BPI Capital Corporation

Financial Statements
As at and for the years ended December 31, 2020 and 2019

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Isla Lipana & Co.

Isla Lipana & Co.

Independent Auditor's Report

To the Board of Directors and Shareholders of
BPI Capital Corporation
10th Floor, Ayala North Exchange Tower One
Ayala Avenue corner Salcedo Street, Legaspi Village
Makati City

Report on the Audits of the Financial Statements

Our Opinion

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

What we have audited

The financial statements of the Company comprise:

- the statements of financial position as at December 31, 2020 and 2019;
- the statements of income for the years ended December 31, 2020 and 2019;
- the statements of comprehensive income for the years ended December 31, 2020 and 2019;
- the statements of changes in equity for the years ended December 31, 2020 and 2019;
- the statements of cash flows for the years ended December 31, 2020 and 2019; and
- the notes to financial statements, which include a summary of significant accounting policies.

Basis for Opinion

We conducted our audits in accordance with Philippine Standards on Auditing (PSA). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Company in accordance with the Code of Ethics for Professional Accountants in the Philippines (Code of Ethics), together with the ethical requirements that are relevant to our audit of financial statements in the Philippines, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics.

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

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

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

Those charged with governance are responsible for overseeing the Company'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 PSA will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

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

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

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

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the 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 Company 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 Bureau of Internal Revenue Requirement

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information in Note 24 to the financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such supplementary information is the responsibility of management and has been subjected to the auditing procedures applied in our audits of the basic financial statements. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Isla Lipana & Co.

Zaldy D. Aguirre
Partner
CPA Cert No. 105660
P.T.R. No. 0024447, issued on January 5, 2021, Makati City
SEC A.N. (individual) as general auditors 105660-SEC, Category A; valid to audit 2020 to 2024 financial statements
SEC A.N. (firm) as general auditors 0142-SEC, Category A; valid to audit 2020 to 2024 financial statements
TIN 221-755-698
BIR A.N. 08-000745-077-2020, issued on December 14, 2020; effective until December 13, 2023
BOA/PRC Reg. No. 0142, effective until January 21, 2023

Makati City
March 17, 2021

BPI Capital Corporation

Statements of Financial Position
December 31, 2020 and 2019
(All amounts in Philippine Peso)

	Notes	2020	2019
ASSETS			
Cash and cash equivalents	2	709,552,518	1,420,588,863
Financial assets at fair value through profit or loss	3	868,713,502	442,928,026
Financial assets at fair value through other comprehensive income	4	1,476,716,367	1,415,400,049
Investment securities at amortized cost, net	5	561,401,977	559,845,877
Trade receivables, net	6	26,531,198	59,452,354
Property and equipment, net	8	37,726,729	53,354,283
Investment in subsidiary	7	202,361,610	202,361,610
Other assets, net	10	37,999,067	57,156,315
Total assets		3,921,002,968	4,211,087,377
LIABILITIES AND EQUITY			
Liabilities			
Accounts payable and other liabilities	11	90,483,858	99,396,956
Lease liability	20	32,747,702	44,188,906
Deferred income tax liabilities, net	9	31,604,199	4,773,105
Total liabilities		154,835,759	148,358,967
Equity			
Share capital	12	506,435,080	506,435,080
Share premium		260,364,020	260,364,020
Accumulated reserves	12	(28,776,150)	51,873,094
Retained earnings	12	3,028,144,259	3,244,056,216
Total equity		3,766,167,209	4,062,728,410
Total liabilities and equity		3,921,002,968	4,211,087,377

(The notes on pages 1 to 44 are integral part of these financial statements)

BPI Capital Corporation

Statements of Income
For the years ended December 31, 2020 and 2019
(All amounts in Philippine Peso)

