items	₱4,019	₱–	₱–	₱–	₱–	₱4,019
Due from BSP*	39,003	14	–	–	–	39,017
Due from other banks	3,364	–	–	–	–	3,364
Interbank loans receivables*	–	3,542	–	–	–	3,542
Financial assets at FVTPL	134	663	61	–	–	858
Investment securities at FVOCI	–	7,665	10,499	–	–	18,164
Financial assets at amortized cost*	–	430	878	6,404	20,161	27,872
	46,520	12,314	11,438	6,404	20,161	96,836
Loans and receivables						
Loans and discounts	270	28,750	15,523	27,279	93,799	165,621
Customers' liabilities under acceptances and letters of credit/trust receipts	–	1,478	952	–	237	2,667
Bills purchased	–	–	–	–	257	257
Sales contract receivables	–	–	–	136	–	136
Accrued interest receivable	1	1,179	–	–	–	1,180
Accounts receivables	–	–	–	–	438	438
	₱46,792	₱43,722	₱27,913	₱33,819	₱114,891	₱267,136
Financial Liabilities						
Deposit liabilities						
Demand	₱96,691	₱–	₱–	₱–	₱–	₱96,691
Savings*	3,755	31,905	8,251	398	31,620	75,929
Time*	78	11,946	9,399	16,870	–	38,293
	100,524	43,851	17,650	17,268	31,620	210,913
Bills payable and SSURA*	–	–	12	2,143	191	2,346
Bonds Payable	–	42	243	7,546	–	7,831
Manager's check	717	–	–	–	–	717
Subordinated debt*	–	42	211	6,100	–	6,353
Derivative liability	4	–	–	–	–	4
Accrued interest and other expense payable	992	28	–	10	–	1,030
Other liabilities	2,793	87	246	861	126	4,113
	105,030	44,050	18,362	33,928	31,937	233,307
Loan commitments and financial guarantees	1,175	1,881	3,009	–	-	6,065
	₱106,205	₱45,931	₱21,371	₱33,928	₱31,937	₱239,372

**Includes future interest*

The maturity profile of the principal and contractual interest cash flows on major classes of the Group's financial liabilities and off-balance sheet financial guarantees and commitments, considering their contractual maturities are as follows (in millions):

	2020					
	Consolidated					
	On Demand	**1 to 3 months**	**3 to 12 months**	**1 to 5 years**	**More than 5 years**	**Total**
Deposit liabilities						
Demand	**₱141,869**	**₱–**	**₱–**	**₱–**	**₱–**	**₱141,869**
Savings	**40,388**	**22,664**	**6,253**	**245**	**–**	**69,550**
Time	**92**	**19,144**	**10,759**	**17,793**	**–**	**47,788**
Bills payable and SSURA	**–**	**–**	**417**	**2,180**	**159**	**2,756**
Bonds payable	**–**	**41**	**243**	**7,239**	**–**	**7,523**
Subordinated debt securities	**–**	**5,021**	**–**	**–**	**–**	**5,021**
Manager's check	**864**	**–**	**–**	**–**	**–**	**864**
Accrued interest and other expense payable	**1,049**	**28**	**–**	**9**	**–**	**1,086**
Derivative liabilities	**–**	**–**	**–**	**–**	**–**	**–**
Other liabilities	**4,506**	**97**	**324**	**840**	**83**	**5,850**
Loan commitments and financial guarantees	**1,921**	**2,125**	**3,435**	**10**	**–**	**7,491**
	₱190,689	**₱49,120**	**₱21,431**	**₱28,316**	**₱242**	**₱289,798**

	2019					
	Consolidated					
	On Demand	1 to 3 months	3 to 12 months	1 to 5 years	More than 5 years	Total
Deposit liabilities						
Demand	₱96,700	₱–	₱–	₱–	₱–	₱96,700
Savings	35,819	31,906	8,251	321	77	76,374
Time	429	12,908	9,886	17,099	–	40,322
Bills payable and SSURA	331	1	33	2,087	802	3,254
Bonds payable	–	42	243	7,546	–	7,831
Subordinated debt securities	–	42	211	6,100	–	6,353
Manager's check	717	–	–	–	–	717
Accrued interest and other expense payable	1,016	63	1	10	17	1,107
Derivative liabilities	4	–	–	–	–	4
Other liabilities	3,314	139	246	862	126	4,687
Loan commitments and financial guarantees	1,175	1,881	3,009	–	–	6,065
	₱139,505	₱46,982	₱21,880	₱34,025	₱1,022	₱243,414

	2020					
	Parent Company					
	On Demand	**1 to 3 months**	**3 to 12 months**	**1 to 5 years**	**More than 5 years**	**Total**
Deposit liabilities						
Demand	**₱141,866**	**₱–**	**₱–**	**₱–**	**₱–**	**₱141,866**
Savings	**39,916**	**22,664**	**6,253**	**245**	**–**	**69,078**
Time	**92**	**18,036**	**10,344**	**17,482**	**–**	**45,954**
Bills payable and SSURA	**–**	**–**	**32**	**2,152**	**159**	**2,343**
Bonds payable	**–**	**41**	**243**	**7,239**	**–**	**7,523**
Subordinated debt securities	**–**	**5,021**	**–**	**–**	**–**	**5,021**
Manager's check	**864**	**–**	**–**	**–**	**–**	**864**
Accrued interest and other expense payable	**978**	**28**	**–**	**9**	**–**	**1,015**
Derivative Liabilities	**–**	**–**	**–**	**–**	**–**	**–**
Other liabilities	**4,134**	**95**	**270**	**819**	**83**	**5,401**
Loan commitments and financial guarantees	**1,921**	**2,125**	**3,435**	**10**	**–**	**7,491**
	₱189,771	**₱48,010**	**₱20,577**	**₱27,956**	**₱242**	**₱286,556**

	2019					
	Parent Company					
	On Demand	1 to 3 months	3 to 12 months	1 to 5 years	More than 5 years	Total
Deposit liabilities						
Demand	₱96,691	₱–	₱–	₱–	₱–	₱96,691
Savings	35,374	31,906	8,251	321	77	75,929
Time	78	11,946	9,399	16,870	–	38,293
Bills payable and SSURA	–	–	12	2,087	167	2,266
Bonds payable	–	42	243	7,546	–	7,831
Subordinated debt securities	–	42	211	6,100	–	6,353
Manager's check	717	–	–	–	–	717
Accrued interest and other expense payable	992	28	–	10	–	1,030
Derivative Liabilities	4	–	–	–	–	4
Other liabilities	2,793	87	246	862	126	4,114
Loan commitments and financial guarantees	1,175	1,881	3,009	–	–	6,065
	₱137,824	₱45,932	₱21,371	₱33,796	₱370	₱239,293

Below is the maturity profile of the Parent Company's currency forward and swap contracts based on notional amounts as at December 31, 2020 and 2019:

	2020		**2020**		2019		2019	
	Up to 1 month		**1 to 3 months**		Up to 1 month		1 to 3 months	
	Bought	**Sold**	**Bought**	**Sold**	Bought	Sold	Bought	Sold
Currency forwards buy	**$1,400**	**₱67,295**	**$–**	**₱–**	$–	₱–	$–	₱–
Currency forwards sell	**₱70,153**	**$1,459**	**₱–**	**$–**	₱10,282	$202	₱–	$–
Currency swaps buy	**$4,162**	**₱198,408**	**$–**	**₱–**	$21,682	₱1,100,705	$–	₱–
Currency swaps sell	**₱3,137,914**	**$65,253**	**₱1,209,325**	**$25,000**	₱2,576,979	$50,733	₱–	$–

Market Risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risks: interest rate risk, currency risk and other price risks, such as equity price risk and commodity risk. However, the Parent

Company is exposed only to interest rate and currency risks. The Parent Company classifies exposures to market risk into either trading or non-trading portfolios.

Market risk – trading
The sensitivity analyses in the following sections relate to the Parent Company's trading portfolio position as at December 31, 2020 and 2019.

The sensitivity analyses have been prepared for the purpose of designating interest rate exposures of the Parent Company as at December 31, 2020 and 2019 as a result of fluctuations in market interest.

The following assumptions have been made in calculating the sensitivity analyses:
- The sensitivity of the relevant statement of income item is the effect of the assumed changes in the respective market risks. This is based on the financial assets and financial liabilities held as at December 31, 2020 and 2019.
- The Parent Company's trading portfolio's sensitivity to interest rate fluctuation was mainly derived using the Modified Duration function.
- Volatility of interest rate movements of benchmark rates namely Philippines BVAL reference rates for government securities and London Interbank Offered Rate (LIBOR) for Eurobonds were used as bases for interest rate sensitivity of the Parent Company's trading portfolio.

The Parent Company uses VaR model, specifically the model-building approach, for interest rate and foreign exchange risk for the bank-wide foreign exchange position. These risks arise from holdings consisting mainly of fixed income securities (both peso and foreign denominated) and foreign exchange transactions. The Parent Company uses foreign exchange rates, treasury rates and actual price movements as risk factors in measuring the VaR of securities in the trading portfolio.

Objectives and limitations of the VaR Methodology
The Parent Company uses VaR to assess possible changes in the market value of the trading portfolio based on historical data from the past 260 trading days. VaR models are designed to measure market risk based on the market conditions of the past 260 trading days. This model assumes that any changes occurring in the risk factors will follow a normal distribution. Even though positions may change throughout the day, the VaR only represents the risk of the portfolios at the close of each business day.

The VaR that the Parent Company measures is an estimate, at a confidence level of 99.00%, of the maximum potential loss that the company can incur if the current market risk positions were to be held unchanged for one day. The use of a 99.00% confidence level means that within a ten day horizon, losses exceeding the VaR figure should occur, on average, not more than once every hundred days.

Due to the fact that this VaR model assumes that price movements follow a normal distribution, it may be limited in measuring risk when the price movements are not normally distributed. Also, because VaR relies heavily on historical data to provide information, it may not be able to account for abnormal market movements.

Thus, VaR calculations are supplemented by stress test calculations to provide meaningful indications of profits and losses in stressed conditions. Also, to determine the reliability of the VaR models, back-testing process is performed quarterly to test the validity of the assumptions and the parameters used in the VaR calculation. The back-test compares the one day. Diversified VaR against one day Notional/Unrealized and one day actual/ realized gains/ loss. Results of the Bank's backtesting exercise are reported to the Board on a regular basis. As against Unrealized Losses and Realized Losses, there were a total of three (3) exceptions on the Eurobond portfolio, thirteen (13) exceptions on the Government Security (Php denominated) portfolio and three (3) exceptions in our FX portfolio.

VaR assumptions
The VaR that the Parent Company measures is an estimate, using a confidence level of 99.00%, of the potential loss that is not expected to exceed if the current market risk positions were to be held unchanged for one day. The use of a 99.00% confidence level means that within a ten day horizon, losses exceeding the VaR figure should occur, on average, not more than once every hundred days.

Since VaR is an integral part of the Parent Company's market risk management, VaR limits have been established for all trading operations and exposures are reviewed daily against the limits by management.

The following table provides the VaR summary of the Parent Company for the years ended December 31, 2020 and 2019 (amounts in millions):

	Parent Company					
	2020			2019		
	Foreign Exchange Risk		**Interest Rate Risk**	Foreign Exchange Risk		Interest Rate Risk
	In USD	**In Php**	**In Php**	In USD	In Php	In Php
Total VaR	**$0.52**	**₱24.81**	**₱169.99**	$0.06	₱3.16	₱39.90
Average	**0.39**	**18.53**	**307.80**	0.41	20.71	219.58
Minimum	**0.03**	**1.52**	**23.24**	0.05	2.55	36.48
Maximum	**0.91**	**43.73**	**616.19**	1.22	61.85	457.25

Market Risk - Non trading

<u>Interest rate risk</u>
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 BOD has established earnings at risk (EaR) limits on the interest rate exposure. Positions are monitored on regular basis

The Bank's total books also monitors its exposure to fluctuations in interest rates by measuring the impact of interest rate movements on the net worth of the Bank's total books. This is done by modeling the impact of various changes in interest rates to the net interest positions of the Bank's total books.

	2020		2019		2018	
	USD denominated	**Php denominated**	USD denominated	Php denominated	USD denominated	PhP denominated
FVOCI						
Maturity of > a year	**5.79%**	**3.78%**	5.51%	2.50%	5.58%	6.28%
Maturity of < a year	**–**	**0.05%**	4.68%	1.64%	–	2.67%
Investment securities at Amortized cost						
Maturity of > a year	**3.80%**	**3.91%**	3.29%	5.30%	4.77%	6.20%
Maturity of < a year	**–**	**–**	–	–	–	–
Loans and receivables						
Maturity of > a year	**2.81%**	**6.54%**	9.31%	4.75%	6.55%	4.66%
Maturity of < a year	**3.55%**	**5.18%**	8.27%	2.10%	7.67%	2.69%
Deposit liabilities						
Maturity of > a year	**–**	**4.19%**	2.67%	1.43%	3.11%	3.11%
Maturity of < a year	**0.05%**	**0.31%**	1.13%	1.13%	0.43%	0.13%
Bills payable						
Maturity of > a year	**–**	**1.00%**	1.00%	1.81%	–	1.67%
Maturity of < a year	**–**	**–**	–	–	5.24%	2.81%

Given the repricing position of the assets and liabilities of the Bank's total books, if interest rates increased/decreased by 10 basis points, the Bank's total books would expect annualized net interest income to increase/decrease by ₱718.43 million and ₱360.43 million in 2020 and 2019, respectively. This sensitivity analysis is performed for risk management purposes and assumes no other changes in the repricing structure. Actual changes in net interest income will vary from the model.

The Parent Company's repricing gap is calculated by distributing the accounts into tenor buckets according to the time remaining to the next repricing date and then obtaining the difference between the total of the repricing (interest sensitive) assets and repricing (interest sensitive) liabilities.

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

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

	2020				
	Up to 1 Month	**> 1 to 3 months**	**> 3 to 12 months**	**>12 months**	**Total**
Assets					
Loans and receivables	**₱68,597**	**₱16,929**	**₱28,925**	**₱56,679**	**₱171,130**
Trading and investment securities	**23,839**	**2,173**	**10,804**	**24,575**	**61,391**
Placements with other banks	**322**	–	–	–	**322**
Total assets	**92,758**	**19,102**	**39,729**	**81,254**	**232,489**
Liabilities					
Deposit liabilities	**30,824**	**23,844**	**3,190**	**197,168**	**255,026**
Bills payable	–	–	–	**2,256**	**2,256**
Bonds payable	–	–	–	**6,955**	**6,955**
Subordinated debt securities	–	**4,978**	–	–	**4,978**
Total liabilities	**30,824**	**28,822**	**3,190**	**206,379**	**269,215**
Asset-liability gap	**₱61,934**	**(₱9,720)**	**₱36,539**	**(₱125,125)**	**(₱36,726)**

	2019				
	Up to 1 Month	> 1 to 3 months	> 3 to 12 months	>12 months	Total
Assets					
Loans and receivables	₱75,442	₱19,830	₱29,748	₱45,279	₱170,299
Trading and investment securities	155	–	2,679	32,479	35,313
Placements with other banks	212	–	–	–	212
Total assets	75,809	19,830	32,427	77,758	205,824
Liabilities					
Deposit liabilities	34,033	20,855	7,175	145,682	207,745
Bills payable	–	–	–	2,222	2,222
Bonds payable	–	–	–	6,932	6,932
Subordinated debt securities	–	–	–	4,975	4,975
Total liabilities	34,033	20,855	7,175	159,811	221,874
Asset-liability gap	₱41,776	(₱1,025)	₱25,252	(₱82,053)	(₱16,050)

Foreign Currency Risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The BOD has set limits on the US dollar and aggregate third currency positions. Positions are monitored on a daily basis and hedging strategies are used to ensure positions are maintained with established limits.

The Parent Company's foreign currency risk originates from its holdings of foreign currency denominated assets (foreign exchange assets), foreign currency denominated liabilities (foreign exchange liabilities) and foreign currency contingent positions.

Foreign exchange liabilities generally consist of foreign currency deposits in the Parent Company's FCDU and foreign currency-denominated borrowings in the FCDU and RBU books of the Parent Company. Foreign exchange liabilities are used to fund the Parent Company's foreign currency denominated loans and securities portfolio in the FCDU. The Parent Company maintains at least 100.00% asset cover to match the foreign exchange assets with the foreign exchange liabilities held through FCDU and maintains 30.00% liquidity cover as required under current BSP regulations.

The Parent Company's policy is to maintain net open foreign currency exposure within acceptable limits and within existing regulatory guidelines. The Parent Company believes that its profile of foreign currency exposure on its resources and liabilities is within limits for financial institutions engaged in the same type of businesses in which the Parent Company is engaged in.

The following table summarizes the Parent Company's exposure to foreign exchange risk as at December 31, 2020 and 2019:

	2020				
	RBU		FCDU		
	USD	*Others	USD	*Others	Total
Assets					
Cash and other cash items	$–	$823	$10,379	$294	$11,496
Due from other banks	69,950	3,378	16,251	10,061	99,640
IBLR	–	–	1,354	5,361	6,715
Financial assets at FVTPL	–	–	1,845	–	1,845
Investment securities at FVOCI/ AFS investments	–	–	313,843	757	314,600
Investment securities at amortized cost	–	–	83,165	–	83,165
Loans and receivables	47,988	1,323	206,344	1,214	256,869
Total financial assets	117,938	5,524	633,181	17,687	774,330
Liabilities					
Deposit liabilities	–	–	653,352	16,652	670,004
Bills payable	–	–	23,743	–	23,743
Accrued interest and other expenses	–	–	804	–	804
Other liabilities	18,937	1,323	4,461	–	24,721
Total financial liabilities	18,937	1,323	682,360	16,652	719,272
Currency Swaps and Forwards	(76,059)	919	(814)	839	(75,115)
Net Exposure	$22,942	$5,120	($49,993)	$1,874	($20,057)

**Consists of Chinese yuan, Euro, British pound, Hong Kong dollar, Japanese yen, South Korean won, Malaysian ringgit, New Zealand dollar and Singapore dollar*

	2019				
	RBU		FCDU		
	USD	*Others	USD	*Others	Total
Assets					
Cash and other cash items	$315	$596	$12,336	$963	$14,210
Due from other banks	33,440	680	15,650	11,497	61,267
IBLR	–	–	1,321	2,872	4,193
Financial assets at FVTPL	–	–	8,738	–	8,738
Investment securities at FVOCI/ AFS investments	744	–	251,294	744	252,782
Investment securities at amortized cost	–	–	194,110	–	194,110
Loans and receivables	10,455	–	222,537	2,265	235,257
Total financial assets	44,954	1,276	705,986	18,341	770,557
Liabilities					
Deposit liabilities	–	–	682,969	14,021	696,990
Bills payable	–	–	23,743	–	23,743
Accrued interest and other expenses	–	–	1,925	–	1,925
Other liabilities	3,438	1,613	1,211	–	6,262
Total financial liabilities	3,438	1,613	709,848	14,021	728,920
Currency Swaps and Forwards	(29,386)	–	–	(9,271)	(38,657)
Net Exposure	$12,130	($337)	($3,862)	($4,951)	$2,980

**Consists of Chinese yuan, Euro, British pound, Hong Kong dollar, Japanese yen, South Korean won, Malaysian ringgit, New Zealand dollar and Singapore dollar*

RBU books have foreign currency risk on foreign-currency denominated assets and liabilities while FCDU books have foreign currency risk to foreign currency-denominated assets and liabilities except USD which is the FCDU's functional currency. The translation of FCDU books to Philippine peso presentation currency is recognized in OCI. The following table sets forth, the impact of reasonably possible changes in the USD exchange rate and other currencies per Philippine peso on pre-tax income and OCI:

		2020	2019
+10% USD appreciation	P&L	**(₱194,721)**	(₱61,422)
	OCI	**89,966**	19,559
-10% USD depreciation	P&L	**194,721**	61,422
	OCI	**(89,966)**	(19,559)
+20% USD appreciation	P&L	**(389,442)**	(122,846)
	OCI	**179,932**	39,114
-20% USD depreciation	P&L	**389,442**	122,846
	OCI	**(179,932)**	(39,114)

Information related to currency swaps and forwards are shown in Note 8.

Operational Risk

Operational risk is the risk of loss arising from systems failure, human error, fraud or external events.

When controls fail to perform, operational risks can cause damage to reputation, have legal or regulatory implications, or lead to financial loss. The Group cannot expect to eliminate all operational risks, but through a control framework and by monitoring and responding to potential risks, the Group is able to manage the risks. Controls include effective segregation of duties, access, authorization and reconciliation procedures, staff education and assessment processes, including the use of internal audit.

Internal Capital Adequacy Assessment Process

In compliance with BSP Circular No. 639, *Internal Capital Adequacy Assessment Process (ICAAP) and Supervisory Review Process (SRP)*, the Parent Company presented to the BSP its Stage 1 ICAAP on November 6, 2009.

The Stage 1 presentation included an overview of the Parent Company's organizational chart, composition of statement of condition, and key products and services offered. Given the Parent Company's three-year strategic outlook, a capital adequacy analysis was developed given the risks identified based on its statement of condition and operational structure. BSP Circular No. 538, *Revised Risk-Based Capital Adequacy Framework*, provides the guidelines to determine capital charges for market and credit risks. Other risks such as operational, reputational, legal and compliance risks were based on some assumptions using historical data.

The Stage 2 incorporated all the changes required from the Stage 1 discussion. These are as follows:

a. The Parent Company performed various stress test scenarios and measured its impact to the Tier 1 capital ratio and total capital adequacy ratio (CAR) of the Parent Company.
b. The Parent Company presented a more detailed capital planning framework including an alternative approach in capital charge determination on top of what is required by Basel II.
c. The Parent Company presented a detailed description of the ICAAP methodology used for each of the risks identified by the Parent Company.

This exercise has raised awareness in the Parent Company’s organization in improving its controls on processes and has allowed the Parent Company to redefine its strategy and risk appetite in investments and lending activities and its impact to the Parent Company’s capital.

