Cathay United Bank Co., Ltd.
Manila Branch

Financial Statements
December 31, 2020 and 2019

and

Independent Auditor's Report

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

INDEPENDENT AUDITOR'S REPORT

The Board of Directors
Cathay United Bank Co., Ltd. Manila Branch

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of Cathay United Bank Co., Ltd. Manila Branch (the "Manila Branch"), 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 the financial statements, including a summary of significant accounting policies.

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

Basis for Opinion

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

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

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

In preparing the financial statements, management is responsible for assessing the Manila Branch'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 Manila Branch or to cease operations, or has no realistic alternative but to do so.

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Manila Branch'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 Manila Branch's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Manila Branch to cease to continue as a going concern.

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

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

Report on the Supplementary Information Required Under Bangko Sentral ng Pilipinas (BSP) Circular No. 1074 and Revenue Regulations No. 15-2010 and 34-2020

Our audits were conducted for the purpose of forming an opinion on the financial statements taken as a whole. The supplementary information required under BSP Circular No. 1074 in Note 26 and Revenue Regulations 15-2010 and 34-2020 in Note 27 to the financial statements is presented for purposes of filing with the Bangko Sentral ng Pilipinas and Bureau of Internal Revenue, respectively, and is not a required part of the basic financial statements. Such information is the responsibility of the management of Cathay United Bank Co., Ltd. Manila Branch. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

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March 10, 2021

CATHAY UNITED BANK CO., LTD. MANILA BRANCH
STATEMENTS OF FINANCIAL POSITION

	December 31	
	2020	2019
ASSETS		
Cash and Other Cash Items	**₱3,333,106**	₱4,024,214
Due from Bangko Sentral ng Pilipinas (Notes 6 and 12)	**2,926,178,219**	1,947,615,344
Due from Other Banks (Note 6)	**365,771,930**	71,670,852
Securities Purchased under Resale Agreement (Note 6)	**637,179,586**	64,157,009
Loans and Receivables (Note 7)	**1,578,728,271**	3,365,216,354
Financial Assets at Fair Value Through Other Comprehensive Income (Note 8)	–	200,344,000
Financial Assets at Amortized Cost (Note 9)	**1,062,864,116**	1,085,997,268
Right-of-Use Assets (Note 19)	**31,422,944**	8,999,810
Property and Equipment (Note 10)	**9,670,385**	15,074,087
Other Assets (Note 11)	**13,626,774**	12,956,087
	₱6,628,775,331	₱6,776,055,025
LIABILITIES AND EQUITY		
Liabilities		
Deposit Liabilities (Notes 12 and 22)		
Savings	**₱52,480,254**	₱29,004,559
Time	**28,460,664**	5,278,575
	80,940,918	34,283,134
Due to Head Office (Notes 13 and 22)	**1,150,014,551**	1,394,340,532
Accrued Expenses and Other Liabilities (Note 14)	**18,692,983**	24,259,897
Lease Liability (Note 19)	**31,781,275**	9,396,288
Income Tax Payable (Note 21)	**469,499**	2,149,686
Retirement Benefits Liability (Note 15)	**9,593,311**	5,009,664
	1,291,492,537	1,469,439,201
Equity		
Permanently assigned capital (Note 17)	**5,170,468,534**	5,170,468,534
Accumulated profit	**173,219,241**	137,653,909
Net unrealized gains on financial assets at fair value through other comprehensive income (Note 8)	–	249,168
Remeasurement losses on retirement benefits liability (Note 15)	**(3,795,327)**	(1,342,570)
Translation adjustment	**(2,609,654)**	(413,217)
	5,337,282,794	5,306,615,824
	₱6,628,775,331	₱6,776,055,025

See accompanying Notes to Financial Statements.

CATHAY UNITED BANK CO., LTD. MANILA BRANCH
STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31	
	2020	2019
INTEREST INCOME		
Loans and receivables (Note 7)	**₱80,845,957**	₱213,959,216
Due from BSP, other banks and securities purchased under resale agreement (Note 6)	**65,066,165**	64,957,934
Investment securities (Notes 8 and 9)	**46,591,736**	57,485,735
	192,503,858	336,402,885
INTEREST EXPENSE		
Due to Head Office (Note 13)	**7,994,054**	50,711,876
Deposit liabilities (Notes 12 and 22)	**114,964**	360,734
	8,109,018	51,072,610
NET INTEREST INCOME	**184,394,840**	285,330,275
Facility fee	**599,763**	–
Other income	**1,150,948**	543,661
	1,750,711	543,661
TOTAL OPERATING INCOME	**186,145,551**	285,873,936
OPERATING EXPENSES		
Compensation and benefits (Notes 15 and 22)	**67,135,657**	64,547,032
Depreciation (Notes 10 and 19)	**20,025,287**	21,298,388
Taxes and licenses (Note 18)	**14,254,709**	17,961,303
Professional and other service fees (Note 22)	**7,024,212**	5,238,355
Information and technology (Note 22)	**3,147,832**	3,193,106
Communication and postage (Note 22)	**2,955,218**	3,069,320
Repairs and maintenance	**1,796,034**	1,690,352
Security, messengerial and janitorial	**1,580,900**	1,443,943
Rent (Notes 19 and 22)	**1,527,354**	1,027,394
Membership fees and dues	**1,161,228**	790,228
Power, light and water	**832,310**	843,951
Representation and entertainment (Notes 21 and 22)	**555,887**	1,349,970
Finance cost on lease liabilities (Note 19)	**489,803**	774,621
Insurance	**374,207**	492,130
Transportation and travel (Note 22)	**280,677**	821,875
Other expense (Note 20 and 22)	**2,781,549**	1,383,210
	125,922,864	125,925,178
INCOME BEFORE INCOME TAX	**60,222,687**	159,948,758
PROVISION FOR INCOME TAX (Note 21)	**24,657,355**	28,922,212
NET INCOME	**₱35,565,332**	₱131,026,546

(Forward)

	Years Ended December 31	
	2020	2019
OTHER COMPREHENSIVE INCOME		
Other comprehensive income (loss) to be reclassified to profit or loss in subsequent periods:		
Movements to unrealized gains (losses) on financial asset at fair value through other comprehensive income (Note 8)	**(₱249,168)**	₱6,640,777
Translation adjustment	**(2,196,437)**	(1,354,398)
Other comprehensive income (loss) that will never be reclassified to profit or loss, net of tax		
Remeasurement losses on retirement benefits liability (Note 15)	**(2,452,757)**	(2,383,640)
TOTAL COMPREHENSIVE INCOME	**₱30,666,970**	₱133,929,285

See accompanying Notes to Financial Statements.

CATHAY UNITED BANK CO., LTD. MANILA BRANCH
STATEMENTS OF CHANGES IN EQUITY

	Permanently Assigned Capital (Note 17)	Accumulated Profit	Net Unrealized Gains (Losses) on Financial Assets at Fair value through other Comprehensive Income (Note 8)	Remeasurement Gains (Losses) on Retirement Benefits Liability (Note 15)	Translation Adjustment	Total Equity
Balance at January 1, 2020	**₱5,170,468,534**	**₱137,653,909**	**₱249,168**	**(₱1,342,570)**	**(₱413,217)**	**₱5,306,615,824**
Total comprehensive income (loss) for the year	**–**	**35,565,332**	**(249,168)**	**(2,452,757)**	**(2,196,437)**	**30,666,970**
Balances at December 31, 2020	**₱5,170,468,534**	**₱173,219,241**	**₱–**	**(₱3,795,327)**	**(₱2,609,654)**	**₱5,337,282,794**
Balance at January 1, 2019	₱5,170,468,534	₱6,627,363	(₱6,391,609)	₱1,041,070	₱941,181	₱5,172,686,539
Total comprehensive income (loss) for the year	–	131,026,546	6,640,777	(2,383,640)	(1,354,398)	133,929,285
Balances at December 31, 2019	₱5,170,468,534	₱137,653,909	₱249,168	(₱1,342,570)	(₱413,217)	₱5,306,615,824

See accompanying Notes to Financial Statements.

CATHAY UNITED BANK CO., LTD. MANILA BRANCH
STATEMENT OF CASH FLOWS

	Years Ended December 31	
	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	**₱60,222,687**	₱159,948,758
Adjustments for:		
Depreciation (Notes 10 and 19)	**20,025,287**	21,298,388
Reversal of credit and impairment losses (Notes 7, 9 and 14)	**(5,326,682)**	(5,759,339)
Amortization of premium on investments at amortized cost (Note 9)	**2,966,225**	2,530,182
Retirement benefits expense (Note 15)	**2,130,890**	1,046,090
Finance cost (Note 19)	**489,803**	774,621
Changes in operating assets and liabilities:		
Decrease (increase) in the amounts of:		
Loans and receivables (Note 7)	**1,803,090,668**	1,073,435,516
Other assets (Note 11)	**(670,687)**	(3,007,809)
Due from Head Office (Note 22)	**(34,640,706)**	444,895
Increase (decrease) in the amounts of:		
Deposit liabilities (Note 12)	**48,278,412**	(37,053,527)
Accrued expenses and other liabilities (Note 14)	**(5,685,271)**	(9,006,551)
Net cash generated from operations	**1,890,880,626**	1,204,651,224
Income taxes paid	**(26,337,535)**	(28,460,633)
Net cash provided by operating activities	**1,864,543,091**	1,176,190,591
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisitions of:		
Property and equipment (Note 10)	**(1,693,906)**	(566,082)
Investments at amortized cost (Note 9)	**(15,215,818)**	–
Proceeds from:		
Redemption of investments at FVOCI	**200,344,000**	–
Redemption of investments at amortized cost (Note 9)	**24,801,007**	31,152,516
Net cash provided by investing activities	**208,235,283**	30,586,434
CASH FLOWS FROM FINANCING ACTIVITIES		
Decrease in Due to Head Office (Notes 13 and 24)	**(212,130,888)**	(1,130,298,992)
Payment of lease liabilities (Note 19)	**(13,455,627)**	(13,577,852)
Net cash used in financing activities	**(225,586,515)**	(1,143,876,844)
EFFECT OF FOREIGN EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	**(2,196,437)**	(1,354,398)
NET INCREASE IN CASH AND CASH EQUIVALENTS	**1,844,995,422**	61,545,783

(Forward)

	Years Ended December 31	
	2020	2019
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		
Cash and other cash items	**₱4,024,214**	₱3,051,674
Due from Bangko Sentral ng Pilipinas	**1,947,615,344**	1,472,377,013
Due from other banks	**71,670,852**	453,492,949
Securities purchased under resale agreement	**64,157,009**	97,000,000
	2,087,467,419	2,025,921,636
CASH AND CASH EQUIVALENTS AT END OF YEAR		
Cash and other cash items	**3,333,106**	4,024,214
Due from Bangko Sentral ng Pilipinas	**2,926,178,219**	1,947,615,344
Due from other banks	**365,771,930**	71,670,852
Securities purchased under resale agreement	**637,179,586**	64,157,009
	₱3,932,462,841	₱2,087,467,419
OPERATIONAL CASH FLOWS FROM INTEREST		
Interest received	**₱205,407,022**	₱344,545,251
Interest paid	**10,679,449**	61,882,142

See accompanying Notes to Financial Statements.

1. Corporate Information

Cathay United Bank Co., Ltd. (the Head Office) is a foreign corporation organized under the laws of Republic of China. Its Philippine branch, Cathay United Bank Co., Ltd. Manila Branch (the Manila Branch), was authorized by Bangko Sentral ng Pilipinas (BSP) to operate as a full-service commercial branch on May 14, 2015.

The Manila Branch deals primarily in commercial banking activities with emphasis on corporate lending.

The ultimate parent of the Head Office is the Cathay Financial Holding Co., Ltd.

The Manila Branch's principal place of business is located at Unit 1, 15th Floor, Tower 6789, #6789 Ayala Avenue, Makati City.

Coronavirus outbreak
In late 2019, a cluster of cases displaying the symptoms of a 'pneumonia of unknown cause' were identified in Wuhan, the capital of China's Hubei province. On December 31, 2019, China alerted the World Health Organization (WHO) of the coronavirus disease 2019 (COVID-19) or coronavirus outbreak. On January 30, 2020, the International Health Regulations Emergency Committee of the WHO declared the outbreak a 'Public Health Emergency of International Concern'. Since then, the virus has spread worldwide. On March 11, 2020, the WHO announced that the coronavirus outbreak can be characterized as a pandemic. The virus has greatly impacted the economic activities.

In a move to contain the COVID-19 outbreak, on March 13, 2020, the Office of the President of the Philippines issued a Memorandum directive to impose stringent social distancing measures in the National Capital Region effective March 15, 2020. On March 16, 2020, Presidential Proclamation No. 929 was issued, declaring a State of Calamity throughout the Philippines for a period of six (6) months and imposed an enhanced community quarantine (ECQ) throughout the island of Luzon until April 12, 2020, unless earlier lifted or extended. As of March 10, 2021, different parts of the country remain to be under varying degree of community quarantine.

In order to comply with the government's measures to monitor and mitigate the effects of COVID-19, the Manila Branch provided for safety and health measures for its employees, such as social distancing and telecommuting work set-up.

At this stage, known impact of COVID-19 to the Manila Branch include decreased loan bookings compared to 2019 during the ECQ period and significant credit deterioration that resulted in net decrease in the allowance for credit losses (see Note 7).