	Notes	2020	2019
Income			
Fees and commissions	13	634,838,648	445,207,654
Interest income	14	40,488,730	67,080,660
Dividend income	3,4,7	28,955,962	16,404,826
Trading gain, net	3	16,051,666	63,077,210
Miscellaneous income		5,734,419	957,019
		726,069,425	592,727,369
Expenses			
Compensation and fringe benefits	18	144,330,675	204,641,093
Gross receipts tax		38,176,834	33,316,284
Occupancy and equipment-related expense	8,20	31,335,595	24,856,933
Foreign exchange loss (gain), net	21	8,959,146	(6,832,131)
Brokerage and underwriting fees		5,782,705	5,340,137
Taxes and licenses		1,674,707	2,067,702
Management and other professional fees		603,793	3,269,143
Other operating expenses	16	85,407,905	94,487,269
		316,271,360	361,146,430
Profit before income tax		409,798,065	231,580,939
Income tax expense	17		
Current		103,417,129	54,510,155
Deferred	9	21,925,807	(9,169,877)
		125,342,936	45,340,278
Net income for the year		284,455,129	186,240,661

(The notes on pages 1 to 44 are integral part of these financial statements)

BPI Capital Corporation

Statements of Comprehensive Income
For the years ended December 31, 2020 and 2019
(All amounts in Philippine Peso)

	Note	2020	2019
Net income for the year		284,455,129	186,240,661
Other comprehensive (loss) income	12		
Item that will not be subsequently reclassified to profit or loss			
Net change in fair value reserve on equity securities measured at fair value through other comprehensive income, net of tax	4	(66,480,508)	68,802,476
Remeasurement of defined benefit obligation, net of tax		(15,586,047)	1,268,336
Total other comprehensive (loss) income, net of tax effect		(82,066,555)	70,070,812
Total comprehensive income for the year		202,388,574	256,311,473

(The notes on pages 1 to 44 are integral part of these financial statements)

BPI Capital Corporation

Statements of Changes in Equity
For the years ended December 31, 2020 and 2019
(All amounts in Philippine Peso)

	Share capital (Note 12)	Share premium	Accumulated reserves (Note 12)	Retained earnings (Note 12)	Total equity
Balances at January 1, 2019	506,435,080	260,364,020	(11,330,938)	3,068,601,468	3,824,069,630
Comprehensive income					
Net income for the year	-	-	-	186,240,661	186,240,661
Other comprehensive income	-	-	70,070,812	-	70,070,812
Total comprehensive income	-	-	70,070,812	186,240,661	256,311,473
Transaction with owners					
Exercise of stock options	-	-	1,528,783	-	1,528,783
Property dividends distribution	-	-	(8,395,563)	(10,785,913)	(19,181,476)
Transaction with owners	-	-	(6,866,780)	(10,785,913)	(17,652,693)
Balances at December 31, 2019	506,435,080	260,364,020	51,873,094	3,244,056,216	4,062,728,410
Comprehensive income					
Net income for the year	-	-	-	284,455,129	288,455,129
Other comprehensive loss	-	-	(82,066,555)	-	(82,066,555)
Total comprehensive income	-	-	(82,066,555)	284,455,129	202,388,574
Transaction with owners					
Exercise of stock options	-	-	1,417,311	-	1,417,311
Cash dividends declared and paid	-	-	-	(500,000,000)	(500,000,000)
Other adjustments	-	-	-	(367,086)	(367,086)
Transaction with owners	-	-	1,417,311	(500,367,086)	(498,949,775)
Balances at December 31, 2020	506,435,080	260,364,020	(28,776,150)	3,028,144,259	3,766,167,209

(The notes on pages 1 to 44 are integral part of these financial statements)

BPI Capital Corporation

Statements of Cash Flows
For the years ended December 31, 2020 and 2019
(All amounts in Philippine Peso)