5. Fair Value Measurement

The following table provides the fair value hierarchy of the Group’s and of the Parent Company’s assets and liabilities measured at fair value and those for which fair values are required to be disclosed:

	Consolidated				
	December 31, 2020				
		Fair Value			
	Carrying Value	Total	Quoted Prices in Active Market (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets measured at fair value					
Financial assets					
Financial assets at FVTPL:					
Held-for-trading securities					
Government securities	**₱3,404,209**	**₱3,404,209**	**₱3,404,209**	**₱–**	**₱–**
Private bonds and commercial papers	**37,099**	**37,099**	**37,099**	–	–
Quoted equity securities	**16,838**	**16,838**	**16,838**	–	–
	3,458,146	**3,458,146**	**3,458,146**	–	–
Derivative assets					
Freestanding derivatives					
Currency forwards and swaps	**12,319**	**12,319**	–	**12,319**	–
	3,470,465	**3,470,465**	**3,458,146**	**12,319**	–
Investment securities at FVOCI					
Debt securities					
Government securities	**50,921,967**	**50,921,967**	**50,921,967**	–	–
Private bonds and commercial papers	**968,085**	**968,085**	**968,085**	–	–
	51,890,052	**51,890,052**	**51,890,052**	–	–
Equity securities					
Unquoted equity securities	**48,439**	**48,439**	–	–	**48,439**
	51,938,491	**51,938,491**	**51,890,052**	–	**48,439**

(Forward)

	Consolidated				
	December 31, 2020				
		Fair Value			
	Carrying Value	**Total**	**Quoted Prices in Active Market (Level 1)**	**Significant Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Assets for which fair values are disclosed					
Financial assets					
Investment securities at amortized cost					
Government securities	**₱6,207,699**	**₱7,083,649**	**₱7,083,649**	**₱–**	**₱–**
Private bonds and commercial papers	**352**	**352**	**352**	**–**	**–**
	6,208,051	**7,084,001**	**7,084,001**	**–**	**–**
Loans and receivables					
Commercial lending	**143,927,203**	**136,042,489**	**–**	**–**	**136,042,489**
Consumer lending	**24,391,124**	**22,517,293**	**–**	**–**	**22,517,293**
Customers' liabilities under acceptances and letters of credit/trust receipts	**3,605,976**	**3,579,294**	**–**	**–**	**3,579,294**
Finance lease receivable	**678,948**	**636,089**	**–**	**–**	**636,089**
Loans and receivable financed	**228,159**	**200,631**	**–**	**–**	**200,631**
	179,831,410	**162,975,796**	**–**	**–**	**162,975,796**
Nonfinancial assets					
Investment properties	**464,928**	**656,879**	**–**	**–**	**656,879**
	₱234,913,345	**₱226,125,632**	**₱62,432,199**	**₱12,319**	**₱163,681,114**
Liabilities for which fair values are disclosed					
Financial liabilities					
Deposit liabilities					
Time	**₱45,991,227**	**₱45,505,099**	**₱–**	**₱–**	**₱45,505,099**
Bills payable and SSURA	**2,669,372**	**2,465,376**	**–**	**–**	**2,465,376**
Bonds payable	**6,955,272**	**7,236,152**	**–**	**–**	**7,236,152**
Lease liabilities	**1,161,668**	**1,202,669**	**–**	**–**	**1,202,669**
Subordinated debt	**4,978,438**	**5,786,105**	**–**	**–**	**5,786,105**
	₱61,755,977	**₱62,195,401**	**₱–**	**₱–**	**₱62,195,401**

	Consolidated				
	December 31, 2019				
		Fair Value			
	Carrying Value	Total	Quoted Prices in Active Market (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets measured at fair value					
Financial assets					
Financial assets at FVTPL:					
Held-for-trading securities					
Government securities	₱464,990	₱464,990	₱464,990	₱–	₱–
Private bonds and commercial papers	379,612	379,612	379,612	–	–
	844,602	844,602	844,602	–	–
Financial assets - mandatorily measured at FVTPL					
Quoted equity securities	27,196	27,196	27,196	–	–
Derivative assets					
Freestanding derivatives					
Currency forwards and swaps	13,200	13,200	–	13,200	–
	884,998	884,998	871,798	13,200	–
Investment securities at FVOCI					
Debt securities					
Government securities	17,289,219	17,289,219	15,427,624	1,861,595	–
Private bonds and commercial papers	824,621	824,621	824,621	–	–
	18,113,840	18,113,840	16,252,245	1,861,595	–
Equity securities					
Unquoted equity securities	49,749	49,749	–	–	49,749
	18,163,589	18,163,589	16,252,245	1,861,595	49,749

(Forward)

	Consolidated				
	December 31, 2019				
		Fair Value			
	Carrying Value	Total	Quoted Prices in Active Market (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets for which fair values are disclosed					
Financial assets					
Investment securities at amortized cost					
Government securities	₱16,479,778	₱17,374,643	₱15,643,972	₱1,730,671	₱–
Private bonds and commercial papers	471,772	489,738	489,738	–	–
	16,951,550	17,864,381	16,133,710	1,730,671	–
Loans and receivables					
Commercial lending	143,681,463	132,503,811	–	–	132,503,811
Consumer lending	25,013,266	29,184,347	–	–	29,184,347
Customers' liabilities under acceptances and letters of credit/trust receipts	2,666,933	2,562,115	–	–	2,562,115
Finance lease receivable	855,988	964,199	–	–	964,199
Loans and receivable financed	225,304	185,635	–	–	185,635
	172,442,954	165,400,107	–	–	165,400,107
Nonfinancial assets					
Investment properties	439,573	700,700		-	700,700
	₱208,882,664	₱202,897,624	₱33,257,753	₱3,605,466	₱166,034,405
Liabilities for which fair values are disclosed					
Financial liabilities					
Deposit liabilities					
Time	₱37,324,805	₱38,412,289	₱–	₱–	₱38,412,289
Bills Payable (PDIC)	1,417,536	1,452,221	–	–	1,452,221
Bonds payable	6,932,424	7,017,643	–	–	7,017,643
Lease liabilities	1,168,530	1,254,350	–	–	1,254,350
Subordinated debt	4,974,730	5,005,994	–	–	5,005,994
	₱51,818,025	₱53,142,497	₱–	₱–	₱53,142,497

	Parent Company				
	December 31, 2020				
		Fair Value			
	Carrying Value	**Total**	**Quoted Prices in Active Market (Level 1)**	**Significant Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Assets measured at fair value					
Financial assets					
Financial assets at FVTPL:					
Held-for-trading securities					
Government securities	**₱3,404,209**	**₱3,404,209**	**₱3,404,209**	**₱–**	**₱–**
Private bonds and commercial papers	**37,099**	**37,099**	**37,099**	**–**	**–**
	3,441,308	**3,441,308**	**3,441,308**	**–**	**–**
Derivative assets					
Freestanding derivatives					
Currency forwards and swaps	**12,319**	**12,319**	**–**	**12,319**	**–**
	3,453,627	**3,453,627**	**3,441,308**	**12,319**	**–**
Investment securities at FVOCI					
Debt securities					
Government securities	**50,921,967**	**50,921,967**	**50,921,967**	**–**	**–**
Private bonds and commercial papers	**968,085**	**968,085**	**968,085**	**–**	**–**
	51,890,052	**51,890,052**	**51,890,052**	**–**	**–**
Equity securities					
Unquoted equity securities	**48,439**	**48,439**	**–**	**–**	**48,439**
	51,938,491	**51,938,491**	**51,890,052**	**–**	**48,439**
Assets for which fair values are disclosed					
Financial assets					
Investment securities at amortized cost					
Government securities	**5,998,502**	**6,956,781**	**6,956,781**	**–**	**–**
Private bonds and commercial papers	**352**	**352**	**352**	**–**	**–**
	5,998,854	**6,957,133**	**6,957,133**	**–**	**–**

(Forward)

	Parent Company				
	December 31, 2020				
		Fair Value			
	Carrying Value	**Total**	**Quoted Prices in Active Market (Level 1)**	**Significant Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Loans and receivables					
Commercial lending	**₱144,132,565**	**₱136,042,489**	**₱–**	**₱–**	**₱136,042,489**
Consumer lending	**21,629,694**	**19,421,326**	**–**	**–**	**19,421,326**
Customers' liabilities under acceptances and letters of credit/trust receipts	**3,605,976**	**3,579,294**	**–**	**–**	**3,579,294**
	169,369,235	**159,043,109**	**–**	**–**	**159,043,109**
Nonfinancial assets					
Investment properties	**313,432**	**434,512**	**–**	**–**	**434,512**
	₱230,946,367	**₱221,826,872**	**₱62,288,493**	**₱12,319**	**₱156,526,060**
Liabilities for which fair values are disclosed					
Financial liabilities					
Deposit liabilities					
Time	**₱44,156,073**	**₱43,690,243**	**₱–**	**₱–**	**₱43,690,243**
Bills payable and SSURA	**2,255,917**	**2,396,745**	**–**	**–**	**2,396,745**
Bonds payable	**6,955,272**	**7,236,152**	**–**	**–**	**7,236,152**
Lease liabilities	**1,107,917**	**1,153,831**	**–**	**–**	**1,153,831**
Subordinated debt	**4,978,438**	**5,786,105**	**–**	**–**	**5,786,105**
	₱59,453,617	**₱60,263,076**	**₱–**	**₱–**	**₱60,263,076**

	Parent Company				
	December 31, 2019				
		Fair Value			
	Carrying Value	Total	Quoted Prices in Active Market (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets measured at fair value					
Financial assets					
Financial assets at FVTPL:					
Held-for-trading securities					
Government securities	₱464,990	₱464,990	₱464,990	₱–	₱–
Private bonds and commercial papers	379,612	379,612	379,612	–	–
	844,602	844,602	844,602	–	–
Derivative assets					
Freestanding derivatives					
Currency forwards and swaps	13,200	13,200	–	13,200	–
	857,802	857,802	844,602	13,200	–
Investment securities at FVOCI					
Debt securities					
Government securities	17,289,219	17,289,219	15,427,624	1,861,595	–
Private bonds and commercial papers	824,621	824,621	824,621	–	–
	18,113,840	18,113,840	16,252,245	1,861,595	–
Equity securities					
Unquoted equity securities	49,749	49,749	–	–	49,749
	18,163,589	18,163,589	16,252,245	1,861,595	49,749
Assets for which fair values are disclosed					
Financial assets					
Investment securities at amortized cost					
Government securities	15,820,573	16,987,617	15,256,946	1,730,671	–
Private bonds and commercial papers	471,772	489,738	489,738	–	–
	16,292,345	17,477,355	15,746,684	1,730,671	–
Loans and receivables					
Commercial lending	143,842,291	132,503,811	–	–	132,503,811
Consumer lending	21,899,040	25,647,800	–	–	25,647,800
Customers' liabilities under acceptances and letters of credit/trust receipts	2,666,933	2,562,115	–	–	2,562,115
	168,408,264	160,713,726	–	–	160,713,726

(Forward)

	Parent Company				
	December 31, 2019				
		Fair Value			
	Carrying Value	Total	Quoted Prices in Active Market (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Nonfinancial assets					
Investment properties	₱278,759	₱374,810	₱–	₱–	₱374,810
	₱204,000,759	₱197,587,282	₱32,843,531	₱3,605,466	₱161,138,285
Liabilities for which fair values are disclosed					
Financial liabilities					
Deposit liabilities					
Time	₱35,296,483	₱36,367,275	₱–	₱–	₱36,367,275
Bills Payable (PDIC)	1,019,830	1,022,753	–	–	1,022,753
Bonds payable	6,932,424	7,017,642	–	–	7,017,642
Lease liabilities	1,116,309	1,202,520	–	–	1,202,520
Subordinated debt	4,974,730	5,005,994	–	–	5,005,994
	₱49,339,776	₱50,616,184	₱–	₱–	₱50,616,184

As of December 31, 2020 and 2019, no transfers were made among the three levels in the fair value hierarchy.

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

Cash and other cash items, due from BSP and other banks, IBLR and SPURA
The carrying amounts approximate fair values considering that these accounts are short term in nature and consist mostly of overnight deposits and floating rate placements.

Debt securities classified as financial assets at FVTPL, investment securities at FVOCI and AC
Fair values are generally based on quoted market prices. When the market prices are not readily available, the Group used adjusted quoted market prices of comparable investments or applied discounted cash flow methodologies.

Equity securities measured at FVOCI
The Group's investments in equity securities include unquoted stocks. The fair value of unquoted equity securities is determined based on the adjusted asset approach and Guideline Company Method (GCM). The adjusted asset approach derives the value of the investment using the net asset of the investee adjusted to its fair value. GCM allows a value indicator of a company to be derived by applying relevant multipliers of similar, publicly traded "comparable" companies to the company's financial metrics.

Loans and receivables
Fair values of the Group's loans and receivables are estimated using the discounted cash flow methodology, using Philippine BVAL Reference Rates plus estimated credit spread. Where the instrument reprices on a quarterly basis or has a relatively short maturity, the carrying amounts approximate fair values.

Derivative instruments
Fair values are estimated based on accepted market valuation models, quoted market prices or prices provided by independent parties, if available. The most frequently applied valuation techniques include forward pricing and swap model using present value calculations.

Deposit liabilities (demand and savings deposits excluding time deposits)
Carrying amount approximates fair values considering that these are currently due and demandable.

Time deposits, Subordinated debt, Bonds payable and Lease liabilities
Fair values of liabilities are estimated using the discounted cash flow methodology using the Philippine BVAL Reference Rates with maturities consistent with those remaining for the liability being valued plus estimated credit spread.

Other financial liabilities
For accrued interest and other expenses and other liabilities, carrying amount approximates fair values due to their short-term nature.

Bills payable
Carrying amounts approximate fair values considering that these are short-term payables, except for the bills payable obtained as an incentive from PDIC in which fair value is measured at the present value of future cash flows discounted using the Philippine BVAL Reference Rates with maturities consistent with those remaining for the liability being valued plus estimated credit spread.

Investment properties
The fair value of the investment properties has been determined based on valuations made by accredited external and/or in-house appraisers on the basis of recent sales transactions of similar properties in the same areas as the investment properties and taking into account the economic conditions prevailing at the time the valuations were made. They make use of market data approach which involves correlation and analysis of comparable lots, either recently sold or offered for sale in the market, upon which the market value of subject property is estimated.

The significant unobservable inputs used in the valuation of the Group's investment properties are as follows:

Significant Unobservable Inputs	
Price per square meter	The unit price assigned to the property
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 lot size differences on land value.
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.
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 to the highest and best use of the property.
Corner influence	Bounded by two (2) roads

6. Operating Segments

The Group's main operating businesses are organized and managed primarily, according to the current organizational structure. Each segment represents a strategic business unit that caters to the Group's identified markets. The Group's business segments are:

a) Commercial Banking-this segment provides lending, trade and cash management services to corporate and institutional customers, which include large corporate, middle market clients and entrepreneurs;

b) Consumer Banking – this segment offers consumer banking services to retail customers. Consumer lending products include real estate loans, salary loans, auto loans and pension loans;

c) Treasury-this segment is responsible for the execution of the Group's strategic treasury objective set forth in the Group's Treasury Operating Plan, which outlines the Group's strategies in terms of proprietary trading, liquidity, risk, capital, tax management, among others. Treasury segment's functions include managing the Group's reserve and liquidity position and maintaining its balance sheet by investing in sovereign and corporate debt instruments, commercial paper and other securities in the Philippines and other emerging markets. The Treasury segment is also responsible for managing the Group's foreign currency exposure, engaging in proprietary trading of currencies and offering foreign exchange instruments to the Group's corporate customers, as well as the Group's investment portfolio, which is managed with a view to maximizing efficiency and return on capital;

d) Branch Banking – this segment offers retail deposit products, including current accounts (interest bearing and non-interest bearing demand deposits), savings accounts and time deposits in pesos and U.S. dollars. Branch banking segment also provides lending to corporate and institutional customers through its own lending centers situated in selected branches; and

e) Others – this segment includes the Group's income from trust activities, remittances and gains on foreclosure.

The President, being the Group's Chief Operating Decision Maker (CODM), monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment assets are those operating assets employed by a segment in its operating activities and are either directly attributable to the segment or can be allocated to the segment on a reasonable basis. Segment liabilities are those operating liabilities that result from the operating activities of a segment and are either directly attributable to the segment or can be allocated to the segment on a reasonable basis. Interest income is reported net, as management primarily relies on the net interest income as performance measure, not the gross income and expense.

The Group's revenue-producing assets are located in the Philippines (i.e., one geographical location); therefore, geographical segment information is no longer presented. The Group has no significant customers which contribute 10.00% or more of the consolidated revenue, net of interest expense.

The segment results include internal transfer pricing adjustments across business units as deemed appropriate by management. Transactions between segments are conducted at estimated market rates on an arm's length basis. Interest is charged / credited to the business units based on a pool rate which approximates the marginal cost of funds.

Segment information of the Group as at and for the years ended December 31, 2020, 2019 and 2018 follow (amounts in millions):

	Consolidated 2020					
	Commercial Banking	**Consumer Banking**	**Treasury**	**Branch Banking**	**Others**	**Total Bankwide**
Statement of income						
Net interest income	**₱4,918**	**₱1,596**	**₱44**	**₱4,255**	**₱28**	**₱10,841**
Other income	**139**	**514**	**2,928**	**388**	**263**	**4,232**
Total operating income	**5,057**	**2,110**	**2,972**	**4,643**	**291**	**15,073**
Other operating expense	**701**	**915**	**484**	**3,504**	**181**	**5,785**
Provision for credit and impairment losses	**5,049**	**381**	**–**	**–**	**–**	**5,430**
Provision for income taxes	**209**	**56**	**469**	**93**	**3**	**830**
Net income for the year	**(₱902)**	**₱758**	**₱2,019**	**₱1,046**	**₱107**	**₱3,028**
Statement of condition						
Total assets	**₱144,076**	**₱25,373**	**₱140,011**	**₱3,466**	**₱2,634**	**₱315,560**
Total liabilities	**1,409**	**4,178**	**14,434**	**258,319**	**1,987**	**280,327**
Other segment information						
Depreciation and amortization	**14**	**112**	**4**	**480**	**83**	**692**

	Consolidated 2019					
	Commercial Banking	Consumer Banking	Treasury	Branch Banking	Others	Total Bankwide
Statement of income						
Net interest income	₱2,019	₱1,555	₱754	₱5,052	₱37	₱9,417
Other income	195	557	1,349	425	204	2,730
Total operating income	2,214	2,112	2,103	5,477	241	12,147
Other operating expense	631	1,006	398	3,394	173	5,602
Provision for credit and impairment losses	594	518	27	–	–	1,139
Provision for income taxes	159	60	549	191	6	965
Net income for the year	₱830	₱528	₱1,129	₱1,892	₱62	₱4,441
Statement of condition						
Total assets	₱147,225	₱25,792	₱86,695	₱3,808	₱2,474	₱265,994
Total liabilities	605	4,940	14,218	210,711	2,361	232,835
Other segment information						
Depreciation and amortization	7	116	4	459	78	663

	Consolidated 2018					
	Commercial Banking	Consumer Banking	Treasury	Branch Banking	Others	Total Bankwide
Statement of income						
Net interest income	₱986	₱991	₱693	₱5,092	₱–	₱7,763
Other income	196	412	390	581	225	1,803
Total operating income	1,183	1,403	1,083	5,673	225	9,566
Other operating expense	481	858	406	2,828	189	4,761
Provision for credit and impairment losses	481	81	(48)	220	0	734
Provision for income taxes	131	80	302	263	8	784
Net income for the year	₱89	₱384	₱423	₱2,362	₱28	₱3,287
Statement of condition						
Total assets	₱70,963	₱13,991	₱76,678	₱73,436	₱2,735	₱237,803
Total liabilities	14,971	3,878	34,506	152,530	2,644	208,529
Other segment information						
Depreciation and amortization	6	109	3	210	82	410

***Pertains to impairment of goodwill allocated to the operations of REPL amounting to ₱30.38 million (see Note 13)*

7. Interbank Loans Receivable and Securities Purchased Under Repurchased Agreements

This account consists of:

	Consolidated/Parent Company	
	2020	2019
Securities purchased under repurchased agreements	**₱13,225,950**	₱3,328,901
Interbank loans receivables	**322,488**	212,325
	₱13,548,438	₱3,541,226

In 2020, 2019 and 2018, annual interest rates of peso-denominated IBLR range from 1.94% to 3.97%, 2.75% to 5.25% and 2.88% to 5.06%, respectively, while annual interest rates of dollar-denominated IBLR, range from 0.05% to 1.72%, 0.10% to 2.72%, 0.82% to 2.50%, respectively.

During 2020 and 2019, the Group availed of SPURA which are overnight placements with the BSP where the underlying securities cannot be sold or re-pledged. Annual interest rates of SPURA in 2020, 2019, and 2018 were 2.00%, 4.00%, and 4.75%, respectively.

8. Trading, Investment and Derivative Securities

This account consists of:

	Consolidated		Parent Company	
	2020	2019	**2020**	2019
Financial assets at FVTPL	**₱3,470,465**	₱884,998	**₱3,453,627**	₱857,802
Investment securities at FVOCI	**51,938,491**	18,163,589	**51,938,491**	18,163,589
Investment securities at amortized cost	**6,208,051**	16,951,550	**5,998,854**	16,292,345
	₱61,617,007	₱36,000,137	**₱61,390,972**	₱35,313,736

Financial assets at FVTPL
This account consists of:

	Consolidated		Parent Company	
	2020	2019	**2020**	2019
Held-for-trading securities				
Government securities	**₱3,404,209**	₱464,990	**₱3,404,209**	₱464,990
Private bonds and commercial papers	**37,099**	379,612	**37,099**	379,612
Quoted equity securities	**16,838**	27,196	**–**	–
	3,458,146	871,798	**3,441,308**	844,602
Derivative assets	**12,319**	13,200	**12,319**	13,200
	₱3,470,465	₱884,998	**₱3,453,627**	₱857,802

Held-for-trading securities
Government securities bear interest rates ranging from 0% to 6.50%, from 1.50% to 8.60% and from 3.00% to 8.60% per annum and have maturities ranging from 2021 to 2031, from 2020 to 2046 and from 2018 to 2049 as of December 31, 2020, 2019 and 2018, respectively.

Private bonds and commercial papers consist of foreign currency-denominated bonds issued by domestic and foreign corporations with interest rates ranging from 7%, from 4.88% to 7.38% and from 3.37% to 7.50% per annum, and have maturities ranging from 2025, from 2022 to 2049 and from 2020 to 2049 as of December 31, 2020, 2019 and 2018 respectively.

As of December 31, 2020, the quoted equity securities pertain to investments in preferred shares held by AULFC. These investments are designated at FVTPL as the preferred shares are managed on a fair value basis and they contain embedded call options. As of December 31, 2020 and 2019, AULFC earned dividend income amounting to ₱1.62 million and ₱1.65 million, respectively.

Derivatives
As of December 31, 2020 and 2019, the Group's derivatives consist of freestanding foreign currency swap and forward contracts.

The table below shows the fair values of derivative financial instruments recorded as derivative assets or derivative liabilities identified according to types, together with their notional amounts. The notional amount is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured. The notional amounts indicate the volume of transactions outstanding as at December 31, 2020 and 2019 and are not indicative of either market risk or credit risk.

	2020		**2019**		
	Assets	**Liabilities**	Assets	Liabilities	**Notional amount or underlying**
Freestanding derivatives					
Currency forwards and swaps sold	**₱10,858**	**₱168**	₱12,818	₱–	**2020: US$86,459 / EUR800** 2019: US$50,202 / JPY80,000
Currency forwards and swaps bought	**1,461**	**57**	382	4,444	**2020: US$1,400 / EUR3,400** 2019: US$20,000 / EUR1,500
	₱12,319	**₱226**	₱13,200	₱4,444	

The average forward and swap rates (per US$1) for the currency derivatives transactions are as follows:

	2020	2019
Sold	**₱48.16**	₱50.79
Bought	**48.07**	50.80

The movements in the valuation of the Group and the Parent Company's derivatives follow:

	2020	2019
Derivative Assets		
Balance at beginning of year	**₱13,200**	₱5,396
Fair value changes during the year	**12,319**	13,200
Settled transactions	**(13,200)**	(5,396)
Balance at end of year	**₱12,319**	₱13,200
Derivative Liabilities		
Balance at beginning of year	**₱4,444**	₱3,160
Fair value changes during the year	**226**	4,444
Settled transactions	**(4,444)**	(3,160)
Balance at end of year	**₱226**	₱4,444

Fair value gains in the foreign exchange transactions amounting to ₱12.09 million, ₱8.76 million, and ₱2.24 million in 2020, 2019 and 2018, respectively, are recognized under 'Foreign exchange gain-net'.