2. Summary of Significant Accounting Policies

<u>Basis of Preparation</u>
The accompanying financial statements have been prepared on a historical cost basis except for financial assets at fair value through other comprehensive income (FVOCI) that have been measured at fair value. The financial statements are presented in Philippine Peso, the Manila Branch's presentation currency. All values are rounded to the nearest peso unless otherwise indicated.

The financial statements of the Manila Branch reflect 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 the United States Dollar (USD), respectively. For reporting purposes of the combined financial statements, FCDU accounts and foreign currency-denominated accounts in the RBU are translated into their equivalent Philippine Peso (see accounting policy on Foreign Currency Translation). The financial statements individually prepared for these units are combined after eliminating inter-unit accounts.

Statement of Compliance
The financial statements of the Manila Branch have been prepared in compliance with Philippine Financial Reporting Standards (PFRS).

Presentation of Financial Statements
The Manila Branch presents its statement of financial position in order of liquidity. An analysis regarding recovery (asset) or settlement (liability) within twelve (12) months after the reporting date (current) and more than 12 months after the reporting date (noncurrent) is presented in Note 16.

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

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

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

The adoption of these new standards did not have an impact on the financial statements of the Manila Branch:

- Amendments to PAS 1, *Presentation of Financial Statements*, and PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors, Definition of Material*
  Amendments to PFRS 16, *COVID-19-related Rent Concessions*
- Amendments to PFRS 3, *Business Combinations, Definition of a Business*
- Amendments to PFRS 7, *Financial Instruments: Disclosures* and PFRS 9, *Financial Instruments, Interest Rate Benchmark Reform*
- Conceptual Framework for Financial Reporting issued on March 29, 2018

Significant Accounting Policies

Foreign Currency Translation
The books of accounts of the RBU are maintained in Philippine Peso, while those of the FCDU are maintained in USD. For reporting purposes of the combined financial statements, foreign currency-denominated accounts in the RBU are translated into their equivalents in Philippine Peso based on the Bankers Association of the Philippines (BAP) closing rate prevailing at the reporting date for monetary assets and monetary liabilities, and at the exchange rate on transaction dates for income and

expenses. Foreign exchange differences arising from reporting foreign currency monetary transactions and restatements of foreign currency-denominated assets and liabilities are credited to or charged against 'Foreign exchange gain (loss)' in the statement of comprehensive income in the year in which the rates change.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the initial transaction date. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The FCDU accounts are translated to the Manila Branch's presentation currency at BAP closing rates prevailing at the reporting date, and income and expense accounts are translated at BAP weighted average rate for 2020 and 2019. Exchange differences arising from translation are taken directly to a separate component of equity under 'Translation adjustment'. Upon actual remittance of FCDU profits to RBU, the deferred cumulative amount recognized in the statement of comprehensive income is reclassified to profit or loss.

Fair Value Measurement

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

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

The principal or the most advantageous market must be accessible by the Manila Branch. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

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

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

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

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

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

Cash and Cash Equivalents

For the purpose of reporting cash flows, cash and cash equivalents include 'Cash and other cash items', 'Due from BSP', 'Due from other banks' and 'Securities purchased under resale agreement' that are convertible to known amounts of cash with original maturities of three months or less from dates of placements and that are subject to insignificant risk of changes in value. The components of cash and cash equivalents are shown in the statement of cash flows.

'Due from BSP' includes the statutory reserves required by the BSP which the Manila Branch considers as cash equivalents wherein withdrawals can be made to meet the Manila Branch's cash requirements as allowed by the BSP.

Securities Purchased under Resale Agreements (SPURA)

The Manila Branch enters into short-term purchases of securities under resale agreements of identical securities with BSP. Resale agreements are contracts under which a party purchases securities and resells such securities to the same selling party at a specified future date at a predetermined rate. The amounts advanced under resale agreements are carried as SPURA in the statement of financial position. SPURA is carried at cost. The corresponding interest income is reported in the statement of comprehensive income.

Securities purchased under agreements to resell at a specified future date ('reverse repos') are not recognized in the statement of financial position. The corresponding cash paid including accrued interest, is recognized in the statement of financial position as SPURA. The difference between the purchase price and resale price is treated as interest income and is accrued over the life of the agreement using the EIR method.

Financial Instruments - Initial Recognition and Subsequent Measurement

Date of recognition

Financial instruments are recognized in the statement of financial position when the Manila Branch becomes a party to the contractual provisions of the instrument. Purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace are recognized on settlement date. Settlement date accounting refers to (a) the recognition of an asset on the day it is received by the Manila Branch, and (b) the derecognition of an asset and recognition of any gain or loss on disposal on the day it is delivered by the Manila Branch. Deposit liabilities, amounts due from BSP and other banks, loans and receivables are recognized when cash is received by the Manila Branch or advanced to the borrowers .

'Day 1' difference

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

Initial recognition and measurement of financial assets
Financial assets are classified, at initial recognition, as either at amortized cost, FVOCI and fair value through profit or loss (FVPL). The classification of financial assets at initial recognition depends on their contractual terms and the business model for managing the instruments. Except for financial assets and liabilities recorded at FVPL, the initial measurement of financial instruments includes transaction costs. Receivables are measured at the transaction price. When the fair value of financial instruments at initial recognition differs from the transaction price, the Manila Branch accounts for the Day 1 profit or loss, as described above. Financial liabilities are classified as financial liabilities at FVPL or at amortized cost.

As of December 31, 2020, and 2019, the Manila Branch has no financial instruments at FVPL.

Business model assessment
The Manila Branch determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective. The Manila Branch's business model is not assessed on an instrument-by-instrument basis, but a higher level of aggregated portfolios and is based on observable factors such as:

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

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

The solely payments of principal and interest (SPPI) test
As a second step of its classification process the Manila Branch assess the contractual terms of financial assets to identify whether they meet the SPPI test.

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

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

In contrast, contractual terms that introduce a more than de minimis exposure to risk or volatility in the contractual cash flows that are solely payments of principal and interest on the amount outstanding. In such cases, the financial asset is required to be measured at FVPL.

As of December 31, 2020, and 2019, the Manila Branch assessed that all of its debt financial assets passed the SPPI test.

Financial Assets at Amortized Cost
Debt financial assets are measured at amortized cost of both of the following conditions are met:

- The asset is held within the Manila Branch's business model whose objective is to hold assets in order to collect contractual cash flows; and
- The contractual terms of the instrument give rise, on specified dates, to cash flows that are SPPI on the principal amount outstanding.

Debt financial assets meeting these criteria are measured initially at fair value plus transaction costs. They are subsequently measured at amortized cost using effective interest method less any impairment in value, with the interest calculated recognized as 'Interest income' in the statement of comprehensive income. The ECL are recognized in the statement of comprehensive income under 'Other expenses'. Gains or losses arising from disposals of these instruments are included in 'Other income' in the statement of comprehensive income.

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

As of December 31, 2020 and 2019, the Manila Branch's financial assets measured at amortized cost include 'Due from BSP', 'Due from Other Banks', 'SPURA', 'Financial Assets at Amortized Cost', 'Loans and Receivables' and other loans and security deposits under 'Other Assets'.

Financial Assets at FVOCI
Investment securities at FVOCI include debt securities. Debt instruments are measured at FVOCI when both the following conditions are met:

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

Subsequently, these are measured at fair value with gains or losses arising due to changes in fair value recognized in OCI under 'Net unrealized gains (losses) on financial assets at FVOCI'. Interest income and foreign exchange gains and losses are recognized in the statement of comprehensive income in the same manner as for financial assets measured at amortized cost. Expected credit loss (ECL) on FVOCI debt assets are recognized under provision for credit and impairment losses in the statements of comprehensive income with the corresponding amount recognized in OCI.

On derecognition, cumulative gains or losses previously recognized in OCI are reclassified from OCI to the statement of comprehensive income.

Financial liabilities at amortized cost
Issued financial instruments or their components, which are not designated at FVPL, are classified as liabilities under 'Deposit Liabilities', 'Due to Head Office', 'Lease Liability' and financial liabilities presented under 'Accrued Expenses and Other Liabilities' where the substance of the contractual arrangement results in the Manila Branch having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset. The components of issued financial instruments that contain both

liability and equity elements are accounted for separately, with the equity component being assigned the residual amount after deducting from the instrument as a whole the amount separately determined as the fair value of the liability component on the date of issue.

After initial measurement, financial liabilities not qualified and not designated as FVPL are subsequently measured at amortized cost using the effective interest method. Amortized cost is calculated by taking into account any discount or premium on the issue and fees that are an integral part of the EIR.

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

For non-credit-impaired financial instruments:

- Stage 1 is comprised of all non-impaired financial instruments which have not experienced a SICR since initial recognition. The Manila Branch recognizes a 12-month ECL for Stage 1 financial instruments.
- Stage 2 is comprised of all non-impaired financial instruments which have experienced a SICR since initial recognition. The Manila Branch recognizes a lifetime ECL for Stage 2 financial instruments.

For credit-impaired financial instruments:

- Financial instruments are classified as Stage 3 when there is objective evidence of impairment as a result of one or more loss events that have occurred after initial recognition with a negative impact on the estimated future cash flows of a loan or a portfolio of loans. The ECL model requires that lifetime ECL be recognized for impaired financial instruments.

Refer to Note 4 for the Manila Branch's ECL methodology.

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

When the loan has been restructured but not derecognized, the Manila Branch also reassesses whether there has been a SICR and considers whether the assets should be classified as Stage 3. If the restructuring terms are substantially different, the loan is derecognized and a new 'asset' is recognized at fair value using the revised EIR.

Reclassification of Financial Assets

The Manila Branch can only reclassify financial assets if the objective of its business model for managing those financial assets changes. Accordingly, the Manila Branch is required to reclassify financial assets: (i) from amortized cost or FVOCI to FVPL, if the objective of the business model changes so that the amortized cost or FVOCI criteria are no longer met; and (ii) from FVPL to amortized cost or FVOCI, if the objective of the business model changes so that the amortized cost or FVOCI criteria start to be met and the characteristic of the instrument's contractual cash flows are SPPI; and (iii) from amortized cost to FVOCI if the business model changes so that the objectives becomes both to collect contractual cash flows and to sell or from FVOCI to amortized cost if the objective of the business model becomes solely for the collection of contractual cash flows.

A change in business model occurs when the Manila Branch either begins or ceases to perform an activity that is significant to its operations. A change in the objective of the Manila Branch's business model will be effected only at the beginning of the next reporting period following the change in the business model.

Derecognition of Financial Assets and Financial Liabilities

Financial assets

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

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

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

Write-offs

Financial assets are written off either partially or in their entirety when the Manila Branch no longer expects collections or recoveries within a foreseeable future. If the amount to be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount. Any subsequent recoveries are credited to credit loss expense.

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

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

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

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

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

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

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

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

portion of the undrawn loan commitments that will be drawn over their expected life. The ECL related to undrawn loan commitments is recognized in 'Other expenses' under 'Accrued Expenses and Other Liabilities'

Exchange or modification of financial liabilities
The Manila Branch considers both qualitative and quantitative factors in assessing whether a modification of financial liabilities is substantial or not. The terms are considered substantially different if the present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10% different from the present value of the remaining cash flows of the original financial liability. However even where the present value of the cash flows under the new terms is less than 10% different from the present value of the remaining cash flows of the original financial liability, where the modification of the financial liability is so fundamental, immediate derecognition of the original financial liability (e.g., restructuring a financial liability to include an embedded equity component) and the recognition of a new liability are appropriate. The difference between the carrying value of the original financial liability and the fair value of the new liability is recognized in profit or loss.

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

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

Property and Equipment
Property and equipment are stated at cost less accumulated depreciation and amortization, and any impairment in value.

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

Depreciation is computed using the straight-line method based on the estimated useful lives (EULs) of the assets as follows:

	EULs
Furniture and fixtures (including leasehold improvements)	2 to 5 years
Information technology (IT) equipment	3 to 5 years
Computer software	3 to 5 years

The depreciation method and useful life are reviewed periodically to ensure that the method and period of depreciation 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 the statement of comprehensive income in the year the asset is derecognized.

The Manila Branch determines whether an asset that incorporates both intangible and tangible elements should be treated as property and equipment or as an intangible asset, the Manila Branch uses judgment to assess which element is more significant. Computer software for a computer-controlled machine tool that cannot operate without that specific software is an integral part of the related hardware and is treated as property and equipment. The same applies to the operating system of a computer. When the software is not an integral part of the related hardware, computer software is treated as an intangible asset.

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

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

Right-of-use assets
The Manila Branch recognizes right-of-use assets presented as separate line item in the statement of financial position at the commencement date of the lease (i.e., the date the underlying is available for use). Right-of-use assets are measured at cost, less accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognized, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received and estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets, which ranges from 2 to 3 years. The depreciation expense is presented under 'Depreciation' in the statement of comprehensive income. Right-of-use assets are also subject to the impairment policy on non-financial assets.

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

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

Manila Branch uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g., changes to future payment resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.

S*hort-term leases and leases of low-value assets*
The Manila Branch applies the short-term lease recognition exemption to its short-term leases of machinery and equipment (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered to be low value (i.e. below ₱250,000). Lease payments on short-term leases and leases of low value assets are recognized as expense on a straight-line basis over the lease term.

As of December 31, 2020, and 2019, the Manila Branch is not a lessor to any lease arrangement.

Impairment of Non-financial Assets
At each reporting date, the Manila Branch assesses whether there is any indication that its non-financial assets may be impaired. When an indicator of impairment exists or when an annual impairment testing for an asset is required, the Manila Branch makes a formal estimate of recoverable amount.