	Notes	2020	2019
Cash flows from operating activities			
Profit before income tax		409,798,065	231,580,939
Adjustments for:			
Unrealized fair value gain on financial assets at fair value through profit or loss	3	(5,179,924)	(34,012,754)
Depreciation	8	16,209,582	15,484,170
Reversal of provision for impairment of trade and other receivables	6	(4,600,000)	
Reversal of provision for impairment of other assets	10	-	(7,087,666)
Amortization of financial assets at amortized cost	5	(1,556,100)	(1,490,671)
Stock option plan amortization	12	1,417,311	1,528,783
Interest expense	20	2,675,426	2,790,417
Interest income	14	(40,488,730)	(67,080,660)
Dividend income	3,4,7	(28,955,962)	(16,404,826)
Provision for impairment of trade receivables	6	127,851	-
Changes in operating assets and liabilities			
Decrease (increase) in:			
Financial assets at fair value through profit or loss		(409,885,192)	217,015,585
Trade and other receivables		37,405,804	(25,371,185)
Other assets		(2,610, 959)	1,210,954
(Increase) decrease in accounts payable and other liabilities		(49,558,247)	13,996,852
Cash (used in) generated from operations		(75,201,075)	332,159,938
Interest received		40,476,230	67,080,660
Payment of interest portion of lease liability	20	(2,675,426)	(2,790,417)
Income taxes paid		(62,771,980)	(78,414,782)
Net cash (used in) generated from operating activities		(100,172,251)	318,035,399
Cash flows from investing activities			
Acquisition of financial assets at fair value through other comprehensive income	4	(133,736,826)	(575,546,325)
Proceeds from disposal of financial assets at fair value through other comprehensive income	4	5,940,000	265,200
Dividends received	3,4,7	28,955,962	16,404,826
Acquisitions of property and equipment	8	(2,460,000)	(5,612,770)
Proceeds from disposals of property and equipment	8	1,877,972	2,346,000
Net cash used in investing activities		(99,422,892)	(562,143,069)
Cash flows from financing activities			
Payment of principal portion of lease liability	20	(11,441,204)	(8,481,795)
Cash dividends paid	12	(500,000,000)	-
Net cash used in financing activities		(511,441,204)	(8,481,795)
Net decrease in cash and cash equivalents		(711,036,345)	(252,589,465)
Cash and cash equivalents at January 1		1,420,588,863	1,673,178,328
Cash and cash equivalent at December 31	2	709,552,518	1,420,588,863

(The notes on pages 1 to 44 are integral part of these financial statements)

BPI Capital Corporation

Notes to Financial Statements
As at and for the years ended December 31, 2020 and 2019
(Amounts are shown in Philippine Peso unless otherwise stated)

Note 1 - General Information

BPI Capital Corporation (the "Company" or "BCC") was incorporated in the Philippines and registered with the Securities and Exchange Commission (SEC) on February 5, 1976 primarily to act as an institutional vehicle by and through which the business of financial intermediation may be provided by carrying out and exercising the powers, rights, privileges, and attributes of an investment house as may be allowed under applicable laws.

The Company is a wholly-owned subsidiary of Bank of the Philippine Islands (the "Parent Bank" or "BPI"), a commercial bank with an expanded banking license registered in the Philippines and listed in the Philippine Stock Exchange.

The Company's office address, which also serves as its principal place of business is at 10th Floor Ayala North Exchange Tower One, Ayala Avenue corner Salcedo Street, Legaspi Village, Makati City.

On September 5, 2019, the Monetary Board of the Bangko Sentral ng Pilipinas (BSP) approved the voluntary surrender of Quasi-Banking License of the Company.

The Company has 56 employees as at December 31, 2020 (2019 - 53 employees).

Coronavirus pandemic

The pandemic which broke out in March 2020 forced governments all over the world, including the Philippines, to implement community lockdowns and quarantines to mitigate the spread of the virus. Unfortunately, these lockdowns caused the demands for goods and services to plummet which ultimately led to the contraction of both the global and domestic economies.

As of report date, the pandemic remains the topmost concern of the government and businesses alike. The Philippine economy is gradually opening with the imposition of less stringent community quarantine protocols. Likewise, the vaccination program of the government already commenced in the first quarter of 2021 and is expected to ramp up, which is hoped to slow down the spread of the virus and boost confidence among businesses and consumers. While the pandemic still poses some risks and uncertainties, the Company, however, remains confident on its ability to absorb some conceivable financial shocks that may arise due to volatile economic conditions.

Approval and authorization for issuance of financial statements

These financial statements have been approved and authorized for issuance by the Company's Board of Directors (BOD) on March 17, 2021.

Note 2 - Cash and cash equivalents

The account at December 31 consists of:

	2020	2019
Cash in banks	309,552,518	220,588,863
Time deposits	400,000,000	1,200,000,000
	709,552,518	1,420,588,863

Interest income earned from cash and cash equivalent is disclosed in Note 14.

