



Annual Report

2020

TABLE OF CONTENTS

Click on the section titles to be directed to the page.

To return to this page, click the navigational button (≡) at the top left of the page.

3 Vision, Mission, and Core Values About the Bank	11 Operational Highlights	50 Audited Financial Statements
4 Message from the Chairman	17 Corporate Social Responsibility	133 Products and Services
5 Report to Stockholders and Stakeholders	20 Corporate Governance	137 Branch Network and Business Offices
6 2020: A Year in Review	27 Risk Management	
8 Financial Highlights	43 The Management	



VISION, MISSION, AND CORE VALUES

OUR VISION

Sterling Bank of Asia, the Bank with a Heart, is the new standard for future generations of bankers, driven by integrity, and a deliberate will for excellence — a legacy!

OUR MISSION

We are committed to exceed customer service expectations. We will actively identify and innovatively respond to their evolving needs.

We are propelled by competent and team-oriented professionals in a respectful, caring, and nurturing environment where everyone can maximize his potential.

We will be responsible stewards of the resources entrusted to us, and we will share the resulting benefits with society.

OUR CORE VALUES

We will manifest the Sterling Bank of Asia Philosophy through consistently demonstrating and living the following core values:

- **Service Excellence**

The commitment to continuously challenge ourselves to exceed expectations of our customers by having the genuine concern and interest in their needs and circumstances, and serving them with a deep sense of responsibility.

- **Professionalism**

The dedication to treat all people with respect, fairness, and compassion while continually pursuing the highest levels of knowledge, skills, and expertise.

- **Social Consciousness**

The resolve to ensure optimum value on the resources entrusted to us and to share this value with those we serve.

ABOUT THE BANK

A BANK THAT'S FOCUSED ON YOU

Sincere, committed, and dependable — that's our brand of banking. We look beyond deposits, balance sheets, and assets to help you achieve your financial and personal goals.

THE WAY WE BANK

Sterling Bank of Asia is a savings bank that was established to provide accessible financial solutions and banking services to both commercial and retail market segments.

Since it opened its first branch in March 2007, through the leadership of a core group of successful businessmen and entrepreneurs, and management of seasoned professional bankers, Sterling Bank of Asia's network has grown to 47 branches located in key areas and cities nationwide.

The Bank offers an array of deposits, loans, investments, asset management, and other financial products to service large corporations, small and medium enterprises, as well as retail customers. Products and services are delivered via the Bank's five business groups namely Retail Banking, Commercial Lending, Consumer Lending, Treasury, and Trust.

Guided by the philosophy of putting clients' needs first by banking to a different beat, the Bank partners with each client, whether individual or corporate, to increase and manage their wealth and resources that will eventually help them achieve their financial goals.

With its extensive portfolio products and services, Sterling Bank of Asia creates more opportunities for clients to take hold of their financial future.

MESSAGE FROM

MESSAGE FROM THE CHAIRMAN

As we forged ahead in 2020, nobody was able to predict what was to come. The world economy started strong only to contract in March as we were faced with extraordinary and unimaginable challenges due to the pandemic.

The Philippines implemented the longest lockdown to contain the spread of the virus. Safety protocols such as quarantine, face masks, and social distancing that were previously uncommon to us became part of our “new normal”. By the third quarter of the year, the country’s economy plunged into a recession and the gross domestic product posted a decline of 9.50% GDP in 2020.

Sterling Bank of Asia’s response to the economic impact and operational setbacks of the Covid-19 crisis is a consistent demonstration of our corporate philosophy. Bringing to fore the Bank’s commitment to service excellence and professionalism, we implemented our business continuity plan and provided clients uninterrupted access to our products and services amidst physical restrictions and stringent lockdowns. Flexible work arrangements have been instituted to ensure the safety and welfare of our employees.

Unparalleled as the year was, the strong collaboration between the Bank’s leadership and its employees enabled the Bank to achieve a net income of Php102.784 million, 39% lower from 2019.

On the other hand, 2020 also became a year of advancement in our digital transformation journey. Initially launched in January to increase awareness about the Bank’s products and services, the enhanced corporate website has become another channel that allowed customers to open a deposit account or apply for a loan without the need to visit the branch.


The Bank saw an increase in the number of first-time users of the internet banking facility – Sterling Bank Online. Thus, we made improvements with the simplified online banking enrollment process and the successful implementation of the Quick Response (QR) code for InstaPay. QR Pay allows convenient fund transfers to another local bank without the need to manually key in the account details.

The Bank’s responsiveness to take prompt measures to address our clients’ requirements would not have been possible without the hard work and dedication of every Sterling Banker, as well as the untiring support of our stakeholders and stockholders.

We are still waging an uphill battle against an unseen enemy. Nevertheless, with the gradual restoration of economic and social activities, we remain cautiously optimistic in 2021 while staying strongly committed to our core values.



CHAIRMAN


RUBEN C. TIU
 Chairman of the Board



REPORT TO STOCKHOLDERS & STAKEHOLDERS

The year 2020 brought an unprecedented health crisis that greatly affected the whole world. The Covid-19 pandemic disrupted the world's economies, rendered governments unprepared, and changed the way people lived.

In the Philippines, the imposed lockdowns adversely affected businesses and the financial market.

For the banking industry, declared an essential business, the pandemic posed a tough challenge as to how companies will continue to survive and thrive amid the mandates on physical distancing and restrictions on mobility and transportation.

Despite the uncertainties and challenges of 2020, Sterling Bank of Asia managed to sail through, delivering a performance that showcased the dedication, resiliency, and courage of our Sterling Bankers.

The Bank closed the year with Php102.784 million net income.

With the implementation of a streamlined credit line process and adherence to tightened underwriting standards that mainly focused on repeat borrowers and the essential industries, the combined loan portfolio of Consumer Lending Group at Php12.831 billion and the Commercial Lending Group at Php18.641 billion resulted in a total loan portfolio of Php31.472 billion, representing a 4.88% decline compared to last year.

The Treasury Group contributed Php144.121 million in both interest and realized trading income to the Bank's bottom line. FX income added another Php20.856 million in profits. In terms of deposit generation, Treasury contributed Php2.663 billion to the Bank's total deposits of Php34.926 billion.

The Trust Group provided options for higher-yielding instruments to clients looking for investment outlets. The group achieved a surge of placements resulting in Php8.202 billion of Assets Under Management or a 16.50% year-on-year increase.

Total Deposit Liabilities in 2020 is Php34.926 billion, a 10% decline from last year's Php38.951 billion. However, the Bank focused on growing its CASA or the low-income deposits to effectively manage its net interest margin. The improvement in low-cost funds generated a 47:53 CASA to high-cost fund ratio, a significant change to the 25:75 ratio recorded in 2015, and the 39:61 ratio in 2019.

Once considered only for convenience, 24/7 access to one's account has now become a necessity as well for many. We thus saw a steadily increasing number of clients enroll in online banking. Recognizing this development, the Bank, through its Sterling Bank Online, introduced in the second quarter of 2020 a simplified enrollment process that encouraged non-users to register and maximize the facility.

Real-time fund transfers continue to improve with the Quick Response (QR) Code feature implemented in the Bank's mobile banking application in July 2020. This feature streamlined the fund transfer process, interconnecting other participating local banks for faster and safer e-payments. Further, InstaPay and PESONet were made available to our corporate clients in the fourth quarter of 2020.

These digital initiatives are testament to the Bank's commitment to provide excellent service at all times.

During this difficult period, we are truly grateful to have all of you on our side. Thanks to our shareholders for their help and to our Board of Directors for their unwavering support and valuable guidance. My heartfelt gratitude goes to all of you, our Sterling Bankers, who have remained steadfast in addressing the evolving needs and requirements of our customers.


CECILIO D. SAN PEDRO
 President and CEO

STERLING BANK OF ASIA 2020

Demonstrating remarkable resilience anchored on service excellence, professionalism, and social consciousness.

The Bank catered to the needs and requirements of its clients while taking steps to protect the health and well-being of its employees.

TRANSFORMING THE WAY WE WORK

The Bank aggressively utilized video-conferencing facilities in the conduct of its internal and external meetings. The branches also conducted a “Kumustahan” campaign among their clients to cultivate a continuing relationship with them.

Staying connected through a virtual meeting, “Refresh, Renew, Refocus: Sterling Bankers’ Virtual Get-Together” was held last October.



CONTINUOUS LEARNING AND GROWTH

Various e-learning sessions were held to promote continuous learning among the branches and employees. Programs for 2020 were focused on branch operations, AML, credit and risk management, among others.

COVID-19 RESPONSE TO THE COMMUNITY

Sterling Bank of Asia donated vitamins, PPE suits, and gallons of alcohol to Kalinga Kontra Korona (KKK). An initiative of Alumni Association of Xavier School, Inc. (AAXS), Xavier School, and the City Government of San Juan, the project aims to provide support operations to SAN JUAN COVID-19 KALINGA CENTER (SJCKC) under the supervision of the San Juan Medical Center and the city government.

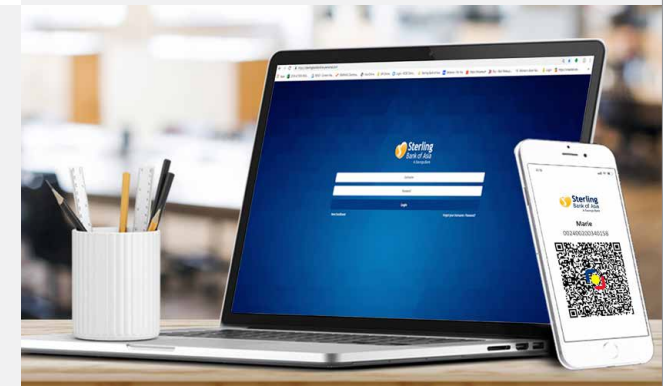
Employees quickly adapted to work from home arrangements while remaining focused and productive. ITG provided a secured connection for employees connecting to the Head Office. Additional security tools were also installed in their workstations to prevent remote users from being exposed to security threats (i.e., cyber-attacks, identity theft, information extortion, and others).

BANKING WITH EASE

Sterling Bank Online was enhanced to simplify enrollment and offer convenience to first-time users of internet banking.

Faster and safer fund transfers between local banks via QR code was implemented in July 2020.

Opening an account is just a click away through the bank’s corporate website without the need to visit the branch.





Safety protocols as mandated by the government on the management and prevention of Covid-19 were implemented.



The Bank introduced the Bayanihan Loan to further assist the financial needs of its employees during these uncertain times. The loan was offered at a low interest rate and could be processed and approved online.



HR and IT worked together to develop a contact tracing solution for its employees reporting physically in the office to readily identify those exposed to somebody infected with the virus. Simultaneously, the launch of a New Time Capture System allowed employees to do their attendance using their workstations. This system eliminates the use of the biometrics device to capture attendance, which may be a source of virus transmission.



Various accessible health services were made available to assist employees.

Consultation via telemedicine with the company doctor and through the Bank's HMO provider became accessible to Sterling Bankers.

Center for Learning also accommodated employees who need in-house counselling to manage and cope with their mental well-being.



With the Bank's strong commitment to combat money laundering and terrorist financing, Sterling Bank of Asia implemented a new and more robust Anti-Money Laundering system. The new system will allow the Bank to monitor financial transactions better and improve its reporting to the regulators.



**BAYANIHAN TO HEAL AS ONE
BAYANIHAN TO RECOVER AS ONE**

The Bank granted loan relief to clients with qualified existing, current, and outstanding loans under Bayanihan I and II.

Additional loan payment channels were made available so that borrowers can easily pay their monthly amortization.



FINANCIAL HIGHLIGHTS

FINANCIAL

HIGHLIGHTS

2020 VS. 2019

FINANCIAL POSITION

Sterling Bank of Asia's total resources as of December 31, 2020 stood at Php40.861 billion, posting a decrease of Php3.882 billion or 8.68% from Php44.743 billion as of December 31, 2019. The decline was primarily due to the decreases in Investment Securities by 68.14% or Php1.787 billion, Loans and Receivables by 4.33% or Php 1.417 billion, and Due from Banks by 15.56% or Php1.025 billion. On the other hand, Interbank Loans Receivables went up by 75.05% or Php400 million.

Total Liabilities went down by Php4.164 billion or 9.99% from Php41.662 billion as of the end of 2019 to Php37.498 billion as of the end of 2020. The bulk of the decrease came from Deposit Liabilities which dropped by 10.33% or Php4.025 billion from Php38.951 billion in 2019 to Php34.926 billion in 2020. The decline was the result of top management's conscious effort to improve the weighted cost of funds of the Bank. CASA increased by 7.56% or Php1.154 billion from Php15.266 billion in 2019 to Php16.420 billion in 2020. Conversely, high-cost funds decreased by 21.87% or Php5.179 billion from Php23.685 billion in 2019 to Php18.506 billion in 2020. These deposit movements favorably improved the deposit mix from 39% low-cost and 61% high-cost in 2019 to 47% low-cost and 53% high-cost by the end of 2020. As a result, the Bank was able to manage its net interest margin effectively.

Stockholders' Equity increased by Php281.553 million or 9.14% from Php3.081 billion as of the end of 2019 to Php3.363 billion by end of 2020. The growth was due to the net income after tax of Php102.784 million, Tier 1 capital infusion of Php100 million from the Bank's existing shareholders, and the Php78.768 million increase in other equity reserves in 2020.

The Return on Average Equity went down from 5.69% in 2019 to 3.19% in 2020. Nevertheless, because of the more robust

financial position, the Bank's Basel 1 Capital Adequacy Ratio stood at 13.72% in 2020 compared to 11.32% in 2019, which are both notably higher than the 10% regulatory requirement of Bangko Sentral ng Pilipinas.

RESULTS OF OPERATIONS

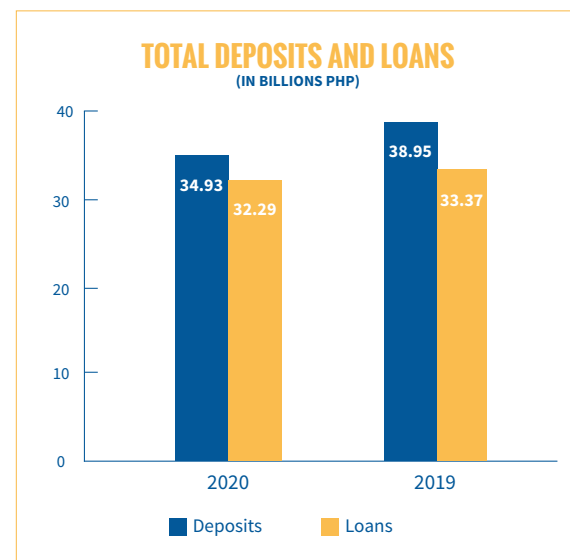
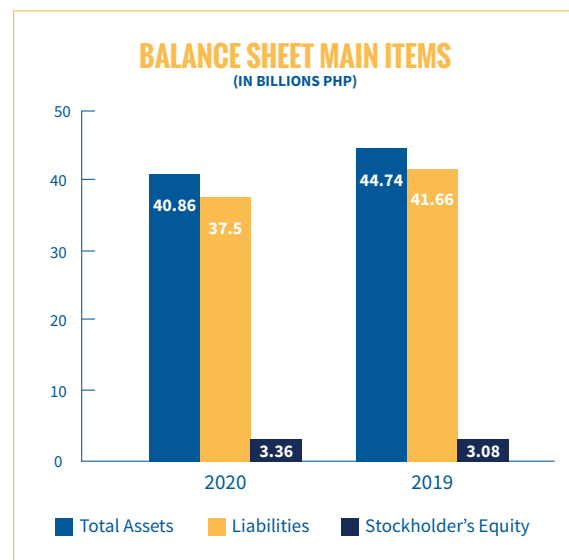
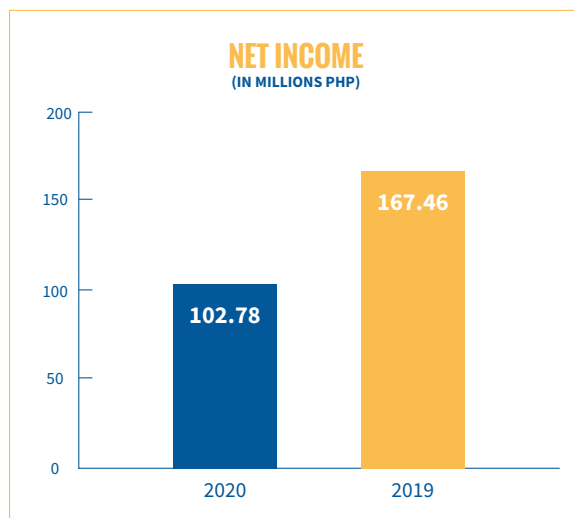
Sterling Bank of Asia posted a Net Income of Php102.784 million in 2020, a decrease of 38.62% or Php64.676 million compared to Php167.460 million in 2019 as a result of the impact of the increase in loan loss provisions by Php153 million and the modification loss of Php419 million.

Net Interest Margin increased by Php437.062 million or 23.71% to Php2.280 billion in 2020 from Php1.843 billion in 2019 largely due to the reduction in interest expense by Php667.053 million or 50.46% due to better management of cost of funds.

Despite of the reduction in the transaction volumes brought about by the pandemic situation, the Bank continued to explore new non-interest income streams to diversify its income sources further. Fee-based income in 2020 was Php146.351 million, lower by Php68.708 million than the Php215.059 million in 2019. The decrease was mainly due to lower trading gains by Php47.203 million, fees and commission by Php28.441, and foreign exchange gain by Php13.122 million in 2020.

The Bank continued to rationalize operating costs which lowered operating expenses by 8.29% or Php143.463 million from Php1.730 billion in 2019 to Php1.586 billion in 2020 mostly coming from Compensation and Fringe Benefits, Taxes and Licenses, and Occupancy Costs.





	2020	2019
PROFITABILITY (in Php)		
Total Net Interest Income	2,280,165,145	1,843,103,365
Total Non-Interest Income	146,351,146	215,059,136
Total Non-Interest Expenses	1,586,468,807	1,729,931,785
Pre-provision profit	840,047,484	328,230,716
Provision for Credit and Impairment Losses	211,159,656	57,709,549
Net Income	102,784,086	167,459,736
SELECTED BALANCE SHEET DATA (in Php)		
Liquid Assets	7,138,561,610	8,696,005,006
Gross Loans	32,294,518,305	33,372,392,397
Total Assets	40,860,599,410	44,742,726,000
Deposits	34,926,162,386	38,951,135,847
Total Equity	3,362,560,114	3,081,007,605
SELECTED RATIOS (in Php)		
Return on equity	3.19%	5.69%
Return on assets	0.24%	0.39%
Net interest margin on average earning assets	5.60%	4.44%
Tier 1 capital ratio	8.41%	7.11%
Capital Adequacy Ratio	13.72%	11.32%



OPERATIONAL

OPERATIONAL HIGHLIGHTS

HIGHLIGHTS

RETAIL BANKING

The Retail Banking Group (RBG) adapted swiftly to the unexpected changes caused by the pandemic. The branches continued to operate while following strict health and safety protocols starting from Day 1 of the country's lockdown implementation to service the banking requirements of its customers.

The group sustained its growth as its low-cost funds increased to Php16.420 billion.

As everyone is encouraged to stay at home, the group led several digital transformation initiatives that proved to be timely and responsive to the current situation.

Sterling Bank Online enabled customers to perform banking transactions from the comforts of their homes or offices. As digital transactions continued to accelerate, the Bank implemented the QR Pay via InstaPay. Sterling Bank of Asia

came to be one of the savings banks that is QR Philippine compliant. Likewise, the Bank's website now boasts of a safe and convenient online account opening facility. Clients who want to open an account no longer have to visit the branch to do so.

To supplement its commitment to delivering quality service, RBG maintained constant communication with its clients. Series of video conference meetings were conducted by the branch among Sterling Bank of Asia clients as part of the Bank's effort to maintain a continuing and lasting relationship with its customers.

The group is expected to drive its digitalization further by enhancing its electronic banking channels and offering more innovative solutions to both our retail and corporate customers.

The Commercial Lending Group's 2020 loan portfolio reached an all-time high of Php18.641 billion, reflecting a growth of 7.10% from 2019's Php17.405 billion which is spurred by the acquisition of new accounts. The Group hit a net income of Php401.53 million in 2020 despite gross interest declining by Php19.118 million.

The year 2020 brought an unprecedented impact on businesses compelling the Group to reassess and evaluate its existing portfolio -- identifying sectors that are vulnerable and those with sustainable business models. Recognizing this as a crucial step for proper strategic and business planning, the Group immediately engaged its clients to check how they

have been affected by the pandemic. Consequently, new credit parameters appropriate to the pandemic situation were formulated. The Group focused on industries belonging to the essential businesses category and those who have taken advantage of the opportunities presented by the crisis.

Growth is expected from the essential businesses sector, especially the ones that have quickly adapted and fine-tuned their operations. With the gradual resumption of economic activities, the Group encourages higher credit line utilization among its existing clients and looks forward to achieving higher volume in 2021.

COMMERCIAL LENDING

CONSUMER LENDING

Overall lending slowed down in 2020 due to the unfavorable economic outlook brought about by the global health crisis. The total portfolio of the group contracted by 18.17% from Php15.680 billion in 2019 to Php12.831 billion this year. Challenges in market conditions resulted in Php140.668 million net income for the Consumer Lending Group by year-end.

A key aspect for the Consumer Lending business in 2020 is managing and protecting its loan portfolio. The Bank

has modified its credit evaluation standards by focusing on essential businesses, targeting existing customers, and encouraging repeat borrowers from the Bank's current database.

Cognizant of the uncertainties ahead, the group is determined to forge ahead in 2021 with sustainable strategies while balancing credit risk and meeting the consumer's requirements.

2020 began with a bang with the US killing Iran's General Qassim Soleimani via a missile strike in January. This resulted in Iran retaliating by firing missiles at two US bases in Iraq. Another unexpected event happened in January, this time on the local front, when Taal Volcano erupted, slowing down the local economy. However, the most devastating blow came in the form of a virus known as Covid-19, which crippled the world economy. The Covid-19 pandemic brought the world economy to a standstill with lockdowns never seen before.

Drastic measures were taken by the world's central banks to prevent recession in their respective economies. The US Federal Reserve cut interest rates from 1.50-1.75% at the start of 2020 to 0.00-0.25% in March, and also launched a quantitative easing program.

Similarly, BSP cut its policy rate from 4.00% at the start of 2020 to 2.00% by November of the same year. They also increased liquidity in the system by cutting reserve requirements by 2.00% for commercial and universal banks and 1.00% for thrift banks. The minimum liquidity ratio (MLR) for thrift banks was temporarily brought down from 20.00% to 16.00%.

Alternative methods were also introduced to help ease compliance with the reserve and agri-agra requirements. In March, the BSP, in its efforts to assist the national government, lent Php300 billion via RRP at 0.00% for a term of six months. This was later renewed and increased to Php540 billion in October.

Like the US Fed, the BSP also launched its own government securities buying program. Overall, BSP's various measures released Php2 trillion in liquidity to the system.

TREASURY

(continued from page 15)

On the fiscal side, the Bayanihan to Heal as One Act was enacted in March by the legislature, which, among others, granted the President the power to give Php5,000.00 to Php8,000.00 as emergency subsidy to low income households, provided Covid-19 special risk allowance to health workers, and lifted the 30.00% cap on the amount of quick response funds that can be used for disaster risk reduction and management. The law also directed financial institutions to implement a 30-day grace period on all loans falling due within the Enhanced Community Quarantine (ECQ) period without interest on interest and penalties. As the Covid-19 pandemic persisted, the legislature passed the Bayanihan to Recover as One Act in September which included a Php140 billion fiscal stimulus package, a one-time 60-day mandatory moratorium on loans falling due on or before December 31, again, without interest on interest and penalties, and a 30-day grace period for payment of utilities without penalties as well. The increase in government spending, coupled with the decrease in tax revenues, resulted in the doubling of the country's budget deficit from Php660 billion in 2019 to Php1.371 trillion in 2020.

The Covid-19 pandemic slowed down the economy, bringing down the 2020 GDP growth to -9.50% versus 2019's +6.00% growth. The slowdown and the BSP's monetary easing led to bond yields falling, which proved favorable to capital markets as Treasury managed to contribute Php144.121 million in both interest and realized trading income to the Bank's bottom line. FX income added another Php20.856 million in profits. In terms of deposit generation, Treasury contributed Php2.663 billion to the Bank's total deposits of Php34.926 billion.

While inflation was stable in 2020 at 2.60% compared to 2019's 2.50%, due to the lack of economic activity, 2021 will prove to be challenging for inflation due to base factors. WTI oil prices plunged to negative USD37.63 per barrel in April 2020, and with oil prices back near USD50 per barrel, the base factor will, by itself, make inflation test the 5.00% level or higher. On the other hand, the higher base level in 2021 will make 2022's inflation tame. With regard to growth, GDP in 2021 is expected to jump up, also due to base factors, should there be no ECQ. The government, on the other hand, is expected to register a larger budget deficit in 2021, to be funded by borrowings. With the upward projection in inflation and growth plus higher government funding requirements, it will be challenging for the fixed income market in the first half of the year. However, the lower inflation trajectory in the second half of the year until 2022 will provide positive opportunities in the fixed income market for both the Bank and clients anew. Funding requirements by corporates via debt papers will allow Treasury to provide fixed income investments to clients at a higher yield. On the foreign exchange side, the opening up of the economy will increase the trade volume and allow Treasury to service more client requirements. The timing of the arrival of Covid-19 vaccines will be the crucial factor that will determine the pace of economic activity in 2021.

TRUST

Trust Group ended the year with Php8.202 billion Assets Under Management (AUM) or a year-on-year increase of 16.50%. Net income after tax, on the other hand, also increased by over 200.00% compared to 2019 figures.

In the midst of the pandemic, there was significant growth in placements from new and existing clients. The increase in investment activity as soon as the lockdown restrictions were relaxed created an opportunity for the Trust Group

to experience a surge in placements. Likewise, strategic alliances with investment counterparts allowed the group to offer a wider range of alternative outlets to address its client's investment and fund management requirements while widening its reach for retail trust accounts.

In 2021, the Trust Group aims to offer more retail products in both peso and dollar denominations to further strengthen its product base for retail clients.



CORPORATE

**CORPORATE
SOCIAL
RESPONSIBILITY**

SOCIAL RESPONSIBILITY

STERLING BANK OF ASIA GIVES “ISANG LITRONG LIWANAG” THIS 2020



Sterling Bank of Asia President and CEO Mr. Cecilio Paul San Pedro (seated), together with SBA volunteers, headed the distribution of 120 solar lamps to the residents of Sitio Inasik, Norzagaray, Bulacan as part of its Annual CSR Activity Kind Heart Gives. (Photo taken before the pandemic.)

Residents of Sitio Inasik, Norzagaray, Bulacan are this year’s beneficiaries of Sterling Bank of Asia’s Corporate Social Responsibility program Kind Heart Gives project.

Sterling Bank of Asia (SBA), one of the country’s leading thrift banks, in partnership with My Shelter Foundation’s Isang Litrong Liwanag (A Liter of Light), started the year 2020 distributing 120 solar lamps to the community of Sitio Inasik. The activity was headed by the Bank’s President and CEO, Mr. Cecilio Paul San Pedro, and Sterling Bank of Asia volunteers.

“We are thankful that the residents of Sitio Inasik embraced us to their community,” said San Pedro. “Providing them this solar bottle will not just illuminate their homes for the next five years, but will also help their children not to struggle to study in the dark as they build and reach their dreams,” explained San Pedro.

Rina Baldonado, 33, mother of 7, shared her delight upon receiving her solar lamp, “Napakalaking tulong nito para sa aming pamilya, hindi na namin kailangang gumamit ng gasera para magka-ilaw sa gabi.”

“Nagpapasalamat kami sa Sterling Bank of Asia dahil ang barangay namin ang napili nilang pagkalooban ng mga solar lights,” Florencio Abiol, Sitio Inasik Barangay Captain said. “Malaking tulong ito, hindi lang para sa pang araw-araw na pamumuhay, kundi para sa pag-aaral ng mga kabataan,” Abiol added.

Right after the turnover, the Bank’s volunteers also distributed food and gift items to the residents.

Sterling Bank of Asia’s Kind Heart Gives initiative is part of its Corporate Social Responsibility (CSR) program that allows the Bank and every employee an opportunity to share and give back to its chosen community.

STERLING BANK OF ASIA PROVIDES AID TO TAAL VICTIMS



Sterling Bank of Asia employees volunteered in repacking goods for their Taal Donation Drive. (Photo taken before the pandemic.)

The recent eruption of the second most active volcano in the Philippines, Taal Volcano, mobilized Sterling Bank of Asia (SBA) to extend its assistance to the affected residents of Batangas through its Corporate Social Responsibility Program “Kind Heart Gives”.

Last February, the Bank turned over assorted items ranging from basic hygiene kits, used clothes, foods, mattresses, and cleaning equipment to the temporary shelter of 70 families at Barangay Talaibon in Ibaan, Batangas.

“Nothing is too small when it comes to helping, and that is the reason why we immediately decided to start an outreach for the affected

communities who need comfort,” shared Mr. Dan Guevara, the Bank’s Vice President and Center for Learning Head. “We are thankful how the Sterling Bank of Asia community responded to our call to help in such short notice. We were able to raise pledges and items to provide for those in need.” Guevara added.

“Sincere, committed, and dependable – that’s the brand of banking our staff should emulate not just at work but also in the community,” said Arlene Siongco, Sterling Bank of Asia’s Vice President and Compensation and Benefits Head. “We hope that in our small way, we were able to bring courage and hope to our fellow Filipinos,” added Siongco.



CORPORATE

CORPORATE GOVERNANCE

GOVERNANCE

Sterling Bank of Asia upholds its commitment to high standards of corporate governance anchored on its corporate culture and driven by the principles of integrity, disclosure and transparency, accountability, and fairness.

The Bank’s Board of Directors and Management are guided by the BSP’s corporate governance rules under the Manual of Regulations for Banks (MORB), and SEC Memorandum Circular No. 6 (Series of 2009), as amended by SEC Memorandum Circular No. 9 (Series of 2014) and SEC Memorandum Circular No. 19 (Series of 2016).

BOARD OF DIRECTORS

One key element of good governance is the oversight responsibility of the Board of Directors. Providing sound leadership to the Bank’s management, the Board is responsible for providing direction to the Bank, approve, and oversee the implementation of strategies of the Bank. Thus, attracting and retaining qualified directors are key components of maintaining an effective board. In the selection of new members, the candidate’s background, expertise, experience, and management style are carefully assessed. For incumbent Board members, it is ensured that each

member remains suitable to serve and carry out their respective functions. The Bank’s competent assessment of Board membership candidates and incumbent directors / officers has been enhanced with the adoption of BSP Circular No. 1076, “Amendments to the Regulations on the Disqualifications and Watchlisting of Directors and Officers”.

CHAIRMAN OF THE BOARD

The Chairman of the Board, under its leadership, ensures an effective relationship between the Board of Directors and the management. The Chairman steers the Bank in the conduct of its affairs by overseeing the effective implementation of the Bank’s strategic plan and the enforcement of Board directives while securing the interests of its clients and stakeholders.

CORPORATE SECRETARY

The Corporate Secretary provides assistance to the Board of Directors by ensuring that all matters discussed in meetings are duly recorded and provides advice on the Board’s overall responsibilities.

The Bank’s current Corporate Secretary is Atty. Anna Francesca C. Respicio.

BOARD COMPOSITION AND QUALIFICATION

The Board of Directors is composed of fourteen (14)* directors, four (4)* of which are independent.

Annually, the stockholders elect directors based on their integrity, relevant education, training, competencies, physical and mental fitness, and sufficient time to carry out duties.

Name of Director	Position / Type of Directorship	Number of years of service	Number of direct and indirect shares held	Percentage of shares held to total outstanding shares of the Bank
Ruben C. Tiu	Chairman of the Board	14	1	0.00%
Gregorio T. Yu	Vice Chairman of the Board	14	50,000	0.02%
Bansan C. Choa	Member	14	1	0.00%
William L. Chua	Member –Independent	14	50,000	0.02%
Harris D. Jacildo	Member	14	1	0.00%
Vicente C. Macasaet, Jr.	Member – Independent	3	1	0.00%
Nilo L. Pacheco, Jr. *	Member – Independent	9 *	1	0.00%
Antonio R. Samson	Member – Independent	2	1	0.00%
Cecilio D. San Pedro	Member, President & CEO	5	1	0.00%
Maribel B. Sarino-Lazo	Member – Independent	3	1	0.00%
Atty. A. Bayani K. Tan	Member	14	50,000	0.02%
Bernadette Cindy C. Tiu	Member	7	1	0.00%
John Y. Tiu, Jr.	Member	14	1	0.00%
Atty. Lamberto R. Villena	Member	14	50,000	0.02%
Ignatius F. Yenka	Member	14	1	0.00%

*Dir. Nilo L. Pacheco, Jr. ceded his Board Membership in April 2020.

Name of Director	Board Meetings		
	No. of Meetings Attended	Total No. of Meetings	%
Ruben C. Tiu	12	12	100%
Gregorio T. Yu	12	12	100%
Cecilio D. San Pedro	12	12	100%
Bansan C. Choa	12	12	100%
William L. Chua	12	12	100%
Harris D. Jacildo	12	12	100%
Vicente C. Macasaet, Jr.	12	12	100%
Nilo L. Pacheco, Jr. *	1	12	25% **
Antonio R. Samson	12	12	100%
Maribel B. Sarino-Lazo	12	12	100%
Atty. A. Bayani K. Tan	11	12	92%
Bernadette Cindy C. Tiu	12	12	100%
John Y. Tiu, Jr.	12	12	100%
Atty. Lamberto R. Villena	12	12	100%
Ignatius F. Yenke	12	12	100%

* Director Nilo L. Pacheco, Jr. ceded his Board membership in April 2020.

** Until Director Nilo L. Pacheco, Jr. ceded his Board membership.

As of December 31, 2020, the following stockholders are those that own more than 20% of Sterling Bank of Asia’s shares.

Name and Nationality	Type	Number	Shares Subscribed		% of Ownership
			Amount (in Php)	Paid-In Capital (in Php)	
JTKC Equities, Inc. (Filipino)	Common	87,899,994	878,999,940	878,999,940	32.75%
	Preferred	14,000,000	140,000,000	140,000,000	5.22%
Star Equities, Inc. (Filipino)	Common	66,112,500	661,125,000	637,500,000	24.63%
Surewell Equities, Inc. (Filipino)	Common	66,112,499	661,124,990	650,999,990	24.63%
	Preferred	9,000,000	90,000,000	90,000,000	3.35%



BOARD LEVEL COMMITTEES

EXECUTIVE COMMITTEE

The Executive Committee assists the Board in the general supervision, administration, and management of the Bank's affairs. The Committee is actively engaged in overseeing the development and execution of the Bank's business strategies.

Chairperson: Gregorio T. Yu
 Members: Bansan C. Choa, Cecilio D. San Pedro, Atty. Lamberto R. Villena, Ignatius F. Yenko
 Alternate Member: John Y. Tiu, Jr.

Executive Committee	Meetings Attended	%
Gregorio T. Yu	12	100%
Bansan C. Choa	12	100%
Cecilio D. San Pedro	12	100%
Atty. Lamberto R. Villena	12	100%
Ignatius F. Yenko	12	100%
John Y. Tiu, Jr.	12	100%

RISK MANAGEMENT COMMITTEE

The Risk Management Committee is responsible for the development and oversight of the Risk Management Program of the Bank and the Trust Unit. The Committee approves the risk strategy and the supporting risk management policies and procedures, ensuring the soundness of risk management practices, while fully considering the Bank's risk exposures.

Chairperson: William L. Chua
 Members: Harris D. Jacildo, Antonio R. Samson, Maribel B. Sarino-Lazo, Ruben C. Tiu
 Alternate Member: Bernadette Cindy C. Tiu

Risk Management Committee	Meetings Attended	%
William L. Chua	12	100%
Harris D. Jacildo	12	100%
Antonio R. Samson	12	100%
Maribel B. Sarino-Lazo	12	100%
Ruben C. Tiu	12	100%
Bernadette Cindy C. Tiu	10	83%
Nilo L. Pacheco, Jr. *	1	25% **

* Director Nilo L. Pacheco, Jr. ceded his Board membership on April 2020.
 ** Until Director Nilo L. Pacheco, Jr. ceded his Board membership.

RELATED PARTY TRANSACTIONS COMMITTEE

The Related Party Transactions Committee is responsible for the evaluation of related-party transactions in terms of processes to ensure arms-length dealing with the Bank's related parties by observing transparency, accountability, and fairness.

Chairperson: Vicente C. Macasaet, Jr.
 Members: William L. Chua, Harris D. Jacildo, Antonio R. Samson, Maribel B. Sarino-Lazo, Bernadette Cindy C. Tiu

Related Party Transactions Committee	Meetings Attended	%
Vicente C. Macasaet, Jr.	12	100%
William L. Chua	12	100%
Harris D. Jacildo	12	100%
Antonio R. Samson	12	100%
Maribel B. Sarino-Lazo	12	100%
Bernadette Cindy C. Tiu	12	100%

TRUST COMMITTEE

The Trust Committee is responsible for the oversight of the Trust Unit's policies, investment, and fiduciary activities.

Chairperson: Antonio R. Samson
 Members: Harris D. Jacildo, Hazel M. Navarro, Cecilio D. San Pedro, Ruben C. Tiu

Trust Committee	Meetings Attended	%
Antonio R. Samson	11	92%
Harris D. Jacildo	12	100%
Cecilio D. San Pedro	12	100%
Ruben C. Tiu	11	92%
Nilo L. Pacheco, Jr. *	1	25% **

* Director Nilo L. Pacheco, Jr. ceded his Board membership in April 2020.
 ** Until Director Nilo L. Pacheco, Jr. ceded his Board membership.

PRE-QUALIFICATION, BIDDING, AND AWARDS COMMITTEE

The Pre-qualification, Bidding and Awards Committee oversees the Bank's procurement processes and the implementation of procurement contracts as part of the Bank's operational risk management, while also ensuring transparency and good governance in the process.

Chairperson: John Y. Tiu, Jr.
 Members: Bansan C. Choa, Cecilio D. San Pedro, Atty. Lamberto R. Villena

Pre-qualification, Bidding, and Awards Committee	Meetings Attended	%
John Y. Tiu, Jr.	12	100%
Bansan C. Choa	12	100%
Cecilio D. San Pedro	12	100%
Atty. Lamberto R. Villena	12	100%

INFORMATION TECHNOLOGY (IT) COMMITTEE

The IT Committee oversees the Bank's IT governance framework, ensures the efficiency of the Bank's IT resources in carrying out business objectives, and sets in place an effective IT risk management process that assesses, manages, and mitigates the Bank's IT-related risks.

Chairperson: Ignatius F. Yenko
 Members: Bansan C. Choa, Cecilio D. San Pedro, John Y. Tiu, Jr., Gregorio T. Yu*

Information Technology (IT) Committee	Meetings Attended	%
Ignatius F. Yenko	12	100%
Bansan C. Choa	12	100%
Cecilio D. San Pedro	12	100%
John Y. Tiu, Jr.	12	100%
Gregorio T. Yu	7 *	100%

* Director Gregorio T. Yu ceded his membership in August 2020.

LOAN COMMITTEE

The Loan Committee manages credit risk within the lending portfolio and monitors lending units' activities to ensure that they are carried out in a manner consistent with Board-approved strategic plans and objectives. The committee reviews the effectiveness of credit management systems, policies, and processes for measuring, monitoring, and controlling risk exposures.