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

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 assessments of the time value of money and the risks specific to the asset.

An impairment loss is charged against profit or loss in the statement of comprehensive income in the year in which it arises.

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses on non-financial assets 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, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in profit or loss in the statement of comprehensive income. After such a reversal, the depreciation expense is adjusted in future years to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining life.

Equity

Permanently assigned capital

Permanently assigned capital represents the capital permanently assigned by the Head Office of the Manila Branch.

Revenue Recognition

Revenue from contracts with customers is recognized when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Manila Branch expects to be entitled in exchange for those goods or services. The Manila Branch has assessed that it is acting as principal in all arrangements. The following specific recognition criteria must also be met before revenue is recognized:

Revenues within the scope of PFRS 15, Revenue from Contracts with Customers

Facility fee and other fees included under 'Other income'

The Manila Branch earns fees from a diverse range of services it provides to its customers. Fees arising from negotiating or participating in a transaction with a third party - such as loan syndication fees - are recognized when services are rendered and completed. Fees or components of fees that are linked to a certain performance are recognized after fulfilling the corresponding criteria.

Revenues outside the scope of PFRS 15

Interest income

For all financial instruments measured at amortized cost, interest income is recorded at the EIR, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability.

The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options), includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the EIR, but not future credit losses. The carrying amount of the financial asset is adjusted if the Manila Branch revises its estimates of receipts. The adjusted carrying amount is calculated based on the original EIR. The change in carrying amount is recorded as 'Interest income'. Loan commitment fees that are likely to be drawn down are deferred (together with any incremental costs) and recognized as an adjustment to the EIR of the loan.

When a financial asset becomes credit-impaired and is, therefore, regarded as Stage 3, the Manila Branch calculates interest income by applying the EIR to the net amortized cost of the financial asset. If the financial asset cures and is no longer credit-impaired, the Manila Branch reverts to calculating interest income on a gross basis.

Foreign exchange gain (loss)

This refers to the revaluation of and realized profit or actual loss incurred on foreign exchange transactions arising from the adjustment of the peso equivalent of foreign monetary accounts.

Expense Recognition

Expenses are recognized when it is probable that a decrease in future economic benefit related to a decrease in an asset or an increase in liability has occurred and the decrease in economic benefits can be measured reliably. Revenues and expenses that relate to the same transaction or other event are recognized simultaneously.

Interest expense

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

Other expense
Expenses encompass losses as well as those expenses that arise in the ordinary course of business of the Manila Branch. Expenses are recognized when incurred.

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

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

Defined benefit costs comprise the following:

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

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

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

Remeasurements comprising of actuarial gains and losses, excluding net interest on defined benefit liability are recognized immediately in OCI in the period in which they occur.

Remeasurements are not reclassified to the statement of comprehensive income in subsequent periods.

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

Short-term benefits given by the Manila Branch to its employees include salaries and wages, social security contributions and bonuses.

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

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

Deferred tax liabilities are recognized for all taxable temporary differences, with certain exceptions. Deferred tax assets are recognized for all deductible temporary differences, carryforward of unused tax credits from excess minimum corporate income tax (MCIT) over the regular corporate income tax (RCIT) and unused net operating loss carryover (NOLCO) to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carryforward of unused MCIT and unused NOLCO can be utilized. Deferred tax assets, however, are not recognized on temporary differences that arise from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting income nor taxable income.

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

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

Current tax and deferred tax relating to items recognized directly in equity as OCI is also recognized in OCI and not in profit or loss.

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

Where the Manila Branch expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is recorded in the statement of comprehensive income net of any reimbursement. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized under 'Interest expense' in the statement of comprehensive income.

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

Events after the Reporting Date
Post-year-end events that provide additional information about the Manila Branch's position at reporting date (adjusting events) is reflected in the financial statements. Post-year-end events that are not adjusting events, if any, are disclosed when material to the financial statements.

Standards Issued but not yet Effective
Pronouncements issued but not yet effective are listed below. Unless otherwise indicated, the Manila Branch does not expect that the future adoption of the said pronouncements will have a significant impact on its financial statements. The Manila Branch intends to adopt the following pronouncements when they become effective.

Effective beginning on or after January 1, 2021
- Amendments to PFRS 9, PFRS 7, PFRS 4 and PFRS 16, *Interest Rate Benchmark Reform – Phase 2*

Effective beginning on or after January 1, 2022
- Amendments to PFRS 3, *Reference to the Conceptual Framework*
- Amendments to PAS 16 , *Plant and Equipment: Proceeds before Intended Use*
- Amendments to PAS 37, *Onerous Contracts – Costs of Fulfilling a Contract*
- *Annual Improvements to PFRSs* 2018-2020 Cycle
  - Amendments to PFRS 1, *First-time Adoption of Philippines Financial Reporting Standards, Subsidiary as a first-time adopter*
  - Amendments to PFRS 9, *Financial Instruments*, *Fees in the '10 per cent' test for derecognition of financial liabilities*
  - Amendments to PAS 41, *Agriculture, Taxation in fair value measurements*

Effective beginning on or after January 1, 2023
- Amendments to PAS 1, *Classification of Liabilities as Current or Non-current*
- PFRS 17, *Insurance Contracts*

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

3. **Significant Accounting Judgments and Estimates**

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

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

Judgments

a) *Fair value of financial assets*
When the fair values of financial instruments recorded or disclosed in the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values.

The carrying values and corresponding fair values of financial instruments as well as the manner in which fair values were determined are discussed in Note 5.

b) *Evaluation of business model in managing financial assets*
The Manila Branch manages its financial assets based on business models that maintain adequate level of financial assets to match its expected cash outflows, largely arising from customers' withdrawals and continuing loan disbursements to borrowers.

The business model criteria may be applied at the level of a portfolio of financial instruments (i.e. Manila Branch of financial instruments that are managed together by the Manila Branch) but not on an instrument-by-instrument basis (i.e. not based on intention for each individual financial instrument). This may include, for instance, a portfolio of investments that the Manila Branch manages in order to collect contractual cash flows and another portfolio of investments that the Manila Branch manages in order to trade to realize fair value changes. The Manila Branch's business model is determined at portfolio level, which reflects how group of financial assets are managed together to achieve a particular business objective. Business model test assessment is a matter of fact, rather than merely an assertion.

In addition, PFRS 9 emphasizes that if more than an infrequent and more than an insignificant sale is made out of a portfolio of financial assets carried at amortized cost, an entity should assess whether and how such sales are consistent with the objective of collecting contractual cash flows. In making this judgment, the Manila Branch considers certain circumstances to assess that an increase in the frequency or value of sales of financial instruments in a particular period is not necessarily inconsistent with a held-to-collect business model if the Manila Branch can explain the reasons for those sales and why those sales do not reflect a change in the Manila Branch's objective for the business model.

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

In December 16, 2019, the Manila Branch assigned its loans and receivables to another bank at its carrying amount of ₱506.14 million (US$10.00 million). The assignment of said loans was made to follow the Head Office's new credit policy of granting loans that is consistent to "Green Projects" (Note 7).

The disposal of the loan through assignment, while significant to the loan portfolio, is infrequent and consistent with the business model of the Manila Branch on hold-to-collect financial assets. Further, these disposals did not result in a change in business model and the remaining portfolio after the sale remains to be accounted for at amortized cost

c) *Testing the cash flow characteristics of financial assets*
The Manila Branch assesses the terms of instruments to identify whether the contractual cash flows are 'solely payments of principal and interest on the principal amount outstanding' ("SPPI"). Financial assets that are consistent with a basic lending arrangement are considered to meet the SPPI criterion. In this context, the term 'basic lending arrangement' is used broadly to capture both originated and acquired financial assets, the lender or the holder of which is looking to earn a return that compensates primarily for the time value of money and credit risk.

In determining the classification of financial assets under PFRS 9, the Manila Branch assesses whether the contractual terms of the financial assets give rise on specified dates to cash flows that are SPPI on the principal outstanding, with interest representing time value of money and credit risk associated with the principal amount outstanding. The assessment as to whether the cash flows meet the test is made in the currency in which the financial asset is denominated. Any other contractual term that changes the timing or amount of cash flows (unless it is a variable interest rate that represents time value of money and credit risk) does not meet the amortized cost criteria.

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

The Manila Branch has several lease contracts that include extension and termination options. The Manila Branch applies judgement in evaluating whether it is reasonably certain whether or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination. After the commencement date, the Manila Branch reassesses the lease term if there is a significant event or change in circumstances that is within its control that affects its ability to exercise or not to exercise the option to renew or to terminate (e.g., construction of significant leasehold improvements or significant customisation of the leased asset).

<u>Estimates</u>
The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, which have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next period, are described below. The Manila Branch based its assumptions and estimates on parameters available when the financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances beyond the control of the Manila Branch. Such changes are reflected in the assumptions when they occur.

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

The Manila Branch's ECL calculations are outputs of complex models developed by the Head Office. The choice of variable inputs and their interdependencies involves a series of assumptions. ECL models are developed by leveraging in existing internal rating models and loss estimates, behavioral models and forecasting factors. Explanation of the inputs, assumptions and estimation techniques used in measuring ECL is further detailed in Note 4, which also sets out key sensitivities of the ECL to changes in these elements.

A number of significant judgments are also required in applying the accounting requirements for measuring ECL, such as:

- Determining criteria for SICR;
- Choosing appropriate models and assumptions for the measurement of ECL;
- Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and the associated ECL; and
- Establishing groups of similar financial assets for the purpose of measuring ECL.

Refer to Note 4 for detailed discussions regarding the significant judgments and estimates in relation to ECL methodology.

The carrying values of loans and receivables and allowance for credit and impairment losses are disclosed in Note 7.

b) *Recognition of deferred taxes*
Deferred tax assets are recognized for all unused tax losses and temporary differences to the extent that it is probable that taxable profit will be availed against which the losses can be utilized.

Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

The unrecognized deferred tax assets as of December 31, 2020 and 2019 are disclosed in Note 21.

c) *Estimating the incremental borrowing rate*
If the Manila Branch cannot readily determine the interest rate implicit in the lease, it uses its IBR to measure lease liabilities. The IBR is the rate of interest that the Manila Branch would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Manila Branch 'would have to pay', which requires estimation when no observable rates are available (such as for subsidiaries that do not enter into financing transactions) or when they need to be adjusted to reflect the terms and conditions of the lease (for example, when leases are not in the subsidiary's functional currency). The Manila Branch estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates (such as the Manila Branch's borrowing rates from banks).

The carrying amount of the Manila Branch's lease liability as of December 31, 2020 is disclosed in Note 19.

d) *Present value of defined benefit obligation*
The cost of defined benefit retirement plan and other post-employment benefits is determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, future salary increases, and mortality rates. Due to the complexity of the valuation, the underlying assumptions and long-term nature of these plans, such estimates are subject to significant uncertainty. All assumptions are reviewed at each reporting date.

In determining the appropriate discount rate, management considers the market yields on Philippine government bonds with terms consistent with the expected employee benefit payout at reporting date, with extrapolated maturities corresponding to the expected duration of the defined benefit obligation. Future salary increases are based on expected future inflation rates for the specific country. The mortality rate is based on publicly available mortality tables for the specific country and is modified accordingly with estimates of mortality improvements. The present value of the retirement liability and fair value of plan assets are disclosed in Note 16.

4. Financial Risk Management Objectives and Policies

The main purpose of the Manila Branch's financial instruments is to fund its operations and capital expenditures.

The Manila Branch has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

The Manila Branch's risk management policies are summarized below:

Risk Management Framework
The Head Office's Board of Directors (BOD) is responsible for the overall risk management approach and for approving the risk strategies and principles of the Manila Branch. The Manila Branch adopts and follows all risk management policies of the Head Office except for certain circumstances which would require separate treatment under local regulatory policies. In such cases, the Manila Branch shall establish its own risk management policy subject to the approval of the Head Office.

Based on the operating environment and business objective of Manila Branch, the Head Office provides specific assistance to promote its own risk management function regarding credit risk, market risk and operational risk.

The following summarizes the review performed by the management on the Manila Branch's policies for managing each risk:

<u>Credit Risk</u>
Credit risk is the risk of financial loss to the Manila Branch if the counterparty to a financial instrument fails to meet its contractual obligations. The Manila Branch manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and for geographical and industry concentrations, and by monitoring exposures in relation to such limits.

Management of credit risk
Manila Branch's management of credit risk is mainly based on the Head Office's policies and criteria. Other credit risk-related policies and criteria mainly include loan policy, loan credit authorization policy, collateral management policy, and loan account review policy.

The Head Office maintains a strict policy in evaluating customers' credit ratings when providing loan commitments and commercial letters of credit transactions. Certain customers are required to provide appropriate collateral for the related loans and the Manila Branch retain the legal right to foreclose on or liquidate the collateral.

The disclosure of the maximum credit exposure shall take into account any collateral held or other enhancements.

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

	Gross maximum exposure	**Net exposure**	**Financial effect of collateral or credit enhancement**
2020			
SPURA*	**₱637,285,782**	**₱–**	**₱637,285,782**
Corporate loans*	**1,574,167,204**	**1,524,123,160**	**50,044,044**

**Outstanding balance net of allowance plus accrued interest receivable*

	Gross maximum exposure	Net exposure	Financial effect of collateral or credit enhancement
2019			
SPURA*	₱64,192,651	₱–	₱64,192,651
Corporate loans*	2,916,709,723	2,867,123,467	49,586,256
Interbank call loan	405,997,619	405,997,619	–

**Outstanding balance net of allowance plus accrued interest receivable*

As of December 31, 2020, and 2019, off-balance sheet exposures related to outstanding loan commitments amounted to ₱977.19 million and ₱850.00 million, respectively (Note 23).