As at December 31, 2020, time deposits have maturities of 9 to 19 days (2019 - 63 days) with interest rate of 0.125% (2019 - 3.75%).

Note 3 - Financial assets at fair value through profit or loss (FVTPL)

The account at December 31 consists of:

	2020	2019
Debt securities		
Philippine government securities	787,827,921	354,397,734
Philippine corporate bonds	-	5,698,995
Listed equity securities	69,552,394	71,828,940
Unit investment trust funds	-	1,200,098
Derivatives	11,333,187	9,802,259
	868,713,502	442,928,026

Listed equity securities are issued by Philippine corporations and traded in the Philippine Stock Exchange (PSE). Dividend income earned from investments in equity securities for the year ended December 31, 2020 amounted to P20,654,443 (2019 - P10,150,870).

Details of net trading gain for the years ended December 31 on financial assets at FVTPL are summarized below:

	2020	2019
Realized gain	10,871,742	29,064,456
Unrealized fair value gain	5,179,924	34,012,754
	16,051,666	63,077,210

Financial assets at FVTPL are expected to be realized within one year from reporting dates.

Note 4 - Financial assets at fair value through other comprehensive income (FVOCI)

The Company has designated some of its equity securities from listed and unlisted private corporations as financial assets at FVOCI. The Company adopted this presentation as the investments were made for strategic purposes rather than with a view to profit on a subsequent sale.

The account as of December 31 consists of:

	2020	2019
Debt securities	767,001,202	700,522,745
Equity securities		
Listed	315,110,440	410,472,810
Unlisted	394,604,725	304,404,494
	1,476,716,367	1,415,400,049

Debt securities consist of mutual funds and money market placements managed by the Company's fund manager.

Listed equity securities are issued by Philippine corporations and traded in PSE.

For the year ended December 31, 2020, dividend income earned from investments in equity securities amounted to P8,301,519 (2019 - P6,253,956).

The movements of the account for the years ended December 31 are summarized as follows:

	2020	2019
Beginning	1,415,400,049	771,316,448
Acquisitions	133,736,826	575,546,325
Disposals	(5,940,000)	(265,200)
Net change in fair value	(66,480,508)	68,802,476
Ending	1,476,716,367	1,415,400,049

Critical accounting estimate - Fair value of unquoted financial instruments
The fair values of financial instruments that are not quoted in active markets are determined by using generally accepted valuation techniques. Where valuation techniques (for example, discounted cash flow models) are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of the area that created them. Inputs used in these models are from observable data and quoted market prices in respect of similar financial instruments.

All models are approved by the BOD before they are used, and models are calibrated to ensure that outputs reflect actual data and comparative market prices. Changes in assumptions about these factors could affect reported fair value of financial instruments. The Company considers that it is impracticable to disclose with sufficient reliability the possible effects of sensitivities surrounding the fair value of financial instruments that are not quoted in active markets.

Note 5 - Investment securities at amortized cost

The account as at December 31 consists of:

	2020	2019
Government debt securities		
Face amount	554,355,000	554,355,000
Unamortized discount	(1,752,678)	(3,308,778)
	552,602,322	551,046,222
Accrued interest receivable	8,799,655	8,799,655
	561,401,977	559,845,877

Interest income from investment securities at amortized cost as at December 31, 2020 amounted to P24,070,018 (2019 - 24,004,591) (Note 14).

Critical accounting judgment - Impairment of investment securities at amortized cost
Government securities at amortized cost are deemed by the Company to have low credit risk. Debt instruments are considered as low credit risk when they have a low risk of default and the issuer has a strong capacity to meet its contractual cash flow obligations in the near term. The Company uses external ratings in assessing the credit risk arising from these exposures. Low credit risk assets are at the minimum subject to 12-month expected credit loss (ECL). Based on management's assessment, the corresponding 12-month ECL is not material.

The detailed accounting policy for credit losses is disclosed in Note 23. Likewise, information on the credit quality of investment securities at amortized cost is presented in Note 21.