Chairperson: Gregorio T. Yu
 Members: Bansan C. Choa, Cecilio D. San Pedro, John Y. Tiu, Jr., Atty. Lamberto R. Villena, Ignatius F. Yenko

Loan Committee	Meetings Attended	%
Gregorio T. Yu	23	100%
Bansan C. Choa	23	100%
Cecilio D. San Pedro	23	100%
John Y. Tiu, Jr.	23	100%
Atty. Lamberto R. Villena	23	100%
Ignatius F. Yenko	23	100%

AUDIT COMMITTEE

The Audit Committee is responsible for overseeing and reviewing the effectiveness of the Bank's internal and external audit functions through the assessment of its accounting and financial reporting framework, risk management, and governance systems and processes, ensuring compliance with legal and regulatory requirements, governance systems, and the Bank's Code of Ethics.

Chairperson: Maribel B. Sarino-Lazo
 Members: William L. Chua, Vicente C. Macasaet, Jr., Bernadette Cindy C. Tiu
 Alternate Member: Atty. A. Bayani K. Tan

Audit Committee	Meetings Attended	%
Maribel B. Sarino-Lazo	12	100%
William L. Chua	12	100%
Vicente C. Macasaet, Jr.	12	100%
Bernadette Cindy C. Tiu	12	100%

CORPORATE GOVERNANCE COMMITTEE

The Corporate Governance Committee ensures compliance with corporate governance frameworks by providing oversight on the following: nomination processes for Board memberships and Board-appointed positions, continuous education and training programs for the Board, performance evaluation processes, design and operation of remuneration and other incentives policies, and the Bank's Compliance Program.

Chairperson: Vicente C. Macasaet, Jr.
 Members: Antonio R. Samson, Maribel B. Sarino-Lazo, Atty. A. Bayani K. Tan, Ruben C. Tiu
 Alternate Member: Bernadette Cindy C. Tiu

Corporate Governance Committee	Meetings Attended	%
Vicente C. Macasaet, Jr.	12	100%
Antonio R. Samson	12	100%
Maribel B. Sarino-Lazo	12	100%
Atty. A. Bayani K. Tan	11	92%
Ruben C. Tiu	11	92%
Bernadette Cindy C. Tiu	9	75%
Nilo L. Pacheco, Jr. *	1	25% **

* Director Nilo L. Pacheco, Jr. ceded his Board membership in April 2020.

** Until Director Nilo L. Pacheco, Jr. ceded his Board membership.

PERFORMANCE ASSESSMENT PROGRAM

To help the Board determine areas for improvement and resolve any issue related to critical governance structures, an annual performance appraisal is conducted by the Bank. In accordance with the Bank’s corporate guidelines and principles, the regular review enables the Board and the management to execute their roles and responsibilities.

ORIENTATION, EDUCATION, SUCCESSION, AND RETIREMENT PROGRAMS

It is the Bank’s commitment to develop all employees with proper knowledge, attitude, and skills upon onboarding. Recognizing the need to adapt to more efficient learning methodologies, the Bank’s Center for Learning made use of online platforms in conducting the New Hires Orientation Program. This significant shift from the traditional classroom setup did not stop the department from diligently teaching the new hires about the Bank’s corporate history, code of conduct, mission and values, products, risk management, and Anti-Money Laundering matters, among others. A heightened sense of risk awareness is being instilled among employees in the advent of increasing usage of digital banking transactions.

The Bank’s succession plan is continuously updated and improved. High-potential employees are recognized and mentored to assume next level positions.

REMUNERATION POLICY

Remuneration packages are regularly reviewed and aligned to attract and retain the services of qualified directors and employees. To determine the appropriate compensation, the following items are taken into consideration: (1) the level of remuneration is commensurate to the responsibilities of the role; (2) a director cannot participate in deciding his remuneration; and (3) remuneration pay-out schedules should be sensitive to risk outcomes over a multi-year horizon. The top five highest paid officers of the Bank are the President and CEO, three EVPs, and one SVP.

POLICIES AND PROCEDURES ON RELATED PARTY TRANSACTIONS (RPT)

The Bank recognizes the risks brought by Related Party Transactions (RPTs). To mitigate these risks, policies and procedures to govern such transactions, guidelines on proper vetting, and endorsement of material RPTs to the Board by the RPT Committee are being implemented, with the goal of ensuring that transactions are conducted on an arm’s length basis and with integrity and transparency.

SELF-ASSESSMENT FUNCTION

Internal Audit and Compliance functions are integral in the Bank’s check and balance processes, as the

Bank’s strengths and weaknesses are identified for continuous improvement. Both functions work together to maintain effectiveness, soundness, and adequacy of governance processes and controls, as well as compliance with laws, rules, and regulations.

INTERNAL AUDIT FUNCTION

The Internal Audit function provides independent and objective review of the quality and effectiveness of the Bank’s internal control, risk management, and governance systems and processes.

The Internal Audit Group reports to the Audit Committee.

COMPLIANCE FUNCTION

The Compliance function ensures the Bank’s adherence with relevant rules and regulations by regularly informing the Board of Directors and Senior Management on the same; appraising Bank personnel on regulatory issuances and serving as an information center for compliance matters; identifying and assessing risks vis-a-vis operations; monitoring the Bank’s adherence through testing; and maintaining a constructive working relationship with the BSP and other regulators.

The Compliance Office reports to the Corporate Governance Committee.

CONSUMER PROTECTION

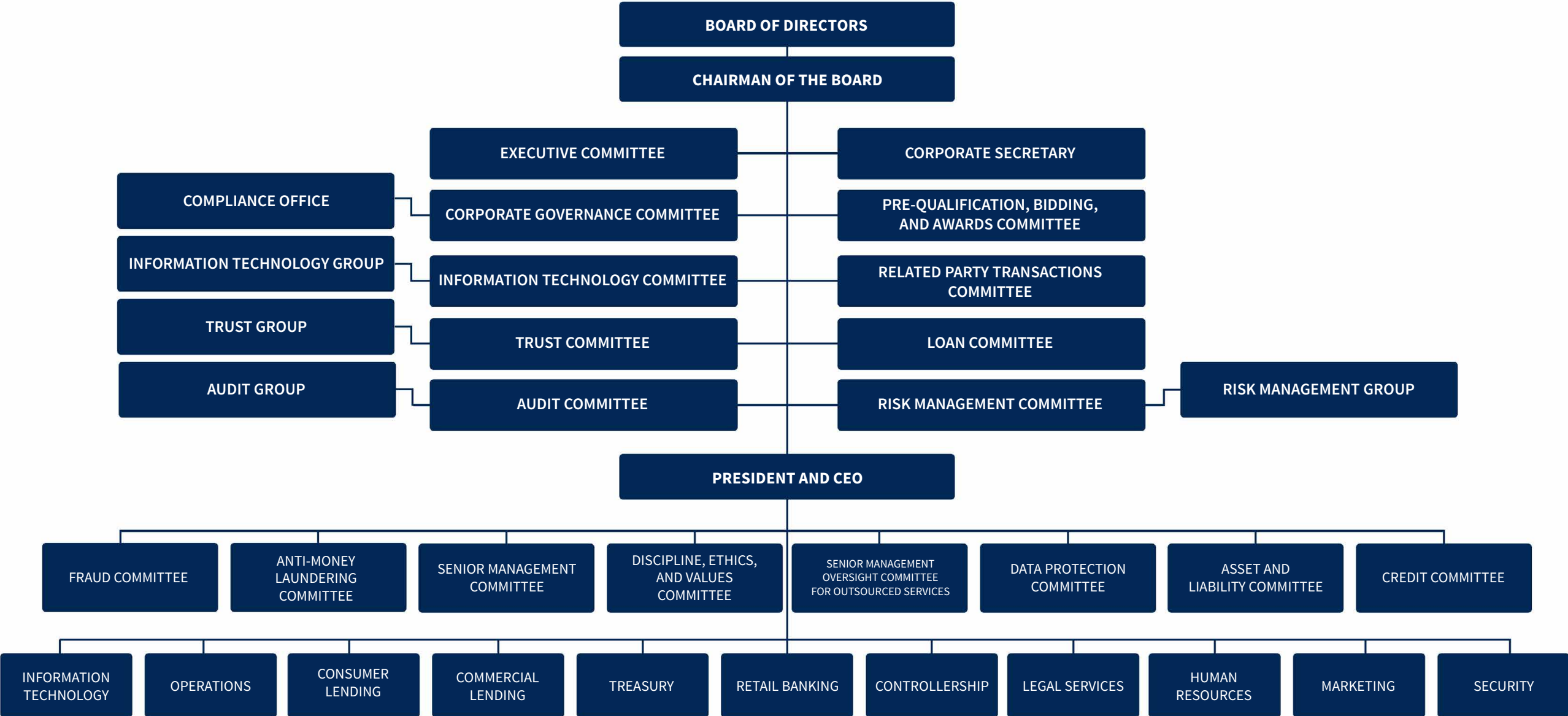
The Bank upholds financial consumer standards and recognizes that it is a fundamental part of the Bank’s corporate governance and culture.

The Bank adheres to the requirements of BSP Circular 857 on Financial Consumer Protection which includes the implementation of the Board-approved Consumer Protection Risk Management System (CPRMS). It defines the actions that must be taken by the Bank to comply with the standards of consumer protection in the areas of disclosure, transparency, protection of client information, fair treatment, effective recourse, and financial education.

The Board of Directors (BOD) is responsible for the oversight function for the Bank’s financial consumer protection. The Senior Management of the Bank is responsible for implementing the Bank’s consumer protection policies and programs, and other duties and responsibilities delegated by the BOD for the purpose of overseeing compliance with the consumer protection policies and risk management system.

	2020	2019	2018
Complaints	1,324	1,499	1,609

ORGANIZATIONAL STRUCTURE



RISK

RISK MANAGEMENT

MANAGEMENT



RISK STRATEGY

The Bank highlights the importance of incorporating risk into strategy setting, which establishes the business' risk profile and at the same time mitigates the risks that the company is exposed to.

Environmental scanning is one of Sterling Bank of Asia's strategies in its annual strategic management exercise to facilitate risk-informed direction setting. The assessment considers political, environmental, social, technological, legal, and economic climates.

RISK ORGANIZATION AND GOVERNANCE

The Bank adopts a multiple stakeholder approach in managing risks and its business operations. Close collaboration within the team enables the Bank to achieve its corporate goals and obtain accomplishments. Thus, accountability for risk is a shared responsibility by the different business units and support groups, with each member kept aware and committed to their respective duties and responsibilities in the risk management process.

Sterling Bank of Asia strictly adheres to the separation between front, middle, and back-office functions as reflected in its four lines of defense structure. Business management is the first line of defense where frontline units enter into business transactions and expose the Bank to risks, both financial and non-financial.

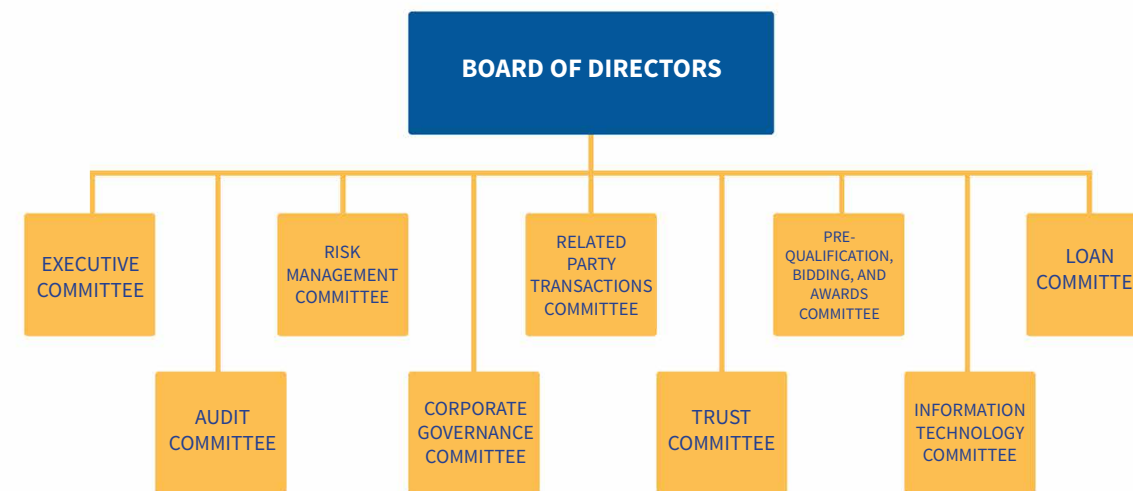
The frontline offices are responsible for assessing and managing risks within each business line on top of establishing and implementing controls to mitigate risks inherent to bank products and services.

The back office units serve as the second line of defense. They extend support functions and facilitate transactions, ensuring that controls are in place and policies are adhered to in the implementation and execution of deals.

The third line of defense consists of the middle office functions - Risk Management and Compliance Office. These groups set risk management and control standards, including compliance with applicable laws and regulatory requirements.

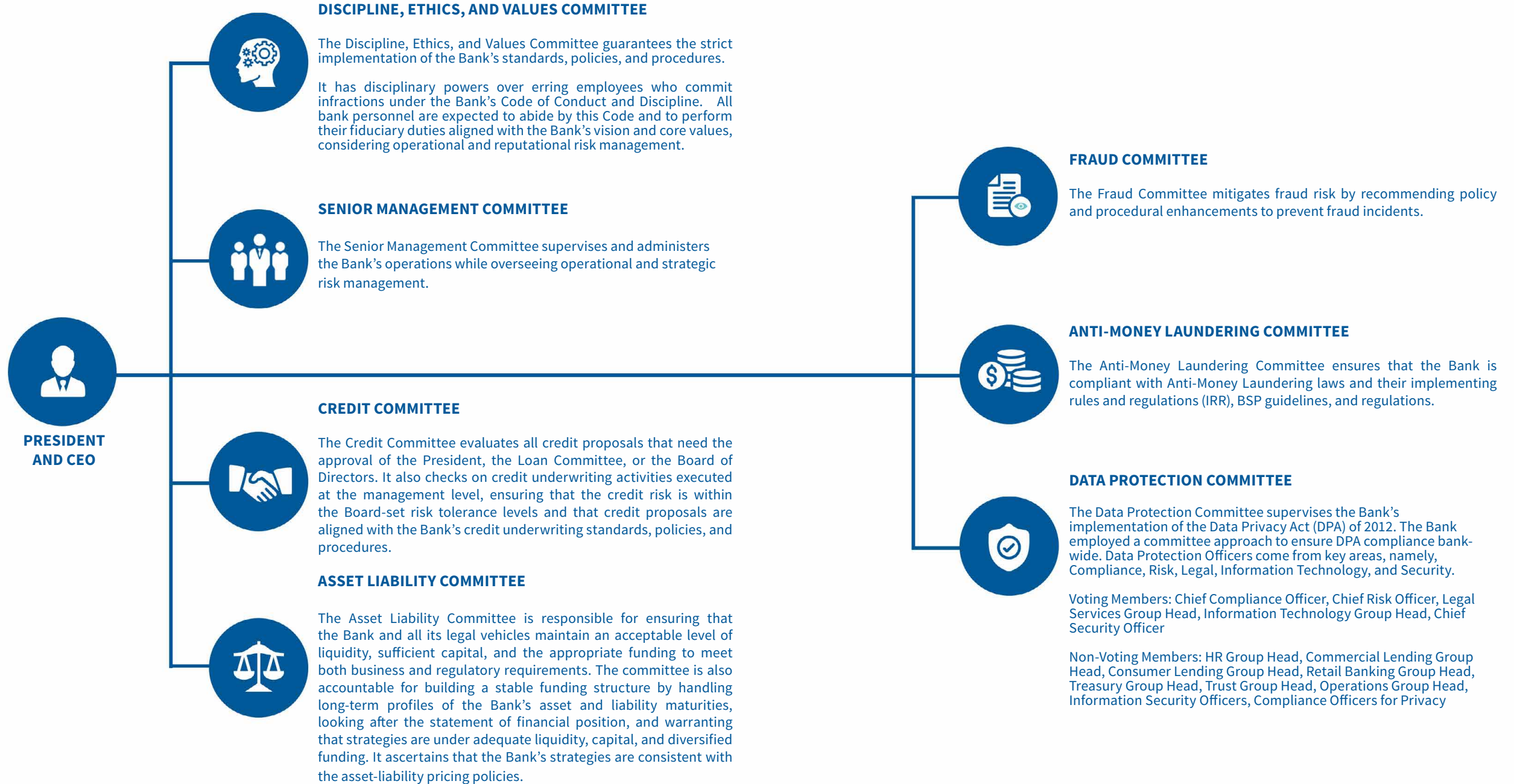
The independent units are assigned to oversee and challenge the risk-taking activities of the front line units and at the same time, evaluate the effectiveness of back-office controls and functions. These independent units guide the other business groups on the methodologies, tools, and processes used to improve risk awareness and adopt a culture of compliance and control.

The fourth line of defense is Internal Audit, which provides validation mechanisms to determine the implementation of established risk management systems.



The Board of Directors (BOD) is generally accountable for risk and sets the tone for the Bank, thus molding the corporate culture and values of the organization. The BOD provides the strategic direction through business plans and strategies, directs implementation, and manages performance to keep activities within acceptable risk boundaries. They also lead the implementation of the Bank's Enterprise Risk Management System that provides a structure for the identification, measurement, monitoring, and control of bank risk exposures.

The BOD is supported by various board and management level committees in its risk oversight functions. These committees are in charge of developing, supervising, and monitoring risk management processes across the organization. To supplement this, the Bank formed the Anti-Money Laundering (AML) and Fraud Committees in 2017, intending to strengthen the governance structure further. These committees help to keep the Bank's commitment to properly steward resources given its fiduciary role.



RISK MANAGEMENT COMMITTEE

The Risk Management Committee (RMC) oversees the risk profile and risk management frameworks/processes of Sterling Bank of Asia. It is in constant coordination with the Board of Directors, the Executive Committee, and other board-level committees, and is supported by the Risk Management Group (RMG). This ensures that risks arising from the Bank’s business activities are properly managed, integrated into, and used as basis for overall governance, strategy and planning, decision making, and accountability purposes at all relevant levels of the organization.

SENIOR MANAGEMENT OVERSIGHT COMMITTEE FOR OUTSOURCED SERVICES

The Senior Management Oversight Committee is tasked to oversee the outsourcing arrangements with third party business partners including monitoring and performance evaluation.

RISK MANAGEMENT GROUP

Headed by the Chief Risk Officer, the Risk Management Group (RMG) develops and reviews risk policies, and raises to management the various aspects of risks facing Sterling Bank of Asia. In addition, it also performs an oversight and monitors the performance of the different Business Units.

RMG shall continue to improve the framework in support of the Bank’s strategic plans in order to achieve its mission, vision, and objectives.

OPERATIONAL RISK DEPARTMENT

- Operational loss data tracking and reporting
- Operational risk identification, quantification, and assessment
- Methodologies in the conduct of risk and control assessment across the institution
- Comprehensive Business Continuity Program
- Analysis of operational risk management processes
- Monitoring of Risk Treatment Action Plans
- Incident response management

CREDIT RISK AND CONTROL DEPARTMENT

- Credit portfolio risk management and analytics
- Implementation of Internal Credit Risk Rating System
- Credit risk identification, quantification, and assessment
- Recognition of credit concentrations and problem accounts
- Institute credit limits and credit underwriting standards
- Credit policy development

MARKET AND LIQUIDITY DEPARTMENT

- Bank’s market, liquidity, and interest rate risk analytics
- Risk identification and assessment affecting the Bank’s trust, treasury operations, and financial market activities
- Market risk quantification and assessment
- Contingency plans to address the impact of market shocks and liquidity stress scenarios

INFORMATION SECURITY (IS) AND INFORMATION TECHNOLOGY (IT) RISK

- Technology risk management
- Information security program management
- IT and IS risk identification, quantification, and assessment
- Access control reviews
- IS incident management

INFRASTRUCTURE

The Bank's risk infrastructure is comprised of people, processes, and technology. These factors serve as the pillar of the Sterling Bank of Asia's Enterprise Risk Management (ERM) System. Each business unit is responsible for business-related risks. The controls embedded in the different processes essentially mitigate the specific risk within a particular team.

The ERM acts as an integrated framework that embodies the entire organization and modifies perception from a silo mindset to a holistic viewpoint. The framework recognizes the critical connection between the business transactions and the related risk metrics. ERM allows the Bank's senior management and the Board to determine the interdependencies of risks and implement risk mitigation across the organization.

Sterling Bank of Asia's risk philosophy is that risk is a shared responsibility and accountability across the organization, residing at all levels in the organization. Thus, all employees are made to appreciate their specific role in the risk management process. This is emphasized in the onboarding process during the New Hires Orientation (NHO) Program, where the Bank's Enterprise Risk Management framework is thoroughly discussed. Part of the Bank's continuing education program led by the Center for Learning (CFL) is that employees are educated about risk management to help them understand and see the value of the risk management framework.

The business processes are also established through a multiple stakeholder approach to ensure efficiency and remove redundancies. This system initiates a shared understanding of risk across the process value chain. The policies and procedures reinforce the processes that reflect the Bank's key risks: credit, market, liquidity, and operational risks. Each business unit is further guided by policies on risk and risk-taking activities to keep them aligned with the BOD's risk appetite and tolerance levels. The policies are periodically reviewed and updated as necessary to keep them responsive to evolving risk and business environments.

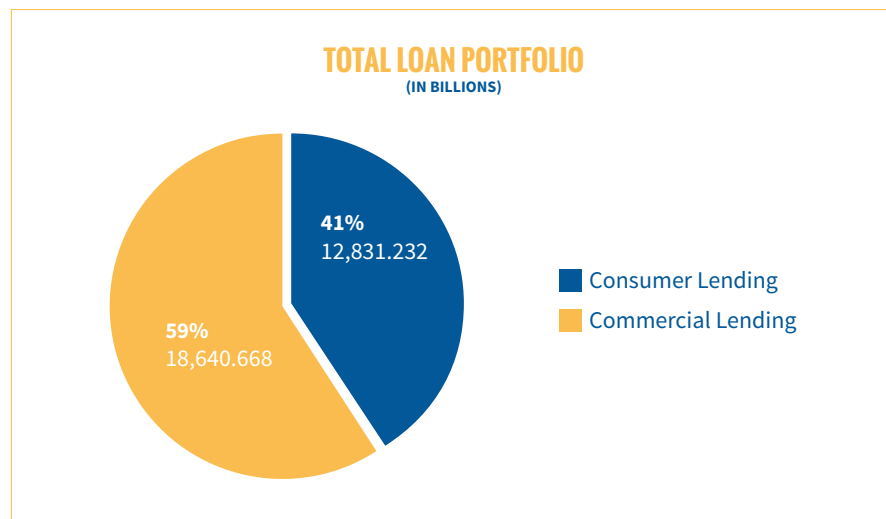
Information Technology (IT) is a critical element of a financial institution's risk management system. The Bank's IT Group provides the appropriate infrastructure to automate critical business activities with embedded controls to support the risk architecture across the organization. IT also supports through data management facilities for risk reporting to monitor business performance and guide decision-making.

RISK MODELS AND MEASUREMENTS

Every organization's optimal efficiency depends heavily on the effectiveness of its risk management processes, thus, Sterling Bank of Asia's day-to-day activities are undertaken under the integrated risk management approach. Further, the Bank incorporates the essential components of the Model Risk Management framework as an integral process in risk management.

The Bank's vulnerabilities are exposed through risk measurements and monitoring activities. These measurements allow Sterling Bank of Asia to plan how to recalibrate to address possible weaknesses. These also help draw critical decisions to the business and supply trigger mechanisms for strategic procedures in the face of changing regulatory and risk environments that could challenge crucial assumptions from which business plans are anchored. Risk reports showing the monitoring and measurement tools are submitted periodically to the Bank's Senior Management and the Risk Management Committee.

The Bank does different risk management methodologies through a mix of industry-accepted quantitative and qualitative techniques to estimate and monitor risk exposures. These include Value at Risk and Earnings at Risk measures, loan loss estimation methodologies applying probabilities of default and loss rates for credit risk, internal credit rating systems, gap analysis, and various key risk indicators within established risk metrics. The models used are subject to periodic back-testing and evaluation to guarantee the value of estimating risk levels.



TYPES OF RISKS

CREDIT RISK

Credit risk is the possibility of a loss resulting from a debtor’s default and/or counterparty’s failure to meet its contractual obligations to the Bank. The Bank’s credit risk arises from lending, trade finance, and investment activities.

Credit risk is the Bank’s most considerable risk exposure. As of 2020, it accounted for 91.52% of the Bank’s risk-weighted assets. The capital charge for credit risk is calculated through the standardized approach.

The credit risk exposure of the Bank is mainly from the Commercial and Consumer Lending business lines with a combined loan portfolio of Php31.472 billion as of 2020. In terms of loan mix, 59.00% is from Commercial Lending while 41.00% is from Consumer Lending.

Credit Risk Weighted Assets			
	2020		2019
	AMOUNT (in Millions)		AMOUNT (in Millions)
0% Risk Weight			
Cash on hand	642.577		675.290
Due from BSP	2,583.489		3,185.750
Available for sale financial assets	102.849		696.320
Loans and Receivables Arising from RA/CA/PR/SLB	855.911		460.185
Loans to the extent covered by hold-out	1,715.761		1,476.554
Loans to the extent covered by Marginal Deposits	5.110		5.118
Loans to the extent guaranteed by HGC	1,688.107	-	1,097.692
Total Subject to 0% RISK WEIGHT	7,593.803		7,596.909
20% Risk Weight			
Claims guaranteed by foreign Incorporated banks	1,287.043		1,171.353
Interbank call loans	75.938		72.747
Claims on Philippine Incorporated private enterprise	-		202.820
Total Subject to 20% RISK WEIGHT	1,362.981		1,446.921
50% Risk Weight			
Loans to individual for housing purposes	708.563		1,020.698
Qualified MSME loans	2,021.719		
Foreign currency denominated claims on or portions of claims guaranteed by or collateralized by foreign currency denominated securities issued by the Philippine National Government & the BSP.	411.963		52.694
Total Subject to 50% RISK WEIGHT	3,142.245	1,571.123	1,073.392
75% Risk Weight			
Qualified MSME loans	-		2,668.496
Total Subject to 75% RISK WEIGHT	-	-	2,668.496
100% Risk Weight			
NPL to individuals for housing purposes	153.598		122.712
Other assets	26,600.734		28,382.801
Total Subject to 100% RISK WEIGHT	26,754.333	26,754.333	28,505.513
150% Risk Weight			
All NPL except NPL individual for housing purposes	1,918.657		1,642.647
Real and other properties acquired and NCAHS	533.237		496.627
Total Subject to 150% RISK WEIGHT	2,451.894	3,677.842	2,139.275
Risk-weighted On - Balance Sheet		32,275.893	34,541.877
Risk-weighted Off - Balance Sheet		16.295	15.186
Counterparty (Trading/Banking)		0.360	-
TOTAL CREDIT RISK		32,292.548	34,557.063
TOTAL RISK WEIGHT		32,292.548	34,557.063

Commercial Lending’s portfolio ended at Php18.641 billion in 2020. The portfolio comprises short-term business loans mainly for working capital requirements in loan lines, international and domestic trade finance facilities, factoring, and receivables financing. The credit terms are matched to address the borrowers’ funding gap. The Bank also offers medium-term loans for capital expenditures as well as floor stock financing for automotive dealers.

The credit underwriting for commercial loans is based on the borrower’s repayment capacity established through cash flow assessments, management capability, and industry projections. The Bank institutes risk-based lending standards over collateral-based lending as one of the risk mitigation techniques.

The Bank employs a 10-scale Internal Credit Risk Rating System (ICRRS) to profile borrowers into High Grade, Standard Grade, or Impaired categories. Credit ratings are part of the requirements upon loan approval which is one factor in the credit decision. The ratings of the borrowers are re-assessed and updated at least annually or as necessary, depending on the material changes and significant events that may impact the borrower’s creditworthiness.

The rating system is subdivided into two parts - the borrower’s risk rating (BRR) and the facility risk rating (FRR). The BRR uses various financial indicators, management assessments, and industry features which considers both quantitative and qualitative analyses to measure credit risk. On the other hand, FRR reflects the credit enhancements derived from the credit structure, including risk mitigation mechanisms. Credit ratings are given during loan approval and are re-assessed and updated at least

annually or when some material changes and events may impact the borrower’s creditworthiness.

Consumer Lending underwriting is based on the credit acceptance criteria built on a set of borrower attributes and integrated with credit scorecards for each product offering. The Consumer Lending portfolio has two product lines: secured and unsecured loans. Secured retail products include auto and real estate loans, while unsecured retail products are personal, salary, and employee loans. These loans are primarily intended to finance the customers’ individual needs as an alternative to credit card obligations and finance Small and Medium-sized Enterprises (SMEs).

The Consumer Loan portfolio stood at Php12.831 billion in 2020. 67.34% of the portfolio are from Auto Loans, 27.27% are from real estate financing, while the rest are from personal and salary loans.

The Bank has an established credit limit structure. This structure serves as a mechanism to manage credit concentration risk from significant exposures to single name/group borrowers, industry sectors, DOSRI, and country risk exposures. As a relief, BSP relaxed the regulatory Single Borrower’s Limit (SBL) from 25.00% to 30.00% of the Bank’s unimpaired capital until March 31, 2021, as part of the measures BSP has taken to help the financial sectors during the pandemic.

The Bank follows a system of delegated authorities approved by the Board in approving loan transactions. The “Four Eyes Principle” is also one of the processes employed by the Bank to ensure proper credit assessment.

The Loan Committee (LoanCom) is the governing body that oversees the Bank’s credit risk management system. LoanCom ensures that the business units implement the credit risk strategies to deliver financing to their respective target markets. It is also in charge of approving credit policies and risk control frameworks that specify the lending and credit risk-taking parameters.

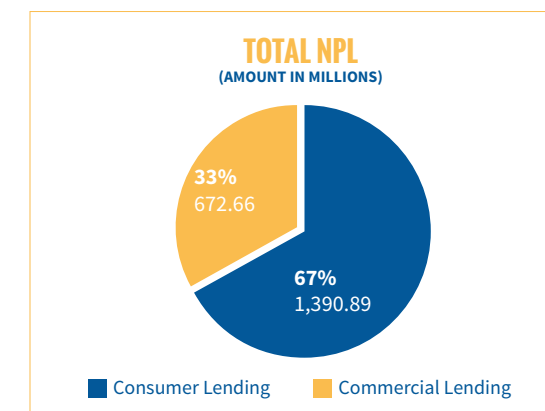
The Credit Committee (CreCom), on the other hand, supervises the implementation of the instituted credit risk management systems. The CreCom warrants that the Bank’s credit risk-taking activities are aligned with the board-approved strategies and that credit underwriting is within established limits and thresholds.

Credit risk exposures are monitored and reported regularly to the Credit, Loan, and Risk Management Committees. Risk Management Group through the Credit Risk and Control Department supports these committees in terms of risk monitoring and reporting, development of the credit policies, risk measurements, and other credit risk management mechanisms.

Considering the effects of the Covid-19 pandemic, the Bank extended assistance to affected borrowers through Bayanihan to Heal As One Act and Bayanihan to Recover as One Act as mandated by the Bangko Sentral ng Pilipinas. Restructuring arrangements were likewise extended to affected borrowers without compromising credit quality.

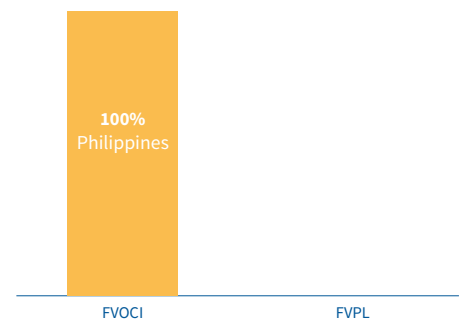
The asset quality of Sterling Bank of Asia remains to be better than the industry, with the Bank’s NPL ratio favorably below sector for several years now. Even with the pandemic onset, 2020 ended with a gross NPL ratio of 6.36% as against an industry of 8.27%.

Risk Rating	Classification	Credit Quality
1	Excellent	High Grade
2	Strong	High Grade
3	Good	High Grade
4	Satisfactory	Standard Grade
5	Acceptable	Standard Grade
6	Weak	Standard Grade
7	Poor	Impaired
8	Substandard	Impaired
9	Doubtful	Impaired
10	Loss	Impaired



Credit exposures given the Bank’s treasury trading and investment activities are keenly managed by monitoring securities prices that indicate the credit risk premium priced by the market. Credit limit structures such as position limits, counterparty limits, and country limits are also in place to guarantee that investment activities are carried out within Board-set boundaries. Counterparty risk is primarily reduced by netting arrangements that provide for single net settlement for exposures.

CONCENTRATION RISK BY COUNTRIES

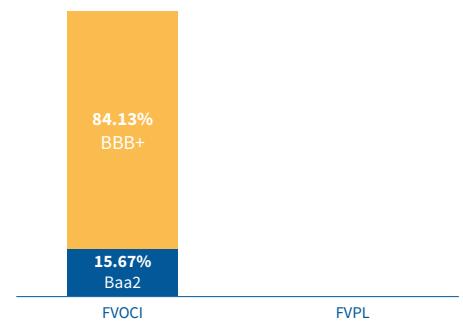


Countries	FVOCI	FVPL	TOTAL
Philippines	828.93	-	828.93
United States	-	-	-
TOTAL	828.93		828.93

FCY Denominated converted @ USD/Php48.023

Amounts are in Php Millions

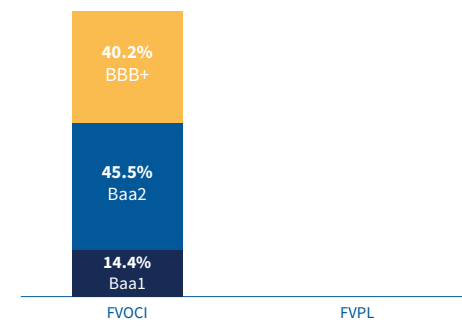
RBU (PORTFOLIO CONCENTRATION RISK BY ISSUER RATING)



RBU	FVOCI	FVPL	TOTAL
Baa2	16.09	-	16.09
BBB+	86.40	-	86.40
BBB	0.20	-	0.20
TOTAL	102.70	0.0	102.70

Amounts are in Php Millions

FCDU (PORTFOLIO CONCENTRATION RISK BY ISSUER RATING)



	FVOCI	FVPL	TOTAL
Baa1	104.27	-	104.27
Baa2	330.33	-	330.33
BBB+	291.63	-	291.63
TOTAL	726.24	0.0	726.24

FCY Denominated converted @ USD/Php48.023

Amounts are in Php Millions

HOLD TO COLLECTIVE INVESTMENTS

	RBU	FCDU	TOTAL
Financial Assets at Fair Value through Other Comprehensive Income	604,427,168	118,567,991	722,995,159
Hold-to-collect Investments	112,578,745	112,790,494	112,790,494
	717,005,912	231,358,485	835,785,653

MARKET RISK

Market risk is the risk to a financial portfolio from movement in market prices. The Bank’s market risk originates from its holdings of domestic and foreign-denominated debt securities and financial instruments.

The Market and Liquidity Risk Department under the Risk Management Group (RMG) is the unit responsible for identifying, managing, measuring, and controlling market risk in coordination with the Bank’s Treasury Group. Daily monitoring is performed in compliance with the Bank’s policies, procedures, and market risk limits. The Market Risk Framework is annually visited by the Risk Management Group (RMG) and Asset-Liability Committee (ALCO) and approved by the Risk Management Committee (RMC). The ALCO is responsible for managing the Bank’s overall market risk exposures.

MARKET RISK IN THE TRADING BOOK

Market risk is the risk that movements in the volatility of market prices will adversely affect the Bank’s financial condition. This risk is embedded in the Bank’s day-to-day trading activities. Value-at-Risk (VaR) is used in measuring market risk, specifically for FX risk, price risk, and interest rate risk exposures. VaR uses statistical estimates to calculate the maximum loss traders and managers can expect, given a set time horizon and confidence level. VaR is known for its ability to capture positions, rates, and market movements for an intuitive forward-looking single risk metric. Through this, Senior Management and

the Board can easily interpret and use it in making business decisions.

Due to the 2020 pandemic and the resulting volatile market condition, Treasury had minimal trading exposures. The Bank ended the year with a zero FVPL position.

OBJECTIVES AND LIMITATIONS OF THE VAR METHODOLOGY

Value-at-Risk (VaR) is a statistical estimate of the maximum potential loss in the trading portfolio given a specific period within a pre-determined degree of probability. The Bank has chosen to adopt the Historical VaR model, which approximates VaR by using historical returns and behavior. Past data is used as a guide to what may happen in the future.

Back-testing is also being done to validate the acceptability of the VaR model. The Bank regularly performs hypothetical and actual back-testing procedures for FX and Fixed income securities (RBU and FCDU) securities to check the acceptability of the model being used.

Stress testing is likewise regularly performed to complement VaR measurements to assess the Banks’ vulnerabilities and capabilities to absorb shocks under extreme market conditions.

VAR ASSUMPTIONS/PARAMETERS

The Bank utilizes the historical VaR model where actual historical rates and revalued s positions for

each change in the market are used for data inputs. It considers historical observed day-to-day changes in the values of market variables to estimate potential changes in the value of the current portfolio. It is appropriate for all types of instruments, linear and non-linear, with stable risk factors for a rich historical database. VaR is an integral part of the Bank’s market risk management. VaR limits are being established annually for all financial trading activities, and utilization is monitored daily. Limits are based on the tolerable risk appetite of the Bank, which covers Fair Value Through Profit and Loss (FVPL) securities. Fixed income VaR includes value-at-risk for investment securities denominated in currencies other than Philippine Peso.

The daily VaR monitoring includes calculated VaR numbers and limit utilization. Limit breaches, if any, are reported to the Treasury Group, Chief Risk Officer, and the President. The VaR reports guide the Treasury Group in their risk-taking activities. Likewise, results are reported periodically to the Asset and Liability Committee (ALCO) and the Risk Management Committee (RMC).

The Bank’s market risk exposure stood at 0.20% of the Bank’s risk-weighted assets for 2020. The capital charge for market risk exposure follows the standardized approach.

INTEREST RATE RISK

Interest Rate Risk on Banking Books (IRRBB) is the risk of having adverse movements in interest rates that may reduce the Bank’s current and future earnings

and economic value. The existing portfolios of the Bank have general exposures to repricing, basis, and yield curve risks. These exposures largely stem from the Bank’s positions on local and foreign interest-rate-sensitive assets and liabilities.

The Bank currently works with the EaR methodology to measure and manage IRRBB. The banking book refers to the Bank’s exposures outside of the trading book, mostly interest rate-sensitive. The EaR measures potential changes in net interest income over a forecast horizon by subjecting the Bank’s accrual portfolios to interest rate changes occurring according to contractual or behavioral repricing assumptions. It shows the impact of IRRBB on the Bank’s accounting income and short-term interest cash flows.

The EaR is a risk management tool that helps ensure that the exposures to interest rate fluctuations are kept within acceptable levels through set limits on IRRBB from the earnings perspective. It is a measure of the volatility of earnings for accrual portfolios. This measure is computed based on a 99.00% confidence level through the change in income over the next 12 months, given current exposures that will result from a one-year standard deviation change in interest rate, updated monthly. EaR calculation is done monthly, with quarterly stress testing.

The Bank follows a prudent policy on managing its assets and liabilities to ensure that exposure to fluctuations in interest rates is kept within acceptable limits and existing regulatory guidelines.

FOREIGN CURRENCY RISK

Foreign currency risk is the probability of loss to capital or earnings due to an adverse movement in currency exchange rates.

It arises when there is a mismatch in the foreign currency assets and liabilities. The Bank manages its exposure to fluctuations in foreign currency exchange rates by maintaining foreign currency exposure within acceptable limits and existing regulatory guidelines.