Investment securities at FVOCI
This account consists of:

	Consolidated and Parent Company	
	2020	2019
Debt instruments		
Government securities	**₱50,921,967**	₱17,289,219
Private bonds and commercial papers	**968,085**	824,621
	51,890,052	18,113,840
Equity instruments		
Unquoted equity securities	**48,439**	49,749
	₱51,938,491	₱18,163,589

Government securities include fixed rate treasury notes, treasury bills, corporate bonds and notes that bear interest rates per annum ranging from 0% to 6.25% in 2020, from 0.59% to 8.00% in 2019 and from 2.36% to 9.50% in 2018, and have maturities ranging from 2021 to 2030, from 2020 to 2031 and from 2019 to 2048 as of December 31, 2020, 2019 and 2018, respectively.

Private bonds and commercial papers include foreign currency-denominated bonds with annual interest rates ranging from 2.50% to 6.15%, from 4.88% to 6.15%, and from 3.54% to 6.88%, in 2020, 2019 and 2018, respectively, and have maturities ranging from 2021 to 2024, from 2021 to 2025 and from 2028 to 2048 as of December 31, 2020, 2019 and 2018, respectively.

The movement in net unrealized gains (losses) on instrument securities at FVOCI of the Group and the Parent Company follows:

	Consolidated			Parent Company		
	2020	2019	2018	**2019**	2019	2018
Balance at beginning of the year	**₱170,719**	(₱491,308)	₱589,344	**₱170,719**	(₱491,308)	₱589,344
Movements in fair values during the year	**857,371**	260,713	(692,939)	**860,560**	260,713	(692,939)
Impairment losses (reversal) recognized in profit or loss	**(144)**	(296,783)	(48,190)	**(144)**	(296,783)	(48,190)
Net gain (loss) realized in profit or loss	**(1,000,218)**	703,625	(339,523)	**(1,000,218)**	695,448	(339,523)
Net change during the year	**(142,991)**	667,015	(1,080,652)	**(139,802)**	658,838	(1,080,652)
Share in change in net unrealized gain on FVOCI investments of subsidiaries	**–**	–	–	**(3,189)**	3,189	–
Net unrealized losses attributable to the non-controlling interest	**–**	4,988	–	**–**	–	–
Balance at end of year	**₱27,728**	₱170,719	(₱491,308)	**₱27,728**	₱170,719	(₱491,308)

Equity instruments measured at FVOCI
In 2018, the Group invested in the shares of stocks of a Singapore-based private company amounting to ₱38.37 million and classified the equity instrument at FVOCI. As of December 31, 2020, and 2019, these equity investments have carrying amount of ₱36.35 million and ₱37.66 million, respectively.

Investment securities at amortized costs
This account consists of:

	Consolidated		Parent Company	
	2020	2019	**2020**	2019
Government securities	**₱6,207,699**	₱16,479,778	**₱5,998,502**	₱15,820,573
Private bonds and commercial papers	**–**	471,420	**–**	471,420
Unquoted debt securities	**352**	352	**352**	352
	₱6,208,051	₱16,951,550	**₱5,998,854**	₱16,292,345

Government securities include fixed rate treasury notes and treasury bills that bear annual interest rates ranging from 0% to 6.40% and have maturities ranging from 2021 to 2046 in 2020, annual interest rates ranging from 3.37% to 8.13% and have maturities ranging from 2020 to 2039 in 2019 and annual interest rates ranging from 3.37% to 8.05% and maturities ranging from 2022 to 2037 in 2018.

Private bonds and commercial papers consist of foreign currency-denominated bonds with annual interest rates ranging from 2.95% to 9.50% and have maturities ranging from 2020 to 2048 in 2019 for the fixed term debt instruments and annual interest rate of 7.15% and maturity of 2020 in 2018.

The Parent Company's Philippine government securities with face value of ₱1.70 billion as of December 31, 2020 and carrying amount of ₱1.72 billion and ₱1.97 billion as of December 31, 2020 and 2019, respectively, were pledged to PDIC as security for the financial assistance received. The fair value of these government securities as at December 31, 2020 and 2019 amounted to ₱1.80 billion and ₱1.99 billion, respectively.

In May and August 2020, the Executive Committee and ROC endorsed to the BOD and the BOD approved the sale of the Parent Company's USD-denominated and peso-denominated investment securities classified as Investment Securities at Amortized Cost with total carrying amount of ₱8.20 billion and ₱7.76 billion, respectively, as the Parent Company's response to unanticipated significant changes in market and business conditions brought about by the COVID 19 pandemic. The Parent Company also sold certain investment securities due to significant increase in credit risk of the issuers of the securities. See Note 3.

In June 2020, RBA's BOD approved the pre-termination of financial assistance from PDIC amounting to ₱0.62 billion. The government securities with carrying amount of ₱0.62 billion and that were pledged as collateral on PDIC borrowing were sold to settle the borrowing.

The above sales resulted in total gain on disposal of Investment securities at amortized cost in 2020 amounting to ₱1.66 billion and ₱1.56 billion for the Group and the Parent Company, respectively.

The ECL for investment securities at amortized costs in 2020 and 2019 is immaterial.

Interest Income
Details of interest income on investment securities measured using the effective interest rate method of the Group and the Parent Company follow:

	Consolidated			Parent Company		
	2020	2019	2018	**2020**	2019	2018
Investment securities at FVOCI	**₱671,845**	₱906,477	₱877,717	**₱671,845**	₱885,615	₱868,859
Investment securities at amortized cost	**637,423**	718,478	230,727	**613,846**	718,479	230,727
	₱1,309,268	₱1,624,955	₱1,108,444	**₱1,285,691**	₱1,604,094	₱1,099,586

Interest income on financial assets at FVTPL follows:

	Consolidated			Parent Company		
	2020	2019	2018	**2020**	2019	2018
Financial assets at FVTPL	**₱191,157**	₱89,904	₱159,884	**₱191,157**	₱89,904	₱159,884

Trading and Securities Gains (Losses) - net
Details of this account of the Group and Parent Company follow (in millions):

	Consolidated			Parent Company		
	2020	2019	2018	**2020**	2019	2018
Financial assets at FVTPL						
Held-for-trading	**₱231.03**	₱142.20	(₱82.77)	**₱231.03**	₱142.20	(₱82.77)
FVTPL - mandatory	**(0.36)**	(0.56)	16.38	**–**	–	16.38
Investment securities at FVOCI	**1,000.22**	1,019.51	335.62	**1,000.22**	1,019.51	335.62
	₱1,230.89	₱1,161.15	₱269.23	**₱1,231.25**	₱1,161.71	₱269.23

9. Loans and Receivables

This account consists of:

	Consolidated		Parent	
	2020	2019	**2020**	2019
Loans and discounts	**₱168,393,272**	₱168,694,728	**₱165,837,204**	₱165,719,368
Finance lease receivables	**678,948**	855,988	**–**	–
Loans and receivables financed	**228,159**	225,304	**–**	–
	169,300,379	169,776,020	**165,837,204**	165,719,368
Less unearned discounts and unearned lease/finance income	**176,720**	161,693	**126,272**	97,922
	169,123,659	169,614,327	**165,710,932**	165,621,446
Customers' liabilities on bills under letters of credit/trust receipts	**2,683,372**	2,430,365	**2,683,372**	2,430,365
Accrued interest receivable	**1,269,373**	1,315,188	**1,140,769**	1,179,629
Accounts receivable	**435,612**	327,774	**398,383**	288,071
Bills purchased (Note 20)	**173,482**	257,332	**173,482**	257,332
Customers' liabilities under acceptances	**922,604**	236,568	**922,604**	236,568
Sales contract receivables	**110,558**	152,637	**92,340**	136,130
Other receivables-RCOCI	**8,282**	149,457	**8,282**	149,455
	174,726,942	174,483,648	**171,130,164**	170,298,996
Less allowance for credit losses (Note 16)	**5,929,668**	1,944,362	**5,410,310**	1,509,090
	₱168,797,274	₱172,539,286	**₱165,719,854**	₱168,789,906

Finance Lease Receivables and Loans and Receivable Financed

The table below presents the breakdown of gross and net investment in finance lease receivables by contractual maturity dates as at December 31, 2020 and 2019:

	2020	2019
Gross investment in finance lease receivables:		
Due within one year	**₱391,101**	₱375,569
Due beyond one year but not beyond five years	**438,648**	480,419
	829,749	855,988
Less unearned lease income:		
Due within one year	**59,377**	31,252
Due beyond one year but not beyond five years	**91,424**	–
	150,801	31,252
	₱678,948	₱824,736

The table below presents the breakdown of loans and receivables financed of AULFC by contractual maturity dates as at December 31, 2020 and 2019:

	2020	2019
Due within one year	**₱129,404**	₱80,785
Due beyond one year but not beyond five years	**98,755**	144,519
	₱228,159	₱225,304

Interest Income

Details of interest income on loans and receivables of the Group and the Parent Company follow:

	Consolidated			**Parent Company**		
	2020	2019	2018	**2020**	2019	2018
Loans and discounts	**₱11,164,489**	₱11,378,703	₱8,676,738	**₱10,659,112**	₱10,842,638	₱8,208,599
Customers' liabilities under acceptances and letters of credit/trust receipts	**192,497**	250,187	227,874	**192,497**	250,187	227,874
Finance lease receivables	**8,917**	9,866	14,346	**–**	–	–
Loans and receivables financed	**59,934**	53,379	45,493	**–**	–	–
Unquoted debt securities	**–**	–	209,989	**–**	–	209,989
Bills purchased	**1,389**	2,317	3,251	**1,389**	2,317	3,251
	₱11,427,226	₱11,694,452	₱9,177,691	**₱10,852,998**	₱11,095,142	₱8,649,713

As at December 31, 2020 and 2019, 82.83% and 84.80%, respectively, of the total loans and receivables of the Parent Company were subjected to periodic interest repricing.

On March 25, 2020, Republic Act (RA) 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 enhanced community quarantine (ECQ) period without incurring interest on interest, penalties, fees and other charges. Subsequently, on September 11, 2020, RA 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 Group's assessment, the modifications in the contractual cash flows as a result of the above reliefs are not substantial and therefore do not result in the derecognition of the affected financial assets. For the Group and the Parent Company, the impact of the loan modification, net of the subsequent accretion, of the modified loans is not material to the Group and Parent Company financial statements.

10. Investments in Subsidiaries

The movements in the investments in subsidiaries of the Parent Company follow:

	2020	2019
Acquisition costs		
Rural Bank of Angeles*	**₱420,000**	₱420,000
Cavite United Rural Bank***	**156,036**	156,036
Asia United Leasing and Finance Corporation and Subsidiary***	**35,100**	35,100
RediMoney Express Pte. Ltd. - net of impairment losses amounting to ₱143,106 as of December 31, 2020 and 2019.**	**33,810**	33,810
	644,946	644,946
Accumulated share in net income		
Balance at beginning of year	**386,691**	560,971
Share in net income (loss) for the year	**157,489**	(174,280)
Balance at end of year	**544,180**	386,691
Accumulated share in other comprehensive income		
Balance at beginning of year	**(2,500)**	2,716
Share in:		
Changes in net unrealized gain on FVOCI investments	**(3,189)**	3,189
Cumulative translation adjustment	**(1,079)**	(1,250)
Remeasurement gains (losses) of retirement obligation	**–**	(7,155)
Balance at end of year	**(6,768)**	(2,500)
	₱1,182,358	₱1,029,137

* The principal place of business of RBA is at Miranda corner Sto. Entierro Streets, Angeles City, Pampanga.
** The principal place of business of RES is at 304 Orchard Road, #02-47 Lucky Plaza, Singapore 238863.
*** The principal place of business of CURB is at 636 Tanzang Luma III, Aguinaldo Hi-way, Imus, Cavite Philippines.
**** The principal place of business of AULFC is at 34th Floor Joy-Nostalg Center, 17 ADB Avenue, Ortigas Center, Pasig City.

Refer to Note 2 for the percentage of ownership of the Parent Company in subsidiaries and their principal activities.

Allowance for impairment losses on investment in REPL
The impairment tests in 2018 for the goodwill allocated to REPL resulted in impairment losses amounting to ₱112.73 (see Note 13). In the separate financial statements of the Parent Company, the impairment is accounted for as allowance, reduced against the carrying amount of the Parent Company's investment in REPL. The impairment losses are included in 'Provision for credit and impairment losses' in the statement of income

11. Property and Equipment

The compositions of and movement in the Group's property and equipment follow:

	Consolidated						
	2020						
	Land and Building	**Furniture, Fixtures and Equipment**	**Leasehold Improvements**	**Transportation Equipment**	**Equipment for Lease**	**Right of Use Asset**	**Total**
Cost							
Balances at January 1	**₱647,115**	**₱1,592,766**	**₱1,007,430**	**₱447,399**	**₱182,334**	**₱1,382,738**	**₱5,259,782**
Additions	**1,452**	**86,695**	**24,682**	**30,356**	**27,414**	**318,857**	**489,456**
Disposals/pre-terminations	**–**	**(4,008)**	**(44)**	**(28,980)**	**(48,219)**	**(12,783)**	**(94,034)**
Balances at December 31	**648,567**	**1,675,453**	**1,032,068**	**448,775**	**161,529**	**1,688,812**	**5,655,204**
Accumulated Depreciation and Amortization							
Balances at January 1	**305,280**	**1,383,040**	**841,970**	**228,800**	**97,858**	**295,199**	**3,152,147**
Depreciation and amortization	**33,276**	**118,143**	**58,007**	**68,528**	**31,105**	**355,434**	**664,493**
Disposals	**–**	**(3,874)**	**-**	**(27,556)**	**(36,295)**	**(9,763)**	**(77,488)**
Balances at December 31	**338,556**	**1,497,309**	**899,977**	**269,772**	**92,668**	**640,870**	**3,739,152**
Allowance for impairment losses (Note 16)	**3,289**	**–**	**–**	**–**	**–**	**–**	**3,289**
Net Book Value at December 31	**₱306,722**	**₱178,144**	**₱132,091**	**₱179,003**	**₱68,861**	**₱1,047,942**	**₱1,912,763**

	Consolidated						
	2019						
	Land and Building	Furniture, Fixtures and Equipment	Leasehold Improvements	Transportation Equipment	Equipment for Lease	Right of Use Asset	Total
Balances at January 1	₱635,733	₱1,475,912	₱932,080	₱368,900	₱312,934	₱1,028,023	₱4,753,582
Additions	11,382	124,480	75,462	110,876	26,057	356,483	704,740
Disposals/pre-terminations	–	(7,626)	(111)	(32,377)	(156,658)	(1,768)	(198,540)
Balances at December 31	647,115	1,592,766	1,007,431	447,399	182,333	1,382,738	5,259,782
Accumulated Depreciation and Amortization							
Balances at January 1	273,403	1,263,384	765,732	194,220	148,521	–	2,645,260
Depreciation and amortization	31,877	127,236	76,350	62,567	48,453	295,199	641,682
Disposals	–	(7,580)	(111)	(27,987)	(99,116)	–	(134,794)
Balances at December 31	305,280	1,383,040	841,971	228,800	97,858	295,199	3,152,148
Allowance for impairment losses (Note 16)	3,289	–	–	–	–	–	3,289
Net Book Value at December 31	₱338,546	₱209,726	₱165,460	₱218,599	₱84,475	₱1,087,539	₱2,104,345

The compositions of and movement in the Parent Company's property and equipment follow:

	Parent Company					
	2020					
	Land and Building	**Furniture Fixtures and Equipment**	**Leasehold Improvements**	**Transportation Equipment**	**Right of Use Assets**	**Total**
Cost						
Balances at January 1	**₱615,252**	**₱1,544,413**	**₱962,375**	**₱413,329**	**₱1,319,752**	**₱4,855,121**
Additions	**–**	**83,612**	**23,643**	**28,108**	**298,721**	**434,084**
Disposals	**–**	**(3,886)**	**–**	**(28,920)**	**(4,826)**	**(37,632)**
Balances at December 31	**615,252**	**1,624,139**	**986,018**	**412,517**	**1,613,647**	**5,251,573**
Accumulated Depreciation and Amortization						
Balances at January 1	**297,847**	**1,351,341**	**816,078**	**212,580**	**281,309**	**2,959,155**
Depreciation and amortization	**30,796**	**109,127**	**50,546**	**61,696**	**333,262**	**585,427**
Disposals	**–**	**(3,879)**	**–**	**(27,673)**	**–**	**(31,552)**
Balances at December 31	**328,643**	**1,456,589**	**866,624**	**246,603**	**614,571**	**3,513,030**
Net Book Value at December 31	**₱286,609**	**₱167,550**	**₱119,394**	**₱165,914**	**₱999,076**	**₱1,738,543**

	Parent Company					
	2019					
	Land and Building	Furniture Fixtures and Equipment	Leasehold Improvements	Transportation Equipment	Right of Use Assets	Total
Balances at January 1	₱615,252	₱1,437,030	₱896,582	₱341,944	₱992,389	₱4,283,197
Additions	–	114,455	65,873	102,112	327,363	609,803
Disposals	–	(7,072)	(80)	(30,727)	–	(37,879)
Balances at December 31	615,252	1,544,413	962,375	413,329	1,319,752	4,855,121
Accumulated Depreciation and Amortization						
Balances at January 1	267,051	1,239,448	750,489	182,606	–	2,439,594
Depreciation and amortization	30,796	118,919	65,669	56,160	281,309	552,853
Disposals	–	(7,026)	(80)	(26,186)	–	(33,292)
Balances at December 31	297,847	1,351,341	816,078	212,580	281,309	2,959,155
Net Book Value at December 31	₱317,405	₱193,072	₱146,297	₱200,749	₱1,038,443	₱1,895,966

Gain (loss) on sale of property and equipment is included under 'Miscellaneous income' in the statements of income and is disclosed in Note 27.

As at December 31, 2020 and 2019, the costs of fully depreciated property and equipment still in use amounted to ₱2.17 billion and ₱1.98 billion, respectively for the Group, and ₱2.12 billion and ₱1.98 billion, respectively for the Parent Company.

The Group's ROU assets consist of branch premises. With the exception of short-term leases and leases of low-value underlying assets, each lease is reflected on the consolidated statement of financial information as a Right of Use asset and a lease liability.

12. Investment Properties

The components of and movement in this account follow:

	Consolidated		
	2020		
	Land	**Buildings and Improvements**	**Total**
Cost			
Balances at January 1	**₱343,502**	**₱170,733**	**₱514,235**
Additions	**36,554**	**70,735**	**107,289**
Disposals	**(46,694)**	**(41,436)**	**(88,130)**
Balances at December 31	**333,362**	**200,032**	**533,394**
Accumulated Depreciation and Amortization			
Balances at January 1	**–**	**41,688**	**41,688**
Depreciation and amortization	**–**	**18,232**	**18,232**
Disposals	**–**	**(22,497)**	**(22,497)**
Balances at December 31	**–**	**37,423**	**37,423**
Allowance for Impairment Losses (Note 16)			
Balances at January 1	**32,811**	**163**	**32,974**
Provision for impairment losses	**2,264**	**–**	**2,264**
Disposals	**(4,195)**	**–**	**(4,195)**
Balances at December 31	**30,880**	**163**	**31,043**
Net Book Value at December 31	**₱302,482**	**₱162,446**	**₱464,928**

	Consolidated		
	2019		
	Land	Buildings and Improvements	Total
Cost			
Balances at January 1	₱360,759	₱146,500	₱507,259
Additions	48,421	83,278	131,699
Disposals	(65,678)	(59,045)	(124,723)
Balances at December 31	343,502	170,733	514,235
Accumulated Depreciation and Amortization			
Balances at January 1	–	49,756	49,756
Depreciation and amortization	–	15,854	15,854
Disposals	–	(23,922)	(23,922)
Balances at December 31	–	41,688	41,688
Allowance for Impairment Losses (Note 16)			
Balances at January 1	37,010	163	37,173
Disposals	(4,199)	–	(4,199)
Balances at December 31	32,811	163	32,974
Net Book Value at December 31	₱310,691	₱128,882	₱439,573

	Parent Company		
	2020		
	Land	**Buildings and Improvements**	**Total**
Cost			
Balances at January 1	**₱187,951**	**₱149,004**	**₱336,955**
Additions	**18,178**	**70,453**	**88,631**
Disposals	**(25,020)**	**(35,104)**	**(60,124)**
Balance at December 31	**181,109**	**184,353**	**365,462**
Accumulated Depreciation and Amortization			
Balances at January 1	**–**	**32,750**	**32,750**
Depreciation and amortization	**–**	**17,394**	**17,394**
Disposals	**–**	**(19,364)**	**(19,364)**
Balance at December 31	**–**	**30,780**	**30,780**
Allowance for Impairment Losses (Note 16)			
Balances at January 1	**25,446**	**–**	**25,446**
Disposals	**(4,196)**	**–**	**(4,196)**
Balance at December 31	**21,250**	**–**	**21,250**
Net Book Value at December 31	**₱159,859**	**₱153,573**	**₱313,432**

	Parent Company		
	2019		
	Land	Buildings and Improvements	Total
Cost			
Balances at January 1	₱216,232	₱127,236	₱343,468
Additions	18,017	81,127	99,144
Disposals	(46,298)	(59,359)	(105,657)
Balance at December 31	187,951	149,004	336,955
Accumulated Depreciation and Amortization			
Balances at January 1	–	40,993	40,993
Depreciation and amortization	–	13,774	13,774
Disposals	–	(22,017)	(22,017)
Balance at December 31	–	32,750	32,750
Allowance for impairment losses (Note 16)			
Balances at January 1	27,350	–	27,350
Disposals	(1,904)	–	(1,904)
Balance at December 31	25,446	–	25,446
Net Book Value at December 31	₱162,505	₱116,254	₱278,759

The Group's and Parent Company's investment properties consist entirely of real estate properties and improvements thereon acquired in settlement of loans and receivables. As at December 31, 2020 and 2019, the aggregate fair value of the investment properties amounted to ₱656.90 million and ₱700.70 million, respectively, for the Group and ₱434.51 million and ₱374.81 million for the Parent Company, respectively.

The gain upon foreclosure and dacion of investment properties and chattels and the gain on the sale or disposal of investment properties and chattels are both presented under 'Miscellaneous income' (see Note 27).

Direct operating expense on the investment properties not generating rental income in 2020, 2019 and 2018, amounted to ₱25.86 million, ₱17.10 million and ₱21.83 million, respectively, for the Group and ₱23.72 million, ₱14.98 million and ₱18.58 million, respectively, for the Parent Company.

13. Goodwill

This account represents goodwill of the Group and Parent Company allocated to the following CGUs:

	Consolidated		Parent Company	
	2020	2019	**2020**	2019
Branch Banking Group	**₱1,577,081**	₱1,577,081	**₱1,577,081**	₱1,577,081
Rural Bank of Angeles (RBA)	**372,656**	372,656	**–**	–
Redimoney Express Pte Ltd (formerly Pinoy Express Pte Ltd.) (REPL) – net of impairment losses amounting to ₱143.11 as of December 31, 2020 and 2019.	**11,709**	11,709	**–**	–
	₱1,961,446	₱1,961,446	**₱1,577,081**	₱1,577,081

The goodwill allocated to the Branch Banking Group of the Parent Company amounting to ₱1.58 billion arose from the acquisition of Asiatrust Development Bank (ATB) in 2013.