Offsetting of financial assets and liabilities
The amendments to PFRS 7 require the Manila Branch to disclose information about rights of offset and related arrangements (such as collateral posting requirements) for financial instruments under an enforceable master netting agreements or similar arrangements. The effects of these arrangements are disclosed in the succeeding table.

December 31, 2020						
				Effects of remaining rights of set-off (including rights to set off financial collateral) that do not meet PAS 32 offsetting criteria		
Financial instruments recognized at end of reporting period by type	**Gross carrying amounts (before offsetting)**	**Gross amounts offset in accordance with the offsetting criteria**	**Net amount presented in statements of financial position [a-b]**	**Financial instruments**	**Fair value of financial collateral**	**Net exposure [c-d]**
	[a]	**[b]**	**[c]**	**[d]**		**[e]**
Financial assets						
SPURA	**₱637,179,586**	**₱–**	**₱637,179,586**	**₱–**	**₱637,179,586**	**₱–**
Due from Head Office	**7,239,382**	**7,239,382**	**–**	**–**	**–**	**–**
Financial liabilities						
Due to Head Office	**1,157,253,933**	**7,239,382**	**1,150,014,551**	**–**	**–**	**–**

December 31, 2019							
				Effects of remaining rights of set-off (including rights to set off financial collateral) that do not meet PAS 32 offsetting criteria		
Financial instruments recognized at end of reporting period by type	Gross carrying amounts (before offsetting)	Gross amounts offset in accordance with the offsetting criteria	Net amount presented in statements of financial position [a-b]	Financial instruments	Fair value of financial collateral	Net exposure [c-d]
	[a]	[b]	[c]	[d]		[e]
Financial assets						
SPURA	₱64,157,009	₱–	₱64,157,009	₱–	₱64,157,009	₱–
Due from Head Office	1,435,000	1,435,000	–	–	–	–
Financial liabilities						
Due to Head Office	1,395,775,532	1,435,000	1,394,340,532	–	–	–

Collateral and other credit risk mitigation
As of December 31, 2020 and 2019, the Manila Branch holds collateral for a corporate client with maximum exposure of ₱50.04 million and ₱50.09 million, respectively, in the form of time deposit maintained in the Head Office.

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

As of December 31, 2020 and 2019, all of the Manila Branch's financial assets are located in the Philippines, except for the deposits in Head Office amounting to ₱7.24 million and ₱1.44 million, respectively, which are presented within the 'Due to Head Office' account.

The Manila Branch considers risk concentration to be present in financial assets when the total exposure to a particular industry or sector exceeds 30.00% of the total financial assets, similar to BSP requirements. Identified concentrations of risks are controlled and managed accordingly.

Shown below is the analysis of concentrations of credit risk arising from financial assets (net of any unamortized discount) at the reporting date (in thousands):

2020	Loans and receivables	Other financial assets*	Off-balance sheet exposures	Total
Financial services	**₱708,075**	**₱4,991,994**	**₱300,000**	**₱6,000,069**
Manufacturing	**872,897**		**677,190**	**1,550,087**
Property	**-**	**-**		**-**
Consumers	**362**	**4,321**	**-**	**4,683**
	₱1,581,334	**₱4,996,315**	**₱977,190**	**₱7,554,839**

**Other financial assets include due from BSP and other banks, financial assets at amortized costs, and refundable security deposits*

2019	Loans and receivables	Other financial assets*	Off-balance sheet exposures	Total
Financial services	₱2,449,505	₱3,369,784	₱800,000	₱6,619,289
Manufacturing	911,599	–	50,000	961,599
Property	–	12,956	–	12,956
Consumers	12,274	–	–	12,274
	₱3,373,378	₱3,382,740	₱850,000	₱7,606,118

**Other financial assets include due from BSP and other banks, financial assets at FVOCI and amortized costs, and refundable security deposits*

Credit quality per class of financial assets
The Manila Branch's bases in grading its financial assets are as follows:

- *Pass grade* - These refer to credit assets which have high probability of collection.
- *Special mention* - These refer to credit assets that have been evaluated as having sufficient collateral and on which the borrower's principal or interest payments have been in arrears, or those credit assets evaluated as unsecured and on which the borrower's principal or interest payments have been in arrears for one month to three months or those credit assets that have not yet come due or reached their maturity date, but the borrower of which has other instances of poor creditworthiness.
- *Substandard* - These are credit assets that have been evaluated as having sufficient collateral and on which the borrower's principal or interest payments have been in arrears for twelve months or more or those credit assets evaluated as unsecured and on which the borrower's principal or interest payments have been in arrears for three months to six months.
- *Doubtful* - These are credit assets evaluated as unsecured and on which the borrower's principal or interest payments have been in arrears for six months to twelve months.
- *Loss* - These are credit assets evaluated as unsecured and on which the borrower's principal or interest payments have been in arrears for twelve months or more or those credit assets evaluated as impossible to obtain repayment.

As of December 31, 2020, and 2019, the Manila Branch has no past due or impaired and restructured receivables. All financial instruments are classified under pass grade.

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

Impairment Assessment
The impairment process of the Manila Branch involves grouping its credit exposure into Stage 1, Stage 2 and Stage 3, as described below:

- Stage 1: When loans are first recognized, the Manila Branch recognizes an allowance based on 12-month ECL. Stage 1 loans also include facilities where the credit risk has improved and the loan has been reclassified from Stage 2. This also includes credit exposures with less than 30 days past due and those watch list exposures not classified as Stage 2 after manual assessment are classified as Stage 1.

- Stage 2: When a loan has shown a significant increase in credit risk since origination, the Manila Branch records an allowance for the lifetime ECL. Stage 2 loans also include facilities, where the credit risk has improved and the loan has been reclassified from Stage 3. This also includes exposures include those with 30 days past due, manually identified by the Manila Branch as Stage 2 and/or non-retail common customers which hit the notch downgrade rule of the Head Office.

- Stage 3: Loans considered credit-impaired (as outlined in Note 5). The Manila Branch records an allowance for the lifetime ECL. Lifetime ECL is recognized for credit-impaired financial instruments as Stage 3 if one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred and interest will then be accrued net of the impairment amount of the respective stage 3 financial assets.

The credit quality of the Manila Branch's loans and receivables as of December 31, 2020 and 2019 follow:

Gross loans and receivables	2020	2019
Stage 1	**₱878,321,762**	₱3,373,378,298
Stage 2	**703,012,500**	–
	₱1,581,334,262	₱3,373,378,298

Allowance for credit losses	2020	2019
Stage 1	**₱777,159**	₱8,161,944
Stage 2	**1,828,831**	–
	₱2,605,990	₱8,161,944

As of December 31, 2020, and 2019, the Manila Branch's financial assets other than loans and receivables are classified under Stage 1.

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

Definition of default
The Manila Branch considers a financial instrument defaulted and therefore Stage 3 (credit-impaired) for ECL when on or more events that have detrimental impact on the estimated future cash flows have occurred.

The Manila Branch identifies a financial asset as impaired if the financial asset is past due for 90 days or the borrower is unlikely to pay in full for the credit obligations to the Manila Branch.

Such events include:

a. Relief
b. Reorganization
c. Individual negotiation for the debtor's financial difficulty
d. Borrowers meet material incidents or the reported event listed in The Rules of Emergency Credit Event Report which might cause material loss and impact on the Manila Branch's continuous management
e. Other creditors adopt compulsory execution of collaterals
f. Loans are not overdue but creditors seek payment through legal suits
g. Debt negotiation mechanism, pre-negotiation mechanism
h. The initial (external) rating of the loan position reaches default level on the reporting day. When such events occur, the Manila Branch carefully considers whether the event should result in treating the customer as defaulted. An instrument is considered to be no longer in default (i.e., to have cured) when it no longer meets any of the default criteria for a consecutive period of 180 days (i.e. consecutive payments from the borrowers for 180 days).

The ECL calculation of the Manila Branch is a function of the Probability of Default (PD), Exposure at Default (EAD) and Loss Given Default (LGD), with the timing of the loss also considered, and is estimated by incorporating forward-looking economic information and through the use of experienced credit judgment.

The PD represents the likelihood that a credit exposure will not be repaid and will go into default. EAD represents an estimate of the outstanding amount of credit exposure at the time a default may occur. For off-balance sheet and undrawn amounts, EAD includes an estimate of any further amounts to be drawn at the time of default. LGD is the amount that may not be recovered in the event of default. LGD takes into consideration the amount and quality of any collateral held.

The Manila Branch incorporates forward-looking information such as GDP growth and percentage of investment to GDP into its measurement of ECL. A broad range of forward-looking information were considered for the economic inputs. The inputs and models used for calculating ECL may not always capture all characteristics of the market at the date of the financial statements. To address this, quantitative adjustments or overlays are occasionally made as temporary adjustments when such differences are significantly material. In response to the dramatic change in the economic outlook due to the COVID-19 pandemic, the Manila Branch recalibrated PD based on a historical multiplier. This enhancement aims to ensure that provisions for credit losses are sufficient and robust.

Liquidity Risk
Liquidity or funding risk is the risk that an entity will encounter difficulty in raising funds to meet commitments associated with the financial instruments. Liquidity risk may result from either the inability to sell financial assets quickly at their fair values, counterparty failing on repayment of a contractual obligation or inability to generate cash inflows as anticipated.

The Manila Branch manages its liquidity risk by ensuring that the excess of maturing liabilities over maturing assets in any period is kept to manageable levels relative to the amount of funds the Manila Branch believe they can generate within that period. As part of liquidity risk management, the Manila Branch focus on number of components including tapping available sources of liquidity, preserving necessary funds at reasonable cost and continuous contingency planning.

Liquidity is monitored by the Manila Branch on a regular basis and under stressed situations using gap analysis. The maturity profile of the Manila Branch's financial instruments, based on contractual undiscounted cash flows, is shown below (in thousands):

	December 31, 2020						
	On demand	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	Beyond 1 year	Total
Financial Assets							
Cash and other cash items	₱3,333	₱–	₱–	₱–	₱–	₱–	3,333
Due from BSP*	8,178	2,918,544	–	–	–	–	2,926,722
Due from other banks*	125,657	240,115	–	–	–	–	365,772
SPURA*	–	637,286	–	–	–	–	637,286
Financial assets at amortized cost*	–	48,023	6,207	513,120	5,407	513,390	1,086,147
Loans and receivables*	–	812,208	801,218	–	–	–	1,613,426
	₱137,168	₱4,656,176	₱807,425	₱513,120	₱5,407	₱513,390	₱6,632,686
Financial Liabilities							
Deposit liabilities							
Savings	₱52,480	₱–	₱–	₱–	₱–	₱–	52,480
Time*	–	–	960	27,555	–	–	28,515
Due to Head Office*	17,872	1,008,567	123,659	–	–	–	1,150,098
Accrued expenses and other liabilities	13,161	–	–	–	–	–	13,161
Lease liability	–	979	1,958	2,936	6,069	21,172	33,114
	83,513	1,009,546	126,577	30,491	6,069	21,172	1,277,368
Net undiscounted financial asset (liability)	₱53,655	₱3,646,630	₱680,848	₱482,629	(₱662)	₱492,218	₱5,355,318

**Includes future interest*

	December 31, 2019						
	On demand	Up to 1 month	1 to 3 months	3 to 6 months	6 to 12 months	Beyond 1 year	Total
Financial Assets							
Cash and other cash items	₱4,024	₱–	₱–	₱–	₱–	₱–	₱4,024
Due from BSP*	5,615	1,947,128	–	–	–	–	1,952,743
Due from other banks*	71,671	–	–	–	–	–	71,671
SPURA*	–	64,183	–	–	–	–	64,183
Financial assets at FVOCI*	–	385	1,417	200,627	–	–	202,429
Financial assets at amortized cost*	–	3,871	16,716	14,290	21,057	1,115,088	1,171,022
Loans and receivables*	58,773	1,263,606	2,070,171	–	–	–	3,392,550
	140,083	3,279,173	2,088,304	214,917	21,057	1,115,088	6,858,622
Financial Liabilities							
Deposit liabilities							
Savings	₱29,005	₱–	₱–	₱–	₱–	₱–	₱29,005
Time*	–	–	1,050	4,303	–	–	5,353
Due to Head Office*	52,513	1,125,134	332,848	–	–	–	1,510,495
Accrued expenses and other liabilities	19,048	–	–	–	–	–	19,048
Lease liability	–	678	1356	2033	1356	–	5,423
	100,566	1,125,812	335,254	6,336	1,356	–	1,569,324
Net undiscounted financial asset (liability)	₱39,517	₱2,153,361	₱1,753,050	₱208,581	₱19,701	₱1,115,088	₱5,289,298

**Includes future interest*

Market Risk

Market risk is the risk of changes in the fair value of financial instruments from fluctuations in foreign exchange rates (currency risk) and market interest rates (interest rate risk), whether such change in prices are caused by factors specific to the individual instrument or its issuer or factors affecting all instruments traded in the market.