LIQUIDITY RISK

Liquidity risk is the risk that the Bank may fail to make payments on time or meet funding requirements and financial obligations. Effective liquidity risk management is crucial in terms of the viability of the Bank and the more excellent stability of financial markets.

The Bank regularly performs an analysis of its liquidity profile as part of liquidity risk management. It considers both qualitative and quantitative analysis. Qualitative assessment includes analyzing the Bank’s balance sheet size and structure, available standby liquidity commitments and other On-off Balance Sheet (OBS) commitments, as well as mismatched maturities of assets, liabilities, and OBS exposures. The Bank’s quantitative assessments support this qualitative assessment by using metrics such as liquidity indicator ratios plus the analysis of projected

cash inflows and outflows. It is supplemented by assessments with scenario analysis and stress testing to measure the impact of low-probability, high-impact events on the Bank’s balance sheet and liquidity profile, prompting management action if necessary.

The Asset-Liability Committee (ALCO) is the management committee responsible for balance sheet management and capital allocation. The committee ensures optimization of existing resources and the cost-effective generation and maintenance of available funds at levels needed to meet expected and unexpected changes in operating conditions and funding requirements of the Bank. It likewise serves as the Funding Crisis Committee in case the contingency plan is activated. The Bank has a well-established Liquidity Contingency Funding Plan (LCFP) that includes analyzing net funding requirements under alternative scenarios and the corresponding risk response to address liquidity shocks. The Bank utilizes a diverse range of fund sources, including deposits with banks made on a short-term basis, with almost all available on-demand or within three months.

Liquidity measurement includes assessing the Bank’s cash inflows vs. outflows to identify the potential for any net shortfalls in the future. The Bank through Risk Management Group uses the Maximum Cumulative Outflow (MCO) model as one of the liquidity risk measurement tools.

MCO measures the level of future funding that a bank will require at pre-specified future dates in a typical banking environment by capturing the liquidity gap between maturing assets, liabilities, and OBS commitments. The Bank through the Treasury Group uses liquidity forecast models that estimate the Bank’s cash flow requirements based on the Bank’s actual contractual obligations under normal conditions and extraordinary situations. A monthly maximum cumulative outflow report is being prepared to analyze maturity gaps of the Bank’s assets and liabilities. This is reported to the Asset and Liability Management Committee (ALCO) and Risk Management Committee (RMC) monthly.

Cashflows from unpaid matured loans with maturities falling within the quarantine periods were temporarily bucketed in over one year for a more conservative assumption on the premise that clients are still under recovery and may not be able to make payments during this time of the pandemic.

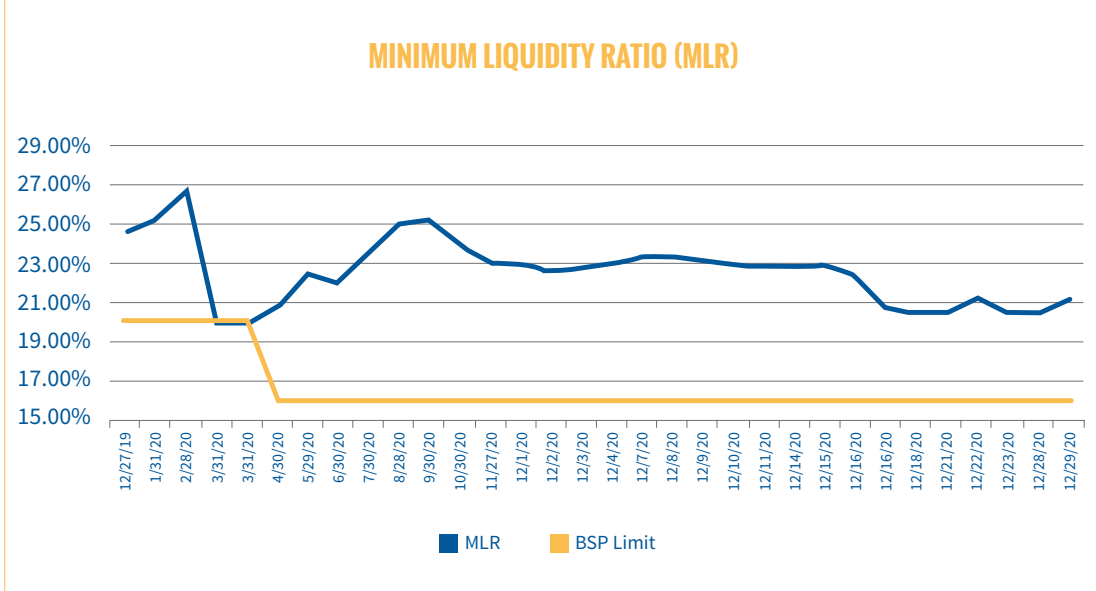
The importance of liquidity risk management is underscored by BSP Circular 981 (Guidelines on Liquidity Risk Management) that requires thrift banks to maintain a minimum liquidity ratio (MLR) generally at a 20% level. The Bank has endeavored to maintain a good level of liquid assets and has consistently maintained MLR above the regulatory threshold.

Under BSP Circular 996 (Amendments to the Liquidity Coverage Ratio Framework and minimum Prudential

Liquidity Requirements) issued on February 8, 2018, all thrift banks, rural/cooperative banks (RBs and Coop Banks), and Quasi Banks (QBs) that are not subsidiaries of universal or commercial banks (UBs/KBs) are required to maintain a prudential Minimum Liquidity Ratio (MLR) of 20% daily to promote short-term resilience to liquidity shocks. MLR is a percentage of eligible stock of liquid assets to its total qualifying liabilities. The inventory of liquid assets is required to be unencumbered and readily liquefiable, while the qualifying liabilities include both on-balance sheet and off-balance sheet commitments.

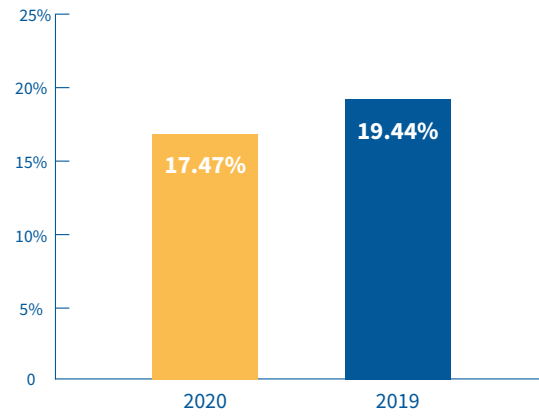
On April 7, 2020, BSP reduced MLR down to 16.00% until December 31, 2020, to help banks cope with the impact of the Covid-19. This provision has been extended for an additional one year, effective until December 31, 2021, under BSP Memorandum M-2020-085 dated December 1, 2020.

The Bank is compliant with the regulatory requirement, with MLR at 21.05% and 24.54% as of December 31, 2020, and 2019, respectively.



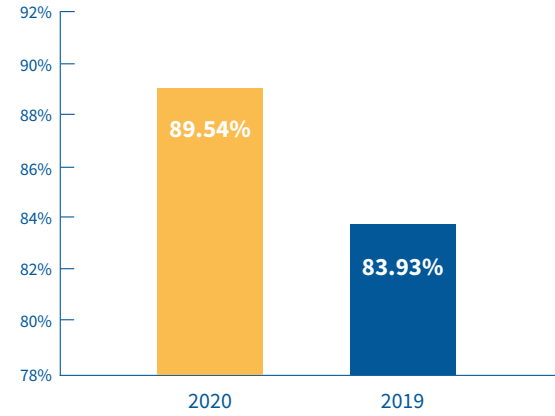
MCO and liquidity ratios are observed and used on a complementary basis. RMG calculates liquidity ratios periodically.

LIQUID ASSETS TO TOTAL ASSETS



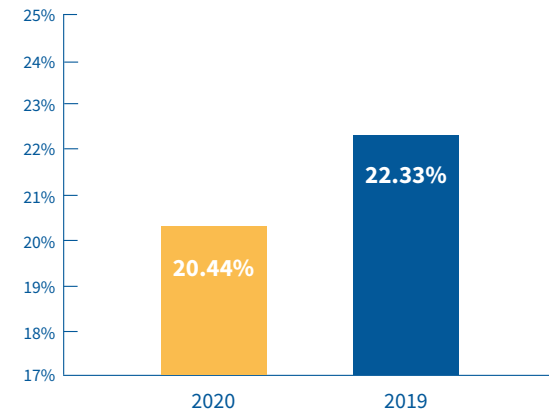
	2020	2019
Liquid Assets	7,138,561,610	8,696,005,006
Total Assets	40,860,599,410	44,742,726,000

LOANS TO DEPOSIT RATIO



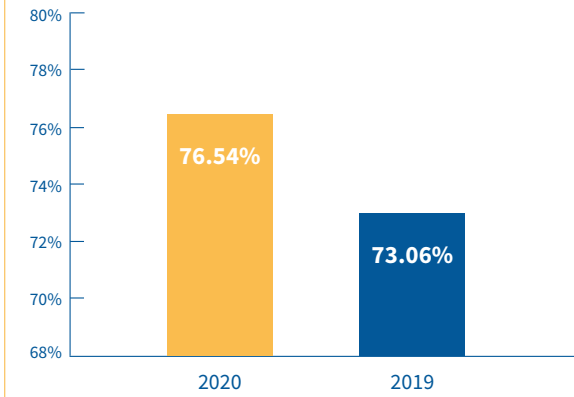
	2020	2019
Loans and Receivables	31,272,845,363	32,689,858,426
Total Deposits	34,926,162,386	38,951,135,847

LIQUIDITY RATIO



	2020	2019
Liquid Assets	7,138,561,610	8,696,005,006
Total Deposits	34,926,162,386	38,951,135,847

LOANS TO ASSET RATIO



	2020	2019
Loans and Receivables	31,272,845,363	32,689,858,426
Total Assets	40,860,599,410	44,742,726,000

OPERATIONAL RISK

Operational Risk is the risk of direct or indirect loss arising from inadequate or failed internal processes, or external events. This risk includes internal and external fraud, weaknesses in products and business practices, business disruption and systems failure, employment practices and workplace safety, damage to physical assets, and execution, delivery, and process management failures.

The Bank recognizes four lines of defense as a fundamental principle in managing the Bank's risk management framework. The business units act as the first line of defense where the embedded controls in the processes are used to manage risks to which they are exposed. The back office units serve as the second line of defense that perform additional controls integrated with their operations. The third line of defense is the Risk Management Group and Compliance Office, which assist in determining the risk strategies and structures to manage risks and provide advisory services. Internal Audit, meanwhile, functions as the fourth line of defense. They independently review the efficiency of risk management systems and controls in the Bank.

The Bank employs activities to evaluate and monitor the operational risk profile. These activities are the Risk and Control Self-Assessment (RCSA) and tracking of Operational Losses and Key Risk Indicators (KRI). The RCSA helps the business units assess the risk exposures and controls specific to their processes. In 2019, to expand the risk universe to cover a broader scope, the RCSA framework was enhanced. The risks are generally classified into eight major categories: Credit, Market, Interest Rate, Liquidity, Operational,

Compliance, Strategic, and Reputational Risks. Other factors were also considered to expand the aspects that should be considered when assessing the effect of a risk event on a specific bank process. Risk identification related to the bank processes assists in the alignment of actual risk levels with tolerance levels concerning the current landscape and ensures that the existing control measures are kept effective. Seven impact factors are considered in the RCSA framework: Financial Impact, Operational Efficiency, Legal and Regulatory Impact, Reputational implications, and effects on Customer Service and Employee Welfare. These factors are part of the considerations in assessing the inherent risk exposure of the different processes.

The regular conduct of RCSA is vital in a forward-looking risk evaluation that serves as an avenue for regular checks on the gaps between risk exposure and risk appetite utilizing thresholds used in the profiling of risk. This activity also allows the Bank to have valuable insights on its risk and control environment, enhance risk treatment action plans, and enable risk-informed decision making.

KRIs are mapped as a post-RCSA activity to monitor high-risk areas and assess trigger levels. The KRI report is a tool and exercise used to facilitate the monitoring and control of risks where trends indicate the organization's vulnerability to a particular risk.

On the other hand, the Operational Loss Database mirrors the loss experience of the Bank in terms of the different Basel categories. These losses, both probable and actual, are regularly reported to the Risk Management Committee.

Incident Management is also one of the key operational risk management activities. All units are expected to escalate all the reportable incidents as defined in the framework. This tool aids in the implementation of appropriate responses to address concerns and strengthen existing processes.

The Bank is committed to protecting clients' right to the privacy of their personal information while optimizing available information to support progress and advancement. Privacy-related policies are in place that adhere to the Data Privacy Act of 2012 as identified in the Bank's privacy manual. Implementation plans are strictly observed, including bank-wide awareness programs such as training and issuance of bulletins to ensure compliance with the Act. The Bank's Data Protection Committee is the management committee overseeing the adherence to the regulation.

It is a cross-functional group with the Data Protection Officers (DPO) comprised of the Heads of the Legal Group, Compliance Office, Information Technology Group, Risk Management Group, and Security Group. Designated Compliance Officers for Privacy (COPs) support the DPOs.

The Covid-19 Global Pandemic proved that business resiliency is a critical component of any organization. Sterling Bank of Asia has established a Business Continuity Management Program (BCMP) that aims to ensure continued service delivery in the event of any disaster scenario, including a pandemic risk management framework. Specific processes and procedures were established for the restoration of

the Bank's core business activities in cases of business disruption. They cover varying levels of disruption and consider different scenarios such as loss of personnel, damages to bank properties, inability to access bank premises, and system interruption.

When the Covid-19 pandemic started in March 2020, the Bank activated its Business Continuity Plan (BCP) and has been continuously integrating measures specific to the crisis scenario to address the needs of clients and stakeholders. The Bank ensured compliance with the government's guidelines depending on the level of quarantine calls. Health and safety protocols were in place at the onset of the pandemic to mitigate health risks amongst the employees, customers, and stakeholders. The Bank is observing the regulatory guidelines from the BSP in terms of Credit, Market and Liquidity, and Operational risks.

Periodic testing is part of the BCP cycle, as reflected in the Bank's BCMP. The BCP testing is used for plan development to keep strategies updated and fully functional against the current risk landscape. The Bank employs different types of exercises as part of its learning and training methods. To safeguard the public interest and SBA's franchise, critical business units are pre-identified to ensure the continuous performance of essential banking activities and functions in case of a disaster or crisis scenario. Each unit maintains an updated Departmental BCP manual that serves as a guide for the employees specific to their processes.

The basic indicator approach (BIA) is used to compute the capital charge for operational risk. For 2020, operational risk accounts for 8.28% of the Bank's risk-weighted assets.

COMPLIANCE RISK

Compliance Risk is the likelihood of adverse effects on the Bank's financial and capital position due to the Bank's failure to comply with the law and other regulations, standards of operations, anti-money laundering and counter-terrorist financing regulations, and different rules governing the Bank's operations. Compliance risk covers the risk of sanctions by the regulators, risk of financial losses, including possible reputational risk.

The Bank's Compliance Program is the pillar of the Compliance Risk Management System. The program involves identifying relevant laws and regulations, monitoring updates on regulatory guidelines, and assessing its operations and balance sheet implications. It also encompasses risk testing of business units and ascertains that relevant stakeholders are properly adept in compliance risk management. The operational risk capital charge includes capital charges arising from compliance risk.

One of the essential aspects of the program is the Bank's Money Laundering and Terrorist Financing Preventive Program (MTPP). This protects the organization from being a channel for money laundering and a medium for proceeds of unlawful activities to preserve the integrity and confidentiality of banking transactions. The Anti-Money Laundering

(AML) Committee is the governance structure at the management level that oversees the implementation of the Bank's AML related programs. On the other, the Corporate Governance Committee is in charge of the oversight functions to guarantee compliance with AML regulations.

The Bank's MTPP is comprised of the following factors: customer identification and acceptance process, a mechanism for due diligence, Know-Your-Customer (KYC), and proper vetting during client onboarding. Also in place are the monitoring systems to track transactions, significant movements, including covered and suspicious transaction monitoring that provides for triggers and control mechanisms to validate that clients' financial transactions are within assessed capacities. Through the Bank's Center for Learning, Sterling Bankers are provided with continuous training and updates to promote a culture of AML compliance.

The Bank's Compliance Office (CO) provides relevant data on the compliance risks and controls to the Corporate Governance Committee. It is also the CO's task to make sure that the stakeholders are updated on new regulations. There is a dedicated team for AML monitoring and compliance testing under the CO.

Meanwhile, the Legal Services Group (LSG) helps manage legal risks. This is done through control structures such as LSG sign-off and stamping procedures as well as issuance of legal opinions and advisories. There are also continuous training and awareness campaigns tackling common legal problems and various legal issues. This is done

to mitigate the risk of possible losses, costs and expenses, sanctions and penalties, and adverse decisions in lawsuits or proceedings arising from breach of contractual and legal obligations.

STRATEGIC RISK

Strategic Risk is the risk of loss arising from ineffective business plans and failure to respond appropriately to changes in the business environment. This type of risk is attributed to unfavorable business decisions, failed process implementations, and the inability to adapt to the changes in the industry.

The Board of Directors sets the Bank's strategic plans with the Senior Management Committee (SMC). They ensure that the Bank's goals are well-aligned with the business strategies, resources, and implementation plans. Extensive risk review and evaluation is done during the initial implementation of new products and services and process and product enhancements.

The Group performances versus the set objectives are regularly monitored and assessed by the Senior Management Committee and the Executive Committee/Board of Directors.

REPUTATIONAL RISK

Reputational Risk is the risk of loss due to negative publicity. This risk is mitigated by adequately implementing processes and efficiently handling customer complaints to avoid negative impacts such as decreased customer base/public trust, operational disruptions, and legal risks.

The continuous rise of social media as a platform for positive and negative feedback constantly changes the risk environment in managing reputational risk. While Sterling Bank of Asia does not have an official social media channel, customer concerns and feedbacks are addressed through its 24/7 customer management helpline. For the year 2020, there were 1,324 complaints, inquiries, and requests received by Customer Management Department, still lower than the previous year despite the challenges met during the Covid-19 pandemic. Concerns were addressed following the Bank's internal policies and regulatory guidelines regarding customer complaints handling, guided by the financial consumer protection framework.

CAPITAL ADEQUACY RATIO

DECEMBER 31 (IN MILLIONS PHP)

	2020	2019
Tier 1 Capital	3,029.919	2,709.554
Tier 2 Capital	1,873.992	1,591.633
Gross Qualifying Capital	4,903.911	4,301.187
Less: Regulatory Deductions	61.227	16.691
TOTAL QUALIFYING CAPITAL	4,842.683	4,284.496
Credit Risk Weighted Assets	32,292.548	34,557.063
Market Risk Weighted Assets	71.199	693.154
Operational Risk Weighted Assets	2,923.013	2,601.786
TOTAL RISK WEIGHTED ASSETS	35,286.760	37,852.003
Tier 1 Capital Ratio- Net	8.41%	7.11%
Total Capital Adequacy Ratio	13.72%	11.32%

TOTAL TIER 1 CAPITAL

DECEMBER 31 (IN MILLIONS PHP)

	2020	2019
Paid-up common stock	2,170.000	2,070.000
Retained earnings	643.881	491.726
Undivided profits	206.713	145.067
Cumulative foreign currency translation	9.324	2.761
Gross Amount	3,029.919	2,709.554
Deductions:		
Unsecured DOSRI credit accommodations	43.000	0.027
Deferred tax assets	18.227	16.664
Total Deductions	61.227	16.691
NET TIER 1 CAPITAL	2,968.692	2,692.863

TOTAL TIER 2 CAPITAL

	2020	2019
Preferred Stock	300.000	300.000
General Loan Loss Provision	281.242	296.633
Unsecured subordinated debt-Net	1,292.750	995.000
NET TIER 2 CAPITAL	1,873.992	1,591.633

CAPITAL MANAGEMENT FRAMEWORK

Risk and Capital Management optimizes the level and mix of bank resources to increase shareholder value and ensure capital sufficiency to support the Bank's asset growth and expansion.

CAPITAL MANAGEMENT OBJECTIVES

The Bank's risk-taking activities are determined mainly by its level of capital. Thus, risk and capital management adhere to the following objectives:

- Maintain capital ratios above the minimum regulatory capital with sufficient buffer to absorb shocks in periods of stress
- Ensure capital availability to support asset growth and business activities
- Balance risk and reward for achieving RWA optimization

GOVERNANCE

The Board of Directors, through the Bank's Risk Management Committee (RMC), is in charge of the strategic allocation of risk capital. Its key focus in risk and capital management is to oversee the alignment of corporate strategies and risk-taking activities with capital planning to ensure the best use of capital and optimize the level and mix of resources.

The RMC is assisted by the Risk Management Group (RMG), a unit independent of the business lines, in its oversight functions. RMG is in charge of providing the RMC with an aggregated and firm-wide view of capital adequacy.

The Heads of the Business Units, as the risk-taking units of the Bank, are accountable for capital risk.

Activities of the business units should be guided by the Bank's capacity to absorb risks and capital utilization for such activities.

Recommendations relating to capital utilization are taken up by the Bank's Asset and Liability Committee (ALCO), the bank committee in charge of balance sheet management. The objective is to manage the business portfolio actively, rationalize the business mix, reallocate capital as necessary, and align activities with funding capacity.

The Credit Committee (CreCom), which screens all big-ticket credit items requiring the approval of the President, the Loan Committee and the Board, and the Loan Committee (LoanCom), which is the highest approving body for credit exposures, factor in risk and capital utilization considerations in their credit decision-making process.

CAPITAL MANAGEMENT MECHANISM

The Board of Directors sets the direction for target capital ranges. The Bank takes action based on the target capital ranges that act as an Early Warning System and trigger mechanism. Target capital ratios consider the Bank’s strategic directions and business objectives, growth and expansion plans, including a financial buffer for shocks under stressed scenarios.

Capital ratios are assessed to monitor capital adequacy every month. The regular assessment triggers action plans should capital ratios fall below the acceptable level. Risk exposures are periodically tracked to assess capital utilization as part of the Bank’s risk and reward trade-off. The results of these monitoring activities are submitted monthly to the appropriate Committees. They are also used in escalation protocols to address instances of near breach and/or breaches in Board-set limits, hence, initiating timely and relevant bank responses.

The Bank’s system of risk limits affords diversification across risk exposures and risk capital utilization. These thresholds are parallel to the Bank’s risk

tolerance and capacity as set by the Board. Stress testing is also an integral part of the Bank’s risk and capital management system. It is used to calculate the impact of pre-defined scenarios reflecting various degrees of severity on the Bank’s capital position. Stress testing exercises cover both internal stress scenarios developed on the Bank’s portfolio and sub-portfolio and the regulatory stress scenarios required by the BSP as part of its oversight of the Philippine banking sector.

Simulations are used to measure and check the impact on capital levels of various business and economic scenarios. Further simulations on the effects of proposed significant investments and loan exposures are conducted to serve as a feedback mechanism on capital utilization to balance risk-reward trade-off.

	Credit Risk		Market Risk		Operational Risk	
	2020	2019	2020	2019	2020	2019
On-Balance Sheet -Net of Deductions	32,275.893	34,541.877				
Off-Balance Sheet	16.295	15.186				
Counterparty (Trading/Banking)	0.360	-				
Interest Rate Exposure	-	-	-	601.052		
Foreign Exchange	-	-	71.199	92.102		
Operational Risk - Weighted Assets					2,923.013	2,601.786
TOTAL RISK WEIGHT	32,292.548	34,557.063	71.199	693.154	2,923.013	2,601.786
CAPITAL REQUIREMENTS	32,298.89	34,557.96	71.20	693.15	2,923.01	2,601.79



THE MANAGEMENT

THE MANAGEMENT

BOARD OF DIRECTORS



RUBEN C. TIU
Chairman of the Board



GREGORIO T. YU
Vice Chairman of
the Board



CECILIO D. SAN PEDRO
President and
Chief Executive Officer



BANSAN C. CHOA
Director



WILLIAM L. CHUA
Independent Director



HARRIS D. JACILDO
Director



ANTONIO R. SAMSON
Independent Director



**VICENTE C.
MACASAET, JR.**
Independent Director



**MARIBEL B.
SARINO-LAZO**
Independent Director



ATTY. A. BAYANI K. TAN
Director



**BERNADETTE CINDY C.
TIU**
Director



JOHN Y. TIU, JR.
Director



**ATTY. LAMBERTO R.
VILLEN A**
Director



IGNATIUS F. YENKO
Director

1. RUBEN C. TIU | CHAIRMAN OF THE BOARD

Mr. Ruben C. Tiu, 65, Filipino, is the Chairman of the Board of Directors of Sterling Bank of Asia. He is concurrently the Chairman of the Board of Directors and President of Star Equities, Inc., JTKC Land, Inc., Hotelsystems Asia, Inc., Oakridge Properties, Inc., Demmikk Holdings, Inc., Demmikk Realty, Inc., Union Pacific Ace Industries, Inc., Pan-Asean Multi Resources Corporation, Aldex Realty Corporation, JSD Solutions Inc, and JTKC Leisure Holdings Corporation (formerly JTKC Realty Corporation).

Mr. Tiu also serves as the Chairman of the Board of Discovery Country Suites, Inc., and The Discovery Leisure Co., Inc. He is also a Director in Tera Investments, Inc., Director and Vice President in Goodyear Steel Pipe Corporation, Director and Executive Vice President of JTKC Equities, Inc. and President of Club Asia, Inc.

Mr. Tiu graduated with a Bachelor of Science Degree in Business Administration from the De La Salle University.

2. GREGORIO T. YU | DIRECTOR AND VICE CHAIRMAN OF THE BOARD

Mr. Gregorio T. Yu, 62, Filipino, is currently the Vice Chairman of the Board of Directors of Sterling Bank of Asia. He concurrently holds the position of Chairman of the Board of Directors of American Motorcycles, Inc., Auto Nation Group, Inc., CATS Automobile Corp., and Nexus Technologies, Inc.

Mr. Yu, presently holds directorship positions in the following companies: Philippine Bank of

Communications, PAL Holdings Inc., Philippine Airlines Inc., , Alphaland Corp., APO Agua Infraestructura, Inc., CATS Asian Cars, Inc., DITO CME Holdings Corp. (formerly ISM Communications Corp.), Glyph Studios, Inc., Jupiter Systems Inc., Philequity Management Inc., Prople BPO Inc., Unistar Credit and Finance Corp., Vantage Equities, Inc., Vantage Financial Corp. (formerly E-Business Services, Inc.), and Wordtext Systems Inc., among others.

He likewise serves as a Board Member of the Manila Symphony Orchestra and Ballet Philippines.

Mr. Yu had a distinguished six-year career in the government as a Trustee of the Government Service Insurance System (GSIS). He also was a Trustee of Xavier School Inc. from 1998 to 2018.

Mr. Yu holds a master’s degree in Business Administration from the Wharton School – Graduate Division of the University of Pennsylvania and a Bachelor of Arts Degree in Economics from the De La Salle University, where he graduated summa cum laude.

3. CECILIO D. SAN PEDRO | DIRECTOR AND PRESIDENT AND CEO

Mr. Cecilio D. San Pedro, 60, Filipino, is a Director and the President and CEO of Sterling Bank of Asia. He joined the Bank in November 2011 and assumed his current position on July 1, 2015.

Mr. San Pedro’s long and illustrious career in the banking industry included positions as a former Senior Executive Vice President (SEVP) – Chief Operating Officer (COO) and concurrent Treasurer

and Head of the Treasury Group of Sterling Bank of Asia; Executive Director of Global/Local Markets and Country Treasurer of The Royal Bank of Scotland (formerly ABN AMRO); and Country Treasurer and Head of Principal – Global Markets of Bank of America NT & SA. He presently serves as a Board Member of the Finex Foundation and as the President of the Chamber of Thrift Banks.

Mr. San Pedro holds a Bachelor of Science Degree in Business Administration, major in Accounting, from the University of the East, and completed degrees/ courses in Corporate Finance Management and Strategic Business Economics at the University of Michigan Business School and the Center for Research and Communication (now the University of Asia and the Pacific), respectively.

4. BANSAN C. CHOA | DIRECTOR

Mr. Bansan C. Choa, 66, Filipino, is a Director of Sterling Bank of Asia. He simultaneously acts as a Director and Chairman of the Board of Directors of the following companies: Merrytown Properties Corporation, Ferris Sobell Properties, Inc., Surewell Equities, Inc., Sure Fortune Properties, Inc., and CONFED Properties Inc. He is the Chairman and Member of the Board of Trustees of Kassel Condominium Corp. Likewise, he is a Member of the Board of Trustees of Le Sure Condominium Corporation and Sunny Ridge Condominium Corporation.

Mr. Choa holds a directorship position in IRemit, Inc. and Dragoncircles Phoenixglobe Holdings Corp. He concurrently serves as a Director and President of Bleaushea Properties Corporation and Comvest Investment Inc. (owner of Camp Netanya Resort & Spa).

He also serves as a Board Adviser for the National Real Estate Association, Organization of Socialized and Economic Housing Developers of the Philippines, Inc., and Subdivision and Housing Developers Association; as a Member of the Department of Human Settlements and Urban Development on Policy Review - Technical Working Group, Interagency Committee on Price Statistics (IACPAS) - Technical Working Group, and Philippine Institute of Certified Public Accountants; as the Treasurer of Six Alps Corporation and Banwood Construction Center, Inc.; and as the President of Philippine Retirement, Inc.

Mr. Choa is a Certified Public Accountant with registration no. 0030924, Registered Real Estate Broker with registration no. 0000002, Registered Real Appraiser with registration no. 0000002, and a Registered Real Estate Consultant with registration no. 0000002.

Mr. Choa holds a Bachelor’s Degree in Commerce from De La Salle University, a Master’s Degree in Business Administration from the Ateneo Graduate School of Business, and has completed a course in housing finance at The Wharton Real Estate Center of the University of Pennsylvania.

5. WILLIAM L. CHUA | INDEPENDENT DIRECTOR

Mr. William L. Chua, 69, Filipino, is an Independent Director of Sterling Bank of Asia. He is concurrently the Chairman of the Board, President, and CEO of WSI Philippines, Inc., Leadtech Systems, Inc., and LSI Leading Technologies, Inc. He is also the Chairman of the Board/Nominee of Philmont Academic Solutions Inc. and Wordtext Systems, Inc., the Vice Chairman of

WSI Freeport Corporation and the President and Chief Executive Officer of WS Pacific Publications, Inc.

Mr. Chua is likewise a Director of WSI Technologies Corp. and Nexus Technologies, Inc.; an Independent Director of Discovery World Corporation; and a Director/Nominee of Information Technology Security Distributors Inc., Extra Low Voltage Distributions, Inc. (formerly known as WSI Phone Care Inc.), and Jupiter Systems, Inc. In addition, Mr. Chua serves as a President of Aikontech Corporation and sits as a Trustee of the Adolfo S. Suzara Foundation, Inc.

Mr. Chua has a Master's Degree in Business Administration from Santa Clara University, California and a Bachelor of Science Degree in Industrial Engineering from California State University in San Jose, California.

6. HARRIS D. JACILDO | DIRECTOR

Mr. Harris D. Jacildo, 59, Filipino, is a Director of Sterling Bank of Asia. He also currently serves as the Director and President of IRemit Inc. and Director/Nominee of the following companies: Worldwide Exchange, Pty., Ltd., I-Remittance Singapore Pte., Ltd., I-Remit New Zealand, Ltd., Lucky Star Management Ltd. (HKG), and IRemit Global Remittance Ltd., (UK). He is also a Trustee/Nominee of Kabalikang ng Migranteng Pilipino (KAMPI).

Mr. Jacildo graduated with a Bachelor of Science Degree in Applied Economics from the De La Salle University and completed a Basic Management Program at the Asian Institute of Management.

7. ANTONIO R. SAMSON | INDEPENDENT DIRECTOR

Mr. Antonio R. Samson, 75, Filipino, is an Independent Director of Sterling Bank of Asia. He is presently the Chairman and CEO of Touch XDA and Chief Growth Officer of DDB Philippines.

Mr. Samson also sits as an Independent Director of PhilEquity Management Inc., Vantage Equities, Inc., and Vantage Financial Corp.

He graduated from the Ateneo de Manila University with a Bachelor of Arts Degree in Economics. He holds a master's degree in Business Administration from the Asian Institute of Management and a master's degree in Business Economics from the Center for Research and Communication.

8. VICENTE C. MACASAET, JR. | INDEPENDENT DIRECTOR

Mr. Vicente C. Macasaet, Jr., 84, Filipino, is an Independent Director of Sterling Bank of Asia. He teaches the French language privately and practices Addiction Counseling at Milestone Health and Wellness Center in Baguio City.

Before joining the Bank, he was the Manager of the French National Airline, Air France, for 17 years. He was the Executive Sales Director of the Regent Hotel of Manila and served in the same capacity for nine years with Northwest and American Airlines in the Middle East, based in Riyadh, Saudi Arabia.

Mr. Macasaet graduated with a Bachelor of Science Degree in Business Administration, Major in Banking and Minor in Finance from the Colegio de San Juan de Letran, and completed a five-year course in French Language and Culture at the Alliance Française de Manille.

9. MARIBEL B. SARINO-LAZO | INDEPENDENT DIRECTOR

Ms. Maribel B. Sarino-Lazo, 60, Filipino, is an Independent Director of Sterling Bank of Asia. Before joining the Bank, she worked as a Consultant for Treasury, International Treasury, Controls, and Credit and Collections for Adobe Systems, Silicon Graphics, Inc., and Hewlett-Packard Co., respectively, in San Jose, California.

Ms. Sarino-Lazo was a Second Vice President and Assistant Treasurer of The Chase Manhattan Bank, North America. She also managed the overseas office of PCI Bank in France and worked in corporate banking for the Insular Bank of Asia and America.

Ms. Sarino-Lazo graduated with a Bachelor's Degree in Economics from Haverford College, Pennsylvania.

10. ATTY. A. BAYANI K. TAN | DIRECTOR

Atty. A. Bayani K. Tan is a Director of Sterling Bank of Asia. He also acts as Director or Corporate Secretary, or both, of the Belle Corporation, Coal Asia Holdings, Inc., I-Remit, Inc., Pacific Online Systems Corporation, Premium Leisure Corporation, Discovery World Corporation, TKC Metals Corporation, Tagaytay Highlands International Golf Club, Inc., Tagaytay

Midlands Golf Club, Inc., The Country Club at Tagaytay Highlands, Inc., and The Spa and Lodge at Tagaytay Highlands, Inc.

He is concurrently the Managing Partner of the law offices of Tan Venturanza Valdez, Managing Director and President of Shamrock Development Corporation, President of Catarman Chamber Elementary School Foundation, Inc., Managing Trustee of SCTan Foundation, Inc., Trustee and Treasurer of Rebisco Foundation, Inc., Trustee and Corporate Secretary of St. Scholastica's Hospital, Inc. and Trustee of St. Scholastica's College. In addition, Atty. Tan is the Director of Destiny LendFund, Inc., Pascual Laboratories, Inc., and Pure Energy Holdings Corporation.

Atty. Tan holds a Master of Laws Degree from New York University and a Bachelor of Laws Degree from the University of the Philippines where he was a member of the Order of the Purple Feather, the official honor society of the U.P. College of Law, and ranked ninth in his class. Atty. Tan passed the bar examinations in 1981 where he placed sixth. He has a Bachelor of Arts Major in Political Science Degree from San Beda College where he graduated class valedictorian and was awarded the medal for Academic Excellence.

11. BERNADETTE CINDY C. TIU | DIRECTOR

Ms. Bernadette Cindy C. Tiu, 41, Filipino, is a Director of Sterling Bank of Asia. She is concomitantly the Head of the Finance Division and the Chief Financial Officer of I-Remit, Inc., as well as the Vice President of Fidelity Securities, Inc.

Ms. Tiu holds a Bachelor of Science Degree in Business Administration, major in Accounting and Finance, from Boston University School of Management.

12. JOHN Y. TIU, JR. | DIRECTOR

Mr. John Y. Tiu, Jr., 44, Filipino, is a Director of Sterling Bank of Asia. He is currently the Chairman of the Board and CEO of Discovery World Corporation, as well as the Chairman of the Board of Cay Islands Corporation, Palawan Cove Corporation, Sonoran Corporation, Discovery Hospitality Corporation, Balay Holdings Inc., Lucky Cloud 9 Resort Inc., Long Beach Property Holdings Inc., and Euro-Pacific Resorts Inc.

Mr. Tiu is also the Chairman of the Board and President of One Legaspi Corporation, Ninety Nine Urdaneta Holdings Corp., One Luscara Corporation, One Urdaneta Corporation, JT Perle Corporation, One Cerrada Corporation, and Tera Investments, Inc.

He likewise holds directorship positions in the following companies: Evergreen Manufacturing Corporation, Lunch Bucks Gourmet Inc., Oakridge Properties Inc., and I-Remit Inc.

He serves as the President of Discovery Country Suites Inc. and The Discovery Leisure Company, Inc., Executive Vice President and Director of Aldex Realty Corporation., First Vice President and Director of JTKC Leisure Holdings Corporation (formerly JTKC Realty Corporation); and Treasurer and Director of Sagesoft Solutions Inc., Star Equities Inc., JTKC Land Inc., and JTKC Equities Inc.

Mr. Tiu graduated with a Bachelor of Science Degree in Electrical Engineering with a minor degree in Mathematics from the University of Washington, Seattle, Washington.

13. ATTY. LAMBERTO R. VILLENA | DIRECTOR

Atty. Lamberto R. Villena, 74, Filipino, was Sterling Bank of Asia’s former President and CEO from December 28, 2006 to June 30, 2015. At present, he is a Director of the Bank. He also concurrently sits as a member of the Board of Directors of Discovery World Corporation.

Atty. Villena brings with him over 30 years of experience in the banking industry. He was a former EVP for Commercial Banking at RCBC, where he held various senior positions in Credit, Corporate Banking, Remedial Management, Treasury, and Consumer Banking.

Atty. Villena holds a Bachelor of Laws Degree from the University of the Philippines and is a member of the Philippine Bar. He also has a master’s degree in Business Administration from the same university and is an alumnus of the Ateneo de Manila University.

14. IGNATIUS F. YENKO | DIRECTOR

Mr. Ignatius F. Yenke, 68, Filipino, is a Director of Sterling Bank of Asia. He is also the Chief Finance Adviser and a Director of SlashdotPH Corporation, a Director and the Vice Chairman of TKC Metals Corporation (formerly TKC Steel), and a Director of Global Integrated Contact Facilities.

Mr. Yenke holds a master’s degree in Business Administration from the Asian Institute of Management and a Bachelor of Arts Degree in Economics from the Ateneo de Manila University.

PRESIDENT AND BUSINESS LINE GROUP HEADS



CECILIO D. SAN PEDRO
President and CEO



RALPH B. CADIZ
Executive Vice President and Head - Retail Banking Group



BENSON J. HARI-ONG
Executive Vice President and Head - Commercial Lending Group



CLAYTON T. LEE
Executive Vice President, Treasurer and Head - Treasury Group



HONESTO M. ROQUE, JR.
First Vice President, Officer-in-Charge Consumer Lending Group*, Head of Auto Loans and Concurrent Head of Acquired Assets



HAZEL M. NAVARRO
Vice President and Trust Officer

1. CECILIO D. SAN PEDRO | PRESIDENT AND CEO

Mr. San Pedro, 60, Filipino, brings with him his rich financial expertise when he joined Sterling Bank of Asia as its Treasury Group Head back in November 2011. He moved his way up to be the President and CEO in 2016 up to the present. Before joining the Bank, he was with The Royal Bank of Scotland (formerly ABN AMRO) for eight years as their Executive Director of Global/Local Markets and Country Treasurer. He also worked with Bank of America NT & SA for more than 20 years where his last position was the Principal – Global Markets Head and Country Treasurer.