Note 6 - Trade receivables, net

The account at December 31 consists of:

	2020	2019
Trade receivables	26,680,339	132,852,759
Allowance for impairment losses	(149,141)	(73,400,405)
	26,531,198	59,452,354

Trade receivables are expected to be realized within one year from reporting dates.

The movement in allowance for impairment of trade receivables for the years ended December 31 are as follows:

	Note	2020	2019
Beginning of year		73,400,405	73,400,405
Provisions	16	127,851	-
Write-off		(68,779,115)	-
Reversal		(4,600,000)	-
End of year		149,141	73,400,405

In 2015, management provided full impairment on the receivable from a third-party customer amounting to P72,897,324 arising from an executed and completed financial advisory services. Management's judgment to fully impair the said receivable stemmed from the significant disagreement between the Company and the third-party customer as to the fees on the services rendered. In 2020, the Company was able to collect P4,600,000 out of this impaired receivables in a compromise settlement. Consequently, the remaining uncollected balance was written-off.

Critical accounting judgment - Trade receivables ECL
The Company applies the simplified approach allowed by Philippine Financial Reporting Standards (PFRS) 9, *Financial instruments*, in determining the recoverable amount of trade and other receivables based on the expected credit losses of the portfolio of receivables, as a whole. In arriving at the expected credit loss for a particular period, management considers both historical loss experience and certain macroeconomic factors of the countries of the related parties to which it renders services.

In these cases, management uses judgments based on the best available facts and circumstances, including but not limited to the length of relationship with the related parties and whether there had been payment defaults in the past. An evaluation of receivables designed to identify potential charges to the provision is performed on a continuous basis throughout the year. The carrying value of receivables at the end of each reporting period and the amount and timing of recorded provision for any period could differ based on actual experience and changes in judgments made.

The detailed accounting policy for credit losses is disclosed in Note 23. Likewise, information on the credit quality of investment securities at amortized cost is presented in Note 21.

Note 7 - Investment in subsidiary

The account pertains to the Company's 100% equity ownership of BPI Securities Corporation (BSC). BSC is primarily engaged in the brokerage business of purchase and sale of any and all kinds of shares, bonds, debentures, securities and any and all kinds of properties, either in the Philippines or in any foreign country; to underwrite and distribute securities issued by another person, firm, corporation or association, whether domestic or foreign; and to sell the aforesaid securities to customers and/or to act as broker and/or dealer of securities.

The investment is carried at cost as at December 31, 2020 and 2019 in accordance with Philippine Accounting Standards (PAS) 27, *Separate financial statements*. See Note 23.7 for the related accounting policy.

The summarized financial information of BSC as at and for the years ended December 31 are as follows:

	2020	2019
Total current assets	1,232,639,993	943,988,052
Total non-current assets	179,492,738	181,570,461
Total assets	1,412,132,731	1,125,558,513
Total current liabilities	813,317,513	532,687,931
Total non-current liabilities	12,305,195	20,192,200
Total liabilities	825,622,708	552,880,131
Net assets	586,510,023	572,678,382

	2020	2019
Revenues	268,144,802	231,960,102
Expenses	240,838,936	245,912,440
Income (loss) before income tax	27,305,866	(13,952,338)
Income tax expense	7,957,430	241,725
Net income (loss)	19,348,436	(14,194,063)
Other comprehensive (loss) gain	(5,516,795)	1,480,820
Total comprehensive income (loss)	13,831,641	(12,713,243)

There was no dividend income earned from BSC recognized in the statement of income for the year ended December 31, 2020 and 2019.

Critical accounting judgment - Impairment of investment in subsidiary
Impairment assessment on investment in subsidiary is performed whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Impairment loss is recognized whenever the carrying amount of the asset exceeds its recoverable amount. The recoverable amount is computed based on the higher of the asset's fair value less cost to sell or value-in-use. Management has not identified any indicators of impairment as at December 31, 2020 and 2019.