The Head Office has the Market Risk Management Department (MRMD) and the Committee of Assets and Liabilities Management Committee (CALMC) who are responsible for monitoring market risk management. MRMD and CALMC periodically examine the Manila Branch's structure of assets and liabilities, plan the pricing principle of deposit and loan and financing and using scheme of medium and long term funding while executing the market risk management, MRMD periodically provides the related information of management and reports to the authorized managers of the Manila Branch for the management system, such as risk limit management, calculating of profit and loss, and risk analysis, in order to control the overall market risk.

Interest rate risk

The interest rate risk of the Manila Branch mainly measures the repricing risk that is caused by the difference between maturity date and repricing date of the assets, liabilities, and off-balance sheet items in banking book.

To stabilize long-term profitability and ensure business growth, the Manila Branch sets the monitoring indicators of interest sensitivity in major terms and implements stress test. Each interest risk indicator and the result of stress test are reported to the executive management regularly for review.

The Manila Branch measures the sensitivity of its financial assets and liabilities to interest rate fluctuations by way of a 'repricing gap' analysis using the repricing characteristics of its statement of financial position tempered with approved assumptions. As of December 31, 2020 and 2019, loans and receivables subject to periodic interest repricing amounted to ₱50.00 million and ₱2,212.90 million, respectively. There are no outstanding financial liabilities subject to interest rate repricing in 2020 and 2019.

The table below shows impact of changes in interest rates in the Manila Branch's net interest income as of December 31, 2020 and 2019:

	December 31, 2020	
Change in interest rates	**+1.00%**	**-1.00%**
Financial Assets		
Investments at Amortized Cost	**₱1,292,759**	(₱1,292,759)
Corporate loans	**11,490,833**	(11,490,833)

	December 31, 2019	
Change in interest rates	1.00%	-1.00%
Financial Assets		
Investments at Amortized Cost	₱1,443,000	(₱1,443,000)
Corporate loans	22,129,044	(22,129,044)

Foreign currency risk
Foreign currency risk is the risk to earnings or capital arising from changes in the foreign exchange rates. It is also known as translation risk that arises from accrual amounts denominated in foreign currency, including loan receivables and deposit liabilities. The Manila Branch takes an exposure to effects on the fluctuations in the prevailing foreign currency exchange rates on its cash flows.

The Manila Branch's foreign currency risk originates from its holdings of foreign currency denominated assets (foreign exchange assets) and foreign currency denominated liabilities (foreign exchange liabilities).

Foreign banks are required by the BSP to match the foreign currency-denominated assets with the foreign currency-denominated liabilities held through FCDUs. In addition, the BSP requires a 30.00% liquidity reserve on all foreign currency-denominated liabilities held through FCDUs. In 2020 and 2019, the Manila Branch is in compliance with the said regulation.

As of December 31, 2020, and 2019, the Manila Branch is not exposed to foreign currency risk as transactions in the RBU and FCDU are denominated in their respective functional currencies.

5. Fair Value Measurement

The Manila Branch uses a hierarchy for determining and disclosing the fair value of its assets and liabilities (see accounting policy on Fair Value Measurement in Note 2).

The following methods and assumptions used in estimating the fair values of the Manila Branch's financial instruments are:

Cash and other cash items, due from BSP, due from other banks, SPURA, deposit liabilities, due to head office and accrued expenses and other current liabilities.
The carrying amounts of these financial assets and liabilities approximate fair values due to the relatively short-term maturity of these financial instruments. The carrying amount of deposit liabilities and other short-term liabilities approximate fair value considering that these are either due or demandable or with short-term maturities.

Loans and receivables
Fair values of corporate loans are estimated using the discounted cash flow methodology, where future cash flows are discounted using the Manila Branch's current incremental lending rates for similar types of loans and receivables. When loans and receivables have short-term maturities, carrying amounts approximate the fair values. As of December 31, 2020 and 2019, current incremental lending rate of corporate loans is 1.54% to 5.35% and 7.13%, respectively.

Financial assets at FVOCI and at amortized cost
Quoted securities classified as Financial assets at FVOCI and financial assets at amortized cost have fair values that are generally based on quoted market prices, which is within the bid-ask price. Where the government debt securities are not quoted or the market prices are not readily available, the fair value is determined in reference to interpolated PH BVAL reference rates provided by the Philippine Dealing and Exchange Corporation (PDEx). Financial assets at FVOCI and financial assets at amortized cost of the Manila Branch are categorized as Level 1 and 3.

Guarantee deposits
The Manila Branch's financial instruments where the carrying values do not approximate fair value pertain to the guarantee deposits recorded under 'Other assets'. These are reported at cost and are not significant in relation to the Manila Branch's financial asset portfolio.

Fair Value Hierarchy
The Manila Branch has categorized its financial instruments that are either measured in the statements of financial position at fair value or of which the fair value is disclosed, into a three-level hierarchy based on the priority of the inputs to the valuation.

As of December 31, 2020, and 2019, the Manila Branch held the following financial assets and liabilities measured at cost (except those where amortized cost approximate fair values) but for which fair value are disclosed and their corresponding level in fair value hierarchy:

	2020				
	Carrying Value	**Level 1**	**Level 2**	**Level 3**	**Total Fair Value**
Assets for which fair values are disclosed					
Financial assets at amortized cost	**₱1,062,864,116**	**₱ 957,510,597**	**₱–**	**₱282,750,265**	**₱1,240,260,862**

	2019				
	Carrying Value	Level 1	Level 2	Level 3	Total Fair Value
Recurring fair value measurements					
Financial assets at FVOCI	₱200,344,000	₱200,344,000	₱–	₱–	₱200,344,000
Assets for which fair values are disclosed					
Financial assets at amortized cost	1,085,997,268	942,115,971	–	212,648,437	1,154,764,408

As of December 31, 2020, and 2019, the Manila Branch does not have financial instruments carried at fair value where fair value measurement is based on Level 2 input. Also, there were no transfers made between each level in 2020 and 2019.

Inputs used in estimating fair values of financial instruments carried at amortized cost and categorized under Level 3 include risk-free rates.

6. Due from BSP, Due from Other Banks, and SPURA

Due from BSP

This account represents demand deposits, term deposit facility (TDF) and overnight deposit facility (ODF) maintained by the Manila Branch with the BSP to meet the regulatory reserve requirements. Demand deposits are peso-denominated and non-interest bearing.

	2020	2019
Demand deposit	**₱8,178,219**	₱5,615,344
ODF	**1,818,000,000**	42,000,000
TDF	**1,100,000,000**	1,900,000,000
	₱2,926,178,219	₱1,947,615,344

Due from Other Banks

Due from other banks, which represents funds deposited with domestic banks and are used by the Manila Branch as part of its operating funds, includes the following:

	2020	2019
Savings	**₱125,656,930**	₱71,670,852
Time deposit	**240,115,000**	–
	₱365,771,930	₱71,670,852

SPURA

These are overnight placements with the BSP where the underlying securities cannot be sold or re-pledged. The fair values of these underlying securities approximate the carrying amount of SPURA.

Interest Income

In 2020 and 2019, deposits under ODF earn interest at a fixed interest rate of 1.50% to 3.50% and 3.50% to 4.30%, respectively, with maturities of 1 to 6 days. In 2020 and 2019, deposits under TDF earn interest at a fixed rate of 1.72% to 4.41% and 4.20% to 5.20%, respectively, with maturities of 7 to 29 days.

In 2020 and 2019, SPURA earned interest at annual rates ranging from 2.00% to 3.50% and 3.50% to 5.20%, respectively.

Peso-denominated deposits from other banks earn interest at annual rates ranging from 0.10% to 6.55% in 2020 and 2019. USD-denominated deposits from other banks earn interest at annual rates ranging from 0.10% to 0.36% in 2020 and 2019, respectively.

Interest earned on deposits and placements with other banks and the BSP is as follows:

	2020	2019
Due from BSP	**₱50,606,837**	₱36,113,526
SPURA	**12,525,890**	4,649,167
Due from other banks		
Time deposit	**1,701,445**	23,628,347
Savings	**231,993**	566,894
	₱65,066,165	₱64,957,934

7. Loans and Receivables

This account consists of:

	2020	2019
Corporate loans	**₱1,570,345,000**	₱2,909,525,000
Interbank call loan	–	405,080,000
Accrued interest receivable	**10,627,707**	20,692,855
Others	**361,554**	38,080,443
	1,581,334,261	3,373,378,298
Allowance for credit and impairment losses	**(2,605,990)**	(8,161,944)
	₱1,578,728,271	₱3,365,216,354

Corporate loans
As of December 31, 2020 and 2019, the Manila Branch has outstanding peso-denominated loans amounting to ₱850.00 million and ₱2,150.00 million, respectively, and USD-denominated loans amounting to ₱720.35 million and ₱759.53 million, respectively.

Interest rates ranges from 1.98% to 5.35% and from 3.37% to 5.37% for peso-denominated loans in 2020 and 2019, respectively, and from 1.54% to 3.78% and from 3.74% to 7.13% in 2020 and 2019 for USD-denominated corporate loans, respectively.

On December 16, 2019, the Manila Branch disposed through assignment its loan amounting to US$10.00 million or ₱506.14 million. The sell down was due to the overall strategy of the Cathay Group to focus on "Green Projects" as a member of the Equator Principles Association (Note 3). Interest accrued on the loan until date of assignment is presented under Other receivables. This interest income was collected on February 26, 2020.

Interbank call loans
These represent interbank call loans to local banks with maturities of six months or less. Interest rates ranges from 1.84% to 3.97% and from 2.78% to 6.72% for peso-denominated loans in 2020 and 2019, respectively, and from 1.15% to 1.81% and from 1.35% to 2.85% for USD-denominated loans in 2020 and 2019, respectively.

Allowance for credit and impairment losses
The table below presents the movements of credit exposures and related allowance on corporate loans for ECL grouped according to the different stages of the ECL model.

	Stage 1	Stage 2	Total
Gross carrying amount of corporate loans			
Balance at January 1, 2020	**₱2,909,525,000**	**₱–**	**₱2,909,525,000**
New assets originated or purchased that remained in Stage 1 as at December 31	**8,875,749,670**	–	**8,875,749,670**
Transfer to/ (from) Stage 2 as at December 31	**(700,000,000)**	**700,000,000**	–
Assets derecognized or repaid	**(10,214,929,670)**	–	**(10,214,929,670)**
Balance at December 31, 2020	**₱870,345,000**	**₱700,000,000**	**₱1,570,345,000**

	Stage 1	**Stage 2**	**Total**
Allowance for credit losses			
Balance at January 1, 2020	**₱8,161,944**	**₱–**	**₱8,161,944**
New assets originated or purchased that remained in Stage 1 as at December 31	**40,090,912**	**–**	**40,090,912**
Transfer to/ (from) Stage 2 as at December 31	**(58,968)**	**58,968**	**–**
Assets derecognized or repaid	**(43,671,162)**	**–**	**(43,671,162)**
Changes in PD/LGD/EAD	**(3,745,567)**	**1,769,863**	**(1,975,704)**
Balance at December 31, 2020	**₱777,159**	**₱1,828,831**	**₱2,605,990**

	Stage 1	Stage 2	Total
Gross carrying amount of corporate loans			
Balance at January 1, 2019	₱3,338,379,726	₱–	₱3,338,379,726
New assets originated or purchased that remained in Stage 1 as at December 31	9,448,214,141	–	9,448,214,141
Assets derecognized or repaid	(9,877,068,867)	–	(9,877,068,867)
Balance at December 31, 2019	₱2,909,525,000	₱–	₱2,909,525,000

	Stage 1	Stage 2	Total
Allowance for credit losses			
Balance at January 1, 2019	₱13,948,458	₱–	₱13,948,458
New assets originated or purchased that remained in Stage 1 as at December 31	40,265,632	–	40,265,632
Assets derecognized or repaid	(45,367,035)	–	(45,367,035)
Changes in PD/LGD/EAD	(685,111)	–	(685,111)
Balance at December 31, 2019	₱8,161,944	₱–	₱8,161,944

As of December 31, 2020 and 2019, the Manila Branch's provision on guarantees amounting to ₱0.12 million and nil, respectively (Note 14).

While the Manila Branch recognizes through the statement of income the movements in the expected credit losses, the Manila Branch also complies with BSP's regulatory requirement to appropriate a portion of its accumulated profit at an amount necessary to bring to at least 1% the allowance for credit losses on loans.

Interest income

Interest income on loans and receivables is as follows:

	2020	2019
Corporate loans	**₱76,863,061**	₱160,747,422
Interbank call loan	**3,982,896**	53,211,794
	₱80,845,957	₱213,959,216

As of December 31, 2020 and 2019, the Manila Branch has no restructured loans.

8. Financial Assets at FVOCI

This account consists of investment in quoted peso government securities that earns interest at annual rate of 4.25% in 2020 and 2019. These securities matured on April 13, 2020.

These securities incurred unrealized gain recognized in OCI amounting to ₱6.64 million in 2019. Interest income earned from these securities amounted to ₱2.38 million and ₱8.50 million in 2020 and 2019.

9. Financial Assets at Amortized Cost

This account consists of the following:

	2020	2019
Government debt securities	**₱922,092,000**	₱932,540,000
Agrarian reform 10-year bond	**138,265,284**	147,850,472
	1,060,357,284	1,080,390,472
Premium – net	**3,059,307**	6,025,532
	1,063,416,591	1,086,416,004
Allowance for impairment losses	**(552,475)**	(418,736)
	₱1,062,864,116	₱1,085,997,268

Government debt securities pertains to investment bearing fixed annual interest rates ranging from 4.0% to 4.9% in 2020 and 2019 and EIR ranging from 2.6% to 4.9% in 2020 and 2019.