The goodwill allocated to RBA represents the goodwill of ₱306.45 million and ₱66.20 million from the acquisition of RBA and CBP, respectively. Subsequently, CBP was merged to RBA. RBA is considered as the single CGU for purposes of impairment assessment.

The goodwill from the above acquisitions can be attributed to factors such as increase in geographical presence and customer base due to branches acquired.

The goodwill allocated to the remittance business of REPL arose from the acquisition of REPL. The goodwill is attributed to expected synergies of the remittance operations of the REPL and the Parent Company.

The goodwill impairment tests in 2020 and 2019 did not result in impairment loss of the goodwill allocated to the Branch Banking Group and RBA as the recoverable amounts for the respective CGUs were higher than their carrying amounts.

In 2018, the Bank recognized impairment loss on goodwill allocated to REPL amounting to ₱112.73 million, included in 'Provision for credit and impairment losses' in the statement of income. The impairment loss is driven by lower projected cash flows in the Group's business plan as a result of increased competition in the market. As of December 31, 2020, and 2019, the remaining amount of goodwill of ₱11.7 million is considered not material.

Key assumptions used in value-in-use calculation
The recoverable amount of the CGUs has been determined based on a value-in-use calculation using cash flow projections from the financial budgets and the Group's strategic plan covering three to five-year periods, which are approved by senior management. Future cash flows and growth rates were determined based on past experience and strategies developed.

The calculation of value-in-use of the CGU is most sensitive to revenue/volume growth rate, discount rate, and steady growth rate used to extrapolate the cash flow projections beyond the budget period.

Revenue growth, discount and long-term growth rates
Revenue growth rate is based on the volume of loans and other transactions, interest rates and service fees granted to the markets or customers serviced by RBA and REPL, and the operations of the Branch Banking Group. In addition, the Group also considers the current perspective and the short-term and medium-term outlook for the industry to which the CGUs are operating, e.g. technological advancements, new products and services and competitions. Furthermore, the revenue growth rate reflects the Group's forecast of its strategic plans after considering the impact of the pandemic.

The discount rates used for the computation of the net present value is the cost of equity for the Branch Banking Group and RBA. These are determined by reference to the comparable companies and reflect the current market assessment of the risks specific to each of the CGUs. In 2020, the pre-tax discount rates applied to the cash flow projections are 11.66% and 15.83% for the Branch Banking Group and RBA, respectively. In 2019, the discount rates applied to the cash flow projections are 16.50% and 12.01% for the Branch Banking Group and RBA, respectively. The discount rate for Branch banking group declined due to lower beta from comparable companies while the discount rate for RBA increased due to higher beta from comparable companies.

Long-term growth rates ranging from 2.09% to 3.39% for 2020 and from 3.06% to 6.35% for 2019 have been determined by management based on the historical average growth rates and market outlook for the services, industry and country in which the CGUs are operating.

Sensitivity to changes in assumptions
With regard to the assessment of value-in-use of the Branch Banking Group and RBA, management believes that no reasonably possible change in any of the above key assumptions would cause the carrying value of the goodwill and the branch licenses, as discussed in Note 14, to materially exceed its recoverable amount.

14. Intangible Assets

Intangible assets consist of:

	Consolidated		Parent Company	
	2020	2019	**2020**	2019
Branch licenses	**₱1,874,917**	₱1,875,780	**₱1,874,116**	₱1,874,980
Software costs - net	**151,421**	127,894	**151,193**	127,584
	₱2,026,338	₱2,003,674	**₱2,025,309**	₱2,002,564

Branch licenses
For purposes of impairment testing, the branch licenses have been allocated to the branch operations of the Parent Company's Branch Banking Group. The impairment tests in 2020 and 2019 did not result in an impairment loss as the recoverable amount is higher than the carrying amount of the cash generating unit. The key assumptions used in the calculation of the Branch Banking Group's value-in-use are disclosed in Note 13.

Software costs
The movement in software costs of the Group and the Parent Company follow:

	Consolidated		Parent Company	
	2020	2019	**2020**	2019
Cost				
Balance at January 1	**₱382,137**	₱330,211	**₱377,801**	₱325,973
Additions and others	**76,121**	70,235	**76,121**	70,137
Disposals	**(48,584)**	(18,309)	**(48,584)**	(18,309)
Balance at December 31	**409,674**	382,137	**405,338**	377,801
Accumulated Amortization				
Balance at January 1	**254,243**	230,584	**250,217**	226,633
Amortization	**52,594**	41,968	**52,512**	41,894
Disposals	**(48,584)**	(18,309)	**(48,584)**	(18,310)
Balance at December 31	**258,253**	254,243	**254,145**	250,217
Net Book Value at December 31	**₱151,421**	₱127,894	**₱151,193**	₱127,584

15. Other Assets

Other assets consist of:

	Consolidated		Parent Company	
	2020	2019	**2020**	2019
Rental deposits	**₱98,267**	₱96,017	**₱93,998**	₱93,464
Prepaid expense	**92,308**	129,752	**87,961**	122,080
Chattels - net	**35,438**	27,455	**19,934**	8,853
Sundry debits	**13,169**	220,886	**13,169**	220,886
Deferred input VAT	**7,714**	10,379	**–**	–
Input VAT	**2,130**	11,868	**–**	–
Miscellaneous assets - net	**32,771**	34,853	**32,429**	40,096
	₱281,797	₱531,210	**₱247,491**	₱485,379

In 2020 and 2019, additions to chattels in settlement of loan accounts amounted to ₱49.70 million and ₱51.39 million for the Group and ₱27.19 million and ₱22.14 million for the Parent Company, respectively.

Rental deposits represent security deposits of the Bank for its branches and offsite Automated Teller Machines (ATMs). Prepaid expenses represent expenses prepaid which is expected to benefit the Group in future periods. This includes insurance premiums and other expenses.

Net book values of chattels sold/disposed in 2020 and 2019 amounted to ₱31.75 million and ₱31.71 million for the Group and ₱11.40 million and ₱22.10 million for the Parent Company respectively. Depreciation from chattels for 2020 and 2019 amounted and ₱9.39 million and ₱5.84 million for the Group and ₱4.70 million and ₱2.55 million for the Parent Company, respectively.

Deferred input VAT pertains to VAT paid by AUFMSI, the Group's subsidiary engaged in operating lease business, on purchase of equipment for lease classified as "capital assets" for tax reporting purposes, which will be realized on a straight-line basis over 60 months.

16. Allowance for Credit Losses on Financial Assets at Amortized Cost, on Investment Securities at FVOCI and Allowance for Impairment Losses on Nonfinancial Assets

Changes in the credit and impairment losses follow:

	Consolidated		Parent Company	
	2020	2019	**2020**	2019
Balances at beginning of year	**₱1,987,073**	₱2,127,400	**₱1,540,983**	₱1,920,057
Provision for credit and impairment losses	**5,430,459**	1,138,565	**5,236,284**	703,664
Disposal/ redemption	**(4,196)**	(325,962)	**(4,196)**	(325,962)
Write-offs	**(1,429,937)**	(943,684)	**(1,322,112)**	(747,530)
Foreign exchange differences	**(2,506)**	(9,246)	**(2,506)**	(9,246)
Balances at end of year	**₱5,980,893**	₱1,987,073	**₱5,448,453**	₱1,540,983
Loans and discounts				
Commercial lending	**₱5,116,598**	₱1,260,706	**₱5,116,593**	₱1,256,170
Consumer lending	**699,662**	577,034	**256,253**	229,266
	5,816,260	1,837,740	**5,372,846**	1,485,436
Finance lease receivables	**29,239**	30,723	**–**	–
Loans and receivables financed	**16,858**	13,109	**–**	–
Customers' liabilities on bills under letters of credit/trust receipts	**4,923**	2,312	**4,923**	2,312
Loan commitments*	**16,703**	6,103	**16,703**	6,103
Accounts receivable and accrued interest receivable	**62,388**	60,478	**32,541**	21,342
	5,946,371	1,950,465	**5,427,013**	1,515,193
Investment securities at FVOCI**	**190**	344	**190**	344
Property and equipment (Note 11)	**3,289**	3,289	**–**	–
Investment properties (Note 12)	**31,043**	32,975	**21,250**	25,446
	₱5,980,893	₱1,987,073	**₱5,448,453**	₱1,540,983

**ECL on loan commitments is recognized as liability and presented in "Other liabilities"*
***ECL on investment securities at FVOCI is recorded against "Other comprehensive income"*

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

	Consolidated			Parent Company		
	2020	2019	2018	**2020**	2019	2018
Loans and discounts						
Commercial lending	**₱5,032,239**	₱591,827	₱492,249	**₱5,032,234**	₱591,827	₱492,249
Consumer lending	**354,722**	463,424	215,725	**178,079**	63,050	27,591
	5,386,961	1,055,251	707,974	**5,210,313**	654,877	519,840
Finance lease receivables	**30,496**	–	–	**–**	–	–
Loans and receivables financed	**(15,233)**	26,050	–	**–**	–	–
Customers' liabilities under acceptances and letters of credit/ trust receipts	**2,611**	2,312	–	**2,611**	2,312	–
Loan commitments	**10,600**	–	–	**10,600**	–	–
Accounts receivable and accrued interest receivable	**12,904**	27,677	5,526	**12,904**	19,200	5,526
	5,428,339	1,111,290		**5,236,428**	676,389	525,366
Investment securities at FVOCI	**(144)**	27,275	(48,190)	**(144)**	27,275	(48,190)
Investment properties	**2,264**	–	18,790	**–**	–	18,790
Goodwill	**–**	–	112,725	**–**	–	–
Investment in subsidiaries	**–**	–	–	**–**	–	112,725
	₱5,430,459	₱1,138,565	₱796,825	**₱5,236,284**	₱703,664	₱608,691

The analysis of changes in the gross carrying amounts of investment securities at FVOCI, investment securities at AC and loans and receivables, and the corresponding ECL allowances further broken down to loan products is disclosed in Note 4.

17. **Deposit Liabilities**

As at December 31, 2020 and 2019, 29.20% and 37.10% respectively, of the Group's total liabilities and 28.75% and 36.48% respectively, of the Parent Company's deposit liabilities are subject to periodic interest repricing. Deposit liabilities bear annual interest at rates ranging from 0.00% to 0.75% in 2020, 2019 and 2018 for the Group and from 0.00% to 0.125% in 2020, 2019 and 2018 for the Parent Company's peso and foreign currency-denominated deposit liabilities.

Under existing BSP regulations, non-FCDU deposit liabilities of the Bank are subject to unified reserve requirement equivalent to 14.0% (as per BSP Circulars 1041, 1056 and 1063) as at December 31, 2019. In 2020, BSP Circular 1082 was issued further reducing the reserve requirement of universal and commercial bank to 12%.

As of December 31, 2020, RBA and CURB are in compliance with the reduced reserve requirements under BSP Circular 1092 at 2%.

In 2020, the BSP issued Circulars 1083, 1087 and 1100 as Alternative Compliance with Reserve Requirements of Banks and Non-Bank Financial Institution which provides the following alternative modes of compliance with the reserve requirements, provided that certain conditions are met for loans granted, renewed or restructured after March 15, 2020;

a. Peso-denominated loans that are granted to micro, small and medium enterprises (MSMEs)
b. Peso - denominated loans that are granted to large enterprises, excluding banks and NBQB

As of December 31, 2020 and 2019, the Parent Company, RBA and CURB are in compliance with the reserve requirements.

As of December 31, 2020 and 2019, Due from BSP set aside as reserves for deposit liabilities amounted to ₱7.68 billion and ₱25.03 billion, respectively, for the Group and ₱7.59 billion and ₱24.94 billion, respectively, for the Parent Company. As of December 31, 2020, the Parent Company utilized ₱21.49 billion peso-denominated loans as alternative compliance for reserve requirements.

<u>Long Term Negotiable Certificate of Deposits (LTNCD)</u>
On November 25, 2013, the Parent Company issued 3.50% fixed coupon rate LTNCD at par value of ₱900.00 million with fixed annual coupon rate of 3.5% which matured in February 2019. The issuance of the LTNCD under the terms approved by the BOD was approved by the BSP on October 24, 2013.

Interest expense on deposit liabilities consists of:

	Consolidated			**Parent Company**		
	2020	2019	2018	**2020**	2019	2018
Savings	**₱991,619**	₱2,013,169	₱773,322	**₱928,372**	₱2,010,964	₱771,102
Time	**647,307**	1,547,130	1,222,467	**645,920**	1,466,992	1,181,282
Demand	**421,399**	255,026	450,483	**421,397**	254,796	450,265
LTNCD	–	6,213	31,500	–	6,213	31,500
	₱2,060,325	₱3,821,538	₱2,477,772	**₱1,995,689**	₱3,738,965	₱2,434,149

18. **Bills Payable and Securities Sold Under Repurchase Agreements**

This account consists of:

	Consolidated		Parent Company	
	2020	2019	**2020**	2019
SSURA	**₱1,140,233**	₱1,202,250	**₱1,140,233**	₱1,202,250
PDIC	**1,115,684**	1,417,536	**1,115,684**	1,019,830
Banks	**375,000**	559,650	**–**	–
Others	**38,455**	28,555	**–**	–
	₱2,669,372	₱3,207,991	**₱2,255,917**	₱2,222,080

Securities sold under repurchase agreement (SSURA)
SSURA represents borrowings that are collateralized by investment securities subject to repurchase agreement with fair value of collateral securities amounting to ₱1.62 billion and ₱1.65 billion as of December 31, 2020 and 2019, respectively (see Note 34). These are subject to annual fixed interest rates ranging from 1.41% to 2.35% in 2020 and 2019, respectively.

PDIC
The Parent Company's borrowing from PDIC with face value amounting to ₱1.28 billion bears low interest rate and was recognized at present value of ₱540.23 million on the date the financial assistance was received in 2012 resulting in a difference of ₱736.77 million.

The difference of ₱736.77 million between the value of the bills payable and the related proceeds from the PDIC financial assistance was accounted for as government grant and was recorded as 'Unearned income' under the 'Other liabilities' account (see Note 21). These are amortized using the effective interest rate of 10.32% until the maturity of the borrowings from PDIC. In addition, Philippine government securities are pledged to PDIC as security for the financial assistance received (see Note 8).

In 2019, RBA entered into a borrowing from PDIC amounting to ₱635.07 million which bears low interest and was recognized at present value of ₱385.45 million on the date the financial assistance was received. The difference of ₱249.62 million was amortized using the effective interest rate of 5.22% until the maturity of the borrowings from PDIC.

Under the terms of the financial assistance's agreement of RBA with PDIC, RBA has to meet certain conditions, including required level of CAR. As of December 31, 2019, RBA's CAR is below the requirement under the Agreement. Accordingly, RBA's BOD approved on June 2020, to settle the financial assistance with PDIC by selling the pledged collaterals and using the proceeds to settle the borrowings (see Note 8). The sale resulted in gain amounting to ₱0.10 billion.

Banks
Bills payable to foreign and local banks represent interbank borrowings that are subject to fixed annual interest rates ranging from 3.75% to 3.80%, from 4.90% to 5.0% and from 1.41% to 3.41% for the Group in 2020, 2019 and 2018, respectively.

Others
Others represent unsecured peso borrowings from individuals with annual interest rates ranging from 3.00% to 9.00 % in 2020 and 2019 and 2.25% to 9.00% in 2018.

In 2020, 2019 and 2018, the interest expense on bills payable and SSURA amounted to ₱61.00 million, ₱135.59 million, and ₱83.46 million for the Group, and ₱32.51 million, ₱81.12 million, and ₱45.63 million for the Parent Company, respectively. The accretion of the borrowing from PDIC, included in interest expense, amounted to ₱95.85 million, ₱105.98 million and ₱78.19 million for the Group in 2020, 2019 and 2018, respectively and ₱95.85 million, ₱86.57 million and ₱78.19 million for the Parent Company in 2020, 2019 and 2018, respectively.

19. **Bonds Payable and Subordinated Debt**

<u>₱7 Billion Bonds Due 2022</u>
On November 7, 2019, the Parent Company issued ₱7.0 billion fixed rate bonds due in November 2022. The bond, which is listed in Philippine Dealing & Exchange Corporation, with issue price at 100% and interest rate of 4.625% per annum, is payable on a quarterly in arrears in February 7, May 7, August 7, and November 7 of each year, commencing on February 7, 2020. The Parent Company incurred debt issue costs amounting to ₱71.3 million. As of December 31, 2020 and 2019, bonds payable amounted to ₱6.96 billion and ₱6.93 billion, respectively.

Interest expense on bonds payable (included in Interest expense on bills payable, subordinated debt and other borrowings in the statements of income) in 2020 and 2019 amounted to ₱346.60 million and ₱52.29 million, respectively. As of December 31, 2020 and 2019, unamortized bond issuance costs amounted to ₱44.73 and ₱67.58 million, respectively.

BSP Circular No. 830 requires reserves equivalent to 3% against peso-denominated bonds. As of December 31, 2020 and 2019, the Group is in compliance with such regulation.

<u>Tier 2 Subordinated Debt due 2025</u>
On November 25, 2015, the Parent Company issued 5.625% coupon rate (EIR of 5.73%) Tier 2 unsecured subordinated note (the 2025 Notes) with par value of ₱5.00 billion, maturing on November 25, 2025, but callable after the fifth anniversary of the issue date. The 2025 Notes qualify as Tier 2 capital pursuant to BSP Circular No. 781(Basel III), BSP Circular No. 826 on risk disclosure requirements for the loss absorption features of capital instruments, and other related circulars and issuances of the BSP.

The issuance of the foregoing subordinated debt under the terms approved by the BOD was approved by the BSP on October 12, 2015. The proceeds from the issuance of the 2025 Notes amounted to ₱4.96 billion, net of issuance cost of ₱38.39 million.

Unless the 2025 Notes are previously redeemed, the 2025 Notes are repayable to the Note holders at 100.00% of their face value or at par on the maturity date of November 25, 2025.

From and including the issue date to, but excluding the reset date and unless earlier redeemed, the 2025 Notes bear interest at the rate of 5.625% per annum and shall be payable quarterly in arrears on February 25, May 25, August 25, and November 25 of each year, which commenced on February 25, 2015. Unless the 2025 Notes are previously redeemed, the interest rate will be reset at the equivalent of the simple average of the prevailing 5-year PDST-R2 at reset date plus spread.

The 2025 Notes are redeemable at the option of the Parent Company in whole but not in part on the call option date at 100% of the face value plus accrued and unpaid interest, subject to the following conditions:

a. the Parent Company has obtained prior supervisory approval of the BSP prior to the exercise of the early redemption option of the 2025 Notes.

b. The Parent Company either: (1) replaces the 2025 Notes being redeemed with new capital securities which are of the same or better quality, on such terms and conditions which are sustainable for the income capacity of the Parent Company; or (2) demonstrates that its capital position is well above the minimum capital requirements after the exercise of the early redemption option.

Furthermore, upon the occurrence of a tax redemption even to a regulatory redemption event, the Parent Company may, subject to compliance with BSP rules and BSP approval, and upon prior approval of the BSP and with prior written notice to the trustee and registrar, redeem all and not less than all of the outstanding 2025 Notes prior to the stated maturity by paying the note holder the redemption amount which is equal to100% of the principal amount of the 2025 Notes together with accrued but unpaid interest (if any) payable on up to (but excluding) the date on which the 2025 Notes are redeemed pursuant to a redemption option, in either case, as the same may have been reduced pursuant to a write-down.

The 2025 Notes also have a loss absorbency feature which means that the 2025 Notes are subject to a non-viability write-down in case of a trigger event. Non-viability is defined as a deviation from a certain level of Common Equity Tier 1(CET1) Ratio or inability of the Parent Company to continue business (closure) or any other event as determined by the BSP, whichever comes earlier. A trigger event is deemed to have occurred when the Parent Company is considered non-viable as determined by the BSP.

Upon the occurrence of a trigger event, the principal amount of the 2025 Notes may be written down to the extent required by the BSP, which could go to as low as zero. Additional Tier1 (“AT1”) capital instruments shall be utilized first before Tier 2 capital instruments are written-off or written down, until the viability of the Bank is re-established. In the event the Parent Company does not have AT 1 capital instruments, then the write-down shall automatically apply to Tier 2 capital, including the 2025 Notes.

As of December 31, 2020 and 2019, the Parent Company’s subordinated debt amounted to ₱4.98 billion and ₱4.97 billion, respectively.

Interest expense (included in Interest expense on bills payable, subordinated debt and other borrowings in the statements of income) for the subordinated debt amounted to ₱284.96 million, ₱284.55 million, and ₱281.25 million in 2020, 2019 and 2018, respectively. Amortization of debt issue costs included in interest expense amounted to ₱3.71 million, ₱3.49 million and ₱3.30 million in 2020, 2019 and 2018, respectively.

On August 28, 2020, the Parent Company Board of Directors approved the exercise of the call option on February 25, 2021 (see Note 35).

20. Accrued Taxes, Interest and Other Expenses

This account consists of:

	Consolidated		Parent Company	
	2020	2019	**2020**	2019
Accrued taxes & licenses	**₱168,611**	₱150,514	**₱159,604**	₱139,491
Accrued interest payable	**163,884**	310,235	**140,308**	280,334
Accrued other expense	**922,870**	797,206	**875,318**	749,348
	₱1,255,365	₱1,257,955	**₱1,175,230**	₱1,169,173

Accrued other expenses include accruals for rent, training expenses, repairs and maintenance, membership fees and dues, professional fees and insurance.

21. Other Liabilities

This account consists of:

	Consolidated		Parent Company	
	2020	2019	**2020**	2019
Accounts payable	**₱2,812,344**	₱2,212,199	**₱2,743,167**	₱2,091,060
Lease liabilities (Note 24)	**1,161,668**	1,168,530	**1,107,917**	1,116,310
Acceptance payable (Note 9)	**922,604**	236,568	**922,604**	236,568
Retirement liability (Note 25)	**214,038**	456,109	**196,817**	442,224
Deposit on lease contracts	**191,920**	274,048	–	–
Bills purchased - contra (Note 9)	**173,482**	257,322	**173,482**	257,332
Unearned income	**163,070**	506,790	**161,316**	257,170
Payment orders payable	**152,337**	22,131	**152,337**	22,131
Margin deposits	**57,146**	80,852	**57,146**	80,852
Withholding taxes payable	**38,718**	57,811	**36,122**	53,754
Derivative liabilities (Note 8)	**226**	4,444	**226**	4,444
Miscellaneous	**207,222**	220,828	**93,453**	113,123
	₱6,094,775	₱5,497,632	**₱5,644,587**	₱4,674,968

Unearned income represents the difference in the fair value and the related proceeds of the loan from PDIC related to ATB acquisition and Cooperative Bank of Pampanga by the Group and PDIC loan borrowings by RBA (Note 35). Interest income, representing the amortization of unearned income and included in 'Others' under interest income in the profit or loss, amounted to ₱95.85 million, ₱86.57 million and ₱78.19 million for the Group in 2020, 2019, and 2018, respectively and ₱95.85 million, ₱86.57 million and ₱78.19 million for the Parent Company in 2020, 2019 and 2018, respectively.