He holds a Bachelor of Science Degree in Business Administration, major in Accounting, from the University of the East. In addition, he has completed degrees/ courses in Corporate Finance Management and Strategic Business Economics from the University of Michigan Business School and the Center for Research and Communication (now the University of Asia and the Pacific), respectively.

2. RALPH B. CADIZ | EXECUTIVE VICE PRESIDENT AND HEAD - RETAIL BANKING GROUP

Mr. Cadiz, 53, Filipino, holds a diverse banking experience from UCPB, Solid Bank, International Exchange Bank, Union Bank, Security Bank, and Export Bank before joining Sterling Bank of Asia in September 2010. He held various positions in retail banking, consumer lending, and remittance, where his

last position was Head of Branch Banking and Consumer Lending with a rank of Senior Vice President at Export Bank.

He acquired his Bachelor of Science Degree in Commerce, major in Business Administration from the University of Santo Tomas.

3. BENSON J. HARI-ONG | EXECUTIVE VICE PRESIDENT AND HEAD – COMMERCIAL LENDING GROUP

Mr. Hari-Ong, 55, Filipino, is a seasoned banker, bringing to the Bank his expertise on Corporate Banking. He held various senior positions at Rizal Commercial Banking Corporation before joining Sterling Bank of Asia in March 2008.

He holds a Bachelor of Science Degree in Industrial Management minor in Mechanical Engineering from De La Salle University and earned his postgraduate master's degree in Business Administration from the same university in 1990.

4. CLAYTON T. LEE | EXECUTIVE VICE PRESIDENT, TREASURER AND HEAD - TREASURY GROUP

Mr. Lee, 52, Filipino, has an accomplished banking career, particularly in the field of Treasury. He worked in various local and foreign banks in the Philippines, such as Allied Bank, Bank of America, and The Royal Bank of Scotland (formerly ABN AMRO). Before joining Sterling Bank in November 2011, he was a Vice President - Global/Local Markets and Foreign Exchange head at The Royal Bank of Scotland.

He graduated from the Ateneo de Manila University with a Bachelor of Arts Degree in Economics.

5. HONESTO M. ROQUE, JR. | FIRST VICE PRESIDENT, OFFICER-IN-CHARGE CONSUMER LENDING GROUP*, HEAD OF AUTO LOANS AND CONCURRENT HEAD OF ACQUIRED ASSETS

Mr. Roque, 56, Filipino, has more than 30 years of Consumer Lending experience and has handled key positions for the Auto Loans business of various banks and financing companies including Primus Finance and Leasing Inc./Ford Credit, AIG Philam Savings Bank, and Eastwest Bank prior to starting his career with Sterling Bank of Asia in March 2013. Mr. Roque graduated from De La Salle University with a degree in Bachelor of Science in Commerce major in Management of Financial Institutions.

6. HAZEL M. NAVARRO | VICE PRESIDENT AND TRUST OFFICER

Ms. Navarro, 46, Filipino, commenced her banking career at Traders Royal Bank. She was a Trust Investment officer for RCBC Savings Bank and continued her expertise when she joined Sterling Bank of Asia in September 2016.

She studied at Assumption College and holds a Bachelor of Science Degree, major in International Business.

*Isabel Y. San Pablo served as Consumer Lending Group Head - SVP until November 30, 2020 (not in photo).

SENIOR OFFICERS

SENIOR VICE PRESIDENTS

LUISITO S. MAYOR Operations Group Head
DALISAY N. RUBIO Controller and Head of Controllershship Group

FIRST VICE PRESIDENTS

RUTH M. ANIÑON Internal Audit Group Head
CHERIE C. BALLESTEROS Area 1 Head - Retail Banking Group
MA. DULCE Y. EDILLOR Human Resources Group Head
GIRLIE C. GALANG Chief Compliance Officer
JOSE S. ISON, JR. Commercial Lending 3 Head
CANDICE P. QUIANZON Real Estate Loans Head
LUIS J. RODRIGUEZ, JR. Information Technology Group Head
HONESTO M. ROQUE, JR. Officer-in-Charge Consumer Lending Group*
Auto Loans Head and Concurrent Acquired Assets Head
MARIFE N. RUDIO Credit Evaluation and Approval Secured /
Unsecured Loans Head
LILIA P. SANTOS Commercial Lending 1 Head
RONALD C. SANTOS Treasury Marketing Head
ENRIQUE D. TAN Commercial Lending 2 Head
MARILOU B. VILLANUEVA Foreign Exchange Head

VICE PRESIDENTS

JOSE EDUARDO G. ACAYAN Treasury Marketing Trader
FELISA B. ALCALA Business Support Services Head
MARIA ADELAIDEE T. CAPISTRANO Chief Risk Officer and Head of Risk Management Group
MARC CHRISTOPHER U. CARLOS Domestic Markets Head
GREGO S. CERVANTES JR. Area 2 Head - Retail Banking Group
MARVIN BRYAN S. FRANCISCO Commercial Lending 2 Senior Relationship Manager
MARY JOAN T. GARCIA Management Information System and Budget Head
RINALDI O. GONZALES Technology Operations Head
DAN C. GUEVARA Center For Learning Head
CELIA A. GUTIERREZ Area 5 Head - Retail Banking Group
HENRY G. HUNG Application Systems Head
MARILOU B. LABAY Financial Market Sales Head
HAZEL M. NAVARRO Trust Officer
ETHEL L. PERALTA Management Support Services Head
LEILA C. QUEVEDO-AMANTE Vismin Consumer Lending Head
JOSEFINA S. RIVERA Branch Head - Retail Banking Group
JOSE ANTONIO C. SALVACION Chief Security Officer
MA. RUBY N. SAMSON Application Testing and User Support
ARLENE N. SIONGCO Compensation & Benefits Head
ALMA VALERIE C. SORIANO Legal Services Head
JOSEPH T. SULIT Credit Services Head
JOSELITO V. TY RBG Support and Branch Expansion Head
ARIEL F. YANG Regulatory Reports and Reconciliation Head

STERLING BANK OF ASIA INC.
(A Savings Bank)

Financial Statements
December 31, 2020 and 2019

With independent auditors' report provided by



REYES TACANDONG & Co.

FIRM PRINCIPLES. WISE SOLUTIONS.

INDEPENDENT AUDITORS' REPORT

The Stockholders and the Board of Directors
Sterling Bank of Asia Inc. (A Savings Bank)
Sterling Bank Corporate Center
8004 Ortigas Avenue
Greenhills, 1500, San Juan
Metro Manila

Report on the Financial Statements

Opinion

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

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

Basis for Opinion

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

Other Information

Management is responsible for the other information. The other information comprises the information included in the Annual Report for the year ended December 31, 2020, but does not include the financial statements and our auditors' report thereon. The Annual Report for the year ended December 31, 2020 are expected to be made available to us after the date of this auditors' report.

Our opinion on the 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 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 financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.



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

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

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

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

Auditors’ Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank’s internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management’s use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors’ report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors’ report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.



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

Report on the Supplementary Information Required under the Bangko Sentral ng Pilipinas (BSP) Circular No. 1074, Series of 2020, Amendments to Regulations on Financial Audit of Banks

Our audits were conducted for the purpose of forming an opinion on the basic combined financial statements taken as a whole. The supplementary information on Note 27 to the combined financial statements is presented for purposes of filing with the BSP and is not a required part of the basic combined financial statements. Such supplementary information is the responsibility of the management of Sterling Bank of Asia Inc. (A Savings Bank). The supplementary information has been subjected to the auditing procedures applied in the audit of the basic combined financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic combined financial statements taken as a whole.

REYES TACANDONG & Co.

HAYDEE M. REYES

Partner

CPA Certificate No. 83522

Tax Identification No. 102-095-265-000

BOA Accreditation No. 4782; Valid until August 15, 2021

SEC Accreditation No. 83522-SEC Group A

Issued March 10, 2020

Valid for Financial Periods 2019 to 2023

BIR Accreditation No. 08-005144-006-2019

Valid until October 20, 2022

PTR No. 8534276

Issued January 5, 2021, Makati City

June 22, 2021

Makati City, Metro Manila

STERLING BANK OF ASIA INC. (A Savings Bank)

STATEMENTS OF FINANCIAL POSITION

		December 31	
	Note	2020	2019
ASSETS			
Cash and other cash items		₱642,606,701	₱675,319,948
Due from Bangko Sentral ng Pilipinas	13	2,569,444,094	3,174,324,418
Due from other banks		2,993,935,298	3,413,981,051
Interbank loans receivable	6	932,575,517	532,740,895
Investment securities	7	835,785,653	2,622,904,058
Loans and receivables	8	31,272,845,363	32,689,858,426
Assets held for sale	9	525,014,291	488,968,117
Property and equipment	10	588,952,352	671,187,614
Intangible assets	11	325,705,037	326,946,303
Net deferred tax assets	21	75,953,689	28,539,985
Other assets	12	97,781,415	117,955,185
		₱40,860,599,410	₱44,742,726,000
LIABILITIES AND EQUITY			
Liabilities			
Deposit liabilities	13	₱34,926,162,386	₱38,951,135,847
Accrued interest, taxes and other expenses	14	177,752,502	246,973,922
Manager's checks		77,074,219	173,777,188
Unsecured subordinated debt	15	1,300,000,000	1,000,000,000
Lease liabilities	18	220,606,697	277,062,586
Retirement liability	19	46,014,962	62,271,457
Income tax payable		18,340,154	23,150,047
Other liabilities	16	732,088,376	927,347,348
Total Liabilities		37,498,039,296	41,661,718,395
Equity			
Perpetual preferred stock	22	300,000,000	300,000,000
Common stock	22	2,170,000,000	2,070,000,000
Other equity reserves		31,168,066	(47,600,357)
Retained earnings		861,392,048	758,607,962
Total Equity		3,362,560,114	3,081,007,605
		₱40,860,599,410	₱44,742,726,000

See accompanying Notes to Financial Statements.

STERLING BANK OF ASIA INC. (A Savings Bank)

STATEMENTS OF INCOME

		Years Ended December 31	
	Note	2020	2019
INTEREST INCOME ON:			
Loans and receivables	8	₱2,812,471,594	₱2,949,469,158
Investment securities	7	53,911,811	107,491,382
Due from Bangko Sentral ng Pilipinas and other banks		36,433,350	29,436,567
Interbank loans receivable	6	32,280,731	78,691,422
		2,935,097,486	3,165,088,529
INTEREST EXPENSE ON DEPOSIT AND OTHER FINANCIAL LIABILITIES			
	13	654,932,341	1,321,985,164
NET INTEREST INCOME		2,280,165,145	1,843,103,365
OTHER INCOME (CHARGES)			
Service charges, fees and commissions		175,407,804	203,819,559
Net losses from assets sold or acquired	9	(82,099,070)	(97,807,708)
Net trading and securities gains from investment securities	7	21,494,857	68,698,143
Net foreign exchange gains		20,856,090	33,977,922
Loss on extinguishment of loans and receivables	8	14,582,969	-
Others - net		10,691,465	6,371,220
		160,934,115	215,059,136
MODIFICATION LOSS ON LOANS AND RECEIVABLES			
	8	418,796,166	-
PROVISIONS FOR CREDIT AND IMPAIRMENT LOSSES			
Loans and receivables	8	200,524,247	43,120,648
Assets held for sale	9	10,635,409	12,681,009
Investment securities	7	-	1,907,892
		211,159,656	57,709,549
OPERATING EXPENSES		1,571,885,838	1,729,931,785
INCOME BEFORE INCOME TAX		210,091,662	270,521,167
INCOME TAX EXPENSE (BENEFIT)			
Current	21	154,906,680	113,374,261
Deferred		(47,599,104)	(10,312,830)
		107,307,576	103,061,431
NET INCOME		₱102,784,086	₱167,459,736

See accompanying Notes to Financial Statements.

STERLING BANK OF ASIA INC. (A Savings Bank)
STATEMENTS OF COMPREHENSIVE INCOME

	Note	Years Ended December 31	
		2020	2019
NET INCOME		₱102,784,086	₱167,459,736
OTHER COMPREHENSIVE INCOME (LOSS)			
<i>Items to be reclassified to profit or loss:</i>			
Net unrealized gains on fair value changes of investment securities	7	71,878,020	122,020,013
Translation adjustment		6,457,801	(5,702,879)
<i>Item not to be reclassified to profit or loss -</i>			
Remeasurement gain (loss) on retirement liability, net of deferred tax	19	432,602	(3,648,478)
		78,768,423	112,668,656
TOTAL COMPREHENSIVE INCOME		₱181,552,509	₱280,128,392

See accompanying Notes to Financial Statements.

STERLING BANK OF ASIA INC. (A Savings Bank)
STATEMENTS OF CHANGES IN EQUITY

	Note	Years Ended December 31	
		2020	2019
PERPETUAL PREFERRED STOCK	22	₱300,000,000	₱300,000,000
COMMON STOCK	22		
Balance at beginning of year		2,070,000,000	2,070,000,000
Issuances		100,000,000	-
Balance at end of year		2,170,000,000	2,070,000,000
OTHER EQUITY RESERVES			
Cumulative Unrealized Gains (Losses) on Fair Value			
Changes of Investment Securities	7		
Balance at beginning of year		(62,319,681)	(184,339,694)
Net unrealized gains		71,878,020	120,112,121
Provision for impairment losses		-	1,907,892
Balance at end of year		9,558,339	(62,319,681)
Cumulative Remeasurement Gains			
on Retirement Liability	19		
Balance at beginning of year		11,958,028	15,606,506
Remeasurement gain (loss), net of deferred tax		432,602	(3,648,478)
Balance at end of year		12,390,630	11,958,028
Cumulative Translation Adjustment			
Balance at beginning of year		2,761,296	8,464,175
Translation adjustment		6,457,801	(5,702,879)
Balance at end of year		9,219,097	2,761,296
		31,168,066	(47,600,357)
RETAINED EARNINGS			
Balance at beginning of year		758,607,962	591,148,226
Net income		102,784,086	167,459,736
Balance at end of year		861,392,048	758,607,962
		₱3,362,560,114	₱3,081,007,605

See accompanying Notes to Financial Statements.

STERLING BANK OF ASIA INC. (A Savings Bank)

STATEMENTS OF CASH FLOWS

		Years Ended December 31	
	Note	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax		₱210,091,662	₱270,521,167
Adjustments for:			
Modification loss on loans and receivables	8	418,796,166	–
Interest income from accretion of:			
Modification loss on loans and receivables	8	(249,456,079)	–
Loss on extinguishment of loans and receivables		(1,995,390)	–
Provisions for credit and impairment losses on:			
Loans and receivables	8	200,524,247	43,120,648
Assets held for sale	9	10,635,409	12,681,009
Investment securities	7	–	1,907,892
Net amortization of discount (premium) of investment securities		189,783,732	(23,990,232)
Depreciation and amortization	10	159,275,433	150,791,921
Net losses from assets sold or acquired	9	82,099,070	97,807,708
Retirement benefits	19	18,314,164	15,916,162
Interest expense on lease liabilities	18	17,543,969	19,630,669
Loss on extinguishment of loans and receivables	8	14,582,969	–
Net gain on sale of investment securities	7	(13,065,192)	(2,166,517)
Unrealized gains on fair value changes of investment securities	7	(126,624)	(12,653,194)
Operating income before working capital changes		1,057,003,536	573,567,233
Changes in operating assets and liabilities:			
Decrease (increase) in the amounts of:			
Financial assets at fair value through profit or loss		899,765,318	(575,034,978)
Loans and receivables		703,548,668	(1,538,847,900)
Other assets		20,173,770	(13,991,626)
Increase (decrease) in the amounts of:			
Deposit liabilities		(4,024,973,461)	2,246,718,135
Manager's checks		(96,702,969)	45,706,901
Accrued interest, taxes and other expenses		(69,221,420)	76,217,728
Other liabilities		(195,258,972)	45,162,136
Net cash generated from (used for) operations		(1,705,665,530)	859,497,629
Income tax paid		(159,716,573)	(92,499,504)
Retirement contributions	19	(30,000,000)	(30,000,000)
Retirement benefits paid	19	(3,952,656)	(1,296,764)
Net cash flows provided by (used in) operating activities		(1,899,334,759)	735,701,361
CASH FLOWS FROM INVESTING ACTIVITIES			
Maturity of investment securities	7	2,839,474,910	3,935,260,000
Additions to:			
Investment securities	7	(2,711,100,911)	(4,139,882,805)
Property and equipment	10	(35,107,952)	(38,886,184)
Computer software	11	(23,275,182)	(30,356,486)
Proceeds from sale of:			
Investment securities	7	654,265,192	212,506,517
Assets held for sale	9	202,207,035	259,605,652
Property and equipment	10	2,197,130	2,550,508
Net cash flows provided by investing activities		928,660,222	200,797,202

(Forward)

		Years Ended December 31	
	Note	2020	2019
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issuance of:			
Unsecured subordinated debt	15	₱300,000,000	₱-
Capital stock	22	100,000,000	-
Payments of lease liabilities	18	(93,587,966)	(83,615,706)
Net cash flows provided by (used in) financing activities		306,412,034	(83,615,706)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS			
		6,457,801	(5,702,879)
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		(657,804,699)	847,179,978
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR			
Cash and other cash items		675,319,948	673,088,622
Due from Bangko Sentral ng Pilipinas		3,174,324,418	2,654,024,133
Due from other banks		3,413,981,051	3,538,958,509
Interbank loans receivable	6	532,740,895	83,115,070
		7,796,366,312	6,949,186,334
CASH AND CASH EQUIVALENTS AT END OF THE YEAR			
Cash and other cash items		642,606,701	675,319,948
Due from Bangko Sentral ng Pilipinas		2,569,444,094	3,174,324,418
Due from other banks		2,993,935,298	3,413,981,051
Interbank loans receivable	6	932,575,517	532,740,895
		₱7,138,561,610	₱7,796,366,312
OPERATING CASH FLOWS FROM INTEREST			
Interest received		₱2,028,408,650	₱2,904,891,343
Interest paid		747,354,003	1,272,059,682
NONCASH INFORMATION			
Foreclosure of assets held for sale	9	₱331,012,480	₱414,074,911
Recognition of:			
Right-of-use assets	18	19,588,108	331,956,524
Lease liabilities	18	19,588,108	341,047,623

See accompanying Notes to Financial Statements.

STERLING BANK OF ASIA INC. (A Savings Bank)

NOTES TO FINANCIAL STATEMENTS

1. General Information

Sterling Bank of Asia Inc. (A Savings Bank) (the Bank) was incorporated in the Philippines and registered with the Securities and Exchange Commission (SEC) and the Bangko Sentral ng Pilipinas (BSP). The Bank was formerly known as Far East Savings Bank (FESB) and was originally issued with a Certificate of Incorporation by the SEC on January 20, 1998. The Bank is primarily engaged in the general business of savings and mortgage banking. The Bank offers a wide range of products and services such as deposit products, loans, treasury and trust functions.

The Bank was granted authority to engage in trust operations in 2008 and to issue foreign letters of credit in 2010.

As at December 31, 2020 and 2019, the Bank operates a total of 47 branches.

In 2006, JTKC Equities, Inc. (JEI), Surewell Equities, Inc. (SEI) and Star Equities, Inc. acquired all the outstanding shares of stock of FESB from the Bank of the Philippine Islands. In 2007, the Bank changed its corporate name from FESB to Sterling Bank of Asia Inc. (A Savings Bank) as approved by the BSP and the SEC.

In 2009, the BSP approved the Bank’s application to acquire 100% of the shares of stock of Centennial Savings Bank (CSB). In 2010, as approved by the BSP and the SEC, the Bank, as the surviving entity, merged with CSB.

As at December 31, 2020 and 2019, the ultimate parent company of the Bank is JEI, through a direct equity interest of 32.75% and 40.00%, respectively, and indirect equity interest of 5.22% and 30.00%, respectively, through Star Equities, Inc., a wholly owned subsidiary of JEI.

The registered office address of the Bank is Sterling Bank Corporate Center, 8004 Ortigas Avenue, Greenhills, 1500, San Juan, Metro Manila.

The financial statements of the Bank as at and for the years ended December 31, 2020 and 2019 have been approved and authorized for issue by the Board of Directors (BOD) on June 22, 2021 as recommended for approval by the Audit Committee on June 17, 2021.

2. Summary of Significant Accounting Policies

Basis of Preparation and Compliance

The financial statements have been prepared in compliance with the Philippine Financial Reporting Standards (PFRS) issued by the Financial Reporting Standards Council and adopted by the SEC. This financial reporting framework includes PFRS, Philippine Accounting Standards (PAS), Philippine Interpretations from International Financial Reporting Interpretations Committee (IFRIC), and the SEC provisions.

Measurement Bases

The financial statements have been prepared under the historical cost basis, except for:

- financial assets measured at fair value through profit or loss (FVPL) and fair value through other comprehensive income (FVOCI);
- assets held for sale that are measured at the lower of carrying amount of loans and receivables and fair value of foreclosed properties, less cost-to-sell;
- retirement liability that is carried at the present value of defined benefit obligation less the fair value of plan assets; and
- lease liabilities that are carried at the present value of remaining lease payments, discounted using an appropriate discount rate.

Historical cost is generally based on the fair value of the consideration given in exchange for an asset and the fair value of consideration received in exchange for incurring a liability. 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 transaction date.

The Bank uses market observable data as far as possible when measuring the fair value of an asset or a liability. Fair values are categorized into different levels in a fair value hierarchy based on inputs used in the valuation techniques as follows:

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

If the inputs used to measure the fair value of an asset or a liability might be categorized in different levels of the fair value hierarchy, then the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Bank recognizes transfers between levels of the fair value hierarchy at the end of the reporting year during which the change has occurred.

Information about the assumptions made in measuring fair values is included in Note 5, *Fair Value Measurement*.

Functional and Presentation Currency

The financial statements of the Bank include the accounts maintained in the Regular Banking Unit (RBU) and Foreign Currency Deposit Unit (FCDU). The functional currency of the RBU and FCDU is the Philippine Peso and United States Dollar (USD), respectively. For financial reporting purposes, the FCDU accounts and foreign currency-denominated accounts in the RBU are translated into Philippine Peso equivalent amounts, which is the functional and presentation currency of the Bank. The financial statements of RBU and FCDU are combined after eliminating inter-unit accounts.

Adoption of Amended PFRS

The accounting policies adopted are consistent with those of the previous financial year, except for the adoption of the following amended PFRS.

Effective for annual periods beginning on or after January 1, 2020:

- Amendments to References to Conceptual Framework in PFRS sets out amendments to PFRS, their accompanying documents and PFRS practice statements to reflect the issuance of the revised Conceptual Framework for Financial Reporting in 2018 (2018 Conceptual Framework). The 2018 Conceptual Framework includes: (a) a new chapter on measurement; (b) guidance on reporting financial performance; (c) improved definitions of an asset and a liability and guidance supporting these definitions; and (d) clarifications in important areas, such as the roles of stewardship, prudence and measurement uncertainty in financial reporting.

Some standards, their accompanying documents and PFRS practice statements contain references to, or quotations from, the International Accounting Standards Committee's Framework for the Preparation and Presentation of Financial Statements adopted by the IASB in 2001 or the Conceptual Framework for Financial Reporting issued in 2010. The amendments update some of those references and quotations so that they refer to the 2018 Conceptual Framework, and makes other amendments to clarify which version of the Conceptual Framework is referred to in particular documents.

- Definition of Material (Amendments to PAS 1, *Presentation of Financial Statements* and PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*). The amendments refine the definition of what is considered material. The amended definition of what is considered material states that such information is material if omitting, misstating or obscuring it could reasonably be expected to influence the 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 the definition of what is considered material and its application by: (a) raising the threshold at which information becomes material by replacing the term 'could influence' with 'could reasonably be expected to influence'; (b) including the concept of 'obscuring information' alongside the concept of 'omitting' and 'misstating' information in the definition; (c) clarifying that the users to which the definition refers are the primary users of general purpose financial statements referred to in the Conceptual Framework; (d) clarifying the explanatory paragraphs accompanying the definition; and (e) aligning the wording of the definition of material across PFRS and other publications. The amendments are expected to help entities make better materiality judgments without substantively changing existing requirements.
- Amendments to PFRS 3 - *Definition of a Business* – This amendment provides a new definition of a “business” which emphasizes that the output of a business is to provide goods and services to customers, whereas the previous definition focused on returns in the form of dividends, lower costs or other economic benefits to investors and others. To be considered a business, ‘an integrated set of activities and assets’ must now include ‘an input and a substantive process that together significantly contribute to the ability to create an output’. The distinction is important because an acquirer may recognize goodwill (or a bargain purchase) when acquiring a business but not a group of assets. An optional simplified assessment (the concentration test) has been introduced to help companies determine whether an acquisition is of a business or a group of assets.

Effective for annual periods beginning on or after June 1, 2020:

- Amendments to PFRS 16, *Leases – Corona Virus Disease (Covid)-19 Related Rent Concessions* – The amendments provide practical relief to lessees for accounting for rent concessions arising due to the Covid-19 pandemic. As a practical expedient, a lessee may elect not to assess whether a Covid-19 related rent concession is a lease modification. A lessee that makes this election accounts for any change in lease payments resulting from the Covid-19 related rent concession the same way it would account for the change under PFRS 16, if the change were not a lease modification.

The adoption of the foregoing did not have any material effect on the financial statements of the Bank. Additional disclosures were included in the financial statements, as applicable.

Amended PFRS Issued but Not yet Effective

Relevant amended PFRS, which are not yet effective as at December 31, 2020 and have not been applied in preparing the financial statements, are summarized below.

Effective for annual periods beginning on or after January 1, 2022:

- Amendments to PFRS 3, *Reference to Conceptual Framework* – The amendments replace the reference of PFRS 3 from the 1989 Framework to the current 2018 Conceptual Framework. The amendment included an exception that specifies that, for some types of liabilities and contingent liabilities, an entity applying PFRS 3 should refer to PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, or IFRIC 21, *Levies*, instead of the Conceptual Framework. The requirement would ensure that the liabilities recognized in a business combination would remain the same as those recognized applying the current requirements in PFRS 3. The amendment also added an explicit statement that contingent assets acquired in a business combination should not be recognized by an acquirer. The amendments should be applied prospectively.
- Amendments to PAS 16, *Property, Plant and Equipment - Proceeds Before Intended Use* – The amendments prohibit deducting from the cost of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for its intended use. Instead, the proceeds and related costs from such items shall be recognized in profit or loss. The amendments must be applied retrospectively to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented when an entity first applies the amendment.
- Amendments to PAS 37, *Onerous Contracts - Cost of Fulfilling a Contract* – The amendments clarify that for the purpose of assessing whether a contract is onerous, the cost of fulfilling a contract comprises both the incremental costs of fulfilling that contract and an allocation of costs directly related to contract activities. The amendments apply to contracts existing at the date when the amendments are first applied. At the date of initial application, the cumulative effect of applying the amendments is recognized as an opening balance adjustment to retained earnings or other components of equity. Accordingly, the comparatives are not restated. Earlier application is permitted.

- Annual Improvements to PFRS 2018 to 2020 Cycle:
 - Amendment to PFRS 9, *Financial Instruments* – The amendment clarifies which fees an entity includes when it applies the “10% test” in assessing whether to derecognize a financial liability. An entity includes only fees paid or received between the entity (the borrower) and the lender, including fees paid or received by either the entity or the lender on the other’s behalf.
 - Amendment to PFRS 16 - Lease Incentives – The amendment to Illustrative Example 13 accompanying PFRS 16 removes from the example the illustration of the reimbursement of leasehold improvements by the lessor in order to resolve any potential confusion regarding the treatment of lease incentives that might arise because of how lease incentives are illustrated in that example.

Under prevailing circumstances, the adoption of the foregoing amendments to PFRS is not expected to have any material effect on the financial statements of the Bank. Additional disclosures will be included in the notes to financial statements, as applicable.

Financial Instruments

Date of Recognition. The Bank recognizes a financial asset or liability in the statement of financial position when the Bank becomes a party to the contractual provisions of a financial instrument. In the case of a regular way purchase or sale of financial assets, recognition and derecognition, as applicable, is done using settlement date accounting.

Initial Recognition and Measurement. Financial instruments are recognized initially at fair value, which is the fair value of the consideration given (in case of an asset) or received (in case of a liability). The initial measurement of financial instruments, except for those designated at FVPL, includes transaction cost.

“Day 1” Difference. Where the transaction in a non-active market is different from the fair value of other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Bank recognizes the difference between the transaction price and the fair value (a “Day 1” difference) in profit or loss. In cases where there is no observable data on inception, the Bank deems the transaction price as the best estimate of fair value and recognizes “Day 1” difference in profit or loss when the inputs become observable or when the instrument is derecognized. For each transaction, the Bank determines the appropriate method of recognizing the “Day 1” difference.

Financial Assets

Classification. The Bank classifies its financial assets at initial recognition under the following categories: (a) financial assets at FVPL, (b) financial assets at FVOCI and (c) financial assets at amortized cost. The classification of a financial instrument largely depends on the Bank’s business model and its contractual cash flow characteristics.

Financial Assets at FVPL. Financial assets that do not meet the criteria for being measured at amortized cost or FVOCI are classified under this category. Specifically, financial assets at FVPL include financial assets that are (a) held for trading, (b) designated upon initial recognition at FVPL, or (c) mandatorily required to be measured at fair value.

Financial assets are classified as held for trading if these are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless these are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at FVPL, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortized cost or at FVOCI, debt instruments may be designated as FVPL on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Financial assets at FVPL are measured at fair value at each reporting year, with any fair value gains or losses, including foreign exchange gains or losses, recognized in profit or loss to the extent that these are not part of a designated hedging relationship. Interest income (calculated using the effective interest rate method) is recognized directly in profit or loss.

Certain investments in government securities and private bonds are included in this category (presented under “Investment Securities” account).

Financial Assets at FVOCI. For debt instruments that are not designated at FVPL under the fair value option, the financial assets should be measured at FVOCI if both of the following conditions are met:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and selling the financial assets; and
- 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.

Debt instruments are initially measured at fair value plus transaction costs. Interest income (calculated using the effective interest rate method), foreign currency gains or losses and impairment losses on debt instruments measured at FVOCI are recognized directly in profit or loss. After initial recognition, debt instruments are carried at fair value. Unrealized gains or losses from changes in fair values are recognized in other comprehensive income and presented in the equity section of the statements of financial position. When the financial asset is derecognized, the cumulative unrealized gains or losses previously recognized in other comprehensive income are reclassified from equity to profit or loss as a reclassification adjustment.

Equity instruments that are not held for trading may be irrevocably designated as a financial asset to be measured at FVOCI on initial recognition. Dividends from equity instruments held at FVOCI are recognized in profit or loss when the right to receive payment is established, unless the dividend clearly represents a recovery of part of the cost of the investment. After initial recognition, equity instruments are carried at fair value. Foreign currency gains or losses and unrealized gains or losses from changes in fair values are recognized in other comprehensive income and presented in the equity section of the statements of financial position. These fair value changes are recognized in equity and are not reclassified to profit or loss in subsequent years.

In limited circumstances, cost may be an appropriate estimate of fair value of equity securities designated as financial asset measured at FVOCI, such as if insufficient more recent information is available to measure fair value, or if there is a wide range of possible fair value measurements and cost represents the best estimate of fair value within that range.

Certain investments in government securities, private bonds and unquoted equity securities are included in this category (presented under “Investment Securities” account).

Financial Assets at Amortized Cost. Financial assets should be measured at amortized cost if both of the following conditions are met:

- it is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- its contractual terms give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortized cost are subsequently measured at amortized cost using the effective interest method, less any allowance for impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. Gains and losses are recognized in profit or loss when the financial assets are derecognized and through amortization process. Financial assets at amortized cost are included under current assets if realizability or collectability is within 12 months after the reporting year. Otherwise, these are classified as noncurrent assets.

Cash and other cash items, due from BSP and other banks, interbank loans receivable, loans and receivables, government securities at amortized cost (presented under “Investment Securities” account), refundable deposits, and returned checks and other cash items (RCOCI) (included under “Other Assets” account) are classified under this category.

Reclassification. The Bank reclassifies its financial assets when, and only when, the Bank changes its business model for managing those financial assets. The reclassification is applied prospectively from the first day of the first reporting year following the change in the business model (reclassification date).

For a financial asset reclassified out of the financial assets at amortized cost category to financial assets at FVPL, any gain or loss arising from the difference between the previous amortized cost of the financial asset and fair value is recognized in profit or loss.

For a financial asset reclassified out of the financial assets at amortized cost category to financial assets at FVOCI, any gain or loss arising from a difference between the previous amortized cost of the financial asset and fair value is recognized in other comprehensive income.

For a financial asset reclassified out of the financial assets at FVPL category to financial assets at amortized cost, its fair value at the reclassification date becomes its new gross carrying amount.

For a financial asset reclassified out of the financial assets at FVOCI category to financial assets at amortized cost, the financial asset is reclassified at its fair value at the reclassification date, and the cumulative gain or loss previously recognized in other comprehensive income is removed from equity and adjusted against the fair value of the financial asset at the reclassification date.

In the case of a financial asset that does not have a fixed maturity, the gain or loss should be recognized in profit or loss when the financial asset is sold or disposed. If the financial asset is subsequently impaired, any previous gain or loss that has been recognized in other comprehensive income is reclassified from equity to profit or loss.

For a financial asset reclassified out of the financial assets at FVPL category to financial assets at FVOCI, its fair value at the reclassification date becomes its new gross carrying amount. Meanwhile, for a financial asset reclassified out of the financial assets at FVOCI category to financial assets at FVPL, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment at the reclassification date.

Impairment. The Bank recognizes credit and impairment losses based on expected credit loss (ECL) which is the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Bank expects to receive. The difference is then discounted at an approximation to the asset's original effective interest rate and adjusted for forward-looking estimates, as appropriate.

The Bank recognizes impairment loss based on either the 12-month or lifetime ECL. The 12-month ECL is the portion of ECL that results from default events on a financial instrument that are possible within 12 months after the reporting year. The Bank measures impairment loss at an amount equivalent to the 12-month ECL for financial assets that are determined to have low credit risk and those financial assets for which credit risk has not increased significantly since initial recognition. Financial instruments for which a 12-month ECL is recognized are referred to as "Stage 1 financial assets."

However, when there has been a significant increase in credit risk since initial recognition, the allowance for credit and impairment losses will be based on the lifetime ECL. The lifetime ECL is the ECL that results from all possible default events over the expected life of the financial asset. A financial asset for which a lifetime ECL are recognized but which are not credit-impaired are referred to as "Stage 2 financial assets". When determining whether the credit risk of a financial asset has increased significantly since initial recognition, the Bank compares the risk of a default occurring on the financial asset as at the reporting year with the risk of a default occurring on the financial asset as at the date of initial recognition and consider reasonable and supportable information, that is available without undue cost or effort, that is indicative of significant increases in credit risk since initial recognition.

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

Financial assets at amortized cost are written off when there is no reasonable expectation of recovering the financial asset in its entirety or a portion thereof. This is generally the case when the Bank determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. This assessment is carried out at the individual asset level.

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

- the right to receive cash flows from the asset has expired;
- the Bank retains the right to receive cash flows from the financial 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 Bank has transferred its right to receive cash flows from the financial asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

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

A modification is considered substantial if the present value of the cash flows under the new terms, including net fees paid or received and discounted using the original effective interest rate, is different by at least 10% from the discounted present value of remaining cash flows of the original asset.

The fair value of the modified financial asset is determined based on its expected cash flows, discounted using the interest rate at which the Bank could raise debt with similar terms and conditions in the market. The difference between the carrying value of the original asset and fair value of the new asset is recognized in profit or loss. On the other hand, if the difference does not meet the 10% threshold, the original receivable is not extinguished but merely modified. In such case, the carrying amount is adjusted by the costs or fees paid or received in the restructuring.

Financial Liabilities

Classification. The Bank classifies its financial liabilities at initial recognition under the following categories: (a) financial liabilities at amortized cost and (b) financial liabilities at FVPL.

The Bank has not designated any financial liabilities at FVPL.

Financial Liabilities at Amortized Cost. Financial liabilities are categorized as financial liabilities at amortized cost when the substance of the contractual arrangement results in the Bank having an obligation either to deliver cash or another financial asset to the holder, or to settle the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of its own equity instruments.

These financial liabilities are initially recognized at fair value less any directly attributable transaction costs. After initial recognition, these 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 effective interest rate. Gains and losses are recognized in profit or loss when the liabilities are derecognized or through the amortization process.

Deposit liabilities, accrued interest and other expenses, manager's checks, unsecured subordinated debt, lease liabilities, and other liabilities (excluding due to Philippine Deposit Insurance Corporation - PDIC, withholding taxes and statutory obligations) are included under this category.

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

Classification of Financial Instrument between Liability and Equity. A financial instrument is classified as liability if it provides for a contractual obligation to:

- Deliver cash or another financial asset to another entity;
- Exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the Bank; or
- Satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.

If the Bank does not have an unconditional right to avoid delivering cash or another financial asset to settle its contractual obligation, the obligation meets the definition of a financial liability.

Offsetting of Financial Assets and Liabilities

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, and the related assets and liabilities are presented gross in the statement of financial position.

Assets Held for Sale

Foreclosed assets are classified as held for sale if the carrying amount will be recovered principally through a sale transaction rather than continuing use. Assets held for sale are accounted for at the lower of cost and fair value less cost to sell. The cost of foreclosed assets includes the carrying amount of the related loan, less any allowance for credit and impairment losses, at the time of foreclosure. Impairment loss is recognized in profit or loss for any subsequent write-down of the asset to fair value less cost to sell. Gain on any subsequent increase in fair value less costs to sell of an asset is recognized in profit or loss to the extent of the cumulative impairment loss.

Assets held for sale that cease to be classified as such is measured at the lower of (a) carrying amount before the assets were classified as held for sale, adjusted for any depreciation, amortization or revaluations that would have been recognized had the assets not been classified as held for sale, and (b) recoverable amount at the date of the subsequent decision not to sell. Any adjustment on the carrying amount of assets held for sale that cease to be classified as held for sale is recognized in profit or loss.

Property and Equipment

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

The initial cost of property and equipment consists of its purchase price, including import duties, nonrefundable taxes and any directly attributable costs in bringing the asset to its working condition and location for its intended use.

Expenditures incurred after the property and equipment have been put into operations, such as repairs and maintenance, are normally charged to profit or loss in the year when 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 additional costs of property and equipment.

The cost of replacing a part of the property and equipment is capitalized when that cost is incurred and all the relevant asset recognition criteria are met. The carrying amount of a part of an item of property and equipment that has been replaced is derecognized.

Depreciation and amortization are computed on a straight-line basis over the estimated useful lives of the assets. The estimated useful lives of the property and equipment are as follows:

Asset Category	Number of Years
Building and condominium units	30
Right-of-use (ROU) assets	3 to 10 or the related lease term, whichever is shorter
Furniture, fixtures and equipment	5
Leasehold rights and improvements	10 or the related lease term, whichever is shorter

The estimated useful lives and depreciation and amortization method are reviewed periodically to ensure that the years and method of depreciation and amortization are consistent with the expected pattern of economic benefits from items of property and equipment.

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the year the asset is derecognized.

Fully depreciated items are retained as property and equipment until these are no longer being used in the operations.

When assets are retired or otherwise disposed of, the cost and the related accumulated depreciation, amortization and any impairment loss are removed from the accounts, any resulting gain or loss is recognized in profit or loss.

Intangible Assets

Branch Licenses. Branch licenses are capitalized on the basis of the costs incurred to acquire and of bringing the asset to its use in the operations. Branch licenses are not amortized and deemed to have an indefinite economic life as there is no foreseeable limit to the period over which these are expected to generate net cash inflows for the Bank.