Agrarian Reform (AR) bonds is a long term-term certificate issued by the National Government and earn annual interest rates based on the 91-day Treasury bill and is subject to repricing.

Interest income
Interest income on amortized cost investments follows:

	2020	2019
Government debt securities	**₱40,539,584**	₱40,973,309
Agrarian reform 10-year bond	**3,667,430**	8,012,426
	₱44,207,014	₱48,985,735

10. Property and Equipment

The composition of and movements in property and equipment follow:

	2020			
	Furniture and fixtures	IT equipment	Computer software (Note 22)	Total
Cost				
At January 1	₱19,064,699	₱15,293,937	₱6,359,118	₱40,717,754
Additions during the year	–	453,000	1,240,906	1,693,906
At December 31	19,064,699	15,746,937	7,600,024	42,411,660
Accumulated Depreciation				
At January 1	14,624,909	8,069,386	2,949,372	25,643,667
Depreciation for the year	2,979,059	2,560,620	1,557,929	7,097,608
At December 31	17,603,968	10,630,006	4,507,301	32,741,275
Net book value at December 31	₱1,460,731	₱5,116,931	₱3,092,723	₱9,670,385

	2019			
	Furniture and fixtures	IT equipment	Computer software (Note 22)	Total
Cost				
At January 1	₱19,032,203	₱15,256,037	₱5,863,432	₱40,151,672
Additions during the year	32,496	37,900	495,686	566,082
At December 31	19,064,699	15,293,937	6,359,118	40,717,754
Accumulated Depreciation				
At January 1	10,817,927	5,155,952	1,571,109	17,544,988
Depreciation for the year	3,806,982	2,913,434	1,378,263	8,098,679
At December 31	14,624,909	8,069,386	2,949,372	25,643,667
Net book value at December 31	₱4,439,790	₱7,224,551	₱3,409,746	₱15,074,087

As of December 31, 2020, and 2019, fully depreciated properties and equipment still in use amounted to ₱19.11 million and nil, respectively.

As of December 31, 2020, and 2019, there are no restrictions on titles of property and equipment and the Manila Branch does not have contractual commitments for acquisition of property and equipment.

11. **Other Assets**

This account consists of:

	2020	2019
Guarantee deposits	**₱7,946,706**	₱7,867,567
Creditable withholding tax	**4,556,707**	3,767,773
Prepaid expenses	**1,000,611**	1,197,997
Stationery and supplies	**122,750**	122,750
	₱13,626,774	₱12,956,087

Guarantee deposits
As of December 31, 2020 and 2019, guarantee deposits include refundable security deposits amounting to ₱4.12 million and ₱4.58 million, respectively, and nonrefundable advance payments amounting to ₱3.82 million and ₱3.29 million, respectively, in relation to lease office space of the Manila Branch.

Prepaid expenses
Prepaid expenses include advances paid on condominium of expatriates and insurance.

12. **Deposit Liabilities**

As of December 31, 2020, and 2019, of the total savings deposits of the Manila Branch, ₱33.44 million and ₱19.36 million pertain to foreign currency-denominated deposit liabilities under the FCDU, respectively.

BSP Circular No. 830 requires reserves against deposit liabilities. As of December 31, 2020 and 2019, the Manila Branch set aside demand deposits, recorded under 'Due from BSP', amounting to ₱8.18 million and ₱5.62 million, respectively, as reserves (Note 6).

As of December 31, 2020, and 2019, the Manila Branch is in compliance with the BSP reserve requirements.

Interest expense
This account consists of:

	2020	2019
Time	**₱70,596**	₱288,487
Savings	**44,368**	72,247
	₱114,964	₱360,734

In 2020 and 2019, the Manila Branch's peso-denominated savings and time deposits paid interest at average annual fixed rates ranging from 0.125% to 0.625% and 0.25% to 1.75%, respectively.

On the other hand, foreign currency-denominated savings paid interest at average annual fixed interest rates ranging from 0.01% to 0.10% and from 0.10% to 0.25% in 2020 and 2019, respectively, and foreign currency-denominated time deposits paid interest at average annual fixed interest rates ranging from 0.08% to 2.40% and from 1.08% to 2.40% in 2020 and 2019, respectively.

13. Due to Head Office

This account includes borrowings from the Head Office for working capital purposes amounting to ₱1,132.14 million and ₱1,341.83 million as of December 31, 2020 and 2019, respectively, which will mature within one year. Interest expense on borrowings from the Head Office amounted to ₱7.99 million and ₱50.71 million in 2020 and 2019, respectively. Interest rates on borrowings from the Head Office ranges from 0.11% to 2.35% and from 1.60% to 3.30% in 2020 and 2019, respectively.

The account also includes noninterest-bearing inward remittances received from Head Office and advances made by the Head Office for the Manila Branch's operating expenses, amounting to ₱25.11 million and ₱53.95 million as of December 31, 2020 and 2019, respectively.

Due to Head Office is presented net of savings deposit in Head Office amounting to ₱7.24 million and ₱1.44 million as at December 31, 2020 and 2019, respectively.

14. Accrued Expenses and Other Liabilities

This account consists of:

	2020	2019
Financial liabilities		
Accrued bonuses	**₱7,869,174**	₱8,900,683
Accrued rent	**2,184,994**	2,184,994
Accrued interest payable	**306,451**	2,876,882
Provision on guarantees (Note 23)	**118,356**	–
Accrued other expense	**2,682,372**	5,085,330
	13,161,347	19,047,889
Non-financial liabilities		
Withholding taxes payable	**1,418,608**	1,804,551
Statutory payable	**4,113,028**	2,340,645
Others	**–**	1,066,812
	5,531,636	5,212,008
	₱18,692,983	₱24,259,897

15. Retirement Benefits Liability

As of December 31, 2020, and 2019, the Manila Branch does not have a retirement plan. The Manila Branch accrues retirement benefits in accordance with Republic Act (RA) No. 7641, *Retirement Pay Law,* which requires a provision for retirement pay to qualified private sector employees in the absence of any retirement plan in the entity; provided however, that the employees' retirement benefits under any collective bargaining and other agreements shall not be less than those provided under the law. The law does not require minimum funding of the plan. Future contributions will be made once retirement plan is established.

The present value of the defined benefit obligation and the related service cost were measured using the projected unit credit method. The Manila Branch's latest actuarial valuation date is at December 31, 2020.

The following table shows the reconciliation of the opening and the closing balances for net defined benefit liability and its components.

	2020	2019
Balance at January 1	**₱5,009,664**	₱1,579,934
Included in profit or loss		
Retirement benefits expense	**2,130,890**	1,046,090
Included in other comprehensive income		
Remeasurement loss arising from experience adjustment	**2,452,757**	2,383,640
Balance at December 31	**₱9,593,311**	₱5,009,664

For the years ended December 31, 2020 and 2019, the retirement benefits expense is recognized under 'Compensation and benefits' account in the statements of comprehensive income.

The principal actuarial assumptions used to determine retirement benefits cost are as follows:

	2020	2019
Discount rate	**3.93%**	5.14%
Average annual salary increase	**5.00%**	5.00%

Assumptions regarding future mortality and disability rates are in accordance with the 1994 Manila Branch Annuity Table and the 1952 Disability Table, respectively.

As of December 31, 2020, and 2019, the weighted-average duration of the defined benefit obligation is 20 years.

Sensitivity Analysis

Reasonably possible changes at the reporting date to one of the relevant actuarial assumptions, holding other assumptions constant, would have affected the defined benefit obligation by the amounts shown below:

	2020	
	+1.00%	**-1.00%**
Discount rate	**(₱1,854,374)**	**₱2,362,272**
Future salary growth	**2,316,997**	**(1,853,381)**

	2019	
	+1.00%	-1.00%
Discount rate	(₱966,690)	₱1,233,598
Future salary growth	1,223,878	(975,032)

As of December 31, 2020, and 2019, undiscounted benefit payments on retirement amounting to ₱227.48 million and ₱165.10 million, respectively, are payable beyond 10 years.

16. Maturity Analysis of Assets and Liabilities

The following table presents the assets and liabilities by contractual maturity and settlement dates as of December 31, 2020 and 2019:

	2020			2019		
	Within Twelve Months	**Over Twelve Months**	**Total**	Within Twelve Months	Over Twelve Months	Total
Financial Assets						
Cash and other cash items	**₱3,333,106**	**₱–**	**₱3,333,106**	₱4,024,214	₱–	₱4,024,214
Due from BSP	**2,926,178,219**	–	**2,926,178,219**	1,947,615,344	–	1,947,615,344
Due from other banks	**365,771,930**	–	**365,771,930**	71,670,852	–	71,670,852
SPURA	**637,179,586**	–	**637,179,586**	64,157,009	–	64,157,009
Financial assets at FVOCI	–	–	–	200,344,000	–	200,344,000
Financial assets at amortized cost	**572,946,525**	**487,410,759**	**1,060,357,284**	–	1,080,390,472	1,080,390,472
Loans and receivables – gross	**1,581,334,261**	**–**	**1,581,334,261**	3,373,378,298	–	3,373,378,298
	6,086,743,627	**487,410,759**	**6,574,154,386**	5,661,189,717	1,080,390,472	6,741,580,189
Non-financial Assets						
Property and equipment - gross	–	**42,411,660**	**42,411,660**	–	40,717,754	40,717,754
Right of use assets	**11,783,604**	**23,567,208**	**35,350,812**	22,199,519	–	22,199,519
Other assets	**5,680,068**	**7,946,706**	**13,626,774**	12,956,087	–	12,956,087
	17,463,672	**73,925,574**	**91,389,246**	35,155,606	40,717,754	75,873,360
	₱6,104,207,299	**₱561,336,333**	**₱6,665,543,632**	₱5,696,345,323	₱1,121,108,226	₱6,817,453,549

Forward

	2020			2019		
	Within Twelve Months	**Over Twelve Months**	**Total**	Within Twelve Months	Over Twelve Months	Total
Less: Allowance for credit and impairment losses			**(3,158,465)**			(8,580,680)
Accumulated depreciation			**(36,669,143)**			(38,843,376)
Unearned discount and other deferred income			**3,059,307**			6,025,532
			₱6,628,775,331			₱6,776,055,025
Financial Liabilities						
Deposit liabilities	**₱80,940,918**	**₱–**	**₱80,940,918**	₱34,283,134	₱–	₱34,283,134
Due to Head Office	**1,150,014,551**	**–**	**1,150,014,551**	1,394,340,532	–	1,394,340,532
Accrued expenses and other liabilities	**13,161,347**	**–**	**13,161,347**	19,047,889	–	19,047,889
Lease liability	**11,132,286**	**20,648,989**	**31,781,275**	9,396,288	–	9,396,288
	1,255,249,102	**20,648,989**	**1,275,898,091**	1,457,067,843	–	1,457,067,843
Non-financial Liabilities						
Accrued expenses and other liabilities	**5,531,636**	**–**	**5,531,636**	5,212,008	–	5,212,008
Income tax payable	**469,499**	**–**	**469,499**	2,149,686	–	2,149,686
Retirement benefits liability	**–**	**9,593,311**	**9,593,311**	–	5,009,664	5,009,664
	6,001,135	**9,593,311**	**15,594,446**	7,361,694	5,009,664	12,371,358
	₱1,261,250,237	**₱30,242,300**	**₱1,291,492,537**	₱1,464,429,537	₱5,009,664	₱1,469,439,201

**Other financial assets include refundable security deposits*

17. **Equity**

Capital Management

The capital management objectives of the Manila Branch are as follows:

- The eligible capital of the Manila Branch must conform to the regulatory capital requirements and achieve the minimum adequacy ratio. The calculation of the eligible capital and regulatory capital should follow the rules issued by the competent authority.
- To ensure that Manila Branch possess sufficient capital to assume various risk.

As such, the Manila Branch assesses required capital for the portfolios and characteristics of risk and executes risk management through capital allocation to realize optimization of resources.

The Head Office's Risk Management team is responsible for monitoring the regulatory capital of the Manila Branch.

Reserves

Under BSP Circular 1011, banks are required to appropriate a portion of their surplus at an amount necessary to bring to at least 1% the allowance for credit losses on loans classified under stage 1. As of December 31, 2020, and 2019, appropriated accumulated profits include appropriation by the Manila Branch to general loan loss provisioning amounting to ₱13.10 million and ₱20.93 million, respectively.

Regulatory Qualifying Capital

On October 29, 2014, the BSP issued Circular No. 854, *Minimum Capitalization of Banks,* which amended the capitalization of banks. Under this Circular, commercial banks are required to maintain minimum capitalization of ₱2.00 billion for Head Office branches.

In 2015, the Manila Branch received from Head Office the aggregate amount of ₱2.13 billion as assigned capital, pursuant to the provisions of BSP Circular No. 854.

On January 25, 2018, the Head Office remitted additional capital to the Manila Branch amounting to ₱3.04 billion which was recorded as part of the Manila Branch's permanently assigned capital.

As of December 31, 2020, and 2019, the Manila Branch is compliant with the said regulation.

On November 21, 2014, the BSP issued Circular No. 858, *Amendments to Relevant Provisions of the Manual of Regulations for Banks Implementing Republic Act. No 10641*, which updated, among other matters, the capital requirements and the risk-based capital of foreign bank branches.