Miscellaneous liabilities of the Group is comprised mainly of the Parent Company's collections in favor of SSS and PHIC that are remitted by the Parent Company to the respective agencies on a bi-monthly basis, advances of AULFC from individual shareholders (see Note 30).

22. Maturity Profile of Assets and Liabilities

The following tables show 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 the statement of condition date:

	Consolidated					
	2020			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	**₱4,062,491**	**₱–**	**₱4,062,491**	₱4,050,052	₱–	₱4,050,052
Due from BSP	**54,777,810**	**–**	**54,777,810**	39,089,525	–	39,089,525
Due from other banks	**5,795,284**	**–**	**5,795,284**	3,662,395	–	3,662,395
IBLR and SPURA	**13,483,414**	**65,024**	**13,548,438**	3,541,226	–	3,541,226
Financial assets at FVTPL	**3,470,465**	**–**	**3,470,465**	797,295	87,703	884,998
Investment securities at FVOCI	**51,938,491**	**–**	**51,938,491**	18,162,025	1,564	18,163,589
Investment securities at amortized cost	**588,634**	**5,619,417**	**6,208,051**	546,870	16,404,680	16,951,550
Loans and receivables - gross	**54,044,479**	**120,859,183**	**174,903,662**	49,536,266	125,109,075	174,645,341
	188,161,068	**126,543,624**	**314,704,692**	119,385,654	141,603,022	260,988,676
Nonfinancial Assets						
Property and equipment	**–**	**5,655,204**	**5,655,204**	–	5,259,781	5,259,781
Investment properties	**–**	**533,394**	**533,394**	–	514,235	514,235
Deferred tax assets	**–**	**314,904**	**314,904**	–	71,298	71,298
Intangible assets	**–**	**2,284,591**	**2,284,591**	–	2,257,917	2,257,917
Goodwill	**–**	**1,961,446**	**1,961,446**	–	2,104,552	2,104,552
Other assets	**140,378**	**141,419**	**281,797**	397,359	133,851	531,210
	140,378	**10,890,958**	**11,031,336**	397,359	10,341,634	10,738,993
	188,301,446	**137,436,164**	**325,736,028**	119,783,013	151,944,656	271,727,669
Allowance for credit and impairment losses			**5,964,000**			2,123,731
Unearned discounts and unearned lease/finance income			**176,720**			161,693
Accumulated depreciation and amortization			**4,034,828**			3,448,078
			10,175,548			5,733,502
			₱315,560,480			₱265,994,167
Financial Liabilities						
Deposit liabilities	**₱240,985,245**	**₱16,350,486**	**₱257,335,731**	₱195,315,244	₱14,910,625	₱210,225,869
Unsecured subordinated debt	**4,978,438**	**–**	**4,978,438**	–	4,974,730	4,974,730
Bills payable	**385,901**	**2,283,471**	**2,669,372**	370,845	2,837,146	3,207,991
Manager's checks	**863,627**	**–**	**863,627**	717,310	–	717,310
Accrued interest and other expenses	**1,077,299**	**9,455**	**1,086,754**	1,080,292	27,149	1,107,441
Bonds payable	**–**	**6,955,272**	**6,955,272**	–	6,932,424	6,932,424
Derivative liabilities	**226**	**–**	**226**	4,444	–	4,444
Other liabilities	**4,845,097**	**823,868**	**5,668,965**	3,627,661	854,530	4,482,191
	253,135,833	**26,422,552**	**279,558,385**	201,115,796	30,536,604	231,652,400
Nonfinancial Liabilities						
Income tax payable	**174,688**	**–**	**174,688**	21,169	–	21,169
Accrued taxes and other liabilities	**380,157**	**214,038**	**594,195**	705,402	456,109	1,161,511
	₱253,690,678	**₱26,636,590**	**₱280,327,268**	₱201,842,367	₱30,992,713	₱232,835,080

	Parent Company					
	2020			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	**₱4,033,875**	**₱–**	**₱4,033,875**	₱4,018,694	₱–	₱4,018,694
Due from BSP	**54,692,266**	**–**	**54,692,266**	39,003,212	–	39,003,212
Due from other banks	**5,286,106**	**–**	**5,286,106**	3,364,310	–	3,364,310
IBLR and SPURA	**13,483,414**	**65,024**	**13,548,438**	3,541,226	–	3,541,226
Financial assets at FVTPL	**3,453,627**	**–**	**3,453,627**	797,295	60,507	857,802
Investment securities at FVOCI	**51,938,491**	**–**	**51,938,491**	18,162,025	1,564	18,163,589
HTM investments	**379,438**	**5,619,416**	**5,998,854**	507,476	15,784,869	16,292,345
Loans and receivables - gross	**51,523,180**	**119,733,256**	**171,256,436**	47,170,375	123,226,544	170,396,919
	184,790,397	**125,417,696**	**310,208,093**	116,564,613	139,073,484	255,638,097
Nonfinancial Assets						
Property and equipment	**–**	**5,251,573**	**5,251,573**	–	4,855,121	4,855,121
Investment properties	**–**	**365,462**	**365,462**	–	336,955	336,955
Deferred tax assets	**–**	**366,305**	**366,305**	–	150,627	150,627
Investments in subsidiaries	**–**	**1,182,358**	**1,182,358**	–	1,172,243	1,172,243
Intangible assets	**–**	**2,279,454**	**2,279,454**	–	2,252,780	2,252,780
Goodwill	**–**	**1,577,081**	**1,577,081**	–	1,577,081	1,577,081
Other assets	**133,559**	**113,932**	**247,491**	383,062	102,317	485,379
	133,559	**11,136,165**	**11,269,724**	383,062	10,447,124	10,830,186
	184,923,956	**136,553,861**	**321,477,817**	116,947,675	149,520,608	266,468,283
Allowance for credit and impairment losses			**5,431,750**			1,677,642
Unearned discounts and unearned lease/finance income			**126,272**			97,922
Accumulated depreciation and amortization			**3,797,955**			3,242,122
			9,355,977			5,017,686
			₱312,122,030			₱261,450,597
Financial Liabilities						
Deposit liabilities	**₱238,986,725**	**₱16,039,304**	**₱255,026,029**	₱192,948,424	₱14,796,214	₱207,744,638
Bills payable	**–**	**2,255,917**	**2,255,917**	–	2,222,080	2,222,080
Bonds payable	**–**	**6,955,272**	**6,955,272**	–	6,932,424	6,932,424
Manager's checks	**863,627**	**–**	**863,627**	717,310	–	717,310
Derivative liabilities	**226**	**–**	**226**	4,444	–	4,444
Accrued interest and other expenses	**1,006,171**	**9,455**	**1,015,626**	1,019,781	9,900	1,029,682
Unsecured subordinated debt	**4,978,438**	**–**	**4,978,438**	–	4,974,730	4,974,730
Other liabilities	**4,437,445**	**804,724**	**5,242,169**	3,055,148	854,530	3,909,678
	250,272,632	**26,064,672**	**276,337,304**	197,745,108	29,789,878	227,534,986
Nonfinancial Liabilities						
Income tax payable	**138,221**	**–**	**138,221**	–	–	–
Accrued taxes and other liabilities	**364,979**	**196,817**	**561,796**	458,113	442,224	900,337
	503,200	**196,817**	**700,017**	458,113	442,224	900,337
	₱250,775,832	**₱26,261,489**	**₱277,037,321**	₱198,203,222	₱30,232,103	₱228,435,323

23. **Equity**

Capital stock consists of (amounts in thousands, except for par value and number of shares):

	Shares		Amount	
	2020	2019	**2020**	2019
Common - ₱10.00 par value				
Authorized	**500,000,000**	500,000,000	₱5,000,000	₱5,000,000
Issued and outstanding				
Balance at the beginning and end of the year	**485,310,538**	485,310,538	₱4,853,105	₱4,853,105

With the approval of the SEC on May 6, 2013, a total of 88,000,000 offer shares consisting of 80,000,000 firm shares and 8,000,000 optional shares pursuant to the over-allotment option were issued and offered by the Parent Company, with ₱10.00 par value per share through an initial public offering at ₱95.00 per share from May 7 to 14, 2013. The Parent Company's shares were listed and commenced trading at the PSE on May 17, 2013.

The net proceeds from the IPO amounted to ₱7.46 billion, net of direct costs related to equity issuance of ₱0.48 billion.

Retained Earnings
On June 30, 2020, the BOD of the Parent Company approved the declarations of cash dividends amounting to ₱485.31 million (or ₱1.00 per share) and ₱485.31 million (or ₱1.00 per share) to stockholders of record as of July 15, 2020 and September 30, 2020, payable on July 30, 2020 and October 15, 2020, respectively

On May 30, 2019, the BOD of the Parent Company approved the declarations of cash dividends amounting to ₱485.31 million (or ₱1.00 per share) and ₱388.25 million (or ₱0.80 per share) to stockholders of record as of July 17, 2019 and September 20, 2019, payable on July 11, 2019 and October 16, 2019, respectively

On May 10, 2018 and July 31, 2018, the BOD of the Parent Company approved the declarations of cash dividends amounting to ₱485.31million (or ₱1.00 per share) and ₱291.19 million (or ₱0.60 per share) to stockholders of record as of May 15, 2018 and August 3, 2018, payable on May 31, 2018 and August 10, 2018, respectively.

Included in this account is the difference between the 1% general loan loss provision (GLLP) over the computed ECL allowance for credit losses related to Stage 1 accounts, as a required BSP appropriation. As of December 31, 2020 and 2019, surplus reserves related to the difference between GLLP over ECL allowance amounted to ₱481.97 million and ₱1,143.77 million, respectively for the Group and Parent Company.

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

The Group manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities and assessments of prospective business requirements or directions. In order to maintain or adjust the capital structure, the Group 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 Parent Company's compliance with regulatory requirements and ratios is based on the amount of the Parent Company's unimpaired capital (regulatory net worth) reported to the BSP, determined on the basis of regulatory accounting policies, which differ from PFRS in some respects.

Effective January 1, 2014, the Group complied with 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 sets out a minimum Common Equity Tier 1 (CET1) ratio of 6.00% and Tier 1 capital ratio of 7.50% and also introduced a capital conservation buffer of 2.50% comprised of CET1 capital. The existing requirement for Total Capital Adequacy Ratio (CAR) remains unchanged at 10.00% and these ratios shall be maintained at all times.

Basel III also requires that existing capital instruments as of December 31, 2010 which do not meet the eligibility criteria for capital instruments under the revised capital framework shall no longer be recognized as capital. In addition, capital instruments issued under BSP Circular Nos. 709 and 716 (the circulars amending the definition of qualifying capital particularly on Hybrid Tier 1 and Lower Tier 2 capitals) and before the effectivity of BSP Circular No. 781, are recognized as qualifying capital until December 31, 2015. In addition to changes in minimum capital requirements, this Circular also requires various regulatory adjustments in the calculation of qualifying capital.

On June 27, 2014, the BSP issued Circular No. 839, REST Limit for Real Estate Exposures which provides the implementing guidelines on the prudential REST limit for universal, commercial, and thrift banks on their aggregate real estate exposures. The Group should maintain CET1 and CAR levels at the regulatory prescribed minimums, on a solo and consolidated basis, even after the simulated results of a 25.00% write-off to the Group's real estate exposures. These shall be complied with at all times.

Capital adequacy ratio (CAR)
The capital-to-risk assets ratio reported to the BSP as of December 31, 2020 and 2019 based on Basel III are shown in the table below (amounts in millions):

	Consolidated		**Parent Company**	
	2020	2019	**2020**	2019
Tier 1 capital	**₱31,366**	₱28,734	**₱30,342**	₱27,563
CET1 Capital*	**31,366**	28,734	**30,342**	27,563
Tier 2 capital	**6,844**	6,647	**6,790**	6,594
Total regulatory capital	**₱38,210**	₱35,381	**₱37,133**	₱34,157
Risk weighted assets	**₱212,111**	₱196,696	**₱205,459**	₱191,202

**net of regulatory adjustments to CET1 Capital*

Capital ratios				
Total regulatory capital expressed as percentage of total risk weighted assets	**18.01%**	17.99%	**18.07%**	17.86%
Total CET1 expressed as percentage of total risk weighted assets	**14.79%**	14.61%	**14.77%**	14.42%
Total tier 1 expressed as percentage of total risk weighted assets	**14.79%**	14.61%	**14.77%**	14.42%

Qualifying capital and risk-weighted assets (RWA) are computed based on BSP regulations.

Under Basel III, the regulatory qualifying capital of the Parent Company consists of CET1 capital, which comprises paid-up common stock, surplus including current year profit, surplus reserves, other comprehensive income (net unrealized gains or losses on FVOCI securities and cumulative foreign currency translation) and non-controlling interest less required deductions such as unsecured credit accommodations to directors, officers, stockholders and related interests (DOSRI), deferred income tax, other intangible assets, defined benefit pension fund assets and goodwill. The other component of regulatory capital is Tier 2 (supplementary) capital, which includes subordinated debt and general loan loss provision.

Risk-weighted assets are determined by assigning defined risk weights to the balance sheet exposure and to the credit equivalent amounts of off-balance sheet exposures. Certain items are deducted from risk-weighted assets, such as the excess of general loan loss provision over the amount permitted to be included in Tier 2 capital. The risk weights vary from 0.00% to 150.00% depending on the type of exposure, with the risk weights of off-balance sheet exposures being subjected further to credit conversion factors.

The risk-weighted CAR is calculated by dividing the sum of its Tier 1 and Tier 2 capital by its risk-weighted assets, as defined under BSP regulations. The determination of compliance with regulatory requirements and ratios is based on the amount of the Group's and Parent Company'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.

As at December 31, 2020 and 2019, the Group and the Parent Company were in compliance with the minimum CAR, as reported to the BSP.

With the issuance of BSP Circular No. 639 covering the Internal Capital Adequacy Assessment Process (ICAAP) in 2009, which supplements the BSP's risk-based capital adequacy framework under Circular No. 538, the Group has adopted and developed its ICAAP framework to ensure that appropriate level and quality of capital are maintained by the Group on an ongoing basis. The level and structure of capital are assessed and determined in light of the Group's business environment, plans, performance, risks and budget, as well as regulatory edicts.

Basel III Leverage Ratio (BLR)
BSP Circular Nos. 881 and 990 cover the implementing guidelines on the BLR framework designed to act as a supplementary measure to the risk-based capital requirements and shall not be less than 5.00%. The monitoring period has been set every quarter starting December 31, 2014 and extended until June 30, 2018. Effective July 1, 2018, the monitoring of the leverage ratio was implemented as a Pillar I minimum requirement.

As of December 31, 2020, and 2019, the details of BLR reported to BSP are shown in the table below; (amounts in millions, except for percentages):

	Consolidated		**Parent Company**	
	2020	2019	**2020**	2019
Tier 1 capital	**₱31,366**	₱28,734	**₱30,342**	₱27,563
Exposure measure	**319,008**	266,792	**207,141**	261,230
Leverage ratio	**9.83%**	10.77%	**14.65%**	10.55%

Under the framework, BLR is defined as the capital measure divided by the exposure measure. Capital measure is Tier 1 capital. Exposure measure is the sum of on-balance sheet exposures, derivative exposures, security financing exposures and off-balance sheet items.

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%. Compliance with the LCR minimum requirement commenced on January 1, 2018 with the prescribed minimum ratio of 90.00% for 2018 and 100.00% effective January 1, 2019. As of December 31, 2020 and 2019, the LCR in single currency as reported to the BSP, was at 171.40% and 160.19%, respectively, for the Group, and 173.40% and 162.39% respectively, for the Parent Company.

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, was at 154.99% and 139.13%, respectively, for the Group, and 155.54% and 138.72%, respectively, for the Parent Company.

24. Leases

<u>As a Lessee</u>
The Group and Parent Company leases the premises of most of its branches, as well as those of its subsidiaries. The lease periods range from 3 to 15 years, renewable upon mutual agreement of the parties. Various lease contracts include escalation clauses, most of which bear an annual rent increase of 3.00% to 10.00%. In 2020, 2019 and 2018, rent expense recognized in the statements of income amounted to ₱31.98 million, ₱107.81 million and ₱398.26 million, respectively, for the Group and ₱32.90 million, ₱98.93 million and ₱380.91 million, respectively, for the Parent Company. In 2020 and 2019, the rent expense represents the leases of 'short-term leases' and 'leases of low-value assets'.

The following are the amounts recognized in statement of income in 2020 and 2019:

	Consolidated		**Parent**	
	2020	2019	**2020**	2019
Depreciation expense of right-of-use assets included in property and equipment	**₱355,654**	₱295,199	**₱333,262**	₱281,309
Interest expense on lease liabilities	**85,579**	81,884	**81,877**	78,926
Rent expense relating to lease of short-term and low-value assets	**31,659**	107,806	**32,901**	98,930
Total amount recognized in statement of income	**₱472,892**	₱484,889	**₱448,040**	₱459,165

As of December 31, 2020, the movement in leased liabilities (included in 'Other Liabilities' in Note 21) are as follows:

	Consolidated		Parent	
	2020	2019	**2020**	2019
Balances at January 1	**₱1,168,530**	₱1,060,495	**₱1,116,310**	₱1,024,861
Additions	**318,949**	347,975	**298,720**	320,678
Interest expense	**85,579**	81,884	**81,877**	78,926
Payments	**(411,390)**	(321,824)	**(388,990)**	(308,155)
Balances at December 31	**₱1,161,668**	₱1,168,530	**₱1,107,917**	₱1,116,310

Shown below is the maturity analysis of the undiscounted lease payments as of December 31, 2020 and 2019:

	Consolidated		Parent	
	2020	2019	**2020**	2019
1 year or loss	**₱379,887**	₱348,273	**₱365,443**	₱332,386
More than 1 year to 2 years	**339,815**	311,329	**329,545**	297,762
More than 2 years to 3 years	**275,086**	273,302	**267,068**	262,954
More than 3 years to 4 years	**159,064**	210,197	**153,829**	201,601
More than 4 years to 5 years	**70,700**	105,489	**68,867**	99,214
More than 5 years	**95,935**	129,539	**94,525**	125,370
	1,320,487	₱1,378,129	**₱1,279,277**	₱1,319,287

As a Lessor
Asia United Fleet Management Services, Inc. (AUFMSI), a wholly-owned subsidiary of AULFC, is involved in the operating lease of automobiles, with lease terms of maximum of three (3) years. Operating lease income from lease of automobiles included under 'Miscellaneous Income' amounted to ₱28.05 million, ₱43.62 million and ₱75.97 million in 2020, 2019 and 2018, respectively (Note 27).

As at December 31, 2020 and 2019, the future minimum rental receivable of the Group are as follows:

	2020	2019
Within one year	**₱25,884**	₱16,470
After one year but not more than five years	**20,031**	13,296
	₱45,915	₱29,766

25. Retirement Plan

The Parent Company formalized its retirement plan in July 2010 covering substantially all its officers and regular employees, including key management personnel of the subsidiaries. Under these retirement plans, all covered officers and employees are entitled to cash benefits after satisfying certain age and service requirements. The latest actuarial valuation studies of the retirement plan, performed by an independent third party, were made as at December 31, 2020.

The Company's retirement plan is a non-contributory defined benefit plan with a single lump sum payment covering retirement and ancillary benefits. The Trust and Investments Group of the Parent Company performs trust functions and manages the assets of the retirement fund.

As at December 31, 2020 and 2019, the subsidiaries have no formal retirement plan for its employees. The retirement obligations recognized by RBA and CURB, in particular, are based on the minimum regulatory benefits under Republic Act 7641 or *Retirement Pay Law*. The regulatory benefit is paid in lump sum upon retirement.

The cost of defined benefit retirement plans as well as the present value of the benefit obligation is determined using actuarial valuations. The actuarial valuation involves making various assumptions. The principal assumptions used are shown below:

	Consolidated		Parent Company	
	2020	2019	**2020**	2019
Discount rate	**4.0% - 4.1%**	5.30% - 5.50%	**4.00%**	5.40%
Future salary increases	**5.0% - 6.0%**	6.00% - 8.00%	**5.00%**	8.00%
Average remaining working life	**9.4 – 13.4**	9.1 – 12.9	**13.4**	12.9

The amounts of retirement liability recognized in the statements of condition (included under 'Other liabilities') as of December 31, 2020 and 2019 follow (see Note 21):

	Consolidated		Parent	
	2020	2019	**2020**	2019
Present value of defined benefit obligation	**₱1,096,221**	₱1,182,705	**₱1,079,000**	₱1,168,820
Fair value of plan assets	**882,183**	726,596	**882,183**	726,596
Retirement liability	**₱214,038**	₱456,109	**₱196,817**	₱442,224

Changes in the present value of the defined benefit obligation as of December 31, 2020 and 2019 recognized in the statements of condition follow:

	Consolidated	
	2020	2019
Balance at beginning of year	**₱1,182,705**	₱716,364
Current service cost	**143,430**	85,461
Interest cost	**63,875**	55,097
Benefits paid directly by the Group	**(15,410)**	(21,275)
Settlement (gains)	–	(1,506)
Remeasurement (gains) losses:		
Actuarial gains arising from changes in financial assumptions	**(278,379)**	334,181
Experience adjustments	–	14,383
Balance at end of year	**₱1,096,221**	₱1,182,705

	Parent Company	
	2020	2019
Balance at beginning of year	**₱1,168,820**	₱710,151
Current service cost	**140,220**	84,109
Interest cost	**63,116**	54,682
Benefits paid directly by the Parent Company	**(15,410)**	(21,275)
Remeasurement (gains) losses:		
Actuarial gains (losses) arising from changes in financial assumptions	**(277,746)**	326,770
Experience adjustments	–	14,383
Balance at end of year	**₱1,079,000**	₱1,168,820

Changes in the fair value of the plan assets are as follows:

	Consolidated/Parent Company	
	2020	2019
Balance at beginning of year	**₱726,596**	₱607,122
Contributions	**140,000**	85,000
Interest income	**39,236**	46,748
Return on plan assets excluding amount in net interest income	**(23,649)**	(12,274)
Balance at end of year	**₱882,183**	₱726,596

The amounts of defined benefit cost that is included under 'Compensation and Fringe Benefits' in the statements of income are as follows:

	Consolidated			Parent Company		
	2020	2019	2018	**2020**	2019	2018
Current service cost	**₱143,430**	₱85,461	₱88,501	**₱140,220**	₱84,109	₱86,977
Net interest cost	**24,639**	8,349	8,810	**23,880**	7,934	8,500
	₱168,069	₱93,810	₱97,311	**₱164,100**	₱92,043	₱95,477

The amounts of defined benefit cost which is included in other comprehensive income related to remeasurements of retirement plan follow:

	Consolidated			Parent Company		
	2020	2019	2018	**2020**	2019	2018
Remeasurement gains (loss) during the year	**₱254,730**	(₱360,838)	₱32,879	**₱254,097**	(₱353,427)	₱30,693
Income tax effect	**76,852**	106,254	9,863	**76,229**	106,028	9,208
	177,878	(254,584)	23,016	**177,868**	(247,399)	₱21,485
Share in retirement gains (loss) on remeasurement of retirement plan of subsidiaries during the year	**–**	–	–	**–**	(7,155)	1,522
	₱177,878*	(₱254,584)**	₱23,016***	**₱177,868**	(₱254,554)	₱23,007

**Includes remeasurement gains attributable to the non-controlling interest amounting to P10 in 2020.*
***Includes remeasurement losses attributable to the non-controlling interest amounting to ₱30 in 2019.*
****Includes remeasurement gains attributable to the non-controlling interest amounting to ₱9 in 2018.*

The fair values of plan assets by each class as at the end of the reporting periods are as follow:

	Consolidated/Parent Company	
	2020	2019
Cash and cash equivalents	**₱238,409**	₱124,847
Investment in unit investment trust funds	**25,608**	35,176
Debt instruments:		
Private securities	**199,300**	234,607
Government securities	**125,141**	78,583
Equity instruments	**291,931**	252,712
Accrued trust fees	**(984)**	(836)
Others	**2,778**	1,507
	₱882,183	₱726,596

Cash and cash equivalents include cash in special deposit accounts, special savings deposit, and time deposit accounts. Investments in debt instruments under private securities consist of investment in commercial papers and interest receivables while the investments in debt instruments under government securities pertain to investments in retail treasury bonds. Equity instruments consist of shares traded in the local stock exchange.