Branch licenses are reviewed annually to determine whether events and circumstances continue to support an indefinite economic life assessment. Any change in assessment from indefinite to finite life will be accounted prospectively.

Computer Software. Computer software is measured on initial recognition at cost. Subsequently, computer software is measured at cost less accumulated amortization and any impairment losses. Internally-generated computer software, excluding capitalized development costs, is not capitalized and expenditures are recognized in profit or loss in the year in which the related expenditures are incurred.

Computer software is amortized using straight-line method over the estimated useful life of five years and assessed for impairment whenever there is an indication that the computer software may be impaired. The amortization period and method used for computer software are reviewed annually. Changes in the estimated useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimate. The amortization on computer software is recognized in profit or loss.

Gains or losses arising from the disposal 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 profit or loss when the asset is derecognized.

Other Assets

Other assets include prepaid expenses, refundable deposits, creditable withholding taxes (CWT), RCOI, other investments and others.

Prepaid Expenses. Prepaid expenses are expenses paid in advance and recorded as asset before these are utilized. Prepaid expenses are apportioned over the period covered by the payment and charged to appropriate accounts in profit or loss when incurred. Prepaid expenses that are expected to be realized for no more than 12 months after the financial reporting year are classified as current assets.

CWT. CWT represents the amount withheld by the Bank’s customers in relation to its income. CWT can be utilized as payment for income taxes provided that these are properly supported by certificates of creditable tax withheld at source subject to the rules on Philippine income taxation.

Impairment of Non-financial Assets

Property and equipment and computer software are reviewed for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. Branch licenses are assessed for impairment annually, either individually or at the cash generating unit (CGU) level, as appropriate. The Bank assesses at the end of the reporting year whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Bank makes an estimate of the asset’s recoverable amount. An asset’s recoverable amount is the higher of an asset’s or CGU’s fair value less costs of disposal and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or group of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of the time value of money and the risks specific to the asset. Impairment losses are recognized in profit or loss.

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

Equity

Perpetual Preferred Stock. Perpetual preferred stock is classified as equity if it is non-redeemable, or redeemable only at the Bank's option, and any dividends thereon are discretionary. Perpetual preferred stock is classified as a liability if this is redeemable on a specific date or at the option of the stockholders, or if dividend payments are not discretionary. Dividends thereon are recognized as interest expense in profit or loss as accrued.

Common Stock. Common stock is classified as equity and is measured at par value per share issued. Incremental costs directly attributable to the issuance of new shares are recognized as deduction from equity, net of tax. Otherwise, these are recognized as expense in profit or loss.

Retained Earnings. Retained earnings represent the cumulative balance of net income or loss, effects of the changes in accounting policy and other capital adjustments.

Other Comprehensive Income (Loss)

Other comprehensive income (loss) comprises items of income and expenses (including items previously presented under equity) that are not recognized in profit or loss for the year. Other comprehensive income (loss), which is presented as "Other Equity Reserves", pertains to cumulative unrealized gains (losses) on fair value changes of investment securities classified as financial assets at FVOCI, cumulative remeasurement gains (losses) on retirement liability, and cumulative translation adjustment.

Revenue Recognition

Revenue from contracts with customers is recognized when the customer obtains control of the services at an amount that reflects the consideration to which the Bank expects to be entitled in exchange for those services. Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Bank and the revenue can be measured reliably.

The Bank also assesses its revenue arrangements to determine if it is acting as a principal or as an agent. The Bank has assessed that it acts as a principal in all of its revenue sources, except for fees and commissions.

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

Interest Income. Interest income is recognized in profit or loss as the interest accrues, taking into account the effective yield of the asset.

When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective rate, transaction costs and all other premiums or discounts.

For Stage 3 financial assets, interest income continues to be recognized using the original effective interest rate applied to the new carrying amount, provided that the Bank determines that the collection of interest income is reasonably assured.

Service Charges and Penalties. Service charges and penalties, which are presented under “Service charges, fees and commissions” in profit or loss, are recognized upon collection or being accrued when there is reasonable degree of certainty as to its collectability.

Fees and Commissions. Fees and commissions arising from providing transaction services, which are presented under “Service charges, fees and commissions” in profit or loss, are recognized upon completion of the transaction. Fees or components of the fees that are linked to a certain performance of a service or a condition are recognized after performing the service or fulfilling the condition.

Gains (Losses) from Assets Sold or Acquired. Income or loss from sale of properties acquired is recognized upon completion of the earning process and the collectability of the sales price is reasonably assured. Gain or loss on foreclosure of properties is determined as the difference between the fair value upon foreclosure and the carrying amount of the loan. Gain or loss on foreclosure of properties is recognized when the risks and rewards of the property have been transferred to the Bank.

Trading and Securities Gains (Losses). Trading and securities gains or losses represent gains and losses from changes in fair value of financial assets at FVPL, and sale of investment securities classified as financial assets at FVPL, financial assets at FVOCI and financial assets at amortized cost.

Foreign Exchange Gains (Losses). Foreign exchange gains (losses) arising from the settlement of such transactions or from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized when earned.

Costs and Expense Recognition

Costs and expenses are recognized in profit or loss when a decrease in future economic benefit related to a decrease in an asset or an increase of a liability has arisen that can be measured reliably. Costs and expenses are recognized upon receipt of goods, utilization of services or when the costs and expenses are incurred.

Interest Expense. Interest expense is recognized in profit or loss using the effective interest rate of the financial liabilities to which these relate.

Operating Expenses. Operating expenses constitute costs which arise in the normal business operations, are recognized when incurred.

Employee Benefits

Short-term Benefits. Short-term employee benefits given by the Bank to its employees include salaries and wages, social security contributions, short-term compensated absences, bonuses and non-monetary benefits. The Bank recognizes a liability, net of amounts already paid, and an expense for services rendered by employees during the year.

Short-term employee benefits are measured on an undiscounted basis and are expensed as the related service is provided.

Retirement Benefits. Retirement benefit costs are actuarially determined using the projected unit credit method, which reflects services rendered by employees to the date of valuation and incorporates assumptions concerning employees’ projected salaries.

The Bank recognizes service costs, comprising of current service costs, past service costs, gains and losses on curtailments and non-routine settlements, and net interest expense or income in profit or loss. Net interest expense or income is calculated by applying the discount rate to the net retirement liability or asset.

Past service costs are recognized in profit or loss on the earlier of the date of the plan amendment or curtailment and the date that the Bank recognizes restructuring-related costs.

Remeasurements comprising of actuarial gains and losses, return on plan assets and any change in the effect of the asset ceiling (excluding net interest on defined benefit obligation) are recognized immediately in other comprehensive income in the year in which these arise. Remeasurements are not reclassified to profit or loss in subsequent years.

The retirement liability is the aggregate of the present value of the defined benefit obligation and the fair value of plan assets out of which the obligations are to be settled directly. The present value of the retirement liability is determined by discounting the estimated future cash outflows using interest rate on government bonds that have terms to maturity approximating the terms of the related retirement liability.

Actuarial valuations are made with sufficient regularity so that the amounts recognized in the financial statements do not differ materially from the amounts that would be determined at the reporting year.

The Bank contributes to the retirement fund based on the actuarial valuation report. The contributions to the retirement plan consist of annual normal cost and amortization of any unfunded past service liability. The Bank is not required to contribute when the fair value of plan assets exceeds the present value of retirement liability.

Leases

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

The Bank as a Lessee. At commencement date of the lease, the Bank recognizes ROU assets and corresponding lease liabilities on the statements of financial position, except for short-term leases (defined as leases with a lease term of 12 months or less). For these leases, the Bank recognizes the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Lease liabilities are measured at the present value of the unpaid lease payments, discounted using the interest rate implicit in the lease (if readily available) or the Bank's incremental borrowing rate. Incremental borrowing rate is the rate of interest that the Bank would have to pay to borrow over a similar term and with a similar security the funds necessary to obtain an asset of a similar value to the ROU assets in a similar economic environment.

The Bank recognizes ROU assets and lease liabilities at the commencement date of the lease agreement.

ROU assets are measured at cost, which consist of the initial measurement of the lease liabilities, any initial direct costs incurred, an estimate of any costs to dismantle and remove the asset at the end of the lease, and any lease payments made in advance of the lease commencement date.

The Bank amortizes ROU assets on a straight-line basis using the expected useful life of three to 10 years or the lease term, whichever is shorter. The Bank also assesses the ROU assets for impairment when such indicators exist.

ROU assets are presented as part of property and equipment.

Lease payments included in the measurement of the lease liabilities consists of fixed payments and, if any, variable payments based on an index or rate, amounts expected to be payable under a residual value guarantee, and payments arising from options reasonably certain to be exercised.

Subsequent to initial measurement, lease liabilities will be reduced for payments made and increased for interest. It is remeasured to reflect any reassessment or modification, or if there are changes in the fixed payments. When the lease liabilities are remeasured, the corresponding adjustment is reflected in the ROU assets, or profit and loss if the ROU assets are already reduced to zero.

Income Taxes

Current Tax. Current tax assets and liabilities for the current and prior years are measured at the amount expected to be recovered from or paid to the tax authorities. The tax rate and the tax laws used to compute the amount are those that are enacted or substantively enacted at the end of the reporting year.

Deferred Tax. Deferred tax is provided on all temporary differences at the end of the reporting year between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognized for all taxable temporary differences. Deferred tax assets are recognized for all deductible temporary differences, carryforward benefits of unused tax credits and unused tax losses, to the extent that it is probable that sufficient future taxable profit will be available against which the deductible temporary differences and carryforward benefits of unused tax credits and unused tax losses can be utilized. Deferred tax, however, is not recognized when it arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit or loss nor taxable profit or loss.

The carrying amount of deferred tax assets is reviewed at the end of each reporting year and reduced to the extent that it is no longer probable that sufficient future taxable profit will be available to allow all or part of the deferred tax assets to be utilized. Unrecognized deferred tax assets are re-assessed at the end of each reporting year and are recognized to the extent that it has become probable that sufficient future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rate that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rate (and tax laws) that have been enacted or substantively enacted at the end of reporting year.

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

Deferred tax relating to items recognized outside profit or loss is recognized outside profit or loss. Deferred tax items are recognized in relation to the underlying transaction either in other comprehensive income or directly in equity.

Fiduciary Activities

Assets and income arising from fiduciary activities, together with related undertakings to return such assets to customer, are excluded from the financial statements of the Bank when the Bank acts in a fiduciary capacity such as a nominee, trustee or agent.

Foreign Currency Transactions

RBU. Transactions in currencies other than Philippine Peso are recorded at the rate of exchange prevailing on the date of the transaction. At each reporting date, monetary assets and liabilities denominated in foreign currencies are translated at the rates prevailing on the reporting date. Foreign exchange gains or losses are recognized in profit or loss in the year in which these are incurred.

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. As at the reporting date, the assets and liabilities of the FCDU are translated into the Bank’s functional and presentation currency at the Banking Association of the Philippines (BAP) closing rate, and its income and expenses are translated at the BAP) weighted average rate for the year. Exchange differences arising from translation to foreign currency are recognized as other comprehensive income under “Cumulative translation adjustment.” Upon disposal of the FCDU or

actual remittance of FCDU profits to RBU, the deferred cumulative amount recognized as “Cumulative translation adjustment” in other comprehensive income is recognized in profit or loss.

Related Party Relationship and Transactions

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

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

Related party transactions consist of transfer of resources, services or obligations between the Bank and its related parties.

Provisions

Provisions, if any, are recognized when the Bank has a present obligation (legal or constructive) as a result of a past event it is probable that an outflow of economic resources will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

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

Contingencies

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

Events after the Reporting Year

Subsequent events that provide additional information about the Bank’s financial position at the reporting year are reflected in the financial statements when material. Subsequent events that are non-adjusting events are disclosed in the notes to financial statements when material.

3. Significant Judgments, Accounting Estimates and Assumptions

The preparation of the financial statements requires management to exercise judgment, make estimates, and use assumptions that affect amounts of assets, liabilities, income and expenses reported in the financial statements and related disclosures. The judgments, estimates and assumptions used in preparing the financial statements are based upon management’s evaluation of relevant facts and circumstances as at the date of the financial statements. While management

believes that the assumptions are reasonable and appropriate, significant differences in the actual experience or significant changes in the assumptions may materially affect the estimated amounts. Actual results could differ from such estimates.

Judgments

In the process of applying the Bank’s accounting policies, management has made the following judgments, which have the most significant effect on the amounts recognized in the financial statements.

Determining the Classification of Financial Assets. Classification of financial assets depends on the results of the business model test and sole payment of principal and interest (SPPI) test performed by the Bank.

The Bank exercises judgment in determining the business model to be used in managing its financial instruments to achieve their business objectives. The following are the factors considered by the Bank in its business model assessment:

- Specific business objectives in holding the financial assets,
- Whether income that can be generated from the financial assets can cover the cost of deposits,
- Policies in managing the risks of the financial assets,
- Expected frequency, value and timing of sales, and
- Key performance indicators of the financial assets.

The Bank also determines whether the contractual terms of debt instruments classified and measured as financial assets at amortized cost give rise to specified dates to cash flows that are solely payments for principal and interest, with interest representing time value of money and credit risk associated with the outstanding principal amount. Any other contractual term that changes the timing or amount of cash flows does not meet the SPPI test.

Determining the Functional Currency. The Bank uses its judgment to determine the functional currency such that it most faithfully represents the economic effects of the underlying transactions, events and conditions that are relevant to the entity. In making this judgment, the Bank considers the following:

- the currency that mainly influences sales price for financial instruments and services or the currency in which sales prices for its financial instruments and services are denominated and settled;
- the currency in which funds from financing activities are generated; and
- the currency in which receipts from operating activities are usually retained.

Based on the foregoing and the economic substance of the underlying circumstances relevant to the Bank, the functional currency of the Bank has been determined to be the Philippine Peso, which is the currency of the primary economic environment in which the Bank operates.

Determining the Classification of Lease Arrangements and Appropriate Lease Term and Discount Rates. The Bank, as a lessee, has existing lease agreements with related parties and third parties for its branches.

The Bank recognizes ROU assets and lease liabilities measured at the present value of lease payments to be made over the lease term using the Bank’s incremental borrowing rate, except for its short-term leases.

The Bank has exercised significant judgment in determining the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or in any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

Significant management judgment was likewise exercised by the Bank in determining the discount rate, whether implicit rate, if readily available or incremental rate, to be used in calculating the present value of ROU assets and lease liabilities. The discount rate ranging from 4.84% to 7.78% are incremental borrowing rates based on the Bloomberg Valuation Service (BVAL) rates adjusted by credit spread of the Bank.

Reassessments are made on a continuing basis whether changes should be reflected in the amount of lease liabilities due to circumstances affecting lease payments and discount rates.

Details are as follows (see Note 18):

	2020	2019
ROU assets	₱196,065,570	₱258,852,687
Lease liabilities	220,606,697	277,062,586
Amortization of ROU assets	82,375,225	73,103,837
Rent expense	21,032,427	25,893,457
Interest expense on lease liabilities	17,543,969	19,630,669
	₱120,951,621	₱118,627,963

Evaluating Contingencies. The Bank is currently involved in various legal proceedings mainly pertaining to collectability of its loans and receivables. The estimate of the probable costs for the resolution of these claims has been developed in consultation with outside counsels handling the Bank’s defense in these matters and is based on an analysis of potential results. Based on the opinion of its legal counsels, the Bank is in a good position to secure a favorable judgment in most of these cases. Management therefore believes that the ultimate outcome of these proceedings will not have a material adverse effect on the Bank’s financial position and performance (see Note 25).

Estimates and Assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the financial reporting year, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Determining the Fair Values of Financial Instruments. Certain financial assets and liabilities are carried at fair value and whose fair values are disclosed, which requires extensive use of accounting estimates. While significant components of fair value measurement were determined using verifiable objective evidence, the amount of changes in fair value would differ if the Bank utilized different valuation methodologies. Any changes in fair value of these financial assets and liabilities would affect profit and loss and equity.

When the fair values of financial assets and liabilities recognized or disclosed in the financial statements cannot be derived from the active market, the fair values are determined using internal valuation techniques that include the use of mathematical models. The inputs to these models are taken from observable market where possible, but where this is not feasible, a degree of judgment is required in establishing fair values.

The fair values of the Bank's financial instruments are disclosed in Note 5.

Estimating the Credit and Impairment Losses on Financial Assets. Credit and impairment losses on financial assets are based on ECL. In assessing the ECL, the Bank uses historical credit loss experience adjusted for forward-looking factors, as appropriate.

The Bank measures impairment loss based on the 12-month ECL for the following:

- Debt instruments that are determined to have credit risk rating equivalent to “investment grade”, and thus, a low credit risk at the reporting date.
- Receivables from customers and other financial instruments on which credit risk has not increased significantly since initial recognition.

The Bank measures impairment loss based on the lifetime ECL for receivables from customers for which credit risk has increased significantly since initial recognition, or when:

- The account is considered as loans especially mentioned based on the BSP guidelines.
- The account has missed payment for more than 30 days or seven days for consumer and commercial loans; respectively.
- The Internal Credit Risk Ratings (ICRR) is downgraded by two risk ratings.

In estimating impairment loss of debt instruments measured at FVOCI and amortized cost, the Bank estimates the amounts and timing of future cash flows, collateral values and the assessment of a significant increase in credit risk. Below are the components considered in the calculation of ECL.

- Net flow and default rates of receivables from customers based on historical experience of the Bank.
- ICRR and certain qualitative factors in determining whether there has been a significant increase in credit risk to determine when to measure lifetime credit losses.
- Latest fair values of collaterals and historical recovery rates of foreclosed assets for loss given default calculations.
- Segmentation of financial assets for collective assessment of ECL.
- Use of regression analysis in determining macroeconomic factors that affect non-performing status of loan accounts.

Evidence that a financial asset is credit-impaired includes observable data about the following events:

- Significant financial difficulty of the issuer or the borrower.
- A breach of contract, such as a default or past due event.

- The lenders of the borrower, for economic or contractual reasons relating to the borrower’s financial difficulty, having granted to the borrower concessions that the lenders would not otherwise consider.
- It is becoming probable that the borrower will enter bankruptcy or other financial reorganization.
- The disappearance of an active market for that financial asset because of financial difficulties.
- The purchase or origination of a financial asset at a deep discount that reflects the incurred credit losses.

It may not be possible to identify a single discrete event - instead, the combined effect of several events may have caused financial assets to become credit-impaired.

Financial Assets at FVOCI

Impairment loss on debt instruments at FVOCI amounted to ₱1.9 million in 2019. The carrying amount of debt instruments at FVOCI amounted to ₱723.0 million and ₱1,721.1 million as at December 31, 2020 and 2019, respectively (see Note 7).

Other Financial Assets at Amortized Cost

No impairment loss on the Bank’s cash and other cash items, due from BSP and other banks, interbank loans and receivables, certain government securities at amortized cost, refundable deposits, and RCOCI because these are placements with reputable counterparties that possess good ratings. The carrying amount of these financial assets at amortized cost (excluding loans and receivables) aggregated to ₱7,280.9 million and ₱7,826.0 million as at December 31, 2020 and 2019, respectively (see Notes 6, 7 and 12).

Loans and Receivables

Provision for credit and impairment losses on loans and receivables amounted to ₱200.5 million and ₱43.1 million in 2020 and 2019, respectively. Loans and receivables written-off amounted to ₱43.3 million in 2020 (see Note 8).

Details of loans and receivables are as follows:

	Note	2020	2019
Gross amount		₱32,112,590,636	₱33,372,392,397
Allowance for credit and impairment losses		(839,745,273)	(682,533,971)
Carrying amount	8	₱31,272,845,363	₱32,689,858,426

Determining the Valuation and Classification of Foreclosed Assets. The Bank classifies foreclosed assets, which will be recovered principally through sale, as assets held for sale. The Bank is committed to sell and actively markets the foreclosed assets at a price that is reasonable in relation to their current fair values. In determining the fair value of assets held for sale, sales price are analyzed by applying appropriate units of comparison, adjusted by differences between the subject property and related market data. Any subsequent write-down of the asset to fair value less cost to sell is recognized as impairment loss in profit or loss.

Allowance for impairment losses on assets held for sale amounted to ₱29.7 million and ₱26.4 million as at December 31, 2020 and 2019, respectively. Carrying amount of assets held for sale amounted to ₱525.0 million and ₱489.0 million as at December 31, 2020 and 2019, respectively (see Note 9).

Assessing the Impairment of Branch Licenses. Branch license is determined to be an intangible asset with an indefinite economic life because there is no foreseeable limit to the period on which the branch license is expected to generate net cash inflows for the Bank. The branch license is required to be assessed for impairment annually by comparing its carrying amount with its recoverable amount, irrespective of whether there is any indication that it may be impaired.

The branches have been identified as the CGU for purposes of impairment assessment of branch licenses.

When the branch license’s fair value less cost of disposal is lower than its carrying amount, the recoverable amount is based on value in use calculations that use a discounted cash flow model. The cash flows are derived from the projection for the next five years and do not include restructuring activities that the Bank is not yet committed to or significant future investments that will enhance the asset base of the branch being tested. The recoverable amount is most sensitive to the discount rate as well as the expected future cash inflows and the growth rate used for extrapolation purposes.

No impairment losses were recognized in 2020 and 2019. As at December 31, 2020 and 2019, the carrying amount of the branch licenses amounted to ₱225.4 million (see Note 11).

Assessing the Impairment of Assets Held for Sale, Property and Equipment and Computer Software. The Bank assesses impairment on property and equipment, computer software and assets held for sale whenever events or changes in circumstances indicate that the carrying amounts of these assets may not be recoverable.

The relevant factors that the Bank considers whether to perform an asset impairment review include, among others, the following:

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

There is no indication that property and equipment and computer software may be impaired. Accordingly, no impairment losses on property and equipment and computer software were recognized in 2020 and 2019.

Impairment losses on assets held for sale amounted to ₱10.6 million and ₱12.7 million in 2020 and 2019, respectively. Allowance for impairment losses on assets held for sale amounted to ₱29.7 million and ₱26.4 million as at December 31, 2020 and 2019, respectively (see Note 9).

The carrying amounts of assets held for sale, property and equipment and computer software are as follows:

	Note	2020	2019
Assets held for sale	9	₱525,014,291	₱488,968,117
Property and equipment	10	588,952,352	671,187,614
Computer software	11	100,315,037	101,556,303
		₱1,214,281,680	₱1,261,712,034

Estimating the Useful Lives of Property and Equipment and Computer Software. The Bank estimates the useful lives of property and equipment and computer software based on the year over which the assets are expected to be available for use. The estimated useful lives are reviewed annually and changed if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of property and equipment and computer software. However, it is possible that future results of operations could be materially affected by changes in factors mentioned in the foregoing. The amounts and timing of recorded expenses for any year would be affected by changes in these factors and circumstances. A reduction in the estimated useful lives of the property and equipment and computer software would increase the recorded expenses and decrease assets.

There was no change in the estimated useful lives of the property and equipment and computer software in 2020 and 2019.

The carrying amounts of depreciable property and equipment and computer software are as follows:

	Note	2020	2019
Property and equipment	10	₱424,607,852	₱506,843,114
Computer software	11	100,315,037	101,556,303
		₱524,922,889	₱608,399,417

Determining the Retirement Liability. The determination of the obligation and cost of retirement benefits is dependent on selection of certain assumptions determined by management and used by the actuary in calculating such amounts. These assumptions include, among others, discount rate and salary increase rate. Actual results that differ from the assumptions are accumulated and amortized over future periods and therefore, generally affect the recognized expense and recorded obligations in such future years.

In determining the appropriate discount rate, management considers the interest rate of government bonds that are denominated in the currency in which the benefits will be paid, with extrapolated maturities corresponding to the expected duration of the defined benefit obligation. Further details about the assumptions used are provided in Note 19 to financial statements.

Retirement liability amounted to ₱46.0 million and ₱62.3 million as at December 31, 2020 and 2019, respectively (see Note 19).

Assessing the Realizability of Deferred Tax Assets. The Bank reviews the carrying amount of deferred tax assets at each reporting year and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the deferred tax assets to be utilized. Unrecognized deferred tax assets are reassessed at each reporting year and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

The estimates of future taxable income indicate that deferred tax assets on certain temporary differences may be utilized in the future.

As at December 31, 2020 and 2019, deferred tax assets recognized by the Bank amounted to ₱119.9 million and ₱72.3 million, respectively (see Note 21).

As at December 31, 2020 and 2019, deferred tax assets on certain temporary differences aggregating ₱977.3 million and ₱632.0 million, respectively, were not recognized (see Note 21). Management assessed that it is not probable that sufficient future taxable profit will be available to allow the deferred tax assets to be utilized.

4. Financial Risk Management Objectives and Policies

The Bank has exposure to the following major risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market and interest rate risk

Risk Governance

The Bank’s BOD has overall responsibility for the oversight of the Bank’s risk management process. The established risk governance framework together with the supporting structure provides for the mechanism to ensure oversight and accountability for risk at various levels in the organization. Various board and management committees, which are responsible for developing, managing and monitoring specific risks that the Bank is exposed to, are as follows.

Board Level:

1. Risk Management Committee (RMC)
2. Audit Committee (AC)
3. Corporate Governance Committee(CorGov)
4. Related Party Transaction (RPT)
5. Loan Committee (LOANCOM)
6. Bids & Awards Committee (BAC)
7. IT Committee (ITCOM)
8. Trust Committee (TRUSTCOM)
9. Executive Committee (EXCOM)

Management Level:

1. Senior Management Committee (SMC)
2. Credit Committee (CRECOM)
3. Fraud Committee (FRAUDCOM)
4. Anti-Money Laundering Committee (AMLCOM)
5. Data Protection Committee (DPC)
6. Asset-Liability Committee (ALCO)
7. Senior Management Oversight Committee for Outsourced Services (SMOC)

RMC is responsible for developing the Bank’s risk strategy and the supporting risk management policies, ensuring the soundness of risk management practices in relation to the risks faced by the Bank.

RMC is supported by the Risk Management Group (RMG) in the exercise of its risk oversight functions. RMG, which is independent of the business units and is directly reporting to the RMC, performs daily market risk analyses to measure market risk exposures and ensure compliance with the Bank's policies, procedures and limit structures, and makes recommendations based on such analyses. RMG, likewise, monitors credit risk exposures and portfolio movements. They also take the lead in the development of the Bank's credit acceptance policies, risk classification and profiling through the administration of the internal credit rating system and the determination of appropriate levels of allowances for credit losses.

AC is responsible for monitoring the Bank's compliance with the risk management policies and procedures, and for reviewing the adequacy of risk management framework in relation to the risks being faced by the Bank. AC is assisted by the Internal Audit (IA) Department. IA undertakes both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the AC.

CorGov assists the board in fulfilling its corporate governance responsibilities and oversees periodic assessment of board performance, as well as the various Board Committees and Executive Management.

RPT is responsible for screening related party accounts for board approval.

LOANCOM is a Board Committee that acts as the highest approving body for loan and other credit related matters, except for directors, officers, stockholders and related interest (DOSRI) loans. It ensures that the credit approval or endorsement of credit facilities is based on a diligent, sound and prudent evaluation of the risks involved and is aligned with the Bank's strategic objectives in terms of asset quality.

BAC oversees the Bank's procurement processes and the implementation of procurement contracts as part of the Bank's operational risk management, while also ensuring transparency and good governance in the process.

ITCOM oversees the development of the Bank's information Technology System and Infrastructure. It ensures that systems are embedded with multi-layered controls in order to protect bank information and technical infrastructure.

TRUSTCOM is responsible for overseeing the investment activities of the Bank's Trust unit.

EXCOM assists the board in the general supervision, administration and management of the Bank's affairs, and is actively engaged in overseeing the development and execution of the Bank's business strategies.

SMC exercises general supervision, administration and management of the bank's operations, and as such oversees the operational and strategic risk management.

CRECOM is the management level committee that evaluates and screens all credit proposals that requires the approval of the President, LOANCOM or the BOD, and likewise monitors credit underwriting activities performed at management level. It ensures that credit risk is within the BOD established risk tolerance levels and that proposals comply with the credit underwriting standards as established in the Bank's policies and procedures.

FRAUDCOM addresses the increasing threat landscape for fraud incidents committed against the Bank and its clients. The primary responsibility of the FRAUDCOM is to determine actions to be taken when a fraud incident is reported and recommend changes in the processes, procedures and policies of the Bank whenever applicable.

AMLCOM was established assists the BOD in fulfilling its oversight responsibility over AML activities to ensure that the Bank complies with the provisions of the Anti-Money Laundering Act (AMLA), as amended, its Implementing Rules and Regulations (IRR), and BSP regulations.

DPC task is to oversee the implementation of the Data Privacy Act (DPA). The Bank adopted a committee approach to DPA compliance with Data Protection officers representing the different areas namely, Compliance Risk, Legal, Information Technology and Security.

ALCO is responsible for ensuring that the Bank maintains adequate liquidity, sufficient capital and the appropriate funding to meet business requirements and comply with regulatory requisites. It is also responsible for building a stable funding structure by managing the Bank's asset and liability profile. Moreover, it manages the Bank's financial position and ensures that the Bank's liquidity, capital and funding structure support the business strategies. It likewise establishes the Bank's asset-liability pricing policies.

SMOC is tasked to oversee the outsourcing arrangements with third party business partners.

Credit Risk

Credit risk is the risk of financial loss to the Bank when a customer or counterparty fails to meet its contractual obligations. The Bank's credit risk exposure arises largely from the lending, trade finance and investment activities. The Bank manages credit risk through an established risk control framework that provides for policies and guidelines to the business units together with a system of limits reflective of the Bank's risk tolerance and capacity. A monitoring mechanism is also in place to ensure that exposures to individual counterparties, related accounts, countries and industries are within BOD established and approved limits and that any credit concentration is within acceptable levels.

While the Credit Risk Control Department of RMG (CRC-RMG) provides for an independent risk monitoring and control of credit exposures, each business unit is responsible for the quality and performance of its credit portfolio. As the first line of defense, business units are responsible for monitoring and controlling the credit risks in its portfolio. The CRC-RMG, meanwhile, provides an independent evaluation of the Bank's credit risk exposure through review of loan proposals and credit processes, borrower risk assessments and credit administration. This is complemented by regular audits of business units and credit processes undertaken by IA that provide for assurance and feedback mechanisms to determine sufficiency and effectiveness of established risk controls.

The Bank extends various types of loans, several on clean/unsecured basis, and others against hard collaterals and other form of securities. Personal and salary loans are generally granted on a clean/unsecured basis. Other consumer lending products are largely asset-backed financing with auto loans secured by chattel mortgage on the vehicles and real estate loans secured by first real estate mortgage on residential or commercial properties. The Bank's commercial/small-medium enterprise loans cover a mix of clean/unsecured (which includes those under personal guarantees) as well as secured credit facilities (i.e., those supported by real estate and chattel mortgages, guarantees and other registered securities). Estimates of fair value are based on the value of the collateral assessed at the time of the borrowing.

All loan applications, covering the different types of loans, undergo strict credit evaluation in accordance with established risk acceptance criteria. The essential elements that the Bank considers for all its credit dealings and account relationships are: favorable credit checking; good credit standing and track record with other counterparties, banks and trade partners alike; financial strength and cash generating capabilities (fund sourcing), which translate into determination of paying capacity that establishes repayment expectations; and acceptable collateral/security, if applicable. Furthermore, credit underwriting is performed within a framework of delegated credit authorities that take into account facility risks and magnitudes of potential exposures.

Management of Credit Risk

The BOD, through RMC and LOANCOM, is assisted in the monitoring and management of credit risk by the CRC-RMG, which continuously implements its risk control programs, in line with its oversight function over the Bank’s lending activities. CRC-RMG is principally tasked with identifying, monitoring, reporting and controlling the Bank’s credit risk. The specific functions of CRC-RMG are as follows:

- Takes charge of administering the Bank’s lending policies, ensuring compliance by those concerned with continuous issuance of updates on policies and process guidelines for bank-wide implementation and compliance.
- Facilitates the activities of the CRECOM, whose main objective is to evaluate and screen loan proposals requiring approvals beyond line management levels.
- Classifies borrowing accounts according to several levels of risk, based on the ICRR system and loan portfolio assessments, to regularly determine loan impairments for the purpose of determining the appropriate loan loss reserves.
- Conducts credit stress testing and regularly evaluates and monitors the quality of the Bank’s loan portfolio via the Portfolio Profile Report, as part of the scheme of controlling large concentration and Bank exposures.

Maximum Exposure to Credit Risk after Collateral Held or Other Credit Enhancements

The Bank’s maximum exposure to the credit risk is equal to the carrying amount of the financial assets, except for the following loans and receivables:

	2020			
	Carrying Amount	Fair Value of Collaterals or Credit Enhancements	Financial Effects of Collaterals or Credit Enhancements	Maximum Exposure to Credit Risk
Loans and receivables:				
Receivables from customers:				
Consumer loans ¹	P12,286,000,020	P12,177,834,574	P11,345,538,508	P929,787,363
Corporate loans ²	18,344,463,244	4,397,432,484	2,638,459,490	15,730,070,935
	30,630,463,264	16,575,267,058	13,983,997,998	16,659,858,298
Sales contracts receivable ³	18,274,094	23,859,000	18,274,094	-
	P 30,648,737,358	P16,599,126,058	P14,002,272,092	P16,659,858,298

¹Net of allowance for credit and impairment losses amounting to P545.2 million.

²Net of allowance for credit and impairment losses and unearned discounts and capitalized interest amounting to P293.5 million and P2.7 million, respectively.

³Net of allowance for credit and impairment losses amounting to P1.0 million.

2019				
	Carrying Amount	Fair Value of Collaterals or Credit Enhancements	Financial Effects of Collaterals or Credit Enhancements	Maximum Exposure to Credit Risk
Loans and receivables:				
Receivables from customers:				
Consumer loans ¹	₱15,236,081,173	₱14,754,258,066	₱13,880,203,762	₱1,268,475,575
Corporate loans ²	17,159,695,070	5,968,717,796	3,581,230,678	13,675,845,828
	32,395,776,243	20,722,975,862	17,461,434,440	14,944,321,403
Sales contracts receivable ³	17,756,977	30,718,181	17,756,977	-
	₱32,413,533,220	₱20,753,694,043	₱17,479,191,417	₱14,944,321,403

¹Net of allowance for credit and impairment losses amounting to ₱444.0 million.

²Net of allowance for credit and impairment losses and unearned discounts and capitalized interest amounting to ₱237.5 million and ₱8.0 million, respectively.

³Net of allowance for credit and impairment losses amounting to ₱1.0 million.

Concentration of Credit Risk Exposure of Financial Assets

The Bank monitors concentration of credit risk by industry. The distribution of the Bank's financial assets and off-balance sheet items by industry sector, before taking into account collaterals held or other credit enhancements (maximum exposure) are as follows:

2020					
	Loans and Receivables ¹	Loans and Advances to Banks ²	Investment Securities ³	Others ⁴	Total
Other community, social and personal activities	₱13,148,734,632	₱-	₱-	₱ 15,743,036	₱13,164,477,668
Financial intermediaries	2,532,642,370	6,495,954,909	328,866,135	-	9,357,463,414
Wholesale and retail trade	6,487,610,746	-	-	34,006,905	6,521,617,651
Real estate	4,766,435,861	-	-	28,448,289	4,794,884,150
Manufacturing	3,185,362,155	-	-	-	3,185,362,155
Transportation, storage and communication	824,688,880	-	-	-	824,688,880
Philippine government	-	-	506,919,518	-	506,919,518
Construction	279,318,614	-	-	-	279,318,614
Mining and quarrying	153,654,532	-	-	-	153,654,532
Hotel and restaurant	76,575,199	-	-	-	76,575,199
Agricultural, hunting and forestry	25,336,085	-	-	-	25,336,085
Electricity, gas and water supply	3,021,366	-	-	-	3,021,366
	31,483,380,440	6,495,954,909	835,785,653	78,198,230	38,893,319,232
Allowance for credit and impairment losses	838,715,965	-	-	-	838,715,965
	₱30,644,664,475	₱6,495,954,909	₱835,785,653	₱78,198,230	₱38,054,603,267

¹Comprised of receivables from customers, gross of unearned discounts and capitalized interests.

²Comprised of due from BSP, due from other banks, interbank loans receivable.

³Comprised of financial assets at FVPL and FVOCI (excluding unquoted equity security).

⁴Comprised of RCOCI, refundable deposits and contingencies relating to outstanding guarantees and domestic LC.

2019					
	Loans and Receivables ¹	Loans and Advances to Banks ²	Investment Securities ³	Others ⁴	Total
Other community, social and personal activities	₱15,324,459,834	₱-	₱-	₱13,037,643	₱15,337,497,477
Financial intermediaries	2,636,207,756	7,121,046,364	226,164,391	-	9,983,418,511
Wholesale and retail trade	5,810,298,243	-	-	31,208,390	5,841,506,633
Real estate	5,029,230,938	-	-	27,172,248	5,056,403,186
Manufacturing	3,056,184,330	-	-	-	3,056,184,330
Philippine government	-	-	2,380,666,204	-	2,380,666,204
Transportation, storage and communication	671,682,237	-	-	-	671,682,237
Construction	249,275,886	-	-	-	249,275,886
Mining and quarrying	154,074,400	-	-	-	154,074,400
Hotel and restaurant	90,482,208	-	-	-	90,482,208
Agricultural, hunting and forestry	82,156,082	-	-	-	82,156,082
Electricity, gas and water supply	4,246,401	-	-	-	4,246,401
	33,108,298,315	7,121,046,364	2,606,830,595	71,418,281	42,907,593,555
Allowance for credit and impairment losses	681,502,335	-	-	-	681,502,335
	₱32,426,795,980	₱7,121,046,364	₱2,606,830,595	₱71,418,281	₱42,226,091,220

¹Comprised of receivables from customers, gross of unearned discounts and capitalized interests.

²Comprised of due from BSP, due from other banks, interbank loans receivable.

³Comprised of financial assets at FVPL and FVOCI (excluding unquoted equity security).

⁴Comprised of RCOCI, refundable deposits and contingencies relating to outstanding guarantees and domestic LC.

The Bank regularly assesses impairment losses on its financial assets (except those held for trading) based on historical loss experience and adjusted for appropriate forward-looking estimates. The Bank addresses impairment assessment in two areas: individual or specific assessment and collective assessment.

Individual or Specific Assessment. The Bank determines the credit and impairment loss appropriate for each individually significant loan or receivable on an individual account basis. Factors considered in determining the appropriate amounts of impairment loss include an account's age, payment and collection history, short and medium-term prospects in the industry, timing of expected cash flows, realizable value of collateral and forward looking factors such as inflation and interest rates, and consumer price index.

The Bank establishes criteria for specific loan impairment testing and uses the discounted cash flow method to compute for impairment loss. Accounts subjected to specific assessment and are found to be impaired are excluded from the collective impairment assessment.

Collective Assessment. Collective assessment for loan impairment losses are performed on loans and receivables that are not individually significant and those significant loans and receivables, which were individually assessed for impairment but were found not to be impaired. Generally, the Bank applies the probability of loss method in determining the collective impairment loss, where such probability is derived from the product of default rate, and loss rate and adjusted using forward looking factors such as interest rates, and consumer price index.

Significant Increase in Credit Risk. When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Bank considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Bank's historical experience and expert credit assessment and including forward-looking information. A significant increase in credit risk can be measured by comparing the probability of default of the borrower from the initial recognition and the result of the current probability of default.

Other indications may include, among others, indications that a borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in principal and/or interest payments, probability that the borrower will enter bankruptcy or other financial reorganization/restructuring, and other observable data indicating measurable decrease in the estimated future cash flows, such as changes in business or economic conditions that correlate with defaults.

Definition of Default. The Bank considers a financial asset to be in default when a borrower fails to pay the loan in full within 90 days after contractual due date.