Under BSP Circular No. 858, a foreign bank branch shall comply with the minimum capital and prudential ratios applicable to domestic banks of the same category as prescribed under prevailing regulations. For purposes of compliance with minimum capital regulations, the term "capital of a foreign bank branch" shall refer to the sum of: (i) permanently assigned capital, (ii) undivided profits), and (iii) accumulated net earnings, which is composed of unremitted profits not yet cleared by the BSP for outward remittance and losses in operations less capital adjustments as may be required by the BSP as prescribed under prevailing regulations. Permanently assigned capital shall be inwardly remitted and converted into Philippine currency at the exchange rate prevailing at the time of remittance. Any net due from head office, branches, subsidiaries and other offices outside the Philippines, excluding accumulated net earnings, shall be a deductible adjustment to capital.

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

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

BSP Circular No. 781, *Basel III Implementing Guidelines on Minimum Capital Requirements*, which provides the implementing guidelines on the revised risk-based capital adequacy framework particularly on the minimum capital and disclosure requirements for universal and commercial banks, as well as subsidiary banks and quasi-banks, in accordance with Basel III standards. The circular took effect on January 1, 2014.

Circular No. 781 sets out the minimum Common Equity Tier 1 (CET1) ratio of 6.00% and Tier I capital ratio of 7.50%. It also introduces capital conservation buffer of 2.50% comprised of CET1 capital. The BSP's existing requirement for total capital adequacy ratio (CAR) remains unchanged at 10.00% and this ratio shall be maintained at all times.

The risk-based CAR of the Manila Branch as reported to the BSP as of December 31, 2020 and 2019 are shown in the table below (in thousands):

	2020	2019
CET 1 capital	**₱5,316,391**	₱5,278,290
Tier 1 capital	**5,316,391**	5,278,290
Tier 2 capital	**15,703**	29,095
Total qualifying capital	**₱5,332,094**	₱5,307,385
Risk weighted assets	**₱2,377,818**	₱3,546,331
CET 1 ratio	**223.58%**	148.84%
Tier 1 capital ratio	**223.58%**	148.84%
Total capital ratio	**224.24%**	149.66%

As of December 31, 2020, and 2019, the Manila Branch is compliant with the BSP's CAR requirement.

The issuance of BSP Circular No. 639 covering the Internal Capital Adequacy and Assessment Process (ICAAP) in 2009 supplements the BSP's risk-based capital adequacy framework under Circular No. 538. In compliance with this circular, the Manila Branch has adopted and developed its ICAAP framework to ensure that appropriate level and quality of capital are maintained by the Manila Branch. Under this framework, the assessment of risks extends beyond the Pillar 1 set of credit, market and operational risks and onto other risks deemed material by the Manila Branch. The level and structure of capital are assessed and determined in light of the Manila Branch's business environment, plans, performance, risks and budget; as well as regulatory edicts. BSP requires submission of an ICAAP document every March 31. The Manila Branch is compliant with this requirement.

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

The BLR of the Manila Branch as of December 31, 2020 and 2019 as reported to the BSP is shown in the table below (in thousands):

	2020	**2019**
Tier 1 capital	**₱5,316,391**	**₱5,278,290**
Exposure measure	**6,715,359**	**6,866,689**
Leverage ratio	**79.17%**	**76.87%**

Liquidity Coverage Ratio
On February 18, 2016, BSP issued Circular No. 905 which approved the attached liquidity standards, which include guidelines on liquidity coverage ratio (LCR), and LCR disclosure standards that are consistent with the Basel III framework. Banks are required to adopt Basel III's Liquidity Coverage Ratio (LCR) aimed at strengthening the short-term liquidity position of banks. This requires banks to have available High Quality Liquid Assets (HQLA) to meet anticipated net cash outflow for a 30-day period under stress conditions. The standard prescribes that, under a normal situation, the value of the liquidity ratio be no lower than 100% on a daily basis because the stock of unencumbered HQLA is intended to serve as a defense against potential onset of liquidity stress.

As of December 31, 2020, and 2019, the LCR of the Manila Branch in single currency is 4,402.60% and 2,860.35%.

Net Stable Funding Ratio
On May 24, 2018, BSP issued Circular No. 1007 which approved the implementing guidelines on the adoption of the Basel III Framework on Liquidity Standards - Net Stable Funding Ratio (NSFR). Banks are required to adopt Basel III's Net Stable Funding Ratio (NSFR) aimed to promote long-term resilience of banks against liquidity risk. Banks shall maintain a stable funding profile in relation to the composition of its assets and off-balance sheet activities. The NSFR complements the Liquidity Coverage Ratio (LCR), which promotes short-term resilience of a Bank's liquidity profile.

As of December 31, 2020, and 2019, the NSFR of the Manila Branch is 623.00% and 486.14%, respectively.

The Manila Branch has taken into consideration the impact of the foregoing requirements to ensure that the appropriate level and quality of capital are maintained on an ongoing basis. The Manila Branch has complied with all externally imposed capital requirements throughout the period.

18. Taxes and Licenses

This account consists of:

	2020	2019
Gross receipts tax	**₱11,275,741**	₱13,583,935
Fringe benefits tax	**1,833,926**	3,258,246
Licenses, permits, and other taxes	**1,007,771**	1,053,606
Documentary stamp tax	**137,271**	65,516
	₱14,254,709	₱17,961,303

19. Leases

On September 1, 2020, the Manila Branch renewed its lease contracts for office and parking space for a lease term of three (3) years until August 31, 2023, renewable under certain terms and conditions. The Manila Branch's obligations under its leases are secured by the lessor's title to the leased assets. Generally, the Manila Branch is restricted from assigning and subleasing the leased assets and some contracts require the Manila Branch to maintain certain financial ratios. There are several lease contracts that include extension and termination options and variable lease payments, which are further discussed below.

The Manila Branch also leases premises for its key officers for a period of one (1) year until November 30, 2020. The Manila Branch applies the 'short-term lease' and 'lease of low-value assets' recognition exemptions for these leases.

The movements in lease liability follows:

	2020	2019
As at January 1	**₱9,396,288**	₱22,199,519
Additions	**35,350,811**	–
Finance cost	**489,803**	774,621
Payments	**(13,455,627)**	(13,577,852)
As at December 31	**₱31,781,275**	₱9,396,288

The carrying amount of right-of-use assets recognized and the movements during the period are as follows:

	2020		
	Office space	**Motor vehicle**	**Total**
Cost			
At January 1	**₱20,666,149**	**₱1,533,370**	**₱22,199,519**
Additions	**35,350,812**	**–**	**35,350,812**
Disposals	**(20,666,149)**	**(1,533,370)**	**(22,199,519)**
At December 31	**35,350,812**	**–**	**35,350,812**
(forward)			
Accumulated Depreciation			
At January 1	**12,399,690**	**800,019**	**13,199,709**
Depreciation	**12,194,328**	**733,351**	**12,927,679**
Disposals	**(20,666,150)**	**(1,533,370)**	**(22,199,520)**
At December 31	**3,927,868**	**–**	**3,927,868**
Net book value at December 31	**₱31,422,944**	**₱–**	**₱31,422,944**

	2019		
	Office space	Motor vehicle	Total
Cost			
At January 1 and December 31	20,666,149	1,533,370	22,199,519
Accumulated Depreciation			
Depreciation	12,399,690	800,019	13,199,709
Net book value at December 31	₱8,266,459	₱733,351	₱8,999,810

The following are the amounts recognized in the statement of comprehensive income:

	2020	2019
Depreciation expense of right-of-use assets	**₱12,927,679**	₱13,199,709
Expenses relating to short-term leases and low-value assets (included in operating expenses)	**1,527,354**	1,027,394
Finance cost on lease liability	**489,803**	774,621
Total amount recognized in statement of comprehensive income	**₱14,944,836**	₱15,001,724

Future minimum rental payable under non-cancelable operating lease are as follows:

	2020	2019
Within one year	**₱11,941,793**	₱9,540,311
Beyond one year but not more than five years	**21,172,089**	–
	₱33,113,882	₱9,540,311

20. Other Expense

This account consists of:

	2020	2019
Reversal of credit and impairment losses	**(₱5,326,682)**	(₱5,759,339)
Foreign exchange loss	**3,255,498**	1,752,299
Supervision fees	**2,253,118**	1,772,106
Bank service charge	**1,024,249**	1,341,211
Training	**356,766**	464,044
Fuel and lubricants	**288,723**	234,127
Stationery and supplies used	**90,061**	155,155
Advertising and publicity	**43,008**	65,408
Other expense	**796,808**	1,358,199
	₱2,781,549	₱1,383,210

'Other expense' includes cleaning fees, periodicals and magazines, petty office expenses and other small value expenses that are non-recurring.

21. Income Taxes

Under Philippine tax laws, the Manila Branch is subject to percentage and other taxes (presented as 'Taxes and licenses' in the statement of comprehensive income) as well as income taxes.

Income taxes include corporate income tax and FCDU final taxes, as discussed below, and final tax paid at the rate of 20.00% on gross interest income from government securities and other deposit substitutes. These income taxes, as well as the deferred tax benefits and provisions, are presented as 'Provision for income tax' in the statements of income.

Republic Act (RA) No. 9337, An Act Amending the National Internal Revenue Code, provides that the RCIT rate shall be 30.00% and interest expense allowed as deductible expense shall be reduced by 33.00% of the interest income subject to final income tax.

An MCIT of 2.00% on modified gross income is computed and compared with the RCIT. Any excess of MCIT over RCIT is deferred and can be used as a tax credit against future income tax liability for the next three years. In addition, NOLCO is allowed as a deduction from taxable income in the next three years from the date of inception. For the taxable years 2020 and 2021, the NOLCO incurred can be carried over as a deduction for the next five (5) consecutive taxable years, pursuant to Section 4 (bbbb) of Bayanihan II and as implemented under RR No. 25-2020.

RA No. 9294 exempts from income tax the income derived by the FCDU from foreign currency transactions with nonresidents, offshore banking units (OBUs) and local commercial banks including branches of foreign banks authorized by the BSP to transact business with FCDUs and other depository banks under the expanded foreign currency deposit system. Interest income on foreign currency-denominated loans by the FCDUs to residents other than OBUs or other depository banks under the expanded system is subject to 10.00% gross income tax. In addition, interest income on deposit placements with other FCDUs and OBUs is taxed at 15.00%, gross interest income from other deposit substitutes is subject at the final tax rate of 20.00%, while all other income of the FCDU is subject to the 30.00% corporate income tax.

On March 15, 2011, the Bureau of Internal Revenue (BIR) issued RR No. 4-2011 which prescribed the attribution and allocation of expenses between FCDUs/EFCDUs or OBU and RBU, and further the allocation within RBU based on different income earning activities. Pursuant to the regulations, the Manila Branch made an allocation of its expenses in calculating income taxes due for RBU and FCDU.

On April 6, 2015, the Manila Branch and other member banks of the Bankers Association of the Philippines (BAP), filed a Petition for Declaratory Relief with Application for Temporary Restraining Order (TRO) and/or Writ of Preliminary Injunction with the Regional Trial Court of Makati (Makati Trial Court). Further, in Civil Case No. 15-287, the Manila Branch and other BAP member banks assailed the validity of RR 4-2011 on the ground, among others, that (a) the RR violates the petitioner-banks substantive due process rights; (b) it is not only illegal but also unfair; (c) that it serves as a deterrent to banks to invest in capital market transactions to the prejudice of the economy; (d) it sets a dangerous precedent for the disallowance of full deductions due to the prescribes method of allocation; and (e) it violates the equal protection clause of the Constitution.

On April 8, 2015, the Makati Trial Court issued a TRO enjoining the BIR from enforcing RR 4-2011. Also, on April 25, 2015, Makati Trial Court issued a Writ of Preliminary Injunction enjoining the BIR from enforcing, carrying out, or implementing in any way or manner RR 4-2011 against the Manila Branch and other BAP member banks, including issuing Preliminary Assessment Notice or Final Assessment Notice against them during the pendency of the litigation, unless sooner dissolved.

On June 10, 2015, the Makati Trial Court issued a Confirmatory Order stating that the TRO and Writ of Preliminary Injunction also prohibits the BIR from ruling or deciding on any administrative matter pending before it in relation to the subject revenue regulations and insofar as the Bank and other BAP member banks are concerned.

On May 25, 2018, the Makati Trial Court issued a decision annulling RR 4-2011 and making the Writ of Preliminary Injunction permanent.

RA No. 10963, the Tax Reform for Acceleration and Inclusion (TRAIN), is the first package of the comprehensive tax reform program of the government. The bill was signed into law on December 19, 2018 and took effect on January 1, 2018, amending some provisions of the old Philippine tax system.

Except for resident foreign corporations, which is still subject to the existing rate of 7.5%, tax on interest income of foreign currency deposit was increased to 15% under TRAIN. Documentary stamp tax on bank checks, drafts, certificate of deposit not bearing interest, all debt instruments, bills of exchange, letters of credit, mortgages, deeds and others are now subjected to a higher rate.

Current tax regulations provide for the ceiling on the amount of EAR expenses allowed as deduction for income tax purposes. Under the regulation, EAR expense allowed as deductible expense for a service company like the Manila Branch is limited to the actual EAR paid or incurred but not to exceed 1.00% of net revenues. EAR expenses of the Manila Branch amounting to ₱0.56 million and ₱1.35 million in 2020 and 2019, respectively, are included under 'Representation and entertainment' in the statement of comprehensive income.