The composition of debt and equity investments at the end of the reporting period by industry classification is as follows:

	Consolidated/Parent Company	
	2020	2019
Debt instruments:		
Government securities	**₱125,141**	₱78,583
Private securities		
Financial intermediaries	**20,000**	88,390
Holding firms	**50,000**	75,000
Real estate, renting and business services	**74,000**	54,000
Public utilities	**15,300**	–
Others	**40,000**	17,217
	₱324,441	₱313,190
Equity instruments		
Holding firms	**₱94,403**	₱111,224
Public utilities	**46,352**	40,563
Financial intermediaries	**20,650**	20,953
Real estate, renting and business services	**51,317**	18,761
Others	**79,209**	61,211
	₱291,931	₱252,712

All equity and debt instruments held, except various receivables, have quoted prices in active market. The remaining plan assets are carried at their carrying amounts since the carrying amounts approximate the fair values.

The plan assets have diverse investments and do not have any concentration risk.

The sensitivity analyses below have been determined based on reasonably possible changes of each significant assumption on the present value of the defined benefit obligation (DBO) as of December 31, 2020 assuming if all other assumptions were held constant:

		Increase (Decrease) in DBO	
		Consolidated	**Parent Company**
Discount rates	+ 100 bps	**(139,633)**	**(136,480)**
	- 100 bps	**171,284**	**167,254**
Future salary increases	+ 100 bps	**167,670**	**163,764**
	- 100 bps	**(139,612)**	**(136,483)**
Turnover rate	125%	**(43,353)**	**(40,093)**
	75%	**49,972**	**45,634**

There is no minimum funding requirement in the country. The Parent Company expects to contribute ₱121.4 million in 2021.

The maturity profile of undiscounted expected benefit payments from the plan follows:

	Parent Company	
	2020	2019
Within one year	**₱75,923**	₱67,297
More than one year to five years	**210,279**	213,912
More than five years to ten years	**451,553**	495,338
More than ten years to 15 years	**749,096**	923,278
More than 15 years to 20 years	**970,665**	1,336,669
More than 20 years	**4,569,831**	10,495,218
	₱7,027,347	₱13,531,742

26. **Service Charges, Fees and Commissions**

This account consists of:

	Consolidated			Parent Company		
	2020	2019	2018	**2020**	2019	2018
Service charges	**₱447,221**	₱431,362	₱379,446	**₱369,565**	₱389,758	₱352,972
Commissions	**219,288**	205,696	246,391	**219,289**	205,696	246,391
Fees	**129,877**	241,678	199,677	**127,954**	244,062	207,145
	₱796,386	₱878,736	₱825,514	**₱716,808**	₱839,516	₱806,508

27. **Miscellaneous Income and Miscellaneous Expenses**

Miscellaneous income consists of:

	Consolidated			Parent Company		
	2020	2019	2018	**2020**	2019	2018
Recoveries	**₱103,615**	₱72,377	₱159,892	**₱62,195**	₱67,843	₱158,339
Rental income	**35,669**	52,389	85,312	**7,622**	9,777	9,347
Gain on sale of investment properties and chattels	**38,863**	42,668	52,745	**13,114**	16,749	52,745
Revenue sharing	**29,409**	30,653	34,471	**29,409**	30,653	34,471
Dividend income	**8,170**	3,242	4,421	**6,550**	1,622	2,801
Gain on disposal of property and equipment	**7,921**	44,950	9,749	**1,749**	9,187	9,749
Gain on foreclosure and dacion transactions	**7,559**	49,397	7,084	**329**	30,517	7,084
Others	**22,746**	78,395	110,363	**5,356**	5,998	6,651
	₱253,952	₱374,071	₱464,037	**₱126,324**	₱172,346	₱281,187

Others include volume rebates on telegraphic transfers and penalties collected on past due loans.

Miscellaneous expenses consist of:

	Consolidated			Parent Company		
	2020	2019	2018	**2020**	2019	2018
BSP supervision fees and other compliance costs	**₱207,314**	₱162,325	₱145,200	**₱206,328**	₱161,403	₱144,453
Stationery and supplies used	**76,669**	65,161	59,628	**70,562**	59,128	55,265
Fuel and lubricants	**75,880**	75,322	64,458	**64,877**	62,393	43,032
Entertainment, amusement and recreation	**68,661**	78,726	60,741	**68,430**	78,224	59,178
Information technology	**60,604**	51,311	50,220	**58,539**	49,595	49,465
Advertising and publicity	**41,504**	127,874	61,169	**40,554**	127,657	60,966
Bank charges	**28,376**	24,194	20,344	**28,376**	24,153	20,344
Litigation/acquired asset expense	**26,573**	16,462	8,355	**22,071**	13,042	5,637
Membership fees and dues	**26,129**	25,548	24,233	**25,885**	25,374	23,976
Commission expense	**21,043**	38,339	27,682	**21,043**	38,260	27,682
Brokerage fees	**14,628**	15,951	5,300	**14,628**	15,951	5,300
Others	**94,874**	188,888	56,321	**89,654**	189,232	58,771
	₱742,255	₱870,101	₱583,651	**₱710,947**	₱844,412	₱554,069

Others include expenses incurred on donations and PCHC processing fees.

28. Provision for Income Taxes

Provision for income tax consists of:

	Consolidated			Parent Company		
	2020	2019	2018	**2020**	2019	2018
Current						
RCIT	**₱733,230**	₱656,945	₱564,753	**₱689,869**	₱625,009	₱553,048
Final tax	**415,856**	258,812	139,754	**410,587**	254,969	136,286
MCIT	**962**	–	–	**–**	–	–
	1,150,048	915,757	704,507	**1,100,456**	879,978	689,334
Deferred	**(320,458)**	49,495	16,084	**(291,906)**	88,043	16,084
	₱829,590	₱965,252	₱720,591	**₱808,550**	₱968,021	₱705,418

Provision (benefit) for deferred tax charged directly to OCI, arising from net remeasurement gains (loss) on retirement plan amounted to ₱76.85 million, (₱106.25 million), and ₱9.86 million for the Group and ₱76.23 million, (₱106.25 million), and ₱9.86 million for the Parent Company in 2020, 2019 and 2018, respectively (see Note 25).

The components of deferred tax assets (liabilities) follow:

	Consolidated		Parent Company	
	2020	2019	**2020**	2019
Deferred tax asset on:				
Allowance for impairment and credit losses	**₱785,146**	₱472,042	**₱730,243**	₱439,822
Lease liabilities	**336,224**	339,936	**332,375**	334,893
Retirement liability	**59,998**	132,589	**58,848**	132,667
Excess of tax base of loans and receivables acquired from business combination	**17,293**	38,975	**–**	21,648
Unearned income	**1,280**	3,042	**–**	–
	1,201,417	986,044	**₱1,121,466**	929,030
Less: Deferred tax liability on:				
Branch licenses acquired from business combinations	**546,000**	₱546,000	**₱426,000**	₱426,000
Right-of-use asset	**303,378**	315,874	**299,723**	311,533
Issuance cost of Tier 2 notes and bonds payable	**19,887**	27,698	**19,887**	27,698
Fair value adjustment on asset foreclosures and dacion transactions – net of accumulated depreciation	**14,472**	22,709	**6,776**	10,707
Fair value adjustment on derivatives – net	**2,776**	2,465	**2,775**	2,465
	886,513	914,746	**755,161**	778,403
	₱ 314,904	₱71,298	**₱366,305**	₱150,627

The Group did not set up deferred tax assets on the following deductible temporary differences and excess MCIT of the subsidiaries:

	Consolidated	
	2020	2019
Allowance for credit and impairment losses	**₱346,141**	₱290,580
Deferred service fees	**57,643**	33,387
Retirement liability	**13,392**	11,573
PFRS 16 related adjustments	**4,483**	21,735
Accrued expenses	**–**	6,381
Excess of tax base over the fair value of loans and receivables acquired from business combination:	**–**	5,613

A reconciliation of income before income tax computed at the statutory tax rate to effective income tax follows:

	Consolidated			Parent Company		
	2020	2019	2018	**2020**	2019	2018
Statutory income tax	**₱1,157,175**	₱1,621,822	₱1,202,417	**₱1,149,459**	₱1,624,438	₱1,205,628
Additions (reductions) in income tax resulting from:						
FCDU loss (income)	**419,931**	(474,566)	(405,872)	**419,931**	(474,566)	(405,872)
Tax-paid and tax-exempt income	**(972,952)**	(363,217)	(157,907)	**(927,174)**	(356,111)	(154,439)
Nondeductible expenses	**225,593**	149,991	111,879	**213,581**	80,755	95,866
Change in unrecognized deferred tax assets and others	**(157)**	31,222	(29,926)	**–**	41,221	–
Nontaxable share in net loss (income) of subsidiaries	**–**	–	–	**(47,247)**	52,284	(35,765)
Effective income tax	**829,590**	₱965,252	₱720,591	**₱808,550**	₱968,021	₱705,418

Under Philippine tax laws, the RBU of the Parent Company and its subsidiaries are subject to income taxes. Income taxes include corporate income tax and final taxes which represents final withholding tax on gross interest income from government securities and other deposit substitutes and income from FCDU transactions.

Republic Act (RA) No. 9397, *An Act Amending National Internal Revenue Code*, provides that the Regular Corporate Income Tax (RCIT) rate shall be 30.00%. The regulations also provide for MCIT of 2.00% on modified gross income and allow a NOLCO. The MCIT and NOLCO may be applied against the Group’s income tax liability and taxable income, respectively, over a three-year period from the year of inception except for NOLCO incurred in Taxable year 2020 (See further discussion in succeeding paragraphs).

FCDU offshore income (income from non-residents) is tax-exempt while gross onshore income (income from residents) is subject to 10.00% gross income tax. In addition, interest income on deposit placements with other FCDUs and offshore banking units is subject to a 15.00% final tax. Income derived by the FCDU from foreign currency transactions with non-residents, Offshore Banking Units (OBUs), local commercial banks including branches of foreign banks is tax-exempt while interest income on foreign currency loans from residents other than OBUs or other depository banks under the expanded system is subject to 10.00% income tax.

On September 30, 2020, the BIR issued Revenue Regulations No. 25-2020 implementing section 4(bbbb) of “Bayanihan to Recover As One Act” which states that the NOLCO incurred for taxable years 2020 and 2021 can be carried over and claimed as a deduction from gross income for the next five (5) consecutive taxable years immediately following the year of such loss.

As of December 31, 2020, a subsidiary of the Group 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 to Recover as Once Act, as follows:

Year Incurred	Availment Period	Amount	NOLCO Applied Previous Year/s	NOLCO Expired	NOLCO Applied Current Year	NOLCO Unapplied
2020	2021 -2025	₱1,714	₱–	₱–	₱–	₱–

Details of MCIT of a subsidiary in the Group as of December 31, 2020 are as follows:

Inception Year	Amount	Used	Expired	Balance	Expiry Year
2020	₱ 962	₱–	₱–	₱962	2023

29. Trust Operations

Securities and other properties held by the Parent Company in fiduciary or agency capacity for its customers are not included in the accompanying statements of condition since these are not resources of the Parent Company (see Note 31). In connection with the trust functions of the Parent Company, government securities owned by the Parent Company with face value amounting to ₱285.00 million and ₱260.30 million as at December 31, 2020 and 2019, respectively, are deposited with the BSP.

In compliance with existing banking regulations, the Parent Company transferred from surplus free to surplus reserve ₱4.60 million, ₱4.06 million and ₱1.83 million in 2020, 2019 and 2018 corresponding to 10.00% of the net profit realized from its trust operations. The total amount of surplus appropriated for trust operations shall not exceed 20.00% of the Parent Company’s authorized capital stock and cannot be paid out as dividends.

Income from trust operations amounted to ₱89.87 million, ₱71.50 million and ₱47.05 million in 2020, 2019 and 2018, respectively.

30. Related Party Transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. The Parent Company’s related parties include:

- key management personnel, close family members of key management personnel and entities which are controlled, significantly influenced by or for which significant voting power is held by key management personnel or their close family members,
- subsidiaries, joint ventures and associates and their respective subsidiaries, and
- post-employment benefit plans for the benefit of the Parent Company’s employees.

The Parent Company 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 for comparable transactions with other parties. These transactions also did not involve more than the normal risk of collectability or present other unfavorable conditions.

Transactions with Retirement Plans
Under PFRS, certain post-employment benefit plans are considered as related parties. The Group has business relationships with a number of related party retirement plans pursuant to which it provides trust and management services to these plans.

As of December 31, 2020 and 2019, the following are the fund assets of the retirement plan with the Trust and Investments Group of the Parent Company, relating to securities issued by the Parent Company.

	Consolidated/Parent Company	
	2020	2019
Savings and time deposits with the Parent Company	**₱238,409**	₱124,713
Investment in unit investment trust funds	**27,015**	33,599
Investment in common equity shares	**317,605**	90,705
Unsecured subordinated debt	–	20,000
	₱583,029	₱269,017

The investment in Parent Company shares are primarily held for re-sale. Voting rights are exercisable through the Parent Company's proxy.

The following are the amounts recognized by the retirement plan arising from its transactions with the Group and the Parent Company for the years ended December3 1, 2020, 2019 and 2018.

	Consolidated/Parent Company		
	2020	2019	2018
Trust fees	**₱3,708**	₱3,209	₱2,824
Dividend Income	**3,197**	1,320	1,254
Interest income on investments in Tier 2 subordinated debt	**1,125**	1,125	1,260
Unrealized gain (loss) on investments in equity shares	**425**	5,154	5,540
Interest income on savings deposit	**62**	3,715	1,116
Interest income on investments in LTNCD	–	48	243

Remunerations of Directors and other Key Management Personnel
Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly. The Group considers the members of the Management Committee to constitute key management personnel for purposes of PAS 24.

The compensation of the key management personnel of the Group follows (in millions):

	2020	2019	2018
Short-term employee benefits	**₱248**	₱230	₱187
Post-employment benefits	**29**	22	18
	₱277	₱252	₱205

Remunerations given to directors of the Group, which were approved by the Board Remuneration Committee amounted ₱4.86 million, ₱4.19 million and ₱4.08 million in 2020, 2019 and 2018, respectively.

The Parent Company and the subsidiaries share the same key management personnel and directors. Hence, the compensation of key management personnel and remunerations given to directors of the subsidiaries are paid directly and recorded by the Parent Company. The Parent Company does not provide allocation of these expenses to the subsidiaries.

Other Related Party Transactions

Transactions between the Parent Company and its subsidiaries meet the definition of related party transactions. The Group and the Parent Company settles their related party transactions in cash.

Related party transactions of the Parent Company by category of related party are presented below (amounts in millions):

	December 31, 2020		
Category	**Amount/ Volume**	**Outstanding Balances**	**Nature, Terms and Conditions**
Shareholders with significant influence			
Deposit liabilities		**₱524.00**	With annual fixed interest rates from 0.0% to 1.0%
Deposits	**3,797.26**		
Withdrawals	**3,628.78**		
Key Management Personnel			
Loans and receivables		**₱13.80**	Employee loan under BSP approved plan with annual interest rate of 8% and average maturity of 5 years.
Issuances/availments	**0.83**		
Repayments	**6.77**		
Deposit liabilities		**91.92**	With annual fixed interest rates from 0.000% to 0.125%
Deposits	**865.41**		
Withdrawals	**820.25**		
Other Related Parties			
Loans and receivables		**12.00**	Secured with annual fixed interest rates from 4.00% to 5.00% with term of 180 days or less.
Issuances/availments	**33.00**		
Repayments	**42.57**		
Guarantees and Commitments		**8.64**	Secured by Margin Deposit
Deposit liabilities		**1,169.11**	With annual fixed interest rates from 0.0% to 1.75%
Deposits	**3,899.99**		
Withdrawals	**3,405.44**		

	December 31, 2019		
Category	Amount/ Volume	Outstanding Balances	Nature, Terms and Conditions
Shareholders with significant influence			
Deposit liabilities		₱355.52	With annual fixed interest rates from 0.000% to 1.875%
Deposits	1,635.94		
Withdrawals	1,640.81		
Key Management Personnel			
Loans and receivables		₱19.74	Employee loan under BSP approved plan with annual interest rate of 8% and average maturity of 3 years.
Issuances/availments	4.41		
Repayments	3.81		
Deposit liabilities		46.77	With annual fixed interest rates from 0.000% to 0.125%
Deposits	621.10		
Withdrawals	651.25		
Other Related Parties			
Loans and receivables		21.57	Secured with annual fixed interest rates from 4.00% to 5.00% with term of180 days or less.
Issuances/availments	21.57		
Repayments	0.10		
Guarantees and Commitments		3.16	Secured by Margin Deposit
Deposit liabilities		674.55	With annual fixed interest rates from 0.0% to 1.75%
Deposits	7,187.42		
Withdrawals	7,126.47		

Interest income earned from the above loans and receivables and interest expense incurred on deposit liabilities in 2020, 2019 and 2018 follow (in millions):

	Significant Investor			Key Management Personnel			Other Related Parties		
	2020	2019	2018	**2020**	2019	2018	**2020**	2019	2018
Interest income	**₱–**	₱–	₱–	**₱1.21**	₱0.87	₱–	**₱0.70**	₱0.10	₱1.97
Interest expense	**0.41**	0.41	0.42	**0.07**	–	0.02	**3.48**	2.23	2.40

Other related parties pertain to the Parent Company's shareholders other than those considered as shareholders with significant influence.

Related party transactions of the Parent Company with the subsidiaries are as follow:

	December 31, 2020		
Category	**Amount/ Volume**	**Outstanding Balances**	**Nature, Terms and Conditions**
Subsidiaries			
Loans and receivables		**₱35.00**	Unsecured, with insignificant allowance for credit losses with annual fixed interest rates from 5.0% to 5.75%. Classified under stage 1
Issuances/availments	**665.00**		
Repayments	**630.00**		
Deposit liabilities		**₱97.49**	These are demand and savings deposits by the subsidiaries with the Parent Company with fixed annual interest rates ranging from 0.00% to 0.13%
Interest income	**0.16**		
Interest expense	**2.76**		
Rent income	**1.07**		Rent income earned on the office premises leased out to AULFC

Transactions with subsidiaries have been eliminated in the consolidated financial statements.

Other related party transactions of subsidiaries with related parties other than the Parent Company include advances from non-controlling shareholders of AULFC amounting to ₱60.00 million as at December 31, 2020 and 2019. These are unsecured, non-interest bearing advances which are due and demandable and are recorded under 'Other liabilities' in the consolidated statements of condition (see Note 21).

31. Commitments and Contingent Liabilities

In the normal course of the Group's operations, there are various outstanding contingent liabilities and bank guarantees which are not reflected in the accompanying financial statements. The Group does not anticipate material unreserved losses as a result of these transactions.

The Group has several loan-related suits, pending cases and claims arising from the Group's normal course of business. The effects of these, if any, are not reflected in the financial statements. As of December 31, 2020 and 2019, management assessed that estimates of potential financial impact of these contingencies are not yet determinable. Further, in the opinion of management and in consultation with its legal counsel, the suits and claims, if decided adversely, will not involve sums having a material effect on the financial statements.

The following is a summary of the Group and Parent Company's commitments and contingent liabilities at their equivalent peso contractual amounts:

	2020	2019
Trust department accounts	**₱26,444,503**	₱23,687,378
Forward exchange sold	**4,602,710**	2,663,904
Unused commercial letters of credit	**2,341,790**	1,968,451
Outstanding guarantees issued	**2,246,446**	916,292
Standby letters of credit	**2,235,298**	2,400,594
Spot exchange bought	**2,080,948**	3,569,701
Spot exchange sold	**1,606,232**	3,998,363
Forward exchange bought	**520,765**	1,135,148
Inward bills for collection	**132,206**	204,753
Outward bills for collection	**2,764**	21,261
Late deposits/payment received	**1,841**	2,616
Others	**798**	794

Others include items held for safe keeping and items held as collateral.

32. Earnings Per Share

Earnings per share amounts were computed as follows:

	2020	2019	2018
a. Net income attributable to equity holders of the Parent Company	**₱3,022,981**	₱4,446,772	₱3,313,341
b. Total weighted average number of outstanding common	**485,311**	485,311	485,311
c. Basic/Diluted EPS* (a/b)	**₱6.23**	₱9.16	₱6.83

**In 2020, 2019, and 2018, there were no outstanding dilutive potential common shares.*

33. Notes to Statements of Cash Flows

Non-cash activities

The following is the summary of noncash activities:

	Consolidated			Parent Company		
	2020	2019	2018	**2020**	2019	2018
Noncash investing activities						
Additions to investment properties and chattels in settlement of loans (Note 12)	**₱156,993**	₱93,201	₱78,495	**₱115,816**	₱90,762	₱87,450
Recognition of new Right-of-use asset	**320,435**	356,483	–	**297,720**	327,363	–
Disposal of investment properties through sales contract receivable	**10,322**	24,413	–	**10,322**	24,413	–
Disposal of property, plant and equipment on account	–	300	–	–	300	–
Noncash financing activities						
Transfer to surplus reserves	**(657,201)**	167,389	979,991	**(657,201)**	167,389	979,991

Cash and cash equivalents
The amounts of interbank loans receivable considered as cash and cash equivalents follow:

	Consolidated/Parent Company	
	2020	2019
Interbank loans receivable	**₱13,548,438**	₱3,541,226
Less: Interbank loans receivable with maturity of more than three months	**65,024**	1,321
	₱13,483,414	₱3,539,905

Changes in liabilities from financing activities
The following are the changes in the Group's and Parent Company's financing liabilities for the years ended December 31, 2020 and 2019:

	2020				
	Consolidated				
	January 1, 2020	**Cash flows**	**Additions**	**Dividends declaration and accretion**	**December 31, 2020**
Bills payable and SSURA	**₱3,207,991**	**(572,455)**	**(₱62,018)**	**₱95,854**	**₱2,669,372**
Bonds payable	**6,932,424**	**–**	**–**	**22,848**	**6,955,272**
Subordinated debt	**4,974,730**	**–**	**–**	**3,707**	**4,978,437**
Lease liabilities	**1,168,530**	**(411,390)**	**318,949**	**85,579**	**1,161,668**
Dividends payable (Note 23)	**–**	**(970,622)**	**–**	**970,622**	**–**
Total liabilities from financing activities	**₱16,283,675**	**(₱1,954,467)**	**₱256,931**	**₱1,178,610**	**₱15,764,749**

	2020				
	Parent Company				
	January 1, 2020	**Cash flows**	**Additions**	**Dividends declaration and accretion**	**December 31, 2020**
Bills payable and SSURA	**₱2,222,080**	**₱–**	**(₱62,018)**	**₱95,855**	**₱2,255,917**
Subordinated debt	**6,932,424**	**–**	**–**	**22,848**	**6,955,272**
Bonds payable	**4,974,730**	**–**	**–**	**3,707**	**4,978,437**
Lease liabilities	**1,116,310**	**(388,990)**	**298,720**	**81,877**	**1,107,917**
Dividends payable (Note 23)	**–**	**(970,622)**	**–**	**970,622**	**–**
Total liabilities from financing activities	**₱15,245,544**	**(₱1,359,612)**	**₱236,702**	**₱1,174,909**	**₱15,297,543**

	2019				
	Consolidated				
	January 1, 2019	Cash flows	Adoption of PFRS 16	Dividends declaration and accretion	December 31, 2019
Bills payable and SSURA	₱4,922,286	(₱1,800,867)	₱–	₱86,572	₱3,207,991
Bonds payable	–	6,928,718	–	3,706	6,932,424
Subordinated debt	4,971,427	–	–	3,303	4,974,730
Lease liabilities	–	(321,824)	1,408,470	81,884	1,168,530
Dividends payable (Note 23)	–	(873,559)	–	873,559	–
Total liabilities from financing activities	₱9,893,713	₱3,932,468	₱1,408,470	₱1,049,024	₱16,283,675

	2019				
	Parent Company				
	January 1, 2019	Cash flows	Foreign exchange movement	Dividends declaration and accretion	December 31, 2019
Bills payable and SSURA	₱4,004,769	(₱1,869,259)	₱–	₱86,570	₱2,222,080
Subordinated debt	4,971,427	–	–	3,303	4,974,730
Bonds payable		6,928,718	–	3,706	6,932,424
Lease liabilities		(308,155)	1,345,539	78,926	1,116,310
Dividends payable (Note 23)	–	(873,559)	–	873,559	–
Total liabilities from financing activities	₱8,976,196	₱3,877,745	₱1,345,539	₱1,046,064	₱15,245,544

The Group and Parent Company classify interest paid on these financing liabilities as cash flows from operating activities.