Credit Quality per Class of Financial Assets

The Bank has developed and continually reviews and calibrates its internal risk rating system for large exposures aimed at uniformly assessing its credit portfolio in terms of risk profile. The following table provides the analysis of credit quality of the of the Bank's financial assets (gross of allowance for credit and impairment losses) classified as Stage 1, 2 or 3 financial assets as at December 31, 2020 and 2019, based on the requirements of PFRS 9.

<i>Amounts in Thousands</i>	2020			Total
	Stage 1	Stage 2	Stage 3	
Financial assets at FVOCI				
Government securities				
High grade	₱394,129	₱-	₱-	₱394,129
Private bonds				
High grade	312,793	-	-	312,793
Financial assets at amortized cost				
Due from BSP				
High grade	2,569,444	-	-	2,569,444
Due from other banks				
High grade	2,993,935	-	-	2,993,935
Interbank loans receivables				
High grade	932,576	-	-	932,576
Government securities				
High grade	112,790	-	-	112,790
Consumer loans				
High grade	9,468,042	-	-	9,468,042
Standard grade	29,567	238,208	-	267,775
Past due but not individually impaired	-	249,963	407,320	657,283
Individually impaired	1,800,783	187,528	449,822	2,438,133
Corporate loans				
High grade	4,315,023	-	-	4,315,023
Standard grade	12,643,390	-	-	12,643,390
Individually impaired	-	631,956	1,050,299	1,682,255
Bills purchased				
High grade	1,500	-	-	1,500
Individually impaired	-	-	9,980	9,980
Accrued interest income				
High grade	73,957	-	-	73,957
Standard grade	54,799	1,796	-	56,595
Past due but not individually impaired	-	3,370	8,498	11,868
Individually impaired	13,749	1,607	20,165	35,521
Accounts receivable				
High grade	45,934	-	-	45,934
Sales contracts receivables				
High grade	6,654	-	-	6,654
Past due but not individually impaired	-	12,134	-	12,134
Other assets*				
High grade	29,520	-	-	29,520
	₱35,798,585	₱1,326,562	₱1,946,084	₱39,025,297

*Includes refundable deposits and RCOCI.

<i>Amounts in Thousands</i>	2019			Total
	Stage 1	Stage 2	Stage 3	
Financial assets at FVOCI				
Government securities				
High grade	₱1,505,476	₱–	₱–	₱1,505,476
Private bonds				
High grade	199,576	–	–	199,576
Financial assets at amortized cost				
Due from BSP				
High grade	3,174,324	–	–	3,174,324
Due from other banks				
High grade	3,413,981	–	–	3,413,981
Interbank loans receivables				
High grade	532,741	–	–	532,741
Government securities				
High grade	2,140	–	–	2,140
Consumer loans				
High grade	12,232,539	–	–	12,232,539
Standard grade	1,917,752	238,208	–	2,155,960
Past due but not individually impaired	–	437,491	407,320	844,811
Individually impaired	–	–	446,822	446,822
Corporate loans				
High grade	4,004,294	–	–	4,004,294
Standard grade	12,801,134	–	–	12,801,134
Individually impaired	–	–	599,734	599,734
Bills purchased				
High grade	13,025	–	–	13,025
Individually impaired	–	–	9,980	9,980
Accrued interest income				
High grade	99,439	–	–	99,439
Standard grade	68,548	1,796	–	70,344
Past due but not individually impaired	–	4,977	8,498	13,475
Individually impaired	–	–	20,165	20,165
Accounts receivable				
High grade	49,898	–	–	49,898
Sales contracts receivables				
High grade	6,654	–	–	6,654
Past due but not individually impaired	–	12,135	–	12,135
Other assets*				
High grade	27,561	–	–	27,561
	₱40,049,082	₱694,607	₱1,482,539	₱41,391,397

*Includes refundable deposits and RCOCI.

The Bank classifies its neither past due nor impaired financial assets subject to credit risk into the following credit grades:

- High Grade – This pertains to accounts with very low probability of default because of the borrower’s/counterparty’s established ability to tap its liquid resources to fully service its obligations as they become due. The borrower/counterparty has no history of default and uses leverage sparingly.
- Standard Grade – This pertains to accounts with an acceptable probability of default. Nevertheless, the borrower/counterparty has a strong debt service record and has demonstrated the ability to readily service its debts. Collateral cover, if applicable, should be adequate.

- **Substandard Grade** – Risk of default is higher than normal. The borrower/counterparty is expected to be able to service its debt under normal economic and business conditions. Any prolonged economic or business downturn would however ostensibly create liquidity issues for the borrower/counterparty. The borrower/counterparty may have a history of default but have regularized its debt service performance as at reporting year.

The credit quality of trading and investment securities is generally monitored through the external ratings of eligible external credit rating institutions.

Presented below is the mapping of the credit risk rating from external rating agencies with the Bank’s internal risk rating for investment securities:

A. Moody’s Rating

Credit Quality	Rating				
	Long-term				Short-term
High Grade	Aaa	Aa	A	Baa	Prime
Standard Grade	Ba	B			Not Prime
Substandard Grade	Caa	Ca			
Impaired	C				

B. S&P Rating

Credit Quality	Rating				
	Long-term				Short-term
High Grade	AAA	AA	A	BBB	A
Standard Grade	BB	B			B
Substandard Grade	CCC	CC	C		C
Impaired	D				

C. Fitch Rating

Credit Quality	Rating				
	Long-term				Short-term
High Grade	AAA	AA	A	BBB	A
Standard Grade	BB	B			B
Substandard Grade	CCC				C
Impaired	DDD	DD	D		

D. Philratings

Credit Quality	Rating				
	Long-term				Short-term
High Grade	PRS Aaa	PRS Aa	PRS A	PRS Baa	PRS 1
					PRS 2
					PRS 3
Standard Grade	PRS Ba	PRS B			PRS 4
Substandard Grade	PRS Caa	PRS Ca			PRS 5
Impaired	PRS C				PRS 6

For debt securities not rated by any rating agency, the Bank performs the credit rating review for the issuers of the debt securities based on quantitative and qualitative analyses, the data of which are provided by the Treasury/Trust Group. Below is the guidance in evaluation if the investment is impaired or not.

Credit Quality	Rating	Assessment
High Grade	1 and 2	Not Impaired
Standard Grade	3	Not Impaired
Substandard Grade	4	Impaired
Impaired	5	Impaired

For loans, the credit quality is generally monitored using the Bank’s internal rating system. It is the Bank’s policy to maintain accurate and consistent risk ratings across the credit portfolio. This facilitates management to focus on major potential risk and the comparison of credit exposures across all lines of business, demographics and products. The rating system has two parts, namely: the borrower’s risk rating and the facility risk rating. It is supported by a variety of financial analytics, combined with an assessment of management and market information to provide the main inputs for the measurement of credit risk.

The Bank uses ICRR to classify the credit quality of its receivables portfolio. This is being upgraded, as needed, to enhance credit evaluation parameters across different market segments and achieve a more sound and robust credit risk assessment.

Descriptions of the loan grades used by the Bank for receivables from customers are as follows:

Risk Rating	Classification	Credit Quality
1	Excellent	High Grade
2	Strong	High Grade
3	Good	High Grade
4	Satisfactory	Standard Grade
5	Acceptable	Standard Grade
6	Weak	Standard Grade
7	Poor	Impaired
8	Substandard	Impaired
9	Doubtful	Impaired
10	Loss	Impaired

Risk Rating 1 – Excellent. The borrower’s ability to meet its financial commitments is extremely strong and there is a very low probability that it will default on payments due in the coming year. The borrower has a high degree of stability, substance and diversity.

A borrower in this category has access to substantial amounts of funds through the public capital market at any time. It has a strong debt service capacity and has conservative balance sheet leverage (the industry in which the borrower operates). The track record in profit terms is very good. The borrower is of the highest quality, operating reliably under virtually any and all economic conditions.

Risk Rating 2 – Strong. The borrower’s ability to meet its financial commitments is very strong and there is a low probability that it will default on payments due in the coming year. The borrower normally has a comfortable degree of stability, substance and diversity. Under normal market conditions, borrowers in this category have good access to public capital market to raise funds.

Borrower has a strong market and financial position with a history of successful performance. The overall debt service capacity as measured by cash flow to total debt service is very strong; the critical balance sheet ratios (vis-à-vis applicable industry) are conservative.

These borrowers herein categorized are described as quality corporations or enterprises, which are adequately capitalized and operating profitably.

Risk Rating 3 – Good. The borrower’s ability to meet its financial commitments is strong. It may be described as a big or small corporation whose access to public capital market or to alternative financial market is easy, may be limited to periods of favorable economic and/or market conditions.

A borrower in this category usually exhibits characteristics of some degree of stability and substance and the probability of default is still quite low. However, it may still be susceptible to the negative effects of cyclical business changes.

Typical traits include a combination of comfortable asset protection and an acceptable balance sheet structure (vis-à-vis that industry). The debt service capacity as measured by cash flow analysis is strong.

Risk Rating 4 – Satisfactory. The borrower has adequate capacity to meet its financial commitments. Borrower operates in an environment where clear risk elements exist and the probability of default is somewhat greater. This probability is reflected in volatility of earnings and overall performance. A borrower in this category normally has limited access to public financial market. It should be able to withstand normal business cycles, but any prolonged unfavorable economic climate may create gradual deterioration in its financial health.

Typical for this kind of borrower is the combination of reasonably sound asset and cash flow protection. The debt service capacity as measured by cash flow is deemed adequate. The borrower has reported profit for the past fiscal year and is expected to report a profit in the current year.

Risk Rating 5 – Acceptable. The borrower is less vulnerable but faces major ongoing uncertainties and exposure to adverse business, financial or economic conditions that could lead to its inadequate capacity to meet its financial commitments.

This category represents borrowers who may still be able to withstand normal business cycles. However, any prolonged unfavorable economic and/or market condition would create an immediate deterioration beyond acceptable level.

This category will apply where the risk is still acceptable for the following reasons:

- There is sufficient cash flow either historically or expected for the future, in spite of an economic downturn combined with asset protection; or
- There is a new business or project finance transaction.

Risk Rating 6 – Weak. The borrower is more vulnerable but currently has the capacity to meet its financial commitments. Adverse business, financial, or economic conditions will likely impair the borrower’s capacity or willingness to meet its financial requirements.

This category represents the type of borrower for which unfavorable industry or Bank-specific risk factors represent a concern. Operating performance and financial strength may be marginal and it is uncertain whether the borrower can attract alternative sources of financing. Typically, the borrower will find it very hard to cope with any significant economic downturn and a default in such a case is more than a possibility.

Generally, a borrower in this category incurs net losses for one or more years. Normally, there is an expectation that conditions will improve and the rating may be upgraded. Any deterioration, however, will almost certainly result in an automatic downgrade.

In summary, this category includes those borrowers where the credit exposure is not at risk of loss at the moment, but wherein performance has weakened, and unless present trends are reversed, could lead to losses.

Risk Rating 7 – Poor. The borrower is currently vulnerable and is dependent on favorable business, financial and economic conditions to meet its financial obligations.

A borrower in this category is characterized by some probability of default, manifested by some or all of the following:

- Evidence of weakness in the borrower’s financial condition or creditworthiness.
- Unacceptable risk generated by potential or emerging weaknesses as far as asset protection and/or cash flow is concerned. Concerns center on the potential for a continuation of unfavorable economic, market, or borrower specific conditions or trends, which may affect future debt service capacity.
- Indications that the borrower’s ability or willingness to service debt are in doubt.
- Necessity or strong likelihood for rescheduling of the loan.
- Decline in values of, or adverse developments on, collaterals securing the loan.

Risk Rating 8 – Substandard. The borrower is currently highly vulnerable and is in a state of default. Substandard loans are loans or portions thereof which appear to involve a substantial and unreasonable degree of risk to the Bank because of unfavorable or unsatisfactory characteristics. These well-defined adverse elements exist in such loans where there is a possibility of future loss to the institution unless given closer supervision. Such may include adverse trends or development of a financial, managerial, economic or political nature or significant weakness in collateral.

Basic characteristics are:

- Past due loan for which there is an imminent possibility of foreclosure or acquisition of the collateral because of failure of all collection efforts;
- Past due loans to borrowers whose properties securing the loan have declined in value materially or have been found with defects as to ownership or other adverse information;

- Current loans to borrowers whose financial statements audited by the SEC-accredited external auditors show impaired/negative net worth, except for startup firms which should be evaluated on a case-to-case basis;
- Renewed loans of borrowers with declining trend in operations, illiquidity, or increasing leverage trend in the borrower’s financial statements without at least 20.0% repayment of the principal before renewal or extension;
- Current loans of borrowers with unfavorable results of operations for two consecutive years or with impaired/negative net worth, except for startup firms which should be evaluated on a case-to-case basis;
- Loans under litigation; and
- Past due loans for more than 90 days.

Risk Rating 9 – Doubtful. Borrower is in a state of default, where any of the following factors are present:

- Account is already in “non-performing loan” (NPL) status;
- Any portion of any principal and/or interest repayment is in arrears for more than 90 days;
- 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; and
- Overdue loans wherein the prospects of fully applying the collaterals are impaired due to material declines in market value, or subject of adverse claim.

The extent of probability of loss cannot be exactly quantified at this time. Although the possibility of loss is significant, there may be certain important and reasonably specific pending factors that can work to the advantage of the Bank and result in a strengthening of assets of the borrower. Pending factors include merger, acquisition, capital injection and additional cover.

Risk Rating 10 – Loss. Borrower is in a state of default and the prospect for re-establishment of creditworthiness and debt service is remote.

This category also applies where the Bank will take or has taken title to the assets of the borrower and is preparing a foreclosure and/or liquidation of the Bank.

These are loans, or portions thereof, which are considered uncollectible or worthless and of such little value that their continuance as bankable assets is not warranted although the loans may have some recovery or salvage value. The amount of loss is difficult to measure and it is neither practical nor desirable to defer writing off these basically worthless assets even though partial recovery may be obtained in the future.

Basic characteristics are:

- Past due clean loans, the interest of which has remained unpaid for a period of six months;
- Loans payable in installments where amortization applicable to interest is past due for a period of six months, unless the loan is fully secured;
- When the borrower’s whereabouts are unknown, or he is insolvent, or his earning power is permanently impaired and his co-makers or guarantors are insolvent or that their guarantee is not financially supported;

- Where the collaterals securing the loans are considered worthless and the borrower and/or his co-makers are insolvent; and
- Loan considered as absolutely uncollectible.

Collateral and Other Credit Risk Mitigation

The amount and type of collateral required depends on an assessment of the credit risk of the obligor. The Bank implements certain requirements regarding the acceptability of types of collateral and valuation.

Collateral comes in the form of financial or non-financial assets. The main types of collateral obtained include cash or securities, charges over real estate or chattel properties, inventory and trade receivables and mortgages over residential properties. The Bank also obtains guarantees from parent companies for loans of borrowing entities belonging to a group of companies.

The Bank monitors the market value of collateral, and request for additional collateral in accordance with the underlying agreement.

The following table shows the fair value of collaterals held against the loans and receivables that are neither past due nor impaired:

	2020	2019
Properties	₱13,853,197,903	₱18,652,924,829
Deposits	1,547,922,484	1,500,254,148
	₱15,401,120,387	₱20,153,178,977

It is the Bank’s policy to sell foreclosed assets through public bidding (only after the assets are appraised anew to determine current market value, and duly bid based on the approved minimum bid price).

Liquidity Risk

Liquidity risk is generally defined as the current and prospective risk to earnings or capital arising from the Bank’s inability to meet its obligations when these become due, without incurring unacceptable losses or costs. Specifically, this pertains to events that may necessitate the Bank to enter into transactions that would realize significant losses or costs in order to meet its obligations when these fall due.

ALCO is responsible for formulating the Bank’s liquidity risk management policies, whereas the RMG is responsible for monitoring such risks. Liquidity management is among the most important activities conducted within the Bank. The Bank manages its liquidity risk through analyzing net funding requirements under alternative scenarios, diversification of funding sources and contingency planning. The Bank utilizes a diverse range of sources of funds, although short-term deposits made with the Bank’s network of domestic branches comprise the majority of such funding.

The Bank’s liquidity risk is managed by holding sufficient liquid assets of appropriate quality to ensure short-term funding requirements are met with minimum sacrifice to market price and by maintaining a balanced loan portfolio, which is re-priced on a regular basis. Deposits with banks are made on a short-term basis with almost all being available on demand within three months.

The Bank's Treasury Department uses liquidity forecast models that estimate the Bank's cash flow requirements based on the Bank's actual contractual obligations under normal circumstances and extraordinary circumstances. RMG prepares a monthly maximum cumulative outflow report, which is an analysis of maturity gaps of the Bank's assets and liabilities.

Aging of Financial Assets and Liabilities by Remaining Contractual Maturities

The tables below summarize the maturity profile of the Bank's financial assets and liabilities used for liquidity management based on contractual undiscounted payments and receipts as at December 31, 2020 and 2019:

	2020						Total
	On Demand	Within 30 Days	31 to 60 Days	61 to 180 Days	181 to 360 Days	Over 360 Days	
Financial Assets							
Financial assets at FVPL	P-	P-	P-	P-	P-	P-	P-
Financial assets at FVOCI	-	P291,634,496	-	P59,680,404	P54,114,790	P317,565,469	722,995,159
Financial assets at amortized cost:							
Cash and other cash items	642,606,701	-	-	-	-	-	642,606,701
Due from BSP	-	2,569,444,094	-	-	-	-	2,569,444,094
Due from other banks	-	2,993,935,298	-	-	-	-	2,993,935,298
Interbank loans receivable	-	932,575,517	-	-	-	-	932,575,517
Government securities	-	211,749	-	-	-	112,578,745	112,790,494
Loans and receivables:							
Receivables from customers	P-	P5,023,649,189	P2,305,090,027	P2,526,077,465	P9,103,452,234	P12,353,047,499	P31,311,316,414
Accrued interest income	-	45,158,591	29,922,738	85,373,027	159,306,245	416,273,825	736,034,426
Accounts receivable	-	24,918,150	1,075,273	2,047,145	3,361,719	14,531,779	45,934,066
Sales contracts receivable	-	-	-	-	-	19,305,730	19,305,730
Other assets*	-	-	-	-	-	29,520,665	29,520,665
	P642,606,701	P11,881,527,084	P2,336,088,038	P2,673,178,041	P9,320,234,988	P13,444,751,380	P40,298,386,233
Financial Liabilities							
Deposit liabilities:							
Demand	P10,518,952,595	P-	P-	P-	P-	P-	P10,518,952,595
Savings	-	5,903,976,951	2,259,329	-	-	-	5,906,236,280
Time	-	11,271,428,478	3,007,949,788	1,879,063,178	545,621,136	1,796,910,931	18,500,973,511
	10,518,952,595	17,175,405,429	3,010,209,117	1,879,063,178	545,621,136	1,796,910,931	34,926,162,386
Manager's checks	-	77,074,219	-	-	-	-	77,074,219
Accrued interest and other expenses**	49,444,848	83,366,634	14,435,804	9,011,264	2,616,589	8,617,293	167,492,432
Unsecured subordinated debt	-	14,250,000	-	17,812,500	32,062,500	1,300,000,000	1,364,125,000
Lease liabilities	-	6,693,922	6,735,880	25,880,438	38,652,135	142,644,322	220,606,697
Other liabilities***	-	732,088,376	-	-	-	-	732,088,376
	P10,568,397,443	P18,088,878,580	P3,031,380,801	P1,931,767,380	P618,952,360	P3,248,172,546	P37,487,549,117

*Comprised of refundable deposits and RCOCI.

**Excluding accrued gross receipts tax

***Comprised of accounts payable, payment orders, bills purchased-contra and marginal deposit and other liabilities.

	2019						Total
	On Demand	Within 30 Days	31 to 60 Days	61 to 180 Days	181 to 360 Days	Over 360 Days	
Financial Assets							
Financial assets at FVPL	P899,638,694	P-	P-	P-	P-	P-	P899,638,694
Financial assets at FVOCI	-	-	757,978,101	85,908,080	-	877,239,210	1,721,125,391
Financial assets at amortized cost:							
Cash and other cash items	675,319,948	-	-	-	-	-	675,319,948
Due from BSP	-	3,174,324,418	-	-	-	-	3,174,324,418
Due from other banks	-	3,413,981,051	-	-	-	-	3,413,981,051
Interbank loans receivable	-	532,740,895	-	-	-	-	532,740,895
Government securities	-	76,830	326,432	396,646	923,934	416,131	2,139,973
Loans and receivables:							
Receivables from customers	-	12,506,247,186	1,414,453,635	3,453,585,189	1,209,230,458	14,516,766,762	33,100,283,230
Accrued interest income	-	29,263,061	7,926,261	23,391,430	20,243,883	122,598,313	203,422,948
Accounts receivable	-	24,896,523	541,688	2,681,415	3,677,907	18,100,073	49,897,606
Sales contracts receivable	-	-	-	-	-	18,788,613	18,788,613
Other assets*	483,813	-	-	-	-	27,077,407	27,561,220
	P1,575,442,455	P19,681,529,964	P2,181,226,117	P3,565,962,760	P1,234,076,182	P15,580,986,509	P43,819,223,987

	2019						Total
	On Demand	Within 30 Days	31 to 60 Days	61 to 180 Days	181 to 360 Days	Over 360 Days	
Financial Liabilities							
Deposit liabilities:							
Demand	P9,968,986,302	P-	P-	P-	P-	P-	P9,968,986,302
Savings	-	1,146,983,284	2,240,080	3,158,332	4,152,915,178	-	5,305,296,874
Time	-	17,165,936,855	2,777,596,089	2,383,460,303	714,522,767	635,336,657	23,676,852,671
	9,968,986,302	18,312,920,139	2,779,836,169	2,386,618,635	4,867,437,945	635,336,657	38,951,135,847
Manager's checks	-	173,777,188	-	-	-	-	173,777,188
Accrued interest and other expenses**	83,906,845	8,874,571	1,451,707	1,184,933	139,139,315	-	234,557,371
Unsecured subordinated debt	-	14,250,000	-	14,250,000	28,500,000	1,000,000,000	1,057,000,000
Lease liabilities	-	7,825,146	7,831,961	28,179,190	42,037,614	154,538,634	240,412,545
Other liabilities***	-	864,453,272	-	-	-	-	864,453,272
	P10,052,893,147	P19,382,100,316	P2,789,119,837	P2,430,232,758	P5,077,114,874	P1,789,875,291	P41,521,336,223

*Comprised of refundable deposits and RCOCI.

**Excluding accrued gross receipts tax

***Comprised of accounts payable, payment orders, bills purchased-contra and marginal deposit and other liabilities.

Minimum Liquidity Ratio (MLR)

Under the BSP Circular No. 996 (Amendments to the Liquidity Coverage Ratio Framework and minimum Prudential Liquidity Requirements) issued on February 8, 2018, all thrift banks, rural/cooperative banks (RBs and Coop Banks), and QBs that are not subsidiaries of universal or commercial banks (UBs/KBs) are required to maintain a prudential Minimum Liquidity Ratio (MLR) of 20% daily to promote short-term resilience to liquidity shocks. MLR is expressed as a percentage of eligible stock of liquid assets to its total qualifying liabilities. The stock of liquid assets is required to be unencumbered and readily liquefiable, while the qualifying liabilities include both on-balance sheet and off-balance sheet commitments.

On April 7, 2020, the BSP reduced MLR down to 16% until December 31, 2020 to help banks cope with the impact of the COVID-19 pandemic. This provision has been extended for an additional one year effective until December 31, 2021 under the BSP Memorandum M-2020-085 dated December 1, 2020.

The Bank is in compliance with the requirement with MLR at 21.05% and 24.54% as at December 31, 2020 and 2019, respectively.

Market Risk

Market risk is the risk of loss of future earnings, fair values or future cash flows as a result of changes in interest rate, foreign exchange rate, commodity prices, equity prices and other market changes. The Bank's market risk originates from its holdings of debt securities.

ALCO, chaired by the Head of Treasury, is the management level committee responsible for review and management of market risk. In managing market risk, the Bank uses a framework of policies and procedures, measurement tools, controls and limits. The Bank's Treasury Group manages asset/liability risks arising from both normal banking operations and from trading operations in financial market. Daily monitoring of compliance with the policies, procedures and limits is performed by the Market Risk Department under RMG. The limits are annually reviewed by the ALCO and RMG and approved by RMC. RMG performs regular reporting to ALCO and to the RMC, which is a sub-committee of the BOD.

Interest Rate Risk

The Bank follows a prudent policy on managing its assets and liabilities so as to ensure that exposure to fluctuations in interest rate, is kept within acceptable limits.

The Bank measures the sensitivity of its assets and liabilities to interest rate fluctuations by way of Earnings-at-Risk (EaR). EaR is a measure of likely earnings volatility for accrual portfolios. It is calculated as the change in income over the next 12 months, given current exposures that will result from one-year standard deviation change in interest rate, updated monthly. EaR is calculated based on 99.00% confidence level. It is accomplished monthly, with quarterly stress test.

The following tables demonstrate the sensitivity to a reasonable possible change in interest rate of the Bank's net interest income and equity with all other variables held constant:

Amounts in Millions	2020				2019			
	Increase (Decrease) in Basis Points				Increase (Decrease) in Basis Points			
	50	50	50	50	50	100	(50)	(100)
Changes in net interest income:								
Loans and receivables	8.84	17.69	(8.84)	(17.69)	₱7.88	₱14.02	(₱7.01)	(₱14.02)
Deposit liabilities	(14.56)	(29.12)	12.81	25.63	(16.05)	(31.07)	15.54	31.07
As a percentage of the net interest income for the year	(0.3%)	(0.6%)	0.2%	0.4%	-0.4%	(1%)	0.5%	1%
Changes in equity* -								
Financial assets at FVOCI	(5.15)	(9.89)	4.60	9.39	(30.68)	(53.20)	28.97	59.60

*The impact on the Bank's equity already excludes the impact of transactions affecting the profit or loss.

Foreign Currency Risk

Foreign currency risk is the risk of an investment's value erosion due to an adverse movement in foreign exchange rate. It arises due to a mismatch in the Bank's foreign currency-denominated assets and liabilities.

Foreign currency-denominated deposits are generally used to fund the Bank's foreign currency-denominated loan and investment portfolio in the FCDU. Banks are required by the BSP to match the foreign currency-denominated liabilities with the foreign currency-denominated assets held under the FCDU books. In addition, the BSP requires 100% asset coverage for its FCDU liabilities, 30% of which should be in the form of liquid assets. As at December 31, 2020 and 2019, the Bank is in compliance with the said regulation.

The Bank's policy is to maintain foreign currency exposure within acceptable limits and within existing regulatory guidelines.

The following table summarizes the Bank's foreign currency-denominated financial assets and liabilities as at December 31, 2020 and 2019. Included in the table are assets and liabilities at carrying amounts in Philippine Peso equivalent, categorized by currency.

	2020			2019		
	USD	Others*	Total	USD	Others*	Total
Financial Assets						
Cash and other cash items	₱48,204,255	₱ 3,672	₱ 48,207,928	₱58,387,945	₱724	₱58,388,669
Due from other banks	2,855,612,370	38,938,598	2,894,550,968	2,832,123,168	43,696,984	2,875,820,152
Interbank loans receivable	-	75,715,263	75,715,263	-	72,747,246	72,747,246
Investment securities	717,005,912	-	717,005,912	1,010,528,265	-	1,010,528,265
Loans and receivables	521,049,550	-	521,049,550	506,350,000	-	506,350,000
	4,141,872,087	114,657,533	4,256,529,621	4,407,389,378	116,444,954	4,523,834,332
Financial Liabilities						
Deposit liabilities	4,177,390,207	6,678,702	4,184,068,908	4,393,815,369	9,736,605	4,403,551,974
Net Exposure	(₱35,518,120)	₱107,978,831	₱72,460,713	₱13,574,009	₱106,708,349	₱120,282,358

*Consist of Euro, United Kingdom Pound, Canadian Dollar, Australian Dollar, Hong Kong Dollar, New Zealand Dollar, Singapore Dollar, Japanese Yen, Swiss Franc and Chinese Yuan.

The following table sets forth the impact of reasonably possible changes in the USD exchange rate on the Bank's net income:

<i>Amounts in Millions</i>	Increase (Decrease) in Currency			
	5.0%	10.0%	(5.0%)	(10.0%)
USD				
2020	₱0.13	₱0.27	(₱0.13)	(₱0.27)
2019	₱0.45	₱0.89	(₱0.45)	(₱0.89)

The increase in USD exchange rate represents depreciation of Philippine Peso while the decrease in USD exchange rate represents an appreciation of Philippine Peso. The increase or decrease in exchange rate of other currencies is not significant.

There is no other impact in the Bank's equity other than those already affecting the net income.

Market Risk in the Trading Book

The Bank is exposed to the potential loss in its trading portfolio because the value of its trading positions is sensitive to changes in market prices and rate. The trading activities of the Bank include investments in fixed income securities and foreign exchange trading, which exposes the Bank to interest rate and foreign exchange risks. In the trading book, market risk is controlled by a daily analysis of the Value-at-Risk (VaR) of financial instruments under normal market conditions.

Objectives and Limitations of the VaR Methodology

The Bank uses the VaR approach in assessing possible changes in the market value of the trading portfolio based on historical data for a rolling one year period. The Bank employs the use of historical methodology in calculating the VaR. This model assumes that the exact distribution of past returns does not apply during sudden changes in market condition. The use of historical VaR model has limitations and requires a significant amount of risk factor history. It does not capture probabilities that have not yet occurred while it captures irregularities present in the historical database.

The VaR figures are backtested to validate the robustness of the VaR model. The Bank performs the hypothetical and actual backtesting procedures for both RBU and FCPU securities. Likewise, to complement VaR measurement, the Bank performs stress tests wherein the trading portfolios are valued under extreme market scenarios.

VaR Assumptions/Parameters

The VaR that the Bank measures is an estimate that uses actual historical rates and revalues positions for any changes in the market. It is appropriate for all types of instruments, linear and non-linear, with stable risk factors for which there is a rich historical database. Since VaR is an integral part of the Bank's market risk management, VaR limits have been established annually for all financial trading activities and exposures against the limits are monitored on a daily basis. Limits are based on the tolerable risk appetite of the Bank.

The Market Risk Officer of the Bank prepares a daily VaR report containing details on the VaR amount, VaR limit utilization, and VaR limit breaches, if any. This report is submitted to the traders concerned, the Treasury Head, Chief Risk Officer, Treasury Operations Head, and the President. Moreover, the VaR results are discussed and reported in the monthly Risk Management Committee meetings.

The following table provides the VaR summary of the Bank for the years ended December 31, 2020 and 2019:

<i>Amounts in Thousands</i>	2020		2019	
	Foreign Exchange	Fixed Income	Foreign Exchange	Fixed Income
December 28	₱271	₱-	₱839	₱9,101
Average Daily	373	4,685	1,087	9,719
Highest	1,946	15,393	2,872	18,470
Lowest	11	277	793	25

Fixed income VaR includes value-at-risk for investment securities denominated in currencies other than Philippine Peso. VaR, being a measure of risk in the trading book, only includes held for trading portfolio.

The Bank’s trading in fixed income securities is exposed to movements in interest rate. The high and low of the total portfolio may not equal to the sum of the individual components as the high and low of the individual portfolios may have occurred on different trading days. The VaR of foreign exchange is the foreign exchange risk throughout the Bank. The Bank, when aggregating the foreign exchange VaR and interest VaR, does not consider the correlation effects between the two risks.

Capital Management

The primary objectives of the Bank’s capital management are to ensure that it complies with externally-imposed capital requirements and maintains strong credit ratings and healthy capital ratios in order to support its business and to maximize shareholders’ value.

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

Regulatory Qualifying Capital

Under the existing BSP regulations, the determination of compliance with regulatory requirements and ratios is based on the amount of the “qualifying capital” (regulatory net worth) as reported to the BSP, which is determined on the basis of regulatory accounting policies that differ from PFRS in some respects.

The risk-based capital ratio of a bank, expressed as a percentage of qualifying capital to risk-weighted assets, should not be less than 10.00%. Qualifying capital and risk-weighted assets (RWA) are computed based on the BSP regulations. RWA consist of total assets less cash on hand, due from BSP, loans covered by hold-out on or assignment of deposits, loans or acceptances under letter of credit to the extent covered by margin deposits and other non-risk items determined by the Monetary Board (MB) of the BSP.

The details of CAR as at December 31, as reported to the BSP are as follows:

<i>Amounts in Thousands</i>	2020	2019
Common Equity Tier 1 (CET1) capital	₱3,029,919	₱2,709,554
Additional Tier 1 (AT1) capital	–	–
Tier 1 capital	3,029,919	2,709,554
Required deductions	61,227	16,691
	2,968,692	2,692,863
Excess from Tier 2 deducted from Tier 1 Capital*	–	–
Net Tier 1 Capital	2,968,692	2,692,863
Tier 2 capital	1,873,992	1,591,633
Required deductions	–	–
	1,873,992	1,591,633
Excess of Tier 2 deducted from Tier 1 Capital*	–	–
Net Tier 2 Capital	1,873,992	1,591,633
Total Qualifying Capital	₱4,842,683	₱4,284,496

**Deductions to Tier 2 Capital are capped at its total gross amount and any excess shall be deducted from Tier 1 Capital.*

	2020	2019
Credit RWA	₱32,292,548	₱34,557,063
Market RWA	71,199	693,154
Operational RWA	2,923,013	2,601,786
Total RWA	₱35,286,760	₱37,852,003
CET1/Tier 1 capital ratio	8.41%	7.11%
Total capital ratio	13.72%	11.32%

The Bank's regulatory qualifying capital consists of Tier 1 (core) capital, which comprises paid-up common stock, surplus including current year profit, and cumulative foreign currency translation less required deductions such as unsecured credit accommodations to DOSRI and deferred income tax. Certain adjustments are made to results and reserves based on PFRS, as prescribed by the BSP. The other component of regulatory capital is Tier 2 (supplementary) capital, which includes paid-up preferred stock, unsecured subordinated debt and general loan loss provision (GLLP).

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

The Bank has complied with all externally imposed capital requirements in 2020 and 2019.

Under the existing BSP regulations, the Bank set up GLLP equivalent to 1% of all current loans (after excluding accounts considered as credit risk-free under existing regulations). In cases when the computed allowance for ECL on current loans is less than the 1% GLLP required by the BSP, the difference should be appropriated from the retained earnings using the account "Retained earnings - general provision" for prudential reporting.

Appropriation of retained earnings for the excess of 1% GLLP over ECL amounted to ₱69.0 million and ₱123.6 million as at December 31, 2020 and 2019, respectively.

5. Fair Value Measurement

The following table presents the carrying amounts and fair values of the Bank's assets measured at fair value and for which fair values are disclosed, and the corresponding hierarchy.

	2020			
	Carrying Amount	Fair Value		
		Quoted Prices in Active Market (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets Measured at Fair Value				
Financial assets at FVOCI:				
Government securities	₱394,129,024	₱394,129,024	₱-	₱-
Private bonds	312,792,672	312,792,672	-	-
	706,922,696	706,922,696	-	-
Assets for which Fair Values are Disclosed				
Loans and receivables:				
Receivable from customers:				
Consumer loans	12,286,000,020	-	-	14,187,627,478
Corporate loans	18,344,463,244	-	-	18,919,463,902
Sales contracts receivable	18,274,094	-	-	17,223,292
	30,648,737,358	-	-	33,124,314,672
Assets held for sale	525,014,291	-	583,270,147	-
Refundable deposits	28,448,289	-	28,448,289	-
Total Assets	₱31,909,121,634	₱706,922,696	₱611,718,436	₱-
Liabilities for which Fair Values are Disclosed				
Time deposits	₱18,500,973,511	₱-	₱18,500,973,511	₱-
Unsecured subordinated debt	1,300,000,000	-	1,300,000,000	-
Lease liabilities	220,606,697	-	-	220,606,697
Total Liabilities	₱20,021,580,208	₱-	₱19,800,973,511	₱220,606,697
2019				
	Carrying Amount	Fair Value		
		Quoted Prices in Active Market (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets Measured at Fair Value				
Financial assets at FVPL -				
Government securities	₱873,050,255	₱873,050,255	₱-	₱-
Private bonds	26,588,439	26,588,439	-	-
	899,638,694	899,638,694	-	-
Financial assets at FVOCI:				
Government securities	1,505,475,976	1,505,475,976	-	-
Private bonds	199,575,952	-	199,575,952	-
	1,705,051,928	1,505,475,976	199,575,952	-
Assets for which Fair Values are Disclosed				
Loans and receivables:				
Receivable from customers:				
Consumer loans	15,236,081,173	-	-	17,267,934,150
Corporate loans	17,159,695,070	-	-	17,328,988,550
Sales contracts receivable	17,756,977	-	-	36,130,571
	32,413,533,220	-	-	34,633,053,271
Assets held for sale	488,968,117	-	522,977,193	-
Refundable deposits	27,077,407	-	27,077,407	-
Total Assets	₱35,534,269,366	₱2,405,114,670	₱749,630,552	₱34,633,053,271
Liabilities for which Fair Values are Disclosed				
Time deposits	₱23,676,852,671	₱-	₱23,676,852,671	₱-
Unsecured subordinated debt	1,000,000,000	-	1,000,000,000	-
Lease liabilities	277,062,586	-	-	277,062,586
Total Liabilities	₱24,953,915,257	₱-	₱24,676,852,671	₱277,062,586

There were no transfers between levels/hierarchies of fair value measurements in 2020 and 2019.

The methods and assumptions used by the Bank in estimating the fair value of the assets and liabilities of the Bank that are carried at fair value and those whose fair values are disclosed are as follows.

Investments in Debt Securities. Fair values are generally based upon quoted market prices, if available. If the market prices are not readily available, fair values are estimated by either using values obtained from adjusted quoted market prices of comparable investments.

Loans and Receivables. Fair values are estimated using the discounted cash flow methodology, using the Bank's current incremental lending rate for similar types of loans.

Significant Unobservable Inputs	Range (weighted average)	
	2020	2019
Transfer pool rate	2.60% - 5.10%	5.20% - 8.79%
Credit spread	3.71% - 5.11%	0.53% - 4.85%

Certain loans are subject to quarterly repricing. Hence, the carrying amounts of these loans approximate fair values.

Sensitivity Analysis. Generally, significant increases (decreases) in rate would result in a significantly (lower) higher fair value measurement. Significant increases (decreases) in effective interest rate would result in a significantly lower (higher) fair value measurement.

Assets Held for Sale. Fair value is based on valuation using the market data approach, as determined by an independent and/or in-house appraiser.

Refundable Deposits. Fair value is based on discounted cash flows using the prevailing credit-adjusted interest rate.

Time Deposits and Unquoted Debt Obligations. Fair values of these instruments are estimated using the discounted cash flow methodology using the Bank's current incremental borrowing rates for similar borrowings with maturities consistent with the remaining liabilities being valued.

Lease Liabilities. Fair values are estimated using the discounted cash flow methodology, using the Bank's incremental borrowing rates upon commencement of leases.

Sensitivity Analysis. Generally, significant increases (decreases) in rate would result in a significantly (lower) higher fair value measurement. Significant increases (decreases) in effective interest rate would result in a significantly lower (higher) fair value measurement.

Other Financial Liabilities. For financial liabilities other than time deposits, the carrying amounts approximate fair values considering that these are due and demandable or payable within 30 days.