The provision for income tax consists of:

	2020	2019
Current		
Final tax	**₱23,786,528**	₱26,904,395
MCIT	**823,509**	1,993,561
RCIT	**47,318**	24,256
	₱24,657,355	₱28,922,212

As at December 31, 2020 and 2019, the Manila Branch did not recognize deferred tax assets on the following temporary differences as it believes it may not be probable to be realized in the future:

	2020	2019
NOLCO	**₱31,812,681**	₱57,951,639
Retirement benefits liability	**9,593,311**	5,009,664
Accrued compensation	**2,682,372**	5,085,330
Allowance for credit and impairment losses	**2,605,990**	8,161,944
Accrued rent	**2,184,944**	2,184,994
	₱48,879,298	₱78,393,571

As of December 31, 2020, details of the Manila Branch's NOLCO are as follows:

Inception Year	Original Amount	Used Amount	Expired Amount	Remaining Balance	Expiry Year
2017	₱48,395,189	₱22,256,231	₱26,138,958	₱–	2020
2018	31,812,681	–	–	31,812,681	2021
	₱80,207,870	₱22,256,231	₱26,138,958	₱31,812,681	

The reconciliation between the statutory income tax and the effective income tax follows:

	2020	2019
Statutory income tax	**₱18,066,806**	₱47,984,627
Adjustments resulting from:		
Nondeductible expenses	**25,552,500**	20,669,612
Tax-paid income	**(14,619,682)**	(12,897,859)
Movements in unrecognized deferred tax asset	–	(12,418,258)
FCDU income	**(4,342,269)**	(14,415,910)
Effective income tax	**₱24,657,355**	₱28,922,212

Subsequent Events

The Corporate Recovery and Tax Incentives for Enterprise (CREATE) bill aims to reduce the corporate income tax rate from 30% to 25% starting July 2020 and to rationalize the current fiscal incentives.

On February 1, 2021, the Bicameral Conference Committee approved the reconciled version of the CREATE Bill of the House of Representatives and the Senate. The Bill is pending the signature of the President for it to become a law.

22. Related Party Transactions

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

The Manila Branch's related parties include its Head Office and other branches, and key management personnel. Transactions with such parties are made in the ordinary course of business and on substantially same terms as those prevailing at the time for comparable transactions with other parties. These transactions also did not involve more than the normal risk of collectability or present other unfavorable conditions.

The Manila Branch's related party transactions are collected (for financial assets) or settled (for financial liabilities) in cash.

The following table shows related party transactions included in the financial statements:

	December 31, 2020		
	Amount/ Volume	**Outstanding Balance**	**Nature, Terms and Conditions**
Head Office			
Due to Head Office	**(₱238,521,599)**	**₱1,157,253,933**	Interest-bearing, unsecured and unimpaired advances and allocation of expenses made by Head Office (Note 13)
Compensation and benefits expense	**4,095,716**		Represents allocated compensation and fringe benefits from the Head Office
Communication and postage expense	**1,975,688**		Represents allocated postage, telephone and cable expense from the Head Office
Professional and other service fees expense	**10,810**		Represents allocated charges for swift and translation fees
Information and technology expense	**520,962**		Represents allocated information technology expense from the Head Office
Printing and copying expense	**4,063**		Represents allocated printing expense from the Head Office recorded under 'Other expense'
Due from Head Office	**5,804,382**	**7,239,382**	Noninterest-bearing, unsecured and unimpaired deposit account with balance of USD54,783 maintained with the Head Office
Officers			
Deposit liabilities		**1,513,912**	Peso and USD deposit accounts with interest rates ranging from 0.05% and 0.25%, respectively. The USD-denominated deposit amounted to USD611
Deposits	**3,461,123**		
Withdrawals	**(7,820,573)**		
Interest expense/payable	**2,297**	**254**	Interest expense on Peso and USD deposit liability accounts with interest rates ranging from 0.05% to 0.25%, respectively

	December 31, 2019		
	Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
Head Office			
Due to Head Office	(₱1,130,251,769)	₱1,395,775,532	Interest-bearing, unsecured and unimpaired advances and allocation of expenses made by Head Office (Note 13)
Compensation and benefits expense	8,001,093		Represents allocated compensation and fringe benefits from the Head Office
Communication and postage expense	1,835,638		Represents allocated postage, telephone and cable expense from the Head Office
Professional and other service fees expense	262,883		Represents allocated charges for swift and translation fees
Transportation and travel expense	14,616		Represents allocated traveling expense from the Head Office
Information and technology expense	7,165		Represents allocated information technology expense from the Head Office
Printing and copying expense	3,032		Represents allocated printing expense from the Head Office
Due from Head Office	(444,895)	1,435,000	Noninterest-bearing, unsecured and unimpaired deposit account with balance of USD28,340 maintained with the Head Office
Officers			
Deposit liabilities		5,873,362	Peso and USD deposit accounts with interest rates ranging from 0.25% and 0.05%, respectively. The USD-denominated deposit amounted to 73,250
Deposits	2,311,768		
Withdrawals	(3,204,012)		
Interest expense/payable	1,323	54	Interest expense on Peso and USD deposit liability accounts with interest rates ranging from 0.25% to 0.05%, respectively

Remuneration of Key Management Personnel
Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Manila Branch, directly or indirectly. The Manila Branch considers officer positions, starting from department heads and up, to constitute key management personnel for purposes of PAS 24.

Total remunerations of key management personnel are as follows:

	2020	2019
Gross compensation	**₱33,836,209**	₱31,161,942
Other non-monetary benefits	**294,216**	391,879
	₱34,130,425	₱31,553,821

23. Commitments and Contingent Liabilities

In the normal course of the Manila Branch's operations, there are various outstanding commitments and contingent liabilities which are not reflected in the accompanying financial statements. Management does not anticipate any material losses as a result of these transactions.

As of December 31, 2020, and 2019, the Manila Branch's has outstanding loan commitments amounting to ₱977.19 million and ₱850.00 million, respectively (Note 4).

Changes in provision on the Manila Branch's loan commitments follow:

	2020	2019
Balance at January 1	**₱–**	(₱1,469,497)
Provision	**118,356**	(1,469,497)
Balance at December 31	**₱118,356**	₱–

As of December 31, 2020, and 2019, the Manila Branch does not have outstanding contingent liabilities.

24. Supplementary Information for Cash Flow Analysis

The following table shows the reconciliation analysis of liabilities arising from financing activities for the period ended December 31, 2020:

2020		
Balance at beginning of year		**₱1,395,775,532**
Cash flows during the year		
Proceeds	**37,062,832,205**	
Settlement	**(37,301,353,804)**	**(238,521,599)**
Balance at end of year		**₱1,157,253,933**

2019		
Balance at beginning of year		₱2,526,027,301
Cash flows during the year		
Proceeds	48,656,437,375	
Settlement	(49,786,689,144)	(1,130,251,769)
Balance at end of year		₱1,395,775,532

Movements in lease liability is disclosed in Note 19 – Leases.

25. Approval for the Release of the Financial Statements

The accompanying financial statements of the Manila Branch were authorized and approved for issue by the Manila Branch's General Manager on March 10, 2021.

26. Report on the Supplementary Information Required Under BSP Circular 1074

Presented below is the supplementary information required by BSP under Appendix 55 of BSP Circular 1074 to be disclosed as part of the notes to financial statements. This supplementary information is not a required disclosure under PFRS.

Basic quantitative indicator of financial performance
The following basic ratios measure the financial performance of the Manila Branch:

	2020	2019
Return on average equity	**0.67%**	2.50%
Return on average assets	**0.53%**	1.80%
Net interest margin on average earning assets	**2.77%**	3.95%

Description of capital instruments issued
The Manila Branch did not issue any capital instruments. Its capital is funded by the permanently assigned capital received from the Head Office amounting to ₱5.17 billion in accordance with BSP Circular 854.

Significant credit exposures
The information on the Manila Branch's concentration of credit as to industry are as follows:

	2020		2019	
	Amounts	**%**	Amounts	%
Manufacturing	**₱872,897,621**	**55.20**	₱911,599,440	27.02
Financial services	**708,075,086**	**44.78**	2,449,504,708	72.61
Others	**361,555**	**0.02**	12,274,150	0.37
	₱1,581,334,262	**100.00**	₱3,373,378,298	100.00

The BSP considers that loan concentration exists when total loan exposure to a particular industry or economic sector exceeds 30.00% of total loan portfolio. Identified concentration of credit risks are controlled and managed accordingly, which includes obtaining collateral for related loans.

Status of loans
All of the outstanding loans of the Manila Branch as of December 31, 2020 and 2019 are in current and performing status.

Nonperforming loans
Under BSP Circular 941, loans shall be considered non−performing, even without any missed contractual payments, when it is considered impaired under existing accounting standards, classified as doubtful or loss, in litigation, and/or there is evidence that full repayment of principal and interest is unlikely without foreclosure of collateral, if any. All other loans, even if not considered impaired, shall be considered non−performing if any principal and/or interest are unpaid for more than ninety (90) days from contractual due date, or accrued interests for more than ninety (90) days have been capitalized, refinanced, or delayed by agreement.

Loans which do not meet the requirements to be treated as performing loans shall also be considered as NPLs.

An instrument is considered to be no longer in default, i.e., to have cured, when it no longer meets any of the default criteria above and there is sufficient evidence to support full collection through payments received for at least 6 months. Cured accounts are classified under Stage 1 ECL treatment.

Restructured accounts that have exhibited improvements in creditworthiness may be moved from Stage 3 after a total of one-year probation period. These accounts are transferred to Stage 2 after six months of full payments and consequently transferred to Stage 1 after making the next six months full payments.

As of December 31, 2020 and 2019, based on NPL definition under Circular No. 941, the Manila Branch has no outstanding loans and receivables classified as nonperforming.

Loans per security
The information (gross of allowance for credit losses) relating to receivables from customers as to secured and unsecured and as to collateral follows:

	2020		2019	
	Carrying amount	**%**	Carrying amount	%
Unsecured	**₱1,531,290,217**	96.84	₱3,323,292,042	98.52
Secured by a hold-out on deposits	**50,044,044**	3.16	50,086,256	1.48
	₱1,581,334,261	100.00	₱3,373,378,298	100.00

Related party loans
As required by the BSP, the Manila Branch discloses loan transactions with its and affiliates and investees and with certain directors, officers, stockholders and related interests (DOSRI). Under existing banking regulations, the limit on the amount of individual loans to DOSRI, of which 70.00% must be secured, should not exceed the regulatory capital or 15.00% of the total loan portfolio, whichever is lower. These limits do not apply to loans secured by assets considered as non-risk as defined in the regulations.

BSP Circular No. 423, dated March 15, 2004, amended the definition of DOSRI accounts. The following table shows information relating to the loans, other credit accommodations and guarantees classified as DOSRI accounts under regulations existing prior to said Circular, and new DOSRI loans, other credit accommodations granted under said Circular:

	2020		2019	
	DOSRI Loans	**Related Party Loans (inclusive of DOSRI Loans)**	DOSRI Loans	Related Party Loans (inclusive of DOSRI Loans)
Total outstanding DOSRI loans	**₱–**	**₱–**	₱–	₱–
Percent of DOSRI/Related Party loans to total loan portfolio	–	–	–	–
Percent of unsecured DOSRI/Related Party loans to total loan portfolio	–	–	–	–
Percent past due DOSRI/Related Party loans to total loan portfolio	–	–	–	–
Percent of non–performing DOSRI/Related Party loans to total loan portfolio	–	–	–	–

Amount of secured liabilities and assets pledged as security
As of December 31, 2020 and 2019, the Manila Branch has no secured liabilities, thus, none of these assets are pledged as security.

Commitments and contingencies
As of December 31, 2020, and 2019, the Manila Branch has outstanding loan commitments amounting to ₱977.19 million and ₱850.00 million, respectively.

27. Report on the Supplementary Information Required Under Revenue Regulations No. 15-2010 and 34-2020

On November 25, 2010, the BIR issued RR 15-2010 prescribing the manner of compliance in connection with the preparation and submission of financial statements accompanying the tax returns. It includes provisions for additional disclosure requirements in the notes to the financial statements, particularly on taxes and licenses paid or accrued during the year.

The components of 'Taxes and licenses' for the year ended December 31, 2020, follow:

Gross receipts tax	**₱11,275,741**
Fringe benefits tax	**1,833,926**
Licenses, permits, and other taxes	**1,007,771**
Documentary stamp tax	**137,271**
	₱14,254,709

Withholding Taxes

Details of total remittances and outstanding balances of withholding taxes in 2020 are as follows:

	Amount remitted in 2020	Withholding tax payable as of December 31, 2020
Withholding taxes on compensation and benefits	**₱12,741,295**	**₱892,648**
Final withholding taxes on fringe benefit expense	**1,448,129**	**434,003**
Expanded withholding taxes	**999,693**	**89,015**
Final withholding taxes on interest expense	**20,440**	**2,942**
	₱15,209,557	**₱1,418,608**

As of December 31, 2020, there are no outstanding tax assessments and tax cases under investigations, litigations nor prosecution in courts or bodies outside the BIR.

RR No. 34-2020

On December 18, 2020, BIR issued RR No. 34-2020 to streamline the guidelines and procedures for the submission of BIR Form No. 1709, TPD and other supporting documents by providing safe harbors and materiality thresholds. Section 2 of the RR provides the list of taxpayers that are required to file and submit the RPT Form, together with the Annual Income Tax Return.

The Manila Branch is not covered by the requirements and procedures for related party transactions provided under this RR as it does not meet any criteria of taxpayers prescribed in Section 2 of the RR.

All other information required to be disclosed by the BIR has been included in this note.