34. Offsetting of Financial Assets and Financial Liabilities

The effects of rights of offset for financial instruments under an enforceable master netting agreements or similar arrangements are disclosed below:

		Gross carrying amounts (before offsetting)	Gross amounts offset in accordance with the offsetting criteria	Net amount presented in statements of financial position [a-b]	Effect of remaining rights of set-off (including rights to set off financial collateral) that do not meet PAS 32 offsetting criteria		Net exposure [c-d]
					Financial instruments	Fair value of financial collateral	
		[a]	[b]	[c]	[d]		[e]
	Financial assets						
2020	**SPURA**	**₱13,225,950**	**₱–**	**₱13,225,950**	**₱–**	**₱13,225,950**	**₱–**
2019	SPURA	₱3,328,901	₱–	₱3,328,901	₱–	₱3,328,901	₱–
	Financial liabilities						
2020	**SSURA**	**₱1,140,233**	**₱–**	**₱1,140,233**	**₱–**	**₱1,615,228**	**₱–**
2019	SSURA	₱1,202,250	₱–	₱1,202,250	₱–	₱1,645,587	₱–

Securities sold under agreements to repurchase are subject to right of set-off in the event of default.

35. Events After End of the Reporting Period

CREATE Bill
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 Parent Company and subsidiaries:

- Effective July 1, 2020, RCIT rate is reduced from 30% to 25% for domestic and resident foreign corporations. For domestic corporations with net taxable income not exceeding ₱5.00 million and with total assets not exceeding ₱100.00 million (excluding land on which the business entity's office, plant and equipment are situated) during the taxable year, the RCIT rate is reduced to 20%.

- MCIT rate reduced from 2% to 1% 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, 2021 is considered as a non-adjusting subsequent event. Accordingly, current and deferred taxes as of and for the year ended December 31, 2020 continued to be computed and measured using the applicable income tax rates as of December 31, 2020 (i.e., 30% RCIT / 2% MCIT) for financial reporting purposes.

Applying the provisions of the CREATE Act, the Parent Company and the subsidiaries would have been subjected to lower regular corporate income tax rate of 25.00% and lower minimum corporate income tax rate of 1% effective July 1, 2020. Based on the provisions of Revenue Regulations (RR) No. 5-2021 dated April 8, 2021 issued by the BIR, the transitory corporate income tax rate for CY2020 is 27.50% and 1.5% for RCIT and MCIT, respectively.

- For the Group, this will result in a reduction in provision for current income tax for the year ended December 31, 2020 and in income tax payable as of December 31, 2020 amounting to ₱96.96 million and ₱96.72 million, respectively, and an increase in prepaid income tax as of December 31 2020 amounting to ₱0.24 million. For the Parent Company, this will result in a reduction of provision for current income tax for the year ended December 31, 2020 and in income tax payable as of December 31, 2020 amounting to ₱90.37 million.

- This will result in lower deferred tax assets as of December 31, 2020 by ₱52.48 million and ₱61.05 million for the Group and Parent Company, respectively. These reductions will be recognized in the 2021 financial statements.

The reduced amounts will be reflected in the Parent Company's and the subsidiaries' 2020 annual income tax return. However, for financial reporting purposes, the changes will only be recognized in the 2021 financial statements.

Exercise of call option of the Tier 2 Subordinated Notes due 2025
On August 28, 2020, the BOD approved the exercise of the call option of the Parent Company's tier 2 subordinated notes on February 25, 2021 amounting to ₱40.98 billion and subsequently received the approval from BSP on October 5, 2020. This is redeemable at the option of the Parent Company in whole but not in part on the call option date at 100% face value plus accrued and unpaid interest.

36. **Approval for the Release of the Financial Statements**

The accompanying financial statements of the Group and the Parent Company as at December 31, 2020 and 2019 and for each of the three years in the period ended December 31, 2020 were approved and authorized for issue by the BOD on April 23, 2021.

37. **Supplementary Information Required Under BSP Circular 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 Group and the Parent Company:

	Consolidated			**Parent Company**		
	2020	2019	2018	**2020**	2019	2018
Return on average equity	**8.88%**	14.32%	11.89%	**8.88%**	14.32%	11.89%
Return on average assets	**1.04%**	1.76%	1.50%	**1.05%**	1.79%	1.54%
Net interest margin on average earning assets	**4.12%**	4.70%	4.43%	**3.99%**	4.55%	4.22%

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

The Parent Company's capital instruments consist of the following:

Capital stock

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

	Shares		**Amount**	
	2020	2019	**2020**	2019
Common - ₱10.00 par value				
Authorized	**500,000,000**	500,000,000	₱5,000,000	₱5,000,000
Issued and outstanding				
Balance at the beginning and end of the year	**485,310,538**	485,310,538	₱4,853,105	₱4,853,105

Tier 2 Subordinated debt due 2025
As of December 31, 2020 and 2019, the Parent Company's subordinated debt amounted to ₱4.98 billion and ₱4.97 billion, respectively. A summary of the terms and conditions are as follows:

The 2025 Notes are redeemable at the option of the Parent Company in whole but not in part on the call option date at 100% of the face value plus accrued and unpaid interest, subject to the following conditions:

a. the Parent Company has obtained prior supervisory approval of the BSP prior to the exercise of the early redemption option of the 2025 Notes.

b. the Parent Company either: (1) replaces the 2025 Notes being redeemed with new capital securities which are of the same or better quality, on such terms and conditions which are sustainable for the income capacity of the Parent Company; or (2) demonstrates that its capital position is well above the minimum capital requirements after the exercise of the early redemption option.

Furthermore, upon the occurrence of a tax redemption event or a regulatory redemption event, the Parent Company may, subject to compliance with BSP rules and BSP approval, and upon prior approval of the BSP and with prior written notice to the trustee and registrar, redeem all and not less than all of the outstanding 2025 Notes prior to the stated maturity by paying the noteholder the redemption amount which is equal to 100% of the principal amount of the 2025 Notes together with accrued but unpaid interest (if any) payable on up to (but excluding) the date on which the 2025 Notes are redeemed pursuant to a redemption option, in either case, as the same may have been reduced pursuant to a write-down.

The 2025 Notes also have a loss absorbency feature which means that the 2025 Notes are subject to a non-viability write-down in case of a trigger event. Non-viability is defined as a deviation from a certain level of Common Equity Tier 1 (CET1) Ratio or inability of the Parent Company to continue business (closure) or any other event as determined by the BSP, whichever comes earlier. A trigger event is deemed to have occurred when the Parent Company is considered non-viable as determined by the BSP.

Upon the occurrence of a trigger event, the principal amount of the 2025 Notes may be written down to the extent required by the BSP, which could go to as low as zero. Additional Tier 1 ("AT1") capital instruments shall be utilized first before Tier 2 capital instruments are written-off or written down, until the viability of the Bank is re-established. In the event the Parent Company does not have AT1 capital instruments, then the write-down shall automatically apply to Tier 2 capital, including the 2025 Notes.

<u>Concentration of Credit Exposures</u>
As at December 31, 2020 and 2019, information on the concentration of credit as to industry of loans and receivables (gross of unearned discount and unearned lease/finance income and before allowance for credit losses) follows:

	Consolidated			
	2020		2019	
	Amount	**%**	Amount	%
Real estate activities	**₱39,709,915**	**22.70%**	₱34,432,973	19.71%
Wholesale and retail trade, repair of motor vehicles, motorcycles	**32,300,959**	**18.47%**	32,352,028	18.52%
Manufacturing	**14,812,567**	**8.47%**	14,925,000	8.54%

(Forward)

	Consolidated			
	2020		2019	
	Amount	**%**	Amount	%
Electricity, gas, steam and air-conditioning supply	**₱14,735,054**	**8.42%**	₱20,822,365	11.92%
Arts, entertainment and recreation	**12,543,122**	**7.17%**	10,748,994	6.15%
Construction	**10,093,940**	**5.77%**	8,170,976	4.68%
Transportation and storage	**8,576,577**	**4.90%**	9,033,330	5.17%
Other service activities	**6,098,258**	**3.49%**	6,744,291	3.86%
Financial and insurance activities	**6,047,933**	**3.46%**	4,652,189	2.66%
Accommodation and food service activities	**6,014,954**	**3.44%**	7,285,427	4.17%
Agriculture, forestry and fishing	**5,839,819**	**3.34%**	6,069,489	3.47%
Auto loans	**4,194,347**	**2.40%**	5,275,320	3.02%
Information and communication	**3,730,476**	**2.13%**	2,497,143	1.43%
Professional, scientific and technical activities	**3,052,605**	**1.75%**	4,302,019	2.46%
Salary-based general-purpose consumption loans	**3,048,670**	**1.74%**	3,144,101	1.80%
Water supply, sewerage, waste management and remediation activities	**957,169**	**0.55%**	1,123,289	0.64%
Human health and social work activities	**697,382**	**0.40%**	460,234	0.26%
Credit card	**634,993**	**0.36%**	708,825	0.41%
Administrative and support service activities	**520,038**	**0.30%**	545,354	0.31%
Education	**489,371**	**0.28%**	484,548	0.28%
Loans to non-resident corporations	**473,213**	**0.27%**	409,177	0.23%
Motorcycle loans	**208,071**	**0.12%**	194,865	0.11%
Other loans to individuals for personal use purposes	**63,739**	**0.04%**	78,125	0.04%
Public administration and defense; compulsory social security	**35,890**	**0.02%**	35,891	0.02%
Mining and quarrying	**24,600**	**0.01%**	149,388	0.13%
TOTAL	**₱174,903,662**	**100.00%**	₱174,645,341	100.00%

	Parent			
	2020		2019	
	Amount	**%**	Amount	%
Real estate activities	**₱39,691,697**	**23.18%**	₱34,343,329	20.15%
Wholesale and retail trade, repair of motor vehicles, motorcycles	**32,150,664**	**18.77%**	32,111,929	18.85%
Manufacturing	**14,770,365**	**8.62%**	14,859,331	8.72%
Electricity, gas, steam and air-conditioning supply	**14,735,054**	**8.60%**	20,822,365	12.22%
Arts, entertainment and recreation	**12,543,122**	**7.32%**	10,748,994	6.31%
Construction	**10,093,940**	**5.89%**	8,170,976	4.80%
Transportation and storage	**8,212,916**	**4.80%**	8,650,868	5.08%
Financial and insurance activities	**6,082,915**	**3.55%**	4,671,542	2.74%
Accommodation and food service activities	**6,014,380**	**3.51%**	7,285,427	4.28%
Other service activities	**5,769,312**	**3.37%**	6,211,811	3.65%
Auto loans	**4,133,058**	**2.41%**	5,191,878	3.05%
Information and communication	**3,730,476**	**2.18%**	2,497,143	1.47%
Agriculture, forestry and fishing	**3,192,694**	**1.86%**	3,182,463	1.87%
Professional, scientific and technical activities	**3,052,012**	**1.78%**	4,302,019	2.52%
Salary-based general-purpose consumption loans	**3,039,745**	**1.77%**	3,136,785	1.84%
Water supply, sewerage, waste management and remediation activities	**957,169**	**0.56%**	1,123,289	0.66%
Human health and social work activities	**697,077**	**0.41%**	460,234	0.27%
Credit card	**634,993**	**0.37%**	708,825	0.42%
Administrative and support service activities	**519,962**	**0.30%**	545,354	0.32%
Education	**489,245**	**0.29%**	484,548	0.28%
Loans to non-resident corporations	**473,213**	**0.28%**	425,072	0.25%

(Forward)

	Parent			
	2020		2019	
	Amount	**%**	Amount	%
Motorcycle loans	**₱208,071**	**0.12%**	₱194,729	0.11%
Public administration and defense; compulsory social security	**35,891**	**0.02%**	35,891	0.02%
Mining and quarrying	**24,601**	**0.01%**	219,524	0.13%
Other loans to individuals for personal use purposes	**3,864**	**0.00%**	12,593	0.01%
TOTAL	**₱171,256,436**	**100.00%**	₱170,396,918	100.00%

The BSP considers that loan concentration exists when total loan exposure to a particular industry or economic sector exceeds 30.00% of total loan portfolio.

Breakdown of Total Loans as to Security and Status
The following are the details of the loans and receivables for BSP reporting.

As to security
As at December 31, 2020 and 2019, the details of the secured and unsecured loans and receivables, net of unearned discounts and unearned lease/finance income and before allowance for credit losses are as follows:

	Consolidated			
	2020		2019	
	Amount	**%**	Amount	%
Secured:				
Deposit hold-out and others	**₱14,592,735**	**8.35%**	₱15,023,782	8.61%
Real estate	**9,040,995**	**5.17%**	11,524,147	6.60%
Chattel	**3,854,568**	**2.21%**	6,023,209	3.45%
	27,488,298	**15.73%**	32,571,137	18.67%
Unsecured	**147,238,644**	**84.27%**	141,912,511	81.33%
	₱174,726,942	**100.00%**	₱174,483,648	100.00%

	Parent Company			
	2020		2019	
	Amount	**%**	Amount	%
Secured:				
Deposit hold-out and others	**₱12,357,014**	**7.22%**	₱13,942,132	8.19%
Real estate	**8,985,641**	**5.25%**	10,397,343	6.11%
Chattel	**3,854,568**	**2.25%**	6,023,209	3.54%
	25,197,223	**14.72%**	30,362,683	17.83%
Unsecured	**145,932,941**	**85.28%**	139,936,313	82.17%
	₱171,130,164	**100.00%**	₱170,298,996	100.00%

As to status
Non-performing loans (NPLs) of the Group and Parent Company as of December 31, 2020 and 2019 are presented below, net of specific allowance for credit losses in compliance with BSP Circular 855, respectively. (amounts in thousands).

	Consolidated		Parent Company	
	2020	2019	**2020**	2019
Total NPLs	**₱9,800,191**	₱2,614,356	**₱9,191,373**	₱2,425,067
Less specific allowance for credit losses	**4,150,854**	940,163	**4,103,153**	784,812
	₱5,649,337	₱1,674,192	**₱5,088,220**	₱1,640,255

Presented below is the status of the Group and Parent Company's loans as of December 31, 2020 and 2019 per product line (gross of unearned discount and unearned lease/finance income and before allowance for credit losses), as reported to the BSP.

	Consolidated					
	2020			2019		
	Performing	**NPL**	**Total**	Performing	NPL	Total
Commercial lending	**₱135,531,165**	**₱8,470,984**	**₱144,002,149**	₱141,634,201	₱2,047,262	₱143,681,463
Consumer lending	**23,723,499**	**667,625**	**24,391,124**	24,629,190	384,075	25,013,265
Others	**5,848,807**	**661,582**	**6,510,389**	5,837,729	183,019	6,020,748
	₱165,103,471	**₱9,800,191**	**₱174,903,662**	₱172,101,120	₱2,614,356	₱174,715,476

	Parent Company					
	2020			2019		
	Performing	**NPL**	**Total**	Performing	NPL	Total
Commercial lending	**₱135,745,673**	**₱8,461,837**	**₱144,207,510**	₱141,804,351	₱2,040,992	₱143,845,343
Consumer lending	**20,912,135**	**717,559**	**21,629,694**	21,489,950	384,075	21,874,025
Others	**5,407,255**	**11,977**	**5,419,232**	4,677,551	–	4,677,551
	₱162,065,063	**₱9,191,373**	**₱171,256,436**	₱167,971,852	₱2,425,067	₱170,396,919

As at December 31, 2020 and 2019, secured and unsecured NPLs follow:

	Consolidated		Parent Company	
	2020	2019	**2020**	2019
Unsecured	**₱7,169,971**	₱1,397,009	**₱6,629,078**	₱1,263,475
Secured	**2,630,220**	1,217,346	**2,562,295**	1,161,592
	₱9,800,191	₱2,614,356	**₱9,191,373**	₱2,425,067

Under BSP Circular No. 941, *Amendments to the Regulations on Past Due and Non-performing Loans*, effective January 1, 2018, the outstanding balance of loans, investments, receivables, or any financial asset, including restructure loans, shall be considered past due when any principal and/or interest or installment due, or portions thereof, are not paid at their contractual due date.

Furthermore, they are considered non-performing, even without any missed contractual payments, when it is considered impaired under PFRS 9, classified as doubtful or loss, in litigation, and/or there is evidence that full repayment of principal and interest is unlikely without foreclosure of collateral, if any. All other financial assets, even if not considered impaired, shall be considered non-performing if any principal and/or interest are unpaid for more than ninety (90) days from contractual due date.

Information on related party loans

As required by BSP, the Parent Company discloses loan transactions with investees and with certain directors, officers, stockholders and related interests (DOSRI). Existing banking regulations limit the amount of individual loans to DOSRI, 70.00% of which must be secured, to the total of their respective deposits and book value of their respective investments in the Parent Company. In the aggregate, loans to DOSRI generally should not exceed total equity or 15.00% of total loan portfolio, whichever is lower.

BSP Circular No. 423 dated March 15, 2004 amended the definition of DOSRI accounts. The following table shows information relating to the loans, other credit accommodations and guarantees classified as DOSRI accounts under regulations existing prior to said Circular, and new DOSRI loans, other credit accommodations granted under said Circular:

	Parent Company	
	2020	2019
Total outstanding DOSRI accounts	**₱20,644**	₱21,566
% of DOSRI accounts granted prior to effectivity of BSP Circular No. 423 to total loans	**–**	–
% of DOSRI accounts granted after under BSP Circular No. 423 to total loans	**0.01%**	0.01%
% of DOSRI accounts to total loans	**0.01%**	0.01%
% of unsecured DOSRI accounts total DOSR loans	**–**	–
% of past due DOSRI loans to total DOSRI loans	**–**	–
% of nonperforming DOSRI loans to total DOSRI loans	**–**	–

The Parent Company does not have unsecured, past due and non-accruing DOSRI accounts in 2020 and 2019.

The Parent Company's subsidiaries and affiliates do not have loans, other credit accommodations and guarantees to DOSRI during 2020 and 2019.

BSP Circular No. 560 provides 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 loans, other credit accommodations and guarantees to each of the bank's/quasi-bank's subsidiaries and affiliates shall not exceed 10.00% of the net worth of the lending bank/quasi-bank, provided that the unsecured portion of which shall not exceed 5.00% of such net worth. Further, the total outstanding loans, credit accommodations and guarantees to all subsidiaries and affiliates shall not exceed 20.00% of the net worth of the lending bank/quasi-bank; and the subsidiaries and affiliates of the lending bank/quasi-bank are not related interest of any director, officer and/or stockholder of the lending institution, except where such director, officer or stockholder sits in the BOD or is appointed officer of such corporation as representative of the bank/quasi-bank as reported to the BSP. As at December 31, 2020 and 2019, the Parent Company is in compliance with these requirements.

BSP issued Circular No. 654 allowing a separate individual limit of twenty-five percent (25.00%) to loans of banks and quasi-banks to their subsidiaries and affiliates engaged in energy and power generation. As at December 31, 2020 and 2019, the Parent Company does not have any subsidiary or affiliate that is engaged in energy and power generation.

<u>Secured Liability and Assets Pledged as Security</u>

SSURA

The Parent Company's bills payable under repurchase agreements amounted to ₱1.14 billion and ₱1.20 billion as of December 31, 2020 and 2019, respectively. These borrowings are collateralized by investment securities at amortized cost with face value of ₱1.44 billion and ₱1.52 billion as of December 31, 2020 and 2019, respectively, and carrying values of ₱1.50 billion and ₱1.60 billion as of December 31, 2020 and 2019, respectively. The fair value of these investment securities as at December 31, 2020 and 2019 amounted to ₱1.62 billion and to ₱1.65 billion, respectively.

Bills payable with PDIC
The Parent Company has borrowings from PDIC. RBA has borrowings also from PDIC but it was settled in 2020. The Parent Company's borrowing from PDIC has face value amounting to ₱1.28 billion and carrying amount of ₱1.12 billion and ₱1.11 billion as of December 31, 2020 and 2019, respectively. The Parent Company's investment in Philippine government securities under investment securities at amortized cost with face value of ₱1.70 billion and carrying amount of ₱1.72 billion and ₱1.97 billion as of December 31, 2020 and 2019, respectively, were pledged to PDIC as security for the financial assistance received. The fair value of these government securities as at December 31, 2020 and 2019 amounted to ₱1.80 billion and to ₱1.99 billion, respectively.

RBA's borrowing from PDIC has face value amounting to ₱0.62 billion and carrying amount of ₱0.40 billion as of December 31, 2019. RBA's investment in Philippine government securities under investment securities at amortized cost with face value of ₱0.57 billion and carrying amount of ₱0.66 billion as of December 31, 2019 were pledged to PDIC as security for the financial assistance received. The fair value of these government securities as at December 31, 2019 amounted to ₱0.65 billion.

In June 2020, RBA's BOD approved the pre-termination of financial assistance from PDIC amounting to ₱0.62 billion. The government securities pledged as collateral on PDIC borrowing was sold to settle the borrowing.