The table below presents the financial assets and liabilities of the Bank, whose carrying amounts approximate fair values due to the short-term nature of the transactions:

	2020		2019	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial Assets				
Cash and other cash items	₱642,606,701	₱642,606,701	₱675,319,948	₱675,319,948
Due from BSP	2,569,444,094	2,569,444,094	3,174,324,418	3,174,324,418
Due from other banks	2,993,935,298	2,993,935,298	3,413,981,051	3,413,981,051
Interbank loans receivable	932,575,517	932,575,517	532,740,895	532,740,895
Loans and receivables:				
Bills purchased	1,500,000	1,500,000	13,025,052	13,025,052
Accrued interest income	736,034,426	736,034,426	203,422,948	203,422,948
Accounts receivable	45,934,066	45,934,066	49,897,606	49,897,606
	₱7,922,030,102	₱7,922,030,102	₱8,062,711,918	₱8,062,711,918
Financial Liabilities				
Deposit liabilities				
Demand	₱10,518,952,595	₱10,518,952,595	₱9,968,986,302	₱9,968,986,302
Savings	5,906,236,280	5,906,236,280	5,305,296,874	5,305,296,874
	16,425,188,875	16,425,188,875	15,274,283,176	15,274,283,176
Accrued interest expense	35,938,106	35,938,106	143,143,659	143,143,659
Other liabilities*	648,249,010	648,249,010	803,750,508	803,750,508
	₱17,109,375,991	₱17,109,375,991	₱16,221,177,343	₱16,221,177,343

*Comprised of accounts payable, payment orders, bills payable, bills purchased-contra and marginal deposits.

6. Interbank Loans Receivable

This account pertains to short-term loans to local and foreign banks maturing up to three months. Interbank loans receivable amounted to ₱932.6 million and ₱532.7 million as at December 31, 2020 and 2019, respectively.

Interbank loans receivables bear interest rates as follows:

	2020	2019
Local banks	2.00%	3.50% to 4.25%
Foreign banks	0.00%	1.52% to 2.50%

Interest income on interbank loans receivable amounted to ₱32.3 million and ₱78.7 million in 2020 and 2019, respectively.

7. Investment Securities

This account consists of:

	2020			Total
	Financial assets at			
	FVPL	FVOCI	Amortized cost	
Balances at beginning of year	₱899,638,694	₱1,721,125,391	₱2,139,973	₱2,622,904,058
Additions	30,806,874,941	2,615,054,911	96,046,000	33,517,975,852
Disposals	(31,706,640,259)	(641,200,000)	—	(32,347,840,259)
Matured investments	—	(2,837,597,000)	(1,877,910)	(2,839,474,910)
Net unrealized fair value gain	126,624	71,878,020	—	72,004,644
Amortization of premium and discount	—	(206,266,163)	16,482,431	(189,783,732)
	₱—	₱722,995,159	₱112,790,494	₱835,785,653

	2019			
	Financial assets at			Total
	FVPL	FVOCI	Amortized cost	
Balances at beginning of year	₱311,950,522	₱1,584,880,206	₱-	₱1,896,830,728
Additions	48,091,628,505	4,137,800,000	2,082,805	52,231,511,310
Disposals	(47,515,301,527)	(210,340,000)	-	(47,725,641,527)
Matured investments	(1,292,000)	(3,935,260,000)	-	(3,936,552,000)
Net unrealized fair value gain	12,653,194	120,112,121	-	132,765,315
Amortization of premium and discount	-	23,933,064	57,168	23,990,232
	₱899,638,694	₱1,721,125,391	₱2,139,973	₱2,622,904,058

Financial Assets at FVPL

Financial assets at FVPL as at December 31, 2019 comprised of the following:

Government securities	₱873,050,255
Private bonds	26,588,439
	₱899,638,694

In 2019, financial assets at FVPL bear effective interest rates as follows:

Philippine Peso-denominated	4.38% to 5.09%
Foreign currency-denominated	2.43% to 3.70%

In 2020 and 2019, total consideration for the sale of financial assets at FVPL amounted to ₱31,574.9 million and ₱47,569.2 million resulting to gain on disposal amounting to ₱8.3 million and ₱53.9 million, respectively.

Financial Assets at FVOCI

Financial assets at FVOCI assets are comprised of the following:

	2020	2019
Government securities	₱394,129,024	₱1,505,475,976
Private bonds	312,792,672	199,575,952
Unquoted equity security	16,073,463	16,073,463
	₱722,995,159	₱1,721,125,391

Financial assets at FVOCI bear effective interest rates as follows:

	2020	2019
Philippine Peso-denominated	1.31% to 3.80%	3.18% to 5.01%
Foreign currency-denominated	0.90% to 1.70%	1.53% to 1.85%

In 2020 and 2019, total consideration for the sale of financial assets at FVOCI amounted to ₱654.3 million and ₱212.5 million resulting to gain on disposal amounting to ₱13.1 million and ₱2.2 million, respectively.

Movements in cumulative unrealized gains (losses) on fair value changes are as follows:

	2020	2019
Balance at beginning of year	(₱62,319,681)	(₱184,339,694)
Net unrealized gains	71,878,020	120,112,121
Provision for impairment losses	-	1,907,892
Balance at end of year	₱9,558,339	(₱62,319,681)

The unquoted equity security pertains to the Bank's investment in shares of stock of Bancnet, Inc. (Bancnet), which the Bank intends to hold for long-term. Dividend income amounted to ₱8.2 million and ₱1.3 million in 2020 and 2019, respectively.

Financial Assets at Amortized Cost

Financial assets at amortized cost consist of ₱112.8 million and ₱2.1 million government securities, bearing effective interest rate of 0.40% to 0.99% and 3.25% as at December 31, 2020 and 2019, respectively.

Interest income on investment securities are as follows:

	2020	2019
Financial assets at:		
FVOCI	₱37,799,378	₱65,050,056
FVPL	13,845,164	42,421,577
Amortized cost	2,267,269	19,749
	₱53,911,811	₱107,491,382

Net trading and securities gains from investment securities are as follows:

	2020	2019
Financial assets at FVOCI -		
Realized trading gains	₱13,065,192	₱2,166,517
Financial assets at FVPL:		
Realized trading gains	8,303,041	53,878,432
Unrealized fair value gains	126,624	12,653,194
	8,429,665	66,531,626
	₱21,494,857	₱68,698,143

8. Loans and Receivables

This account consists of:

	2020	2019
Receivables from customers	₱31,311,316,414	₱33,100,283,230
Accrued interest	736,034,426	203,422,948
Accounts receivable	45,934,066	49,897,606
Sales contracts receivable	19,305,730	18,788,613
	32,112,590,636	33,372,392,397
Allowance for credit and impairment losses	(839,745,273)	(682,533,971)
	₱31,272,845,363	₱32,689,858,426

Receivables from customers consist of:

	Note	2020	2019
Loans and discounts:			
Corporate loans		₱18,640,668,091	₱17,405,161,560
Consumer loans		12,831,232,749	15,680,132,104
Bills purchased	16	11,479,600	23,004,653
		31,483,380,440	33,108,298,317
Unearned income		(169,340,087)	–
Unearned discounts and capitalized interest		(2,723,939)	(8,015,085)
		₱31,311,316,414	₱33,100,283,232

Accounts receivable include receivables from officers relating to the car lease amounting to ₱34.3 million and ₱36.7 million as at December 31, 2020 and 2019, respectively, and withdrawals made by depositors of other banks to the Bank’s ATM machines (see Note 23).

Sales contracts receivable pertain to receivables from buyers of real properties classified as assets held for sale, bearing 10% nominal interest, with terms of 10 or 15 years.

In 2020, as a result of the modification of the terms of receivables from customers pursuant to the grace periods allowed by the the Republic Act (R.A.) No. 11469, also known as the “Bayanihan to Heal as One Act” and R.A. No. 11494 or the “Bayanihan to Recover as One Act”, the Bank incurred modification loss amounting to ₱418.8 million and loss on extinguishment amounting to ₱14.6 million.

Accordingly, the Bank recognized accretion of interest income from the modification loss amounting to ₱249.5 million in 2020. The difference between the accretion of interest income and modification loss is recorded as unearned income amounting to ₱169.3 million as at December 31, 2020.

The details of interest income on loans and receivables are as follows:

	2020	2019
Consumer loans	₱1,329,815,234	₱1,475,773,299
Corporate loans	1,447,089,223	1,424,492,574
Bills discounted	34,636,215	38,114,511
Sales contracts receivable	930,922	11,088,774
	₱2,812,471,594	₱2,949,469,158

Of the total loans and receivables as at December 31, 2020 and 2019, 67.65% and 61.82%, respectively, are subject to periodic interest repricing. The remaining peso-denominated loans have annual fixed interest ranging from 3.64% to 24.00% in 2020 and 3.00% to 24.00% in 2019.

The movements in the allowance for credit and impairment losses on loans and receivables are as follows:

	2020			Total
	Consumer Loans	Corporate Loans	Sales Contract Receivable	
Balances at beginning of year	₱444,050,931	₱237,451,404	₱1,031,636	₱682,533,971
Provision	131,292,059	69,232,188	–	200,524,247
Write-offs	(30,110,261)	(13,202,684)	–	(43,312,945)
Balances at end of year	₱545,232,729	₱293,480,908	₱1,031,636	₱839,745,273

	2019			Total
	Consumer Loans	Corporate Loans	Sales Contract Receivable	
Balances at beginning of year	₱393,419,470	₱244,962,217	₱1,031,636	₱639,413,323
Provision (reversal)	50,631,461	(7,510,813)	-	43,120,648
Balances at end of year	₱444,050,931	₱237,451,404	₱1,031,636	₱682,533,971

Below is the analysis of movements of consumer loans.

	2020			
	Stage 1	Stage 2	Stage 3	Total
Gross Amount				
Balances at beginning of year	₱14,147,291,746	₱675,698,874	₱857,141,484	₱15,680,132,104
Loan releases	1,215,508,674	151,944,251	120,938,982	1,488,391,907
Payments or reclassifications upon foreclosure	(4,025,592,391)	(197,000,293)	(84,586,617)	(4,307,179,301)
Transfers to stage 1	244,187,992	(230,241,274)	(13,946,718)	-
Transfers to stage 2	(921,962,357)	926,433,158	(4,470,801)	-
Transfers to stage 3	(853,222,465)	(172,228,650)	1,025,451,115	-
Write-offs	-	-	(30,110,261)	(30,110,261)
Balances at end of year	9,806,211,199	1,154,606,066	1,870,415,484	12,831,232,749
Allowance for Credit and Impairment Losses				
Balances at beginning of year	69,048,095	6,987,404	368,015,432	444,050,931
Provisions (reversals)	86,983,820	21,209,138	23,101,392	131,294,350
Transfers to stage 1	89,573	(86,993)	(2,580)	-
Transfers to stage 2	(13,441,481)	13,451,516	(10,035)	-
Transfers to stage 3	(126,374,341)	(24,374,577)	150,748,918	-
Write-offs	-	-	(30,110,261)	(30,110,261)
Balances at end of year	16,305,666	17,186,488	511,742,866	545,235,020
Carrying Amount	₱9,789,905,533	₱1,137,419,578	₱1,358,672,618	₱12,285,997,729

	2019			
	Stage 1	Stage 2	Stage 3	Total
Gross Amount				
Balances at beginning of year	₱15,143,562,486	₱770,438,702	₱495,829,836	₱16,409,831,024
Loan releases	4,233,464,903	70,949,372	29,614,303	4,334,028,578
Payments or reclassifications upon foreclosure	(4,694,766,053)	(304,291,460)	(64,669,985)	(5,063,727,498)
Transfers to stage 1	83,864,700	(83,018,341)	(846,359)	-
Transfers to stage 2	(430,215,618)	433,252,589	(3,036,971)	-
Transfers to stage 3	(188,618,672)	(211,631,988)	400,250,660	-
Balances at end of year	14,147,291,746	675,698,874	857,141,484	15,680,132,104
Allowance for Credit and Impairment Losses				
Balances at beginning of year	155,849,742	48,726,271	188,843,457	393,419,470
Provisions (reversals)	(48,796,186)	42,527,022	56,900,625	50,631,461
Transfers to stage 1	107,605	(103,004)	(4,601)	-
Transfers to stage 2	(1,699,228)	1,704,036	(4,808)	-
Transfers to stage 3	(36,413,838)	(85,866,921)	122,280,759	-
Balances at end of year	69,048,095	6,987,404	368,015,432	444,050,931
Carrying Amount	₱14,078,243,651	₱668,711,470	₱489,126,052	₱15,236,081,173

Below is the analysis of corporate loans and bills purchased.

	2020			
	Stage 1	Stage 2	Stage 3	Total
Gross Amount				
Balances at beginning of year	₱16,798,447,945	₱-	₱606,713,615	₱17,405,161,560
Loan releases	2,823,042,396	520,000,000	137,480,642	3,480,523,038
Payments or reclassifications upon foreclosure	(2,055,567,184)	-	(163,659,057)	(2,219,226,241)
Transfers to stage 2	(538,436,061)	538,436,061	-	-
Transfers to stage 3	(64,623,036)	-	64,623,036	-
Write-offs	-	-	(13,202,684)	(13,202,684)
Modification Loss	(4,450,833)	(8,136,749)	-	(12,587,582)
Balances at end of year	16,958,413,227	1,050,299,312	631,955,552	18,640,668,091
Allowance for Credit and Impairment Losses				
Balances at beginning of year	70,875,804	-	166,575,600	237,451,404
Provisions (reversals)	44,696,510	13,361,344	11,174,334	69,232,188
Transfers to stage 2	(58,934,724)	58,934,724	-	-
Transfers to stage 3	(2,029,853)	-	2,029,853	-
Write-offs	-	-	(13,202,684)	(13,202,684)
Balances at end of year	54,607,737	72,296,068	166,577,103	293,480,908
Carrying Amount	₱16,903,805,490	₱978,003,244	₱465,378,449	₱18,347,187,183

	2019			
	Stage 1	Stage 2	Stage 3	Total
Gross Amount				
Balances at beginning of year	₱15,122,230,150	₱-	₱476,468,320	₱15,598,698,470
Loan releases	3,818,823,488	-	29,402,355	3,848,225,843
Payments or reclassifications upon foreclosure	(2,036,163,057)	-	(5,599,696)	(2,041,762,753)
Transfers to stage 3	(106,442,636)	-	106,442,636	-
Balances at end of year	16,798,447,945	-	606,713,615	17,405,161,560
Allowance for Credit and Impairment Losses				
Balances at beginning of year	67,517,601	-	177,444,616	244,962,217
Provisions (reversals)	22,270,933	-	(29,781,746)	(7,510,813)
Transfers to stage 3	(18,912,730)	-	18,912,730	-
Balances at end of year	70,875,804	-	166,575,600	237,451,404
Carrying Amount	₱16,727,572,141	₱-	₱440,138,015	₱17,167,710,156

Below is the analysis of sales contract receivable.

	2020		
	Stage 1	Stage 2	Total
Gross Amount			
Balances at beginning of year	₱6,654,237	₱12,134,376	₱18,788,613
Additions	1,568,362	-	1,568,362
Payments	(366,052)	(685,193)	(1,051,245)
Transfers to stage 2	948,467	(948,467)	-
Balances at end of year	8,805,014	10,500,716	19,305,730
Allowance for Credit and Impairment Losses			
Balances at beginning and end of year	-	1,031,636	1,031,636
Carrying Amount	₱8,805,014	₱9,469,080	₱18,274,094

	2019		
	Stage 1	Stage 2	Total
Gross Amount			
Balances at beginning of year	₱6,699,788	₱11,982,411	₱18,682,199
Additions	4,940,687	-	4,940,687
Payments	(1,266,290)	(3,567,983)	(4,834,273)
Transfers to stage 2	(3,719,948)	3,719,948	-
Balances at end of year	6,654,237	12,134,376	18,788,613
Allowance for Credit and Impairment Losses			
Balances at beginning and end of year	-	1,031,636	1,031,636
Carrying Amount	₱6,654,237	₱11,102,740	₱17,756,977

9. Assets Held for Sale

This account consists of properties foreclosed in settlement of loans and receivables aggregating ₱525.0 million and ₱489.0 million, net of allowance for impairment losses, as at December 31, 2020 and 2019, respectively.

In 2020 and 2019, loans with an aggregate carrying amount of ₱331.0 million and ₱414.1 million, respectively, were derecognized in exchange for foreclosed properties.

Details of net losses from assets sold or acquired are as follows:

	Note	2020	2019
Assets held for sale:			
Loss on sale		(₱70,856,384)	(₱32,332,195)
Loss on foreclosure		(11,267,478)	(66,231,606)
Gain on sale of property and equipment	10	24,792	756,093
		(₱82,099,070)	(₱97,807,708)

As at December 31, 2020 and 2019, cumulative unrealized losses on foreclosure amounted to ₱24.6 million and ₱44.9 million, respectively.

Proceeds from sale amounted to ₱202.2 million and ₱260.3 million in 2020 and 2019, respectively.

Movements of allowance for impairment losses of assets held for sale is as follows:

	2020	2019
Balance at beginning of year	₱26,362,902	₱13,681,893
Provisions	10,635,409	12,681,009
Reversal	(7,269,518)	–
	₱29,728,793	₱26,362,902

10. Property and Equipment

Movements in this account are as follows:

	2020					Total
	Land	Building and Condominium Units	ROU Assets (see Note 18)	Furniture, Fixtures and Equipment	Leasehold Rights and Improvements	
Cost						
Balances at beginning of year	₱164,344,500	₱249,385,860	₱331,956,524	₱401,884,911	₱278,906,028	₱1,426,477,823
Additions	–	–	19,588,108	35,107,952	–	54,696,060
Disposals	–	–	–	(17,185,156)	–	(17,185,156)
Balances at end of year	164,344,500	249,385,860	351,544,632	419,807,707	278,906,028	1,463,988,727
Accumulated Depreciation and Amortization						
Balances at beginning of year	–	113,325,054	73,103,837	310,220,549	258,640,769	755,290,209
Depreciation and amortization	–	6,773,441	82,375,225	36,325,482	9,284,837	134,758,985
Disposals	–	–	–	(15,012,819)	–	(15,012,819)
Balances at end of year	–	120,098,495	155,479,062	331,533,212	267,925,606	875,036,375
Carrying Amount	₱164,344,500	₱129,287,365	₱196,065,570	₱88,274,495	₱10,980,422	₱588,952,352

	2019					
	Land	Building and Condominium Units	ROU Assets (see Note 18)	Furniture, Fixtures and Equipment	Leasehold Rights and Improvements	Total
Cost						
Balances at beginning of year	₱164,344,500	₱249,201,548	₱233,677,278	₱375,309,286	₱297,356,630	₱1,319,889,242
Additions	–	814,000	98,279,246	37,235,174	837,010	137,165,430
Disposals	–	(629,688)	–	(10,659,549)	(19,287,612)	(30,576,849)
Balances at end of year	164,344,500	249,385,860	331,956,524	401,884,911	278,906,028	1,426,477,823
Accumulated Depreciation and Amortization						
Balances at beginning of year	–	106,791,579	–	282,076,949	262,907,920	651,776,448
Depreciation and amortization	–	6,747,605	73,103,837	37,428,959	15,015,794	132,296,195
Disposals	–	(214,130)	–	(9,285,359)	(19,282,945)	(28,782,434)
Balances at end of year	–	113,325,054	73,103,837	310,220,549	258,640,769	755,290,209
Carrying Amount	₱164,344,500	₱136,060,806	₱258,852,687	₱91,664,362	₱20,265,259	₱671,187,614

Gain on sale of property and equipment included under “Net losses from assets sold or acquired” in the statements of income amounted to ₱24,792 and ₱756,093 in 2020 and 2019, respectively (see Note 9). Proceeds from sale amounted to ₱2.2 million and ₱2.6 million as at December 31, 2020 and 2019, respectively.

As at December 31, 2020 and 2019, the cost of fully depreciated assets, which are still being used in the operations, amounted to ₱466.7 million and ₱439.9 million, respectively.

Details of depreciation and amortization are as follows:

	Note	2020	2019
Property and equipment		₱134,758,985	₱132,296,195
Computer software	11	24,516,448	18,495,726
		₱159,275,433	₱150,791,921

11. Intangible Assets

This account consists of:

	2020	2019
Branch licenses	₱225,390,000	₱225,390,000
Computer software	100,315,037	101,556,303
	₱325,705,037	₱326,946,303

Branch licenses, recognized from business combination, include branch licenses from CSB amounting to ₱128.0 million, and licensing fees incurred in opening additional branches.

Of the total 47 branches of the Bank, 18 branches are in restricted areas.

The impairment test on branch licenses is based on value-in-use calculations determined using a discounted cash flow model. The recoverable amount of the CGU has been determined based on cash flow projections from financial budgets approved by senior management covering a five-year period. The discount rates applied to cash flow projections are 2.50% and 4.06% in 2020 and 2019, respectively, and cash flows beyond the five year-period are extrapolated using a steady growth rate of 20% in 2020 and 2019, which does not exceed the long-term average growth rate for the industry.

The calculation of the value-in-use of the CGU is most sensitive to the following assumptions:

- Discount rate;
- Steady growth rate used to extrapolate cash flows beyond the projection period; and
- Local inflation rate.

The key assumptions are consistent with information from external sources. With regard to the assessment of value-in-use of the CGU, management believes that no reasonably possible change in any of the foregoing key assumptions would cause the carrying amount of the branch licenses to materially exceed its recoverable amount.

Movements of computer software are as follows:

	Note	2020	2019
Cost			
Balance at beginning of year		₱367,060,994	₱336,704,508
Additions		23,275,182	30,356,486
Balance at end of year		390,336,176	367,060,994
Accumulated Amortization			
Balance at beginning of year		265,504,691	247,008,965
Amortization	10	24,516,448	18,495,726
Balance at end of year		290,021,139	265,504,691
Carrying Amount		₱100,315,037	₱101,556,303

12. Other Assets

This account consists of:

	Note	2020	2019
Prepaid expenses		₱54,393,242	₱55,489,207
Refundable deposits	18	28,448,289	27,077,407
Deferred lease	18	6,248,046	2,140,611
Other investments		3,663,333	3,663,333
Documentary stamp taxes		2,607,525	12,586,288
RCOCI		1,072,376	483,813
Others		1,348,604	16,514,526
		₱97,781,415	₱117,955,185

Prepaid expenses include prepaid rentals, group life insurance and employee benefits related to the car plan for the officers of the Bank (see Note 23).

Other investments represent membership fees in Bancnet and Credit Management Association of the Philippines.

Others mainly consist of deposit with a health care agency for the Bank's employee health plan.

13. Deposit Liabilities

This account is consists of:

	2020	2019
Time	₱18,500,973,511	₱23,676,852,671
Demand	10,518,952,595	9,968,986,302
Savings	5,906,236,280	5,305,296,874
	₱34,926,162,386	₱38,951,135,847

In accordance with the BSP requirements, the reserve requirement for peso deposit liabilities and deposit substitutes as at December 31, 2020 and 2019 are 3% and 4%, respectively.

As mandated by the BSP, only demand deposit accounts maintained by banks with the BSP are eligible for compliance with reserve requirements, thereby excluding government securities and cash in vault as eligible reserves. Further, deposits maintained with the BSP in compliance with the reserve requirements do not earn interest.

As at December 31, 2020 and 2019, the Bank is compliant with the foregoing BSP regulations. The available reserves, which form part of “Due from Bangko Sentral ng Pilipinas”, amounted to ₱1,870.0 million and ₱1,760.0 million as at December 31, 2020 and 2019, respectively.

As at December 31, 2020 and 2019, 52.97% and 60.79% of the total deposit liabilities, respectively, are subject to periodic interest repricing. The remaining deposit liabilities bear annual fixed interest rates as follows:

	2020	2019
Philippine Peso-denominated	0.25% to 6.50%	0.25% to 6.50%
Foreign currency-denominated	0.25% to 0.25%	0.25% to 2.25%

Interest expense is as follows:

	Note	2020	2019
Deposit liabilities:			
Time		₱534,974,570	₱1,202,777,925
Demand		22,322,636	19,935,865
Savings		22,242,683	16,919,036
		579,539,889	1,239,632,826
Unsecured subordinated debt	15	57,831,250	57,000,000
Lease liabilities	18	17,543,969	19,630,669
Others		17,233	5,721,669
		₱654,932,341	₱1,321,985,164

14. Accrued Interest, Taxes and Other Expenses

This account consists of:

	2020	2019
Accrued expenses:		
Interest	₱46,609,962	₱150,650,616
Compensation and other benefits	40,777,986	32,257,542
Agri-agra penalties	35,102,681	16,029,400
Security, messengerial and janitorial	18,387,983	9,334,060
Utilities and leased line	5,799,536	4,057,987
Rent	4,027,038	-
Automated teller machine related expenses	990,999	2,356,227
Others	15,796,247	35,900,939
	167,492,432	234,557,371
Accrued gross receipts tax (GRT)	10,260,070	12,416,551
	₱177,752,502	₱246,973,922

Accrual for other expenses pertains to expenses for insurance, publications, repairs and maintenance.

15. Unsecured Subordinated Debt

On January 23, 2020, the MB of the BSP, in its Resolution No. 124, approved the Bank’s issuance of unsecured subordinated debt with principal amount aggregating ₱300.0 million, which was issued on December 10, 2020 and bears 4.75% interest per annum, payable quarterly. This unsecured subordinated debt will mature after 10 years and three months from issuance date but may be called by the Bank on any interest payment date after five years and three months from issuance at principal amount plus accrued interest.

On June 1, 2017, the MB of the BSP, in its Resolution No. 900, approved the Bank’s issuance of unsecured subordinated debt with principal amount aggregating ₱1.0 billion, which was issued on July 18, 2017 and bears 5.70% interest per annum, payable quarterly. This unsecured subordinated debt will mature after 10 years and three months from issuance date but may be called by the Bank on any interest payment date after the 5th year of issuance at principal amount plus accrued interest.

Interest expense on unsecured subordinated debt amounted to ₱57.8 million and ₱57.0 million in 2020 and 2019, respectively (see Note 13).

16. Other Liabilities

This account consists of:

	Note	2020	2019
Accounts payable		₱636,553,662	₱766,699,288
Due to PDIC		35,275,474	37,561,915
Withholding taxes		12,326,440	21,973,523
Marginal deposits		5,109,948	5,117,530
Payment orders		5,085,400	18,908,638
Statutory obligations		3,282,544	3,358,638
Bills purchased – contra	8	1,500,000	13,025,052
Others		32,954,908	60,702,764
		₱732,088,376	₱927,347,348

Accounts payable pertain to payables for cash cards, chattel mortgage, insurance and loan service fees, Bancnet and VISA, stale checks, incoming dollar remittances to the Bank for payment to various payees as part of its intermediary services, and remaining balances on purchases of property and equipment. Accounts payable are noninterest-bearing and normally settled within one year.

Due to PDIC pertains to the Bank's insurance premium on deposit liabilities payable one month after reporting year.

Marginal deposits are non interest-bearing deposits made by borrowers upon opening letters of credit.

Payment orders refer to inward and outward remittances of funds by telegraphic transfers, demand drafts, or mail transfer orders received by the Bank pending payment/disposition to designated beneficiaries or application/disposition to appropriate accounts.

Others mainly consist of dormant deposit accounts.

17. Maturity Profile of Assets and Liabilities

The following tables present the assets and liabilities as at December 31, 2020 and 2019 analyzed according to whether these are expected to be recovered or settled within or over 12 months from the reporting year.

	Note	2020			2019		
		Within One Year	Over One Year	Total	Within One Year	Over One Year	Total
Financial Assets							
Financial assets at FVPL	7	₱–	₱–	₱–	₱899,638,694	₱–	₱899,638,694
Financial assets at FVOCI	7	405,429,690	317,565,469	722,995,159	843,886,181	877,239,210	1,721,125,391
Financial assets at amortized cost:							
Cash and other cash items		642,606,701	–	642,606,701	675,319,948	–	675,319,948
Due from BSP		2,569,444,094	–	2,569,444,094	3,174,324,418	–	3,174,324,418
Due from other banks		2,993,935,298	–	2,993,935,298	3,413,981,051	–	3,413,981,051
Interbank loans receivable	6	932,575,517	–	932,575,517	532,740,895	–	532,740,895
Government securities	7	211,749	112,578,745	112,790,494	1,732,842	407,131	2,139,973
Loans and receivables - gross	8	19,309,431,804	12,805,882,771	32,115,314,575	18,696,138,636	14,684,268,846	33,380,407,482
Other assets ¹	12	1,072,376	28,448,289	29,520,665	483,813	27,077,407	27,561,220
		26,854,707,229	13,264,475,274	40,119,182,503	28,238,246,478	15,588,992,594	43,827,239,072

¹Other financial assets pertain to refundable deposits and RCOCI (see Note 12).

(Forward)

Note	2020			2019			
	Within One Year	Over One Year	Total	Within One Year	Over One Year	Total	
Nonfinancial Assets							
Assets held for sale	9	₱554,743,084	₱-	₱554,743,084	₱515,331,019	₱-	₱515,331,019
Property and equipment	10	-	1,463,988,727	1,463,988,727	-	1,426,477,823	1,426,477,823
Intangible assets	11	-	615,726,176	615,726,176	-	592,450,994	592,450,994
Deferred tax assets	21	75,953,689	-	75,953,689	28,539,985	-	28,539,985
Other assets	12	33,681,050	34,584,296	68,265,346	45,684,092	44,709,873	90,393,965
		609,383,852	2,114,299,199	2,723,683,051	589,555,096	2,063,638,690	2,653,193,786
		27,464,091,081	15,378,774,473	42,842,865,554	28,819,786,489	17,660,646,369	46,480,432,858
Less:							
Allowance for credit and impairment losses on:							
Loans and receivables	8	-	839,745,273	839,745,273	-	682,533,971	682,533,971
Assets held for sale	9	29,728,793	-	29,728,793	26,362,902	-	26,362,902
Accumulated depreciation and amortization of:							
Property and equipment	10	-	875,036,375	875,036,375	-	755,290,209	755,290,209
Computer software	11	-	290,021,139	290,021,139	-	265,504,691	265,504,691
Unearned discounts and capitalized interest	8	-	2,723,939	2,723,939	-	8,015,085	8,015,085
		29,728,793	2,007,526,726	2,037,255,519	26,362,902	1,711,343,956	1,737,706,858
		₱27,434,362,288	₱13,371,247,747	40,805,610,0354	₱28,793,423,587	₱15,949,302,413	₱44,742,726,000
Financial Liabilities							
Deposit liabilities	13	₱33,029,461,913	₱1,896,700,473	₱34,926,162,386	₱37,079,337,500	₱1,871,798,347-	₱38,951,135,847
Manager's checks		77,074,219	-	77,074,219	173,777,188	-	173,777,188
Accrued interest and other expenses	14	167,492,432	-	167,492,432	234,557,371	-	234,557,371
Unsecured subordinated debt	15	-	1,300,000,0000	1,300,000,0000	-	1,000,000,000	1,000,000,000
Lease liabilities		-	220,606,697	220,606,697	-	277,062,586	277,062,586
Other liabilities	16	681,203,918	-	681,203,918	925,233,455	-	925,233,455
		33,955,232,482	3,417,307,170	37,372,539,652	38,352,125,331	3,148,860,933	41,500,986,264
Nonfinancial Liabilities							
Accrued GRT	14	10,260,070	-	10,260,070	12,416,551	-	12,416,551
Retirement liability		-	46,014,962	46,014,962	-	62,271,457	62,271,457
Income tax payable		18,340,154	-	18,340,154	23,150,047	-	23,150,047
Other liabilities ²	16	50,884,458	-	50,884,458	62,894,076	-	62,894,076
		79,484,682	46,014,962	125,499,644	98,460,674	62,271,457	160,732,131
		₱34,034,717,164	₱3,463,322,132	₱37,498,039,296	₱ 38,450,586,005	₱ 3,211,132,390	₱ 41,661,718,395

²Other non-financial liabilities pertain to due to PDIC, withholding taxes and statutory obligations (see Note 16).

18. Lease Commitments

The Bank has existing non-cancellable lease agreements for the lease of its branch premises for a period of one to 10 years, renewable upon mutual agreement of both parties. The rentals are subject to annual escalation rates ranging from 2.5% to 8.0%.

Outstanding rental and security deposits on lease commitments, which are refundable in cash upon termination of lease agreements, amounted to ₱28.4 million and ₱27.1 million as at December 31, 2020 and 2019, respectively (see Note 12).

Deferred lease, which pertains to the difference between the nominal value of the refundable deposit and its fair value at inception of the lease that is amortized as expense on a straight-line basis over the lease term, amounted to ₱6.2 million and ₱2.1 million as at December 31, 2020 and 2019, respectively (see Note 12).

ROU assets, presented as part of "Property and equipment" account, pertain to leased branch premises amounted to ₱196.1 million and ₱258.9 million as at December 31, 2020 and 2019, respectively (see Note 10).

Movements in the lease liabilities are presented below.

	2020	2019
Balance at beginning of year	₱277,062,586	₱242,768,377
Payments	(93,587,966)	(83,615,706)
Additions	19,588,108	98,279,246
Interest expense	17,543,969	19,630,669
	220,606,697	277,062,586
Current portion	77,962,375	68,840,363
Noncurrent portion	₱142,644,322	₱208,222,223

Lease-related expenses are presented below.

	2020	2019
Amortization of ROU assets	₱82,375,225	₱73,103,837
Rent expense	21,032,427	25,893,457
Interest expense on lease liabilities	17,543,969	19,630,669
	₱120,951,621	₱118,627,963

Rent expense, which pertains to short-term leases of branch premises, is presented under "Occupancy" in the statements of income.

Lease commitments are as follows:

	2020	2019
Not later than one year	₱97,892,093	₱85,873,912
Later than one year but not later than five years	119,439,075	180,288,353
Later than five years	33,926,526	59,582,333
	₱251,257,694	₱325,744,598

19. Retirement Plan

The Bank has a funded, noncontributory defined benefit retirement plan covering all of its officers and regular employees. Under the retirement plan, all covered officers and employees are entitled to cash benefits after satisfying certain age and service requirements. An independent actuary, using the projected credit method, conducted an actuarial valuation of the retirement liability as at December 31, 2019.

The retirement fund of the Bank is placed under the management of the Bank's Trust Group with oversight from the Bank's Retirement Fund Committee, as appointed by the BOD. The Retirement Plan Trustee, as appointed by the Bank, in the Trust Agreement, is responsible for the general administration of the Retirement Plan and the management of the Retirement Fund.

The retirement benefits recognized in the statements of income follow:

	2020	2019
Current service cost	₱17,379,130	₱13,471,621
Net interest cost	935,034	2,444,541
	₱18,314,164	₱15,916,162

Details of cumulative remeasurement gains follow:

	2020		
	Cumulative Remeasurement Gains	Deferred Tax (see Note 21)	Net
Balance at beginning of year	₱17,082,897	₱5,124,869	₱11,958,028
Remeasurement loss	618,003	185,401	432,602
Balance at end of year	₱17,700,900	₱5,310,270	₱12,390,630

	2019		
	Cumulative Remeasurement Gains	Deferred Tax (see Note 21)	Net
Balance at beginning of year	₱22,295,008	₱6,688,502	₱15,606,506
Remeasurement loss	(5,212,111)	(1,563,633)	(3,648,478)
Balance at end of year	₱17,082,897	₱5,124,869	₱11,958,028

Retirement liability is as follows:

	2020	2019
Present value of retirement obligation	₱140,199,471	₱123,203,304
Fair value of plan assets	(94,184,509)	(60,931,847)
	₱46,014,962	₱62,271,457

Movements in the present value of retirement obligation follow:

	2020	2019
Balance at beginning of year	₱123,203,304	₱102,040,894
Current service cost	17,379,130	13,471,621
Interest cost	3,569,693	5,877,556
Remeasurement gain (loss):		
Changes in financial assumptions	-	8,614,118
Changes in demographic assumptions	-	(4,482,130)
Experience adjustment	-	(1,021,991)
Benefits paid	(3,952,656)	(1,296,764)
Balance at end of year	₱140,199,471	₱123,203,304

Movements in the fair value of the plan assets follow:

	2020	2019
Balance at beginning of year	₱60,931,847	₱29,600,946
Contributions made	30,000,000	30,000,000
Interest income	2,634,659	3,433,014
Remeasurement gain (loss) (excluding amount included in net interest)	618,003	(2,102,113)
Balance at end of year	₱94,184,509	₱60,931,847

The plan assets are carried at fair value. All equity, debt instruments and investments of the pooled funds held have quoted prices in active market. The fair value of other assets and liabilities, which include deposits in banks, BSP’s special deposit account, accrued interest and other receivables and trust fee payables, approximate carrying amount due to the short-term nature of these accounts.

The plan assets are diversified investments. Those in short-term placements will be further invested depending on the market direction.

The composition of plan assets by class as at December 31, 2020 and 2019 follows:

	2020	2019
Debt instruments:		
Government securities	53%	7%
Private bonds	35%	27%
Time certificates	-	56%
	88%	34%
Equity instruments	11%	2%
Receivables	1%	8%
Fair value of plan assets	100%	100%

The principal actuarial assumptions used in determining the retirement liability are shown below:

	2020	2019
Discount rate	2.90%	4.94%
Salary increase rate	3.00%	3.00%

The sensitivity analysis below has been determined based on reasonably possible changes of each significant assumption on the defined benefit obligation as at December 31, 2020, assuming all other assumptions were held constant:

	Basis Points	Amount
Discount rate	5.94% (Actual)+1.0%	₱112,472,979
	4.94% (Actual)	122,795,913
	3.94% (Actual)-1.0%	134,880,272
Salary increase rate	4.00% (Actual)+1.0%	135,513,535
	3.00% (Actual)	122,795,913
	2.00% (Actual)-1.0%	111,776,140
Turn Over rate	120% of Actual	116,698,418
	Actual	122,795,913
	80.00% of Actual	129,829,211

The average duration of the defined benefit obligation at the end of the reporting year is 17.18 years.

Shown below is the maturity analysis of the undiscounted benefit payments as at December 31, 2020:

Less than one year	₱29,366,448
One to less than five years	20,823,360
Five to less than 10 years	85,479,135
10 to less than 15 years	122,010,565
15 to less than 20 years	104,878,029
20 years and beyond	254,568,459
	₱617,125,996

20. Operating Expenses

This account consists of:

	Note	2020	2019
Compensation and fringe benefits		₱581,826,091	₱641,854,650
Taxes and licenses		252,546,558	328,972,691
Depreciation and amortization	10	159,275,433	150,791,921
Representation and entertainment		103,096,687	92,489,362
Insurance		73,746,127	75,167,759
Repairs and maintenance		66,188,044	63,265,914
Security, messengerial and janitorial		65,580,698	68,733,426
Postage		46,508,962	49,527,839
Litigation cost		43,592,400	45,471,831
Fees and commissions		43,102,003	43,934,833
Occupancy		39,246,822	50,016,558
Appraisal fees		19,377,310	25,423,152
Fines and penalties		19,255,514	29,794,144
Supervision fees		15,273,308	14,369,020
Management and other professional fees		11,211,713	11,523,908
Transportation and travel		8,307,233	14,683,672
Promotions and advertising		1,294,125	3,227,344
Others		22,456,810	20,683,761
		₱1,571,885,838	₱1,729,931,785

Others include office supplies and membership fees and dues.

21. Income and Other Taxes

Current income tax expense consists of:

	2020	2019
Regular corporate income tax (RCIT)	₱127,071,913	₱80,034,178
Final tax	27,816,384	33,340,083
Minimum corporate income tax (MCIT)	18,383	—
	₱154,906,680	₱113,374,261

On March 26, 2021, the Corporate Recovery and Tax Incentives for Enterprises (“CREATE”) was approved and signed into law by the country’s President. Under the CREATE, the RCIT of domestic corporations was revised from 30% to 25% or 20% depending on the amount of total assets or total amount of taxable income. In addition, the MCIT was changed from 2% to 1% of gross income for a period of three years. The changes in the income tax rates shall retrospectively become effective beginning July 1, 2020.