Commitments and Contingent Liabilities
Following is a summary of the Group and Parent Company's commitments and contingent liabilities at their equivalent peso contractual amounts:

	2020	2019
Trust department accounts	**₱26,444,503**	₱23,687,378
Forward exchange sold	**4,602,710**	2,663,904
Unused commercial letters of credit	**2,341,790**	1,968,451
Outstanding guarantees issued	**2,246,446**	916,292
Standby letters of credit	**2,235,298**	2,400,594
Spot exchange bought	**2,080,948**	3,569,701
Spot exchange sold	**1,606,232**	3,998,363
Forward exchange bought	**520,765**	1,135,148
Inward bills for collection	**132,206**	204,753
Outward bills for collection	**2,764**	21,261
Late deposits/payment received	**1,841**	2,616
Others	**798**	794

Others include items held for safekeeping and items held as collateral.

38. Supplementary Information Under Revenue Regulations 15-2010

On November 25, 2010, the Bureau of Internal Revenue issued Revenue Regulations (RR)15-2010 to amend certain provisions of RR21-2002. RR15-2010 provides that starting 2010 the notes to financial statements shall include information on taxes and licenses paid or accrued during the taxable year.

The Parent Company reported and/or paid the following types of taxes in 2020:

Taxes and Licenses
In 2020, taxes and licenses of the Parent Company, which includes all other taxes, local and national, consist of:

	Amount
Gross receipts tax (GRT)	₱693,678
Documentary stamp tax	227,315
Real property tax	32,033
Business permit and licenses	5,592
Others	2,091
	₱960,709

Gross Receipts Tax
The Parent Company is subject to GRT on its gross income from Philippine sources. GRT is imposed on interest, fees and commissions from lending activities at 5% or 1%, depending on the loan term, and at 7% on non-lending fees and commissions, trading and foreign exchange gains and other items constituting gross income.

	Gross Receipts	Gross Receipts Tax
Income derived from lending activities	₱12,400,225	₱563,432
Other income	1,860,667	130,246
	₱14,260,892	₱693,678

Withholding Taxes
Details of total remittances in 2020 and balances as at December 31, 2020 are as follows:

	Total Remittance	Balance
Final withholding taxes	₱382,898	₱21,117
Withholding taxes on compensation and benefits	184,263	10,128
Expanded withholding taxes	36,359	4,877
	₱603,520	₱36,122

Tax Assessments and Cases
As of December 31, 2020, the Parent Company has not received any final assessment notices from the BIR and it has no tax cases, litigation and/or prosecution in court or bodies outside BIR.

SyCip Gorres Velayo & Co.
6760 Ayala Avenue
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
ON SUPPLEMENTARY SCHEDULES

The Stockholders and the Board of Directors
Asia United Bank Corporation
Joy-Nostalg Center
17 ADB Avenue, Ortigas Center, Pasig City

We have audited in accordance with Philippine Standards on Auditing, the consolidated financial statements of Asia United Bank Corporation and Subsidiaries (the Group) as at December 31, 2020 and 2019, and for each of the three years in the period ended December 31, 2020, included in this Form 17-A and have issued our report thereon dated May 17, 2021. Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedules listed in the Index to the Financial Statements and Supplementary Schedules are the responsibility of the Company's management. These schedules are presented for purposes of complying with the Revised Securities Regulation Code Rule 68, and are not part of the basic financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, fairly state, in all material respects, the financial information required to be set forth therein in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

Janet A. Paraiso
Partner
CPA Certificate No. 92305
SEC Accreditation No. 0778-AR-3 (Group A),
June 19, 2018, valid until June 18, 2021
Tax Identification No. 193-975-241
BIR Accreditation No. 08-001998-062-2020,
December 3, 2020, valid until December 2, 2023
PTR No. 8534211, January 4, 2021, Makati City

May 17, 2021

SGV
Building a better working world

SyCip Gorres Velayo & Co.
6760 Ayala Avenue
1226 Makati City
Philippines

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

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INDEPENDENT AUDITOR'S REPORT ON
COMPONENTS OF FINANCIAL SOUNDNESS INDICATORS

The Stockholders and the Board of Directors
Asia United Bank Corporation
Joy-Nostalg Center
17 ADB Avenue, Ortigas Center, Pasig City

We have audited in accordance with Philippine Standards on Auditing, the consolidated financial statements of Asia United Bank Corporation and Subsidiaries (the Group) as at December 31, 2020 and 2019, and for each of the three years in the period ended December 31, 2020, and have issued our report thereon dated May 17, 2021. Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The Supplementary Schedule on Financial Soundness Indicators, including their definitions, formulas, calculation, and their appropriateness or usefulness to the intended users, are the responsibility of the Company's management. These financial soundness indicators are not measures of operating performance defined by Philippine Financial Reporting Standards (PFRS) and may not be comparable to similarly titled measures presented by other companies. This schedule is presented for the purpose of complying with the Revised Securities Regulation Code Rule 68 issued by the Securities and Exchange Commission, and is not a required part of the basic financial statements prepared in accordance with PFRS. The components of these financial soundness indicators have been traced to the financial statements as at December 31, 2020 and 2019 and for each of the three years in the period ended December 31, 2020 and no material exceptions were noted.

SYCIP GORRES VELAYO & CO.

Janet A. Paraiso
Partner
CPA Certificate No. 92305
SEC Accreditation No. 0778-AR-3 (Group A),
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May 17, 2021

ASIA UNITED BANK CORPORATION AND SUBSIDIARIES

INDEX TO THE FINANCIAL STATEMENTS AND SUPPLEMENTARY SCHEDULES
DECEMBER 31, 2020

ANNEX I

ASIA UNITED BANK CORPORATION AND SUBSIDIARIES

RECONCILIATION OF RETAINED EARNINGS AVAILABLE FOR DIVIDEND DECLARATION DECEMBER 31, 2020

Presented is the reconciliation of retained earnings available for dividend declaration of the Parent Company as of December 31, 2020 with amendments based on SEC Bulletin No. 14, *Presentation of Reconciliation of Retained Earnings* (amounts in thousands)

Unappropriated retained earnings, January 1, 2020, unadjusted		**PHP 20,106,705**
Adjustments		
Deferred tax assets	(929,030)	
Accumulated share in net income of subsidiaries	(386,691)	
Unrealized gain on foreclosed investment property not yet sold	(34,524)	
Total adjustments		(1,350,245)
Unappropriated retained earnings, January 1, 2020, as adjusted		18,756,460
Net income during the year closed to retained earnings	3,022,981	
Non-actual / unrealized income net of tax		
Deferred tax assets recognized in profit or loss	(268,665)	
Share in net income of subsidiaries	(157,489)	
Fair value adjustment on trading portfolio	(77,348)	
Unrealized foreign exchange gain	(75,365)	
Fair value adjustment of investment property resulting to gain, net	(329)	
Add:		
Realized gain on foreclosed investment property sold during the year	1,617	
Net income actually earned during the year		2,445,402
Dividends declarations during the year		(970,622)
Transfers from surplus reserves		657,201
Total retained earnings, available for dividend declaration, December 31, 2020		**PHP 20,888,441**

ANNEX II

ASIA UNITED BANK CORPORATION AND SUBSIDIARIES

SUPPLEMENTARY SCHEDULE ON FINANCIAL SOUNDNESS INDICATORS
AS AT DECEMBER 31, 2020 AND 2019
(Amounts in Thousands)

		Consolidated		Parent Company	
		2020	2019	**2020**	2019
LIQUIDITY (%)					
Liquid to Total Assets Ratio	Liquid Assets	**133,592,978**	69,391,786	**132,952,803**	68,948,834
	Total Assets	**315,560,480**	265,994,171	**312,122,030**	261,450,600
		42.34%	26.09%	**42.60%**	26.37%
	Loans and Receivable, net	**168,797,274**	172,539,286	**165,719,854**	168,789,906
Loans (net) to Deposits Ratio	Total Deposits	**257,335,731**	210,225,870	**255,026,029**	207,744,638
		65.59%	82.07%	**64.98%**	81.25%
SOLVENCY RATIOS					
Debt-to-Equity Ratio	Total Debt	**280,327,268**	232,835,073	**277,037,321**	228,435,323
	Total Equity	**35,233,212**	33,159,098	**35,084,709**	33,015,277
		795.63%	702.18%	**789.62%**	691.91%
Asset-to-Equity Ratio	Total Assets	**315,560,480**	265,994,171	**312,122,030**	261,450,600
	Total Equity	**35,233,212**	33,159,098	**35,084,709**	33,015,277
		895.63%	802.18%	**889.62%**	791.91%
Interest Rate Coverage Ratio	Earnings before Interest and Taxes (EBIT)	**6,806,606**	9,887,908	**6,511,527**	9,911,502
	Interest Expense	**2,949,355**	4,481,835	**2,837,485**	4,322,430
		230.78%	220.62%	**229.48%**	229.30%
PROFITABILTY (%)					
Return on Assets	Net Income	**3,027,661**	4,440,820	**3,022,981**	4,446,772
	Average Total Assets	**290,777,324**	251,818,377	**286,786,314**	247,805,646
		1.04%	1.76%	**1.05%**	1.79%
Return on Equity	Net Income	**3,022,981**	4,446,772	**3,022,981**	4,446,772
	Average Total Equity	**34,049,992**	31,043,366	**34,049,992**	31,043,366
		8.88%	14.32%	**8.88%**	14.32%
Net Interest Margin	Net Interest Income	**10,841,234**	9,416,831	**10,340,215**	8,948,884
	Average Interest-earning Assets	**263,436,452**	214,776,987	**259,077,274**	210,455,415
		4.12%	4.38%	**3.99%**	4.25%
Cost-to-Income Ratio	Total Operating Expenses Excluding Provision For Credit and Impairment Losses	**5,785,359**	5,602,327	**5,351,406**	5,138,110
	Total Operating Income	**15,073,069**	12,146,964	**14,261,732**	11,430,846
		38.38%	46.12%	**37.52%**	44.95%

(Forward)

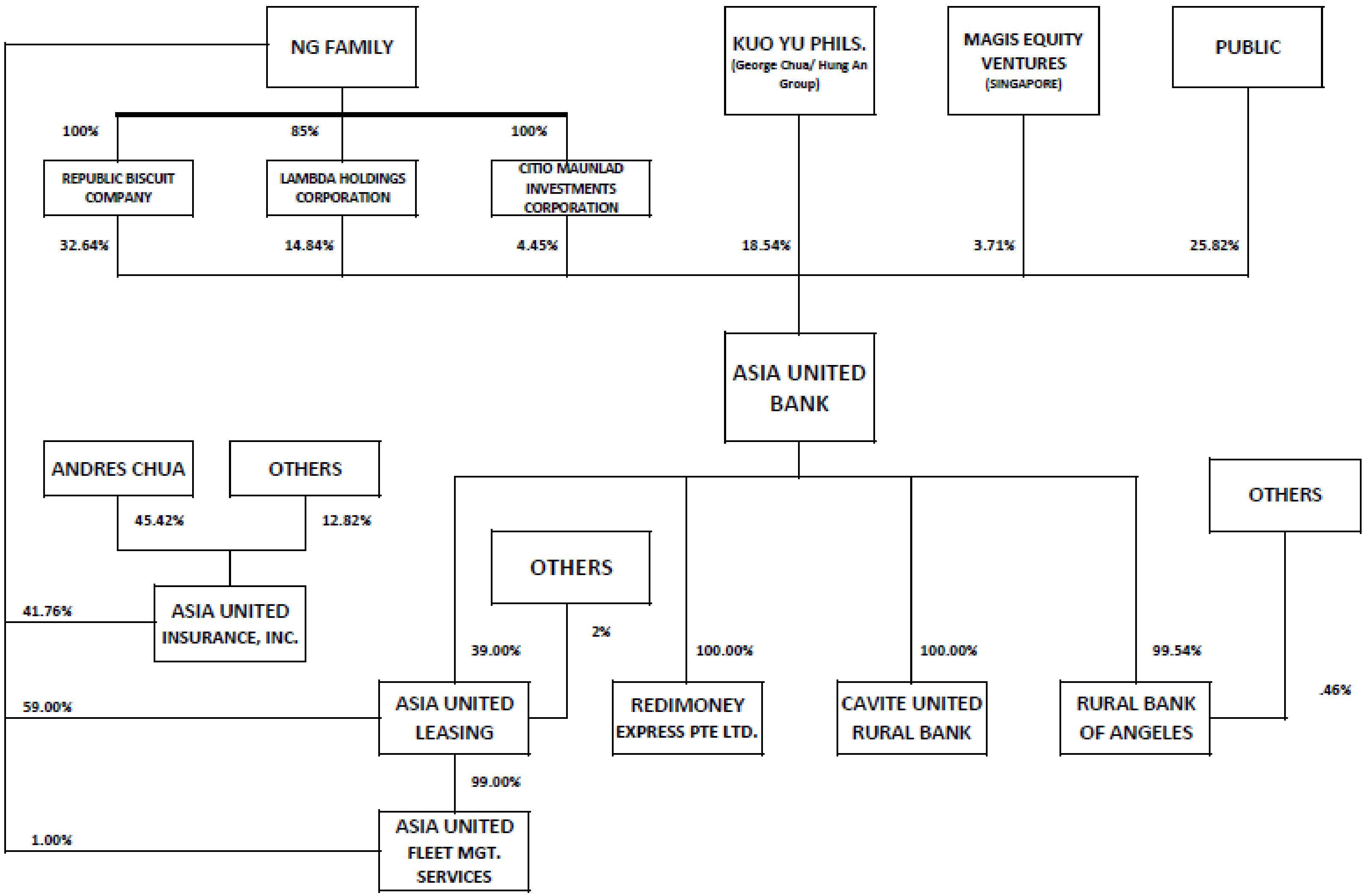
ASSET QUALITY (%)

Net Non-performing Loans Ratio	Non-performing Loans, net of allowance	**5,649,337**	1,674,192	**5,088,220**	1,640,255
	Gross Loans, net of unearned interest/discount	**174,726,942**	174,483,648	**171,130,164**	170,298,997
		3.23%	0.96%	**2.97%**	0.96%
Non-performing Loans Coverage Ratio	Allowance for Probable Losses	**5,929,668**	1,944,362	**5,410,310**	1,509,090
	Non-performing Loans	**9,800,191**	2,614,356	**9,191,373**	2,425,067
		60.51%	74.37%	**58.86%**	62.23%

ANNEX III

ASIA UNITED BANK CORPORATION AND SUBSIDIARIES

CONGLOMERATE MAP
AS OF DECEMBER 31, 2020



ANNEX IV

ASIA UNITED BANK CORPORATION AND SUBSIDIARIES

SCHEDULE A – FINANCIAL ASSETS
AS OF DECEMBER 31, 2020

Financial Assets at Fair Value through Profit or Loss

(Amounts and Number of Shares in Thousands)

Name of issuing entity and association of each issue	Number of shares or principal amount of bonds or notes (in original currency	Amounts shown on the balance sheet	Income accrued
Government Securities			
Republic of the Philippines	$1,000	PHP 48,499	46
Bureau of Treasury	PHP 3,321,968	3,355,710	12,648
		PHP 3,404,209	**PHP 12,694**
Private bonds and commercial papers			
SMC Global	$755	37,099	494
		PHP 37,099	**PHP 494**
Financial assets Designated at FVPL			
San Miguel 2E	223.32 shares	16,838	-
		PHP 16,838	-
Derivative transactions			
Corporate	($1,459)	PHP 80	-
UCPB	($15,000)	32	-
BDO	($30,000)	6,781	-
PNB	($30,000)	1,316	-
BPI	($10,000)	1,101	-
STANCHART	€3,400	1,461	-
STANCHART	($1,441)	677	-
WELLS-SFO	($2,833)	871	-
		PHP 12,319	-
Total Financial Assets at FVPL		**PHP 3,470,465**	**PHP 13,188**

Financial assets at fair value through other comprehensive income
(Amounts and Number of Shares in Thousands)

Name of issuing entity and association of each issue	Number of shares or principal amount of bonds or notes (in original currency	Amounts shown on the balance sheet	Income accrued
Government Securities			
Indonesia	JPY 200,000	PHP 93,285	PHP 85
Bureau of Treasury	PHP 12,068,824	12,541,827	65,767
Republic of the Philippines	EUR 5,000	299,099	1,614
Republic of the Philippines	JPY 100,000	44,752	105
Central Bank of the Philippines	PHP 23,361,650	23,349,000	-
United States of America	$ 305,000	14,594,004	3,968
		PHP 50,921,967	**PHP 71,539**
Private bonds and commercial papers			
RCBC	PHP 200,000	PHP 204,067	PHP 738
UNION BANK	PHP 300,000	317,780	1,120
DBP	PHP 250,000	253,143	278
BPI	PHP 150,000	152,574	549
SMCPM	$ 639	30,875	270
VLLPM	$ 200	9,646	51
		PHP 968,085	**PHP 3,006**
Unquoted securities			
BancNet	50 shares	PHP 6,588	-
Philippine Clearing House Corporation	21 shares	5,000	-
BAP Fixed Income Investment	PHP 500	500	-
IAPPS PTE LTD	SGD 1,000	36,351	-
		PHP 48,439	**-**
Total Financial assets at fair value through OCI		**PHP 51,938,491**	**PHP 74,545**

Investment Securities at Amortized Costs
(Amounts and Number of Shares in Thousands)

Name of issuing entity and association of each issue	Number of shares or principal amount of bonds or notes (in original currency	Amounts shown on the balance sheet	Income accrued
Government Securities			
Bureau of Treasury	PHP 1,986,300	PHP 2,004,684	PHP 19,479
Bureau of Treasury	PHP 10,000	9,965	2
Bureau of Treasury	PHP 200,000	199,231	25,353
Indonesia	$ 4,000	198,314	4,385
Qatar	$ 43,500	2,493,047	50,036
Republic of the Philippines	$26,000	1,302,458	23,307
		PHP 6,207,699	**PHP 122,562**
Private bonds and commercial papers			
	NONE TO REPORT		
Unquoted and Other securities			
Country Waffle	PHP 352	352	-
		PHP 352	**-**
Total Investment Securities at Amortized Costs		**PHP 6,208,051**	**PHP 122,562**

ASIA UNITED BANK CORPORATION AND SUBSIDIARIES
SCHEDULE B – AMOUNTS RECEIVABLE FROM DIRECTORS, OFFICERS, EMPLOYEES, RELATED PARTIES AND PRINCIPAL STOCKHOLDERS (OTHER THAN RELATED PARTIES)
DECEMBER 31, 2020

Name of Debtor	Balance at beginning of period	Additions	Amount collected	Amounts Written-off	Current	Non-Current	Balance at end of period

None to report

Receivables from Directors, Officers, Employees, Related Parties and Principal Stockholders are subject to usual terms in the normal course of business.

ASIA UNITED BANK CORPORATION AND SUBSIDIARIES

SCHEDULE C – AMOUNTS RECEIVABLE FROM RELATED PARTIES WHICH ARE ELIMINATED DURING CONSOLIDATION OF FINANCIAL STATEMENTS DECEMBER 31, 2020

(Amounts in Thousands)

Name of Debtor	Balance at beginning of period	Additions	Amount collected	Amounts Written-off	Current	Non-Current	Balance at end of period
Rural Bank of Angeles	-	665,000	630,000	-	35,000	-	35,000
	-	**665,000**	**630,000**	**-**	**35,000**	**-**	**35,000**

ASIA UNITED BANK CORPORATION AND SUBSIDIARIES

SCHEDULE D – LONG TERM DEBT
DECEMBER 31, 2020
(Amounts in Thousands)

Title and type of obligation	Amount authorized by indenture	Amount shown under caption "current portion of long-term debt" in related balance sheet	Amount shown under caption "Long-term debt" in related balance sheet	Interest rate %	Maturity date
Bills payable–PDIC	PHP 1,277,000	-	PHP 1,115,684	1.00%	06/20/2022
Bills payable – REPO	$ 5,000	-	187,202	1.93%	01/21/2024
Bills payable – REPO	$ 5,000	-	186,872	1.93%	01/21/2024
Bills payable – REPO	$ 12,000	-	452,665	1.41%	01/21/2024
Bills payable – REPO	$ 4,000	-	155,122	1.42%	01/21/2024
Bills payable – REPO	$ 4,000	-	158,371	2.35%	01/08/2026
Bills payable	PHP 8,500	-	4,250	3.00%	10/15/2023
Bills payable	PHP 27,000	-	24,305	9.00%	12/12/2023
Unsecured subordinated debt	PHP 5,000,000	-	4,978,438	5.73%	11/25/2025
Bonds Payable	PHP 7,000,000	-	6,955,272	4.63%	11/07/2022
		-	**PHP 14,218,181**		

ASIA UNITED BANK CORPORATION AND SUBSIDIARIES

SCHEDULE E – INDEBTEDNESS TO RELATED PARTIES (INCLUDED IN THE CONSOLIDATED STATEMENT OF CONDITION)
DECEMBER 31, 2020

Name of Related Parties[i]	Balance at beginning of period	Balance at end of period[ii]

None to report

[i]The related parties named shall be grouped as in Schedule D. The information called shall be stated for any persons whose investments shown separately in such related schedule.

[ii]For each affiliate named in the first column, explain in a note hereto the nature and purpose of any material increase during the period that is in excess of 10 percent of the related balance at either the beginning or end of the period.

ASIA UNITED BANK CORPORATION AND SUBSIDIARIES

SCHEDULE F – GUARANTEES OF SECURITIES OF OTHER ISSUERS
DECEMBER 31, 2020

Name of issuing entity of securities guaranteed by the company for which this statement is filed	Title of issue of each class of securities guaranteed	Total amount of guaranteed and outstanding[(i)]	Amount owned by person of which statement is filed	Nature of guarantee[(ii)]

None to report

[(i)]Indicate in a note any significant changes since the date of the last balance sheet file. If this schedule is filed in support of consolidated statements, there shall be set forth guarantees by any person included in the consolidation except such guarantees of securities which are included in the consolidated balance sheet.

[(ii)]There must be a brief statement of the nature of the guarantees, such as "Guarantee of principal and interest", "Guarantee of interest", or "Guarantee of Dividends". If guarantee is of interest, dividends, or both, state the annual aggregate amount of interest or dividends so guaranteed.

ASIA UNITED BANK CORPORATION AND SUBSIDIARIES

SCHEDULE G – CAPITAL STOCK
DECEMBER 31, 2020

(Absolute numbers of shares)

Title of issue[(i)]	Number of shares authorized	Number of shares issued and outstanding as shown under the related balance sheet caption	Number of shares received for options, warrants, conversion and other rights	Number of shares held by related parties[(ii)]	Directors, officers and employees	Others[(iii)]
Common stock authorized – P10 par value issued and outstanding	500,000,000*	-	-	-	-	-
Issued and outstanding	-	485,310,538	-	320,399,385**	366,510***	164,544,643****

*On February 22, 2014, AUB’s Board of Directors (the “Board” or “Board of Directors”) and shareholders approved a 10:1 stock split, increasing the number of Common Shares from 50,000,000 to 500,000,000 and reducing the par value of each Common Share from P100 to P10.
**Consists of shares held by principal/substantial stockholders.
***Consists of shares held by Directors and officers based on the Public Ownership Report for the period indicated.
****Computed as number of shares issued and outstanding less number of shares held by related parties less number of shares held by Directors, officers and employees.

(i) Include in this column each type of issued authorized.

(ii) Related parties referred to include persons for which separate financial statements are filed and those included in the consolidated financial statements, other than the issuer of the particular security.

(iii) Indicate in a note any significant changes since the date of the last balance sheet filed.