The income tax rates used in preparing the financial statements as at and for the year ended December 31, 2020 are 30% RCIT and 2% for MCIT. The passing of the law is considered as a non-adjusting event for financial reporting.

The table below summarizes the financial impact of the change in income tax rate to the Bank’s financial statements had the CREATE been substantively enacted as at December 31, 2020:

	Audited Balances (Based on Old Income Tax Rate)	Balances Using Revised Income Tax Rate	Differences
Net deferred tax assets	₱75,953,689	₱63,294,741	₱12,658,948
Other assets	97,781,415	97,786,010	(4,595)
Income tax payable	18,340,154	7,750,828	10,589,326
Other equity reserves	31,168,066	32,088,765	(920,699)
Retained earnings	861,392,048	858,406,322	2,985,726
Income tax expense - current	154,906,680	144,312,759	10,593,921
Income tax benefit - deferred	(47,599,104)	(34,019,457)	(13,579,647)
Net income	102,784,086	99,798,360	2,985,726

Under Philippine tax laws, the Bank is subject to percentage and other taxes, presented as “Taxes and licenses” in the statements of income, as well as income taxes. Percentage and other taxes paid consist principally of GRT and documentary stamp tax.

Republic Act (RA) No. 9337, *An Act Amending National Internal Revenue Code*, provides that the RCIT rate is 30% and interest expense allowed as deductible expense is reduced by 33% of interest income subjected to final tax.

RA No. 9294, *An Act Restoring the Tax Exemption of Offshore Banking Units (OBUs) and Foreign Currency Deposit Units*, which became effective in May 2004, provides that the income derived by the FCDU from foreign currency transactions with non-residents, offshore banking units (OBUs), and local commercial banks, including branches of foreign banks, is tax-exempt while interest income on foreign currency denominated loans from residents other than OBUs or other depository banks under the expanded system is subject to 10% onshore income tax.

The reconciliation between the income tax expense at statutory tax rate and income tax expense presented in the statements of income.

	2020	2019
Income tax expense at statutory tax rate	₱63,027,499	₱81,156,350
Tax effects of:		
Nontaxable income	(50,262,748)	(52,352,759)
Nondeductible expenses	47,796,275	73,684,282
Interest income subject to final tax	(4,471,645)	(12,322,310)
Changes in unrecognized deferred tax assets	51,218,195	12,895,868
	₱107,307,576	₱103,061,431

Net deferred tax benefit (expense) is recognized as follows:

	Note	2020	2019
Through:			
Profit or loss		₱81,477,880	₱33,878,776
Other comprehensive income	19	(5,524,192)	(5,338,791)
		₱75,953,688	₱28,539,985

Movements of net deferred tax benefit (expense) are recognized as follows:

	Note	2020	2019
Through:			
Profit or loss		(₱47,599,105)	₱10,312,830
Other comprehensive income	19	185,401	1,563,633
		(₱47,413,704)	₱11,876,463

Deferred tax assets and liabilities consist of:

	2020	2019
Deferred tax assets on:		
Unearned interest income on modification loss	₱50,802,027	₱-
Allowance for credit and impairment losses	45,425,325	45,425,325
Allowance for impairment losses on assets held for sale	8,918,638	7,908,871
Cumulative unrealized losses on foreclosure of acquired assets	7,369,553	13,481,610
Excess of amortization of ROU assets and interest expense on lease liabilities over lease payments	7,362,338	5,462,970
	119,877,881	72,278,776
Deferred tax liabilities on:		
Fair value adjustment on branch licenses acquired in business combination	(38,400,000)	(38,400,000)
Cumulative rereasurement gains on retirement liability	(5,524,192)	(5,338,791)
	(43,924,192)	(43,738,791)
Net deferred tax assets	₱75,953,689	₱28,539,985

As at December 31, 2020 and 2019, the Bank has not recognized deferred tax assets relating to the following deductible temporary differences:

	2020	2019
Allowance for credit and impairment losses	₱688,327,523	₱531,116,221
Retirement liability	239,020,670	80,067,426
Unamortized past service cost	33,147,862	20,810,650
Net operating loss carry-over (NOLCO)	16,756,016	-
Excess of MCIT over RCIT	18,383	-
	₱977,270,454	₱631,994,297

Management assessed that it is not probable that sufficient future taxable profit will be available to allow the unrecognized deferred tax assets to be utilized.

Excess MCIT over RCIT amounting to ₱18,383 was incurred in 2020 and will expire on 2023.

Pursuant to the Republic Act No. 11494, *Bayanhian Recover as One Act*, and Revenue Regulations No. 25-2020, entities which incurred net operating loss for taxable years 2020 and 2021 shall be allowed to carry over the same as a deduction from gross income for the next five consecutive taxable years immediately following the year of such loss. NOLCO amounting to ₱16.8 million was incurred in 2020 and will expire on 2025.

22. Capital Stock

This account consists of:

	Number of Shares		Amount	
	2020	2019	2020	2019
Authorized - ₱10 par value				
Perpetual preferred stock	100,000,000	100,000,000	₱1,000,000,000	₱1,000,000,000
Common stock	300,000,000	300,000,000	3,000,000,000	3,000,000,000
Issued and outstanding:				
Common stock				
Balance at beginning of year	207,000,000	207,000,000	₱2,070,000,000	₱2,070,000,000
Issuances	10,000,000	–	100,000,000	–
Balance at end of year	217,000,000	207,000,000	₱2,170,000,000	₱2,070,000,000
Perpetual preferred stock				
Balance at beginning and end of year	30,000,000	30,000,000	₱300,000,000	₱300,000,000

The perpetual preferred stock, which has an annual dividend rate of 4.375%, is cumulative and has no voting rights. As at December 31, 2020 and 2019, cumulative preference dividends amounted to ₱86.1 million and ₱73.0 million, respectively.

23. Related Party Transactions and Balances

In the ordinary course of business, the Bank enters into loan and other transactions with its related parties and with certain directors, officers, stockholders and related interests (DOSRI). Under the Bank's policy, these loans and other transactions are made substantially on the same terms as with other individuals and businesses of comparable risks.

The significant transactions and account balances with respect to related parties that are included in the financial statements follow:

Nature of Transactions	2020		2019	
	Transactions during the Year	Outstanding Balances	Transactions during the Year	Outstanding Balances
Key Management Personnel				
Loans and receivables	₱-	₱1,688,450	₱4,700,000	₱8,872,182
Interest income	11,107	-	604,298	-
Deposit liabilities	5,198,704	6,371,841	145,744,532	18,959,844
Interest expense	2,786	-	815,022	30,018
Accounts receivable	5,912,938	34,339,932	14,809,386	36,747,860
Subsidiaries of the Parent Company				
Loans and receivables	823,000,000	890,499,201	377,856,000	241,211,187
Accrued interest income	7,990,657	11,803,932	19,261,740	1,322,882
Deposit liabilities	2,854,099,943	11,081,489	2,927,406,698	4,783,318
Accrued interest expense	42,371	-	53,563	-
Unsecured subordinated debt	300,000,000	1,300,000,000	-	1,000,000,000
Interest expense	57,831,250	-	57,000,000	-
Trust fee	1,989,157	-	1,792,333	-
Lease liabilities	28,968,976	33,732,063	38,728,995	35,177,951
Interest expense	1,325,908	-	1,161,607	-
ROU assets	28,968,976	33,648,971	38,589,812	34,072,602
Amortization	8,377,537	-	4,517,210	-
Parent Company				
Deposit liabilities	30,363,995	-	56,915,127	1,298
Interest expense	2,027	-	3,811	-
Stockholders				
Loans and receivables	-	-	380,000	-
Interest income	-	-	892	-
Deposit liabilities	84,825,582	-	238,628,701	18,397,754
Accrued interest expense	8,198	-	806,870	38,478
Other Related Party				
Loans and receivables	1,035,236,300	1,238,381,402	1,684,670,000	1,106,204,360
Interest income	45,496,529	19,519,898	75,769,799	4,915,985
Deposit liabilities	386,633,242	4,162,264	203,386,247	2,252,998
Accrued interest expense	3,421	-	2,737	-

Terms and Conditions

Loans and receivables are secured by chattel mortgages, deposits and real estate properties, having terms ranging from one to 18 years, and bearing interests from 3% to 12% in 2020 and 2019. Allowance for credit and impairment losses on receivables from related parties amounted to ₱4.6 million and ₱1.3 million as at December 31, 2020 and 2019, respectively.

Accounts receivable include receivables from officers relating to the car lease amounting to ₱34.3 million and ₱36.7 million as at December 31, 2020 and 2019, respectively (see Note 8). Prepaid expenses relating to the employee car lease amounted to ₱20.4 million and ₱25.5 million as at December 31, 2020 and 2019, respectively.

Deposits have interest ranging from 0.25% to 1.00% for 2020 and 2019.

Unsecured subordinated debt is a transaction with the the Trust Unit of the Bank, under the supervision of the Trust Committee (see Note 15).

Trust fees pertain to fees charged for trust operations. These are included under “Other expenses” in the statements of income.

Lease liabilities, ROU assets and rent expense pertain to leases of branch premises and automated teller machine.

Compensation of key management personnel included under “Compensation and fringe benefits” in the statements of income follows:

	2020	2019
Short-term employee benefits	₱88,837,618	₱97,656,396
Post-employment retirement benefits	2,967,658	1,435,460
	₱91,805,276	₱99,091,856

Transactions with Retirement Plan

The retirement plan of the Bank is considered as a related party. The retirement plan is in the form of a trust administered by the Trust Unit under the supervision of the Retirement Fund Committee. The values of the assets of the fund are as follows (see Note 19):

	2020	2019
Investments in:		
UITF	₱54,036,903	₱555,638
Time deposits	–	34,076,208
Debt instruments	36,271,445	25,393,000
Equity instruments	4,384,800	1,330,400
	₱94,693,148	₱61,355,246

24. Trust Operations

On May 21, 2008, the Bank was granted a license by the BSP to conduct its trust operations. The Bank started its trust operations on June 2, 2008.

Securities and other resources held by the Bank in fiduciary or agency capacity for its customers are not included in the accompanying statements of financial position since these are not assets of the Bank. Total assets held by the Bank’s Trust Group amounted to ₱8,201.7 million and ₱7,048.7 million as at December 31, 2020 and 2019, respectively.

In compliance with current banking regulations relative to the Bank’s trust operations, government securities included under financial assets at FVOCI with a total face value of ₱87.0 million as at December 31, 2020 and 2019, are deposited with the BSP. In addition, 10% of the Bank’s net income realized from its trust operations is appropriated to surplus reserve until such reserve for trust operations amounts to 20% of the Bank’s regulatory capital.

25. Commitments and Contingencies

In the normal course of the Bank's operations, there are various outstanding commitments and contingencies such as guarantees and commitments to extend credit, which are not reflected in the financial statements. The Bank does not anticipate significant losses as a result of these transactions.

As at December 31, 2020 and 2019, the Bank is involved in various legal proceedings relating to uncollected loans and acquired properties. Based on the opinion of its legal counsels, the Bank is in a good position to secure favorable judgment in most of these cases. Management therefore believes that the outcome of these proceedings will not have material adverse effect on the financial position and performance of the Bank.

The following is a summary of the commitments and contingencies at their equivalent contractual amounts:

	2020	2019
Investment management account	₱7,938,834,880	₱6,845,163,664
Trust Bank accounts	262,853,898	197,015,082
Spot exchange	193,525,029	381,392,878
Derivatives	72,034,500	-
Sight/usance domestic letters of credit (LC)	27,006,905	20,825,359
Outstanding guarantees issued - others	15,871,235	11,648,907
Inward bills for collection	12,463,903	8,519,491
Domestic LC	7,000,000	32,000,000
Foreign LC	3,165,402	3,337,570
Late payment deposit/payment received	1,565,024	-
Sight/usance foreign LC	952,776	23,697,732
Items held for safekeeping	50,789	94,505
Items held as collateral	20,989	20,640

26. Other Matter

In March 2020, the World Health Organization declared the COVID-19 outbreak to be a global pandemic causing the government to declare the country in a state of public health emergency followed by the implementation of mandated lockdowns all over the country, resulting in a slowdown in the Philippine economy. It is not practicable to estimate the potential impact of the prevailing COVID-19 pandemic after the reporting date. The situation is rapidly developing and is dependent on measures imposed by the government, such as implementing community quarantines, travel restrictions and any economic stimulus that may be provided. Management believes that the Bank can continue as a going concern given its liquidity and its ability to obtain short-term and long-term funding.

27. Supplementary Information Required under the BSP Circular No. 1074, Series of 2020, Amendments to Regulations on Financial Audit of Banks

The following supplementary information is required by Appendix 55 – Disclosure Requirements to the Audited Financial Statements to Section 174 of the Manual of Regulations for Banks (MORB) of the BSP, issued through the BSP Circular No. 1074.

A. Financial Performance Indicators

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

	2020	2019
Return on average equity	3.19%	5.69%
Return on average assets	0.24%	0.39%
Net interest margin on average earning assets	5.60%	4.44%

B. Details of Loans

The following table shows information relating to receivables from customers, gross of unearned discounts and capitalized interests, by collateral.

	2020		2019	
	Amount	%	Amount	%
Secured by:				
Chattel mortgage	₱8,868,781,478	28.17%	₱11,452,726,652	34.59%
Real estate mortgage	6,265,427,177	19.90%	5,433,220,351	16.41%
Deposits	1,715,761,271	5.45%	1,476,554,153	4.46%
Others	52,040,048	0.17%	330,562,729	1.00%
	16,902,009,974	53.69%	18,693,063,885	56.46%
Unsecured	14,581,370,466	46.31%	14,415,234,430	43.54%
	₱31,483,380,440	100.00%	₱33,108,298,315	100.00%

As at December 31, 2020 and 2019, information on the concentration of credit, gross of unearned discounts and capitalized interests, as to industry follows. 31,495,968,022

	2020		2019	
	Amount	%	Amount	%
Other community, social and personal activities	₱13,148,734,632	41.76%	₱15,324,459,834	46.29%
Wholesale and retail trade	6,487,610,746	20.61%	5,810,298,243	17.55%
Real estate	4,766,435,861	15.14%	5,029,230,938	15.19%
Manufacturing	3,185,362,155	10.12%	3,056,184,330	9.23%
Financial intermediaries	2,532,642,370	8.04%	2,636,207,756	7.96%
Transportation, storage and communication	824,688,880	2.62%	671,682,237	2.03%
Construction	279,318,614	0.89	249,275,886	0.75%
Mining and quarrying	153,654,532	0.49	154,074,400	0.47%
Hotel and restaurants	76,575,199	0.24	90,482,208	0.27%
Agricultural, hunting and forestry	25,336,085	0.08	82,156,082	0.25%
Electricity, gas and water supply	3,021,366	0.01	4,246,401	0.01%
	₱ 31,483,380,440	100.00%	₱33,108,298,315	100.00%

Exposures under the community, social and personal activities which exceeded the 30% concentration limit, as prescribed by the BSP, are mostly retail loan exposures which do not cover a specific industry. Hence, the Bank does not have a concentration of credit risk to particular industries as at December 31, 2020 and 2019.

Non-performing Loan (NPL) pertains to loan accounts even without any missed contractual payments, that are (a) deemed impaired under existing applicable accounting standards, (b) classified as doubtful or loss, (c) in litigation, and/or (d) there is evidence that full repayment of principal and interest is unlikely without foreclosure of collateral, in the case of secured accounts.

All other loan accounts, even if not considered impaired, should be considered non-performing if any contractual principal and/or interest are not paid for more than 90 days after contractual due date, or accrued interests for more than 90 days have been capitalized, refinanced, or delayed by agreement.

Details of the Bank's gross and net NPL follow:

	2020		2019	
	Amount	%	Amount	%
Gross	₱2,063,557,707	6.37%	₱1,757,654,168	5.23%
Net	1,509,482,418	4.66%	1,291,117,324	3.84%

As at December 31, 2020 and 2019, breakdown of the secured and unsecured NPL follows:

	2020	2019
Secured	₱797,996,866	₱849,131,563
Unsecured	1,265,560,841	908,522,605
	₱2,063,557,707	₱1,757,654,168

Status of of loans per product as at December 31, 2020 and 2019 are as follows:

	2020		
	Performing	NPL	Total
Corporate loans:			
Term loan	₱17,263,325,773	₱441,904,621	₱17,705,230,394
Bills discounted	201,829,623	120,507,467	322,337,090
Trust receipt	224,449,584	70,637,059	295,086,643
Others	431,396,466	42,615,150	474,011,616
	18,121,001,446	675,664,297	18,796,665,743
Consumer loans:			
Auto	7,864,494,886	727,680,866	8,592,175,752
Salary	355,804,044	400,884,825	756,688,869
Real estate	1,792,065,477	240,933,433	2,032,998,910
Contract to sell	1,286,456,880	18,394,286	1,304,851,166
	11,298,821,287	1,387,893,410	12,686,714,697
	₱29,419,822,733	₱2,063,557,707	₱31,483,380,440

	2019		
	Performing	NPL	Total
Corporate loans:			
Term loan	₱15,888,368,929	₱443,801,705	₱16,332,170,634
Bills discounted	434,224,736	106,391,445	540,616,181
Trust receipt	329,287,473	49,904,915	379,192,388
Others	243,993,693	19,595,151	263,588,844
	<u>16,895,874,831</u>	<u>619,693,216</u>	<u>17,515,568,047</u>
Consumer loans:			
Auto	10,795,835,615	602,290,474	11,398,126,089
Salary	536,660,432	359,769,708	896,430,140
Real estate	2,016,545,956	166,503,283	2,183,049,239
Contract to sell	1,105,727,313	9,397,487	1,115,124,800
	<u>14,454,769,316</u>	<u>1,137,960,952</u>	<u>15,592,730,268</u>
	<u>₱31,350,644,147</u>	<u>₱1,757,654,168</u>	<u>₱33,108,298,315</u>

Restructured loans, which do not meet the requirements to be treated as performing receivables, are considered as NPL. Restructured loans amounted to ₱652.1 million and ₱162.4 million as at December 31, 2020 and 2019, respectively. Interest income on restructured receivables amounted to ₱2.0 million and ₱1.3 million in 2020 and 2019, respectively.

C. DOSRI/Related Party Loans

The amount of individual loans to DOSRI, of which 70% must be secured, should not exceed the amount of their respective deposits and book value of their respective investments in the Bank. These limits do not apply to (a) loans and other credit accommodations secured by assets considered as non-risk as defined in the regulations; (b) loans and other credit accommodations in the form of fringe benefits; (c) loans and other credit accommodation extended by a Coop Bank to its cooperative shareholders; and (d) portion of loans and other credit accommodations covered by guarantees of the International Finance Corporation or the Asian Development Bank.

Moreover, the total outstanding loans to DOSRI, of which 70% must be secured, should not exceed 15% of the total loan portfolio of the Bank or 100% of net worth whichever is lower. These limits do not apply to (a) loans and other credit accommodations secured by assets considered as non-risk as defined in the regulations; (b) qualified credit accommodations to a corporate stockholder; (c) credit accommodations to government-owned or controlled corporations where any director, officer or stockholder of the Bank is not a representative with proprietary interest of such corporation; (d) loans and other credit accommodations to officers in the form of fringe benefits granted in accordance with existing regulations; (e) loans and other credit accommodation extended by a Coop Bank to its cooperative shareholders; and (f) portion of loans and other credit accommodations covered by guarantees of the International Finance Corporation or the Asian Development Bank.

On the other hand, the total outstanding loans to all of the Bank's subsidiaries and affiliates should not exceed 20% of the net worth of the Bank. These subsidiaries and affiliates are not related interest of any of the director, officer, and/or stockholder of the Bank.

The following table shows information relating to DOSRI and related party loans:

	DOSRI		Related Parties	
	2020	2019	2020	2019
Total outstanding DOSRI/related party loans	₱890,499,201	₱241,211,187	₱1,240,069,852	₱1,115,076,542
Percent of DOSRI/related party loans to total loan portfolio	2.75%	0.73%	3.83%	3.39%
Percent of unsecured DOSRI/related party loans to total DOSRI/related party loans	4.83%	0.01%	2.53%	2.80%
Percent of past due DOSRI/related party loans to total DOSRI/related party loans	0.00%	0.00%	0.00%	0.00%
Percent of non-performing DOSRI/related party loans to total DOSRI/related party loans	0.00%	0.00%	0.00%	0.00%

Total interest income on DOSRI accounts amounted to ₱53.5 million and ₱19.3 million in 2020 and 2019, respectively.

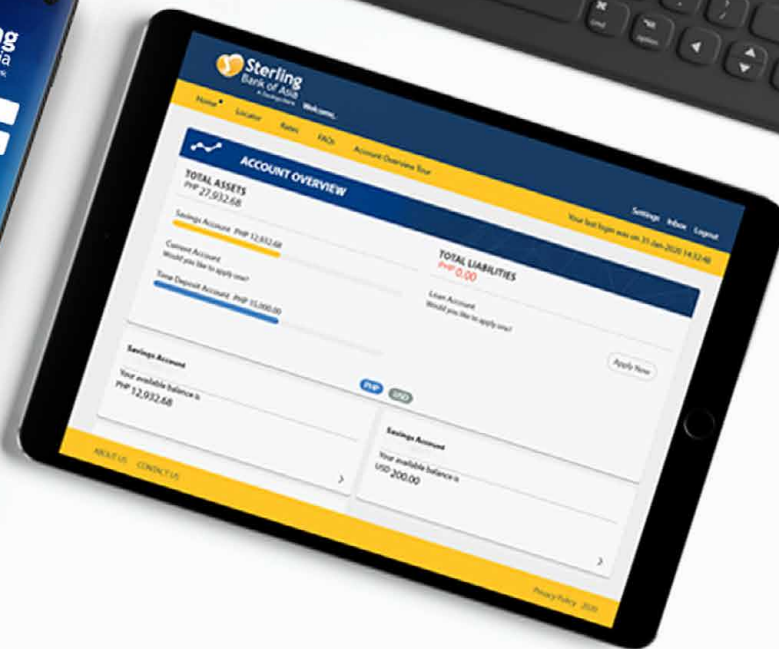
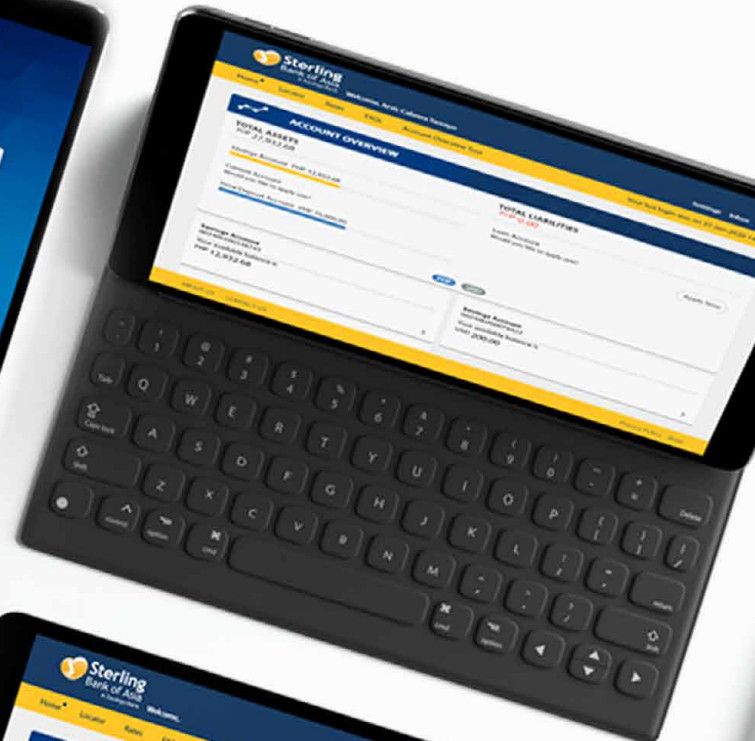
The effects of the foregoing transactions are shown under the appropriate accounts in the financial statements.

D. Assets Pledged to Secure Liabilities

No asset is pledged by the Bank to secure outstanding liabilities as at December 31, 2020 and 2019.

Other required information are disclosed in Notes 8, 22 and 25 to the financial statements.

PRODUCTS & SERVICES



PERSONAL BANKING

SAVINGS AND CHECKING ACCOUNTS

Solo Savings Account

A Peso Savings Account that's easy to maintain, it takes the complication out of banking.

Solo Dollar Savings Account

Opening a dollar savings account is simple and convenient with our Solo Dollar Savings Account.

Solo Yuan Savings Account

With an opening balance requirement of CNY2,500.00 and a minimum ADB requirement of CNY2,500.00, you can start seeing your money grow.

Neo Savings Account

The Neo Savings Account is a special savings deposit account for kids aged 19 and below. Through this account, your children can learn about managing their money at an early age.

Bayani OFW Savings Account

Saving for the future is important for OFWs, which makes the Bayani OFW Savings Account even more significant as it helps OFWs and their families grow their money.

Solo Basic Savings Account

Enjoy the convenience and security of growing hard-earned savings in the bank. By presenting one valid ID and depositing a minimum of Php100.00, anybody can now have their own Solo Basic Savings Account.

Duo Checking Account

Apart from giving you the earning potential of a savings account, this unique checking account also provides the convenience of a Visa Debit Card. This hassle-free service allows you to encash your checks at any Sterling Bank of Asia branch without additional charges as well.

TIME DEPOSIT

Prima Time Deposit

The Prima Time Deposit allows you to maximize your short-term deposit and earn substantial gains at variable terms.

Prima Dollar Time Deposit

This account gives your dollars room to gain maximum potential by earning prima interest.

Maxima 3

This is a fixed-term, three-year time deposit that allows your money to achieve its maximum earning potential.

Maxima 5

The Maxima 5 rewards you with tax-free earnings on a five-year investment of as low as Php25,000.00.

CONSUMER LOANS

Ultima Auto Loan

Ultima Auto Loans offer attractive rates, a long repayment term, and convenient loan processing, making it easy for you to purchase a vehicle, whether brand new or second hand.

Persona Personal Loan

While money emergencies are part and parcel of life, Persona Personal Loans give you room to finance tuition fees, home improvements, business ventures, and other unexpected spending.

Discovery Home Loan

Be a step closer to living in your dream home! With the Discovery Home Loan, we will help you realize your dream every step of the way.

Avance Salary Loan

If you are a tenured employee with at least Php9,000 salary, you can advance your financial source through the help of our Avance Salary Loan.

Layag Seafarer's Loan

For a seafarer's family's scheduled or unexpected financial need, our Layag Seafarer's Loan can be the help that will cover for that need.

Truck Loan

Expanding your transportation fleet is not going to be an issue with our loans for four- to six-wheeler trucks.

COMMERCIAL BANKING

COMMERCIAL LOANS

We have a wide range of loan products to address the changing requirements of your business.

- Trade Check Discounting
- Factoring of Receivables
- Import / Domestic Letter of Credit (LC)
- Trust Receipt (TR)
- Standby Letter of Credit or Bank Guarantee
- Short Term and Long Term Loans
- Domestic Bills Purchase

OPTIMA BUSINESS BANKING SOLUTIONS

A one-of-a-kind business account, Optima Business Banking Solutions offers free cash management facilities to help businesses minimize overhead expenses, streamline operations, and improve the bottom line.

The Optima Business Banking Solutions allows you to optimize the management of cash and liquid funds, and oversee the disbursements, collections, and investments of financial resources.

This includes:

- Payroll System
- Payroll Crediting System
- Financial System
- Check Writing System
- Check Warehousing
- Point-Of-Sale (POS) System
- Online Banking

WEALTH MANAGEMENT

TREASURY

We will help you manage your investments in a prudent manner through our diverse range of treasury products and services, from fixed-income securities to more sophisticated instruments to address your evolving needs.

- Government Securities
 - Treasury Bills
 - Retail Treasury Bonds (RTB)
 - Treasury Bonds
 - Fixed Rate Treasury Notes (FXTNs)
- Peso Corporate Bonds
- USD Sovereign Bonds
- USD Corporate Bonds
- Foreign Exchange

TRUST

We offer customized wealth management services to address different investment needs.

Unit Investment Trust Funds (UITFs)

- Sterling Money Market Fund (Peso)
- Sterling Balanced Fund (Peso)
- Sterling Bank Philequity Feeder Fund

Personal Wealth Management

- Personal Management Trust
- Investment Management Accounts (IMA)

Corporate Trust

- Employee Benefit Plan
- Investment Management Accounts (IMA)

Auxiliary Trust

- Escrow
- Safekeeping

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BRANCH NETWORK

BRANCH NETWORK & BUSINESS OFFICES

& BUSINESS OFFICES

METRO MANILA

Caloocan – Rizal Avenue

Rizal Ave. Extension, Between 7th and 8th Ave., Grace Park, 1403 Caloocan City
T: +632 8330-7398; 8330-7399
F: +632 8330-7397

Caloocan – MacArthur Highway

624 MacArthur Highway, Calaanan, 1403 Caloocan City
T: +632 8426-2892; 8426-3707
F: +632 8288-4865

Las Piñas

Alabang-Zapote Road, Pamplona II, 1740 Las Piñas City
T: +632 8846-4473; 8846-4474
F: +632 8846-4317

Makati – Amorsolo

G/F Amorsolo Mansion, Amorsolo cor. Herrera Sts., Legaspi Village, 1229 Makati City
T: +632 8553-0033 to 34; 8519-5764; 8519-5772; 8519-8158
F: +632 8553-0034

Makati – Ayala Ave.

Tower 3, Alphaland Makati Place, Ayala Ave. Ext. cor. Malugay St. 1209 Makati City
T: +632 8892-1263; 8864-0428; 8864-0429
F: +632 8864-0427

Makati – Gil Puyat

G/F Morning Star Bldg., Sen. Gil Puyat Ave., 1220 Makati City
T: +632 8895-5573; 8899-2838
F: +632 8897-4382

Makati – Leviste

G/F Liroville Condominium, Leviste cor. Sedeño Sts., Salcedo Village, 1227 Makati City
T: +632 8846-4168; 8555-0942
F: +632 8555-0944

Malabon

Francis Market, Gov. Pascual Ave. cor. M.H. del Pilar St., Tinajeros, 1470 Malabon City
T: +632 8351-1007; 8351-1006
F: +632 8351-1002

Mandaluyong – Shaw Blvd.

G/F Shaw Residenza, 429 Shaw Boulevard, 1550 Mandaluyong City
T: +632 8470-9367; 8470-9405
F: +632 8470-9420

Manila – Divisoria

630 New Divisoria Center Condominium, Sta. Elena St., San Nicolas, Divisoria, 1006 Manila
T: +632 8241-0179; 8241-0180
F: +632 8241-0181

Manila – Masangkay

Unit 963-965, G/F Masagana Bldg., G. Masangkay St., Binondo, 1006 Manila
T: +632 8243-1342; 8243-1832
F: +632 8243-1446

Manila – Ongpin

Unit-C, G/F 888 Neo Plaza, Sabino Padilla cor. Ongpin Sts., Binondo, 1006 Manila
T: +632 8736-3113; 8736-3208
F: +632 8735-8321

Manila – Quintin Paredes

550 Quintin Paredes St., Binondo, 1006 Manila
T: +632 8247-3841; 8247-3992
F: +632 8247-3954

Manila – San Fernando (Binondo)

Unit 493-495, G/F VISCO Bldg., San Fernando St., Binondo, 1006 Manila
T: +632 8242-7849; 8242-8697
F: +632 8243-4144

Manila – U.N. Ave.

G/F Royal Bay Terrace Condominium, 465 U.N. Ave. cor. Cortado St., Ermita, 1000 Manila
T: +632 8523-6881; 8523-8572
F: +632 8523-7656

Marikina

G/F WRC Bldg., 47 Gil Fernando Ave., Midtown Subd. II, San Roque, 1801 Marikina City
T: +632 8681-2628; 8681-2908
F: +632 8681-4327

Muntinlupa – Alabang

G/F Autocentrum BMW Center, Commerce Ave. Madrigal Business Park, Alabang, 1780 Muntinlupa City
T: +632 8556-3180; 8556-3493
F: +632 8556-3492

Parañaque – BF Homes

President's Ave. cor. Monserrat St., BF Homes Subd., 1700 Parañaque City
T: +632 8850-9184; 8850-3468
F: +632 8850-8959

Parañaque – Ninoy Aquino Ave. (NAIA)

Unit 707-4, G/F Columbia Complex, P 2B Ninoy Aquino Ave., Sto. Niño, 1704 Parañaque City
T: +632 8852-0168; 8853-9485
F: +632 8853-9484

Pasig – Ortigas

G/F Prestige Tower, F. Ortigas Jr. Road, Ortigas Center, 1605 Pasig City
T: +632 8706-3072; 8706-3254
F: +632 8706-3074

Quezon City – Banawe

705 Banawe St., 1114 Quezon City
T: +632 8781-7625; 8781-7650
F: +632 8740-8174

Quezon City – Congressional

Unit 31, G/F Barrington Place Bldg., Congressional Ave., 1106 Quezon City
T: +632 8928-5168; 8929-8748
F: +632 8929-9506

Quezon City – Quezon Ave.

G/F Ave Maria Bldg., 1517 Quezon Ave. (near cor. Examiner St.), West Triangle, 1104 Quezon City
T: +632 8376-6792; 8376-6793
F: +632 8376-6794

Quezon City – Timog

G/F SCT Bldg., 25 Timog Ave., 1103 Quezon City
T: +632 8374-0168; 8441-8155
F: +632 8441-8156

San Juan – Greenhills

G/F Sterling Bank Corporate Center, Ortigas Ave., Greenhills, 1500 San Juan City
T: +632 8727-8752; 8726-6418
F: +632 8727-8752

Taguig – the Fort BGC, 1st Ave.

Unit-J, G/F Kensington Plaza, 1st Ave. cor. 29th St., Crescent Parkwest, Bonifacio Global City, 1634 Taguig City
T: +632 8586-5042; 8856-5072
F: +632 8856-5036

Taguig – the Fort BGC, 31st St.

McKinley Park Residences, 31st St. cor. 3rd Ave., Bonifacio Global City, 1634 Taguig City
T: +632 8801-6168, 6172, 6170

Valenzuela

JLB Enterprises Inc. Bldg, 54 Km.12, MacArthur Highway, Marulas, 1440 Valenzuela City
T: +632 8294-8301; 8294-8379
F: +632 8294-8466

PROVINCIAL

Bacolod

31 Lacson St.,
6100 Bacolod City
T: +6334 432-1381, 432-1490
F: +6334 432-1641

Baguio

1 Leonard Wood Road,
2600 Baguio City
T: +6374 445-2786
F: +6374 445-2788 to 89

Bicol – Legazpi

First CQ Building, B. Imperial St.,
4500 Legazpi City
T: +6352 284-3906; 284-3910;
284-3904

Bicol – Naga

Centro Square, #70 Penafrancia
Ave. cor. Colgante Bridge, San
Francisco, 4400 Naga City
T: +6354 871-6168; 871-3770;
880-0545

Boracay

Boracay Tropics, Balabag,
Boracay Island, Malay,
5608 Aklan
T: +6336 390-2577; 390-2583
F: +6336 390-2028

Cagayan de Oro (CDO)

G/F The VIP Hotel,
A. Velez cor. JR Borja Sts.,
9000 Cagayan de Oro City
T: +6388 852-8168 to 72
F: +6388 852-8172

Cavite – Imus

A&M Ramos Bldg., Emilio
Aguinaldo Highway, Bayan Luma
IV, Imus, 4103 Cavite
T: +6346 472-3168; 471-0644 to 45
F: +6346 474-0081

Cebu – Fuente Osmeña

Gen. Maxilom Ave. cor. F. Ramos
St., 6000 Cebu City
T: +6332 255-3198; 255-6157
F: +6332 254-0087

Cebu – Magallanes

Magallanes cor. Manalili Sts.,
6000 Cebu City
T: +6332 255-1203; 255-7935
F: +6332 256-2659

Dagupan

G/F Lenox Hotel, Rizal St.,
Dagupan City, 2400 Pangasinan
T: +6375 523-1168; 522-0491
F: +6375 522-3168

Davao – J.P. Laurel

J. P. Laurel Ave., Bajada,
8000 Davao City
T: +6382 221-7168; 222-0357, 58, 09
F: +6382 222-0196

Davao – Monteverde

Unit 72-74, G/F Sequoia Inn
Bldg., Monteverde St.,
8000 Davao City
T: +6382 222-4140; 224-0542
F: +6382 224-1924

General Santos

J. Catolico Sr. Ave.,
9500 General Santos City
T: +6383 553-5168; 5172
F: +6383 553-5171

Iloilo

G/F GST Iloilo, Corporate Center
Quezon St., 5000 Iloilo City
T: +6333 338-3795; 338-3797
F: +6333 338-3796

Laguna – Biñan

National Highway, Brgy. Canlalay,
Biñan, 4024 Laguna
T: +6349 307-7595 to 97
F: +6349 307-7594

Laguna – Calamba

National Highway, Brgy. Uno,
Crossing, Calamba, 4027 Laguna
T: +6349 547-7164, 7166, 7168

La Union

Quezon Ave., San Fernando City
2500 La Union
T: +6372 888-0168; 888-0165 to 66

Palawan – Puerto Princesa

National Highway, Brgy. San
Pedro, 5300 Puerto Princesa City
T: +6348 244-1476; 244-1497;
244-0660

Pampanga – San Fernando

G/F Queensland Commercial Plaza,
Mc Arthur Highway, Dolores,
San Fernando City,
2000 Pampanga
T: +6345 966-9168; 435-4463;
435-4462

BUSINESS OFFICES

Business Development Unit

G/F Sterling Bank Corporate
Center, Ortigas Ave., Greenhills,
1500 San Juan City
T: +632 8535-6168

Commercial Lending 1 & 3

1/F Sterling Bank Corporate
Center, Ortigas Ave., Greenhills,
1500 San Juan City
T: +632 8535-6168

Commercial Lending 2

550 Quintin Paredes St.,
Binondo, 1006 Manila
T: +632 8247-0293;
8243-0803 to 04

Treasury

3/F Sterling Bank Corporate
Center, Ortigas Ave., Greenhills,
1500 San Juan City
T: +632 8535-6168

Trust

3/F Sterling Bank Corporate
Center, Ortigas Ave., Greenhills,
1500 San Juan City
T: +632 8535-6168

CONSUMER LENDING OFFICES

Greenhills Head Office

Sterling Bank Corporate Center,
Ortigas Ave., Greenhills
1500 San Juan City

Auto Loans

T: +632 8535-6168 locs 2605,
2671, 2674, 2675, 2678, 4022
F: +632 8982-9399

Ortigas Lending Center

2/F Prestige Tower,
F. Ortigas Jr. Road, Ortigas
Center, 1605 Pasig City
F: +632 8914-7038; 8470-9130

Personal Loan

T: +632 8470-8168 locals 2509,
2511, 2522, 2523, 4002

Salary Loan

T: +632 8470-8168 locals 2506,
2551, 2553, 2557, 4003

Real Estate Loan

T: +632 8470-8168 locals 2498,
2501, 2507, 2512, 2517, 2533,
2593, 4004

Calamba Lending Desk

National Highway
Brgy. Uno, Crossing
4027 Calamba, Laguna
T: +6349 547-7164; +632 535-6168
local 4546

Cebu Lending Center

2/F Coast Pacific Bldg.
Gen. Maxilom Ave. cor.
F. Ramos St., 6000 Cebu City
T: +6332 239-0025 to 28, 239-0039,
254-7295
F: +6332 254-8291

Davao Lending Center

J.P. Laurel Ave., Bajada
8000 Davao City
T: +6382 222-0357; +632 535-6168
local 4582

Banking to a different beat

Head Office

Sterling Bank Corporate Center
Ortigas Avenue, Greenhills
1500, San Juan City, Philippines

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