Note 8 - Property and equipment, net

Details and movements of the account follow:

	Furniture, fixtures and equipment	Computer equipment	Office space and leasehold improvement (Note 20)	Total
Cost				
At January 1, 2019	38,684,304	3,405,327	-	42,089,631
Additions	5,612,770	-	52,670,701	58,283,471
Disposals	(5,760,000)	-	-	(5,760,000)
Transfers	(6,896,700)	-	-	(6,896,700)
December 31, 2019	31,640,374	3,405,327	52,670,701	87,716,402
Additions	2,460,000	-	-	2,460,000
Disposals	(15,080,930)	(2,665,505)	-	(17,746,435)
December 31, 2020	19,019,444	739,822	52,670,701	72,429,967
Accumulated depreciation				
January 1, 2019	21,285,261	3,094,850	-	24,380,111
Depreciation	4,744,419	205,611	10,534,140	15,484,170
Disposals	(3,414,000)	-	-	(3,414,000)
Transfers	(2,088,162)	-	-	(2,088,162)
December 31, 2019	20,527,518	3,300,461	10,534,140	34,362,119
Depreciation	3,463,759	104,854	12,640,969	16,209,582
Disposals	(13,202,958)	(2,665,505)	-	(15,868,463)
December 31, 2020	10,788,319	739,810	23,175,109	34,703,238
Net carrying value at December 31, 2019	11,112,856	104,866	42,136,561	53,354,283
Net carrying value at December 31, 2020	8,231,125	12	29,495,592	37,726,729

Proceeds from disposals of properties are equal to the net book value, hence, no gain or loss was recognized.

Depreciation is included in Occupancy and equipment-related expenses in the statement of income.

Note 9 - Deferred income taxes, net

Deferred income taxes (DIT) as at December 31 represent the tax effects of the following temporary differences, including the period in which the temporary differences are expected to be recovered or settled:

	2020	2019
DIT assets		
Allowance for impairment losses	75,342	24,177,022
Provision for short-term employee benefits	4,162,805	8,401,763
Stock options plan	2,563,695	2,128,455
Past service cost	3,902,821	3,753,922
Total DIT assets	10,704,663	38,461,162
DIT liabilities		
Retirement benefit asset	(493,091)	(12,505,941)
Unrealized fair value gains on financial assets at FVOCI	(41,815,771)	(21,182,116)
Total DIT liabilities	(42,308,862)	(33,688,057)
DIT liabilities, net	(31,604,199)	(4,773,105)

The movements in DIT liabilities, net for the years ended December 31 are as follows:

	2020	2019
Beginning of year	(4,773,105)	7,377,307
Charged against (credited to) statement of income	21,925,807	(9,169,877)
Credited to other comprehensive income (OCI)	(48,756,902)	(2,980,534)
End of year	(31,604,199)	(4,773,105)

Significant judgment - Realization of DIT assets
The recognition of DIT assets depends on management's assessment of adequate future taxable income against which the temporary differences can be applied. The Company reviews the carrying amounts of DIT assets at the end of each reporting period and reduces the amounts to the extent that it is no longer probable that sufficient taxable profit will allow all or part of its DIT assets to be utilized. The Company's management believes that the DIT assets at the end of each reporting period will be fully realized.

Note 10 - Other assets, net

The account at December 31 consists of:

	Note	2020	2019
Retirement benefit asset	18	22,250,831	41,686,471
Prepaid taxes		8,624,879	7,946,066
Creditable withholding taxes		2,288,436	3,905,566
Software and other investments		1,717,330	1,717,330
Others		3,219,591	2,002,882
		38,101,067	57,258,315
Allowance for impairment losses - software and other investments		(102,000)	(102,000)
		37,999,067	57,156,315

The current and non-current portion of other assets, net follow:

	2020	2019
Current (within 12 months)	14,132,906	13,854,514
Non-current (beyond 12 months)	23,968,161	43,403,801
	38,101,067	57,258,315

The movements in allowance for impairment for the years ended December 31 are as follows:

	2020	2019
Beginning of year	102,000	7,189,666
Write-off	-	(7,087,666)
End of year	102,000	102,000

Note 11 - Accounts payable and other liabilities

The account at December 31 consists of:

	Note	2020	2019
Income tax payable		40,645,149	39,686,881
Accounts payable		7,885,902	4,119,211
Accrued expenses			
Taxes and licenses		15,985,872	18,789,634
Salaries and wages		15,323,134	29,130,554
Other accrued expenses		438,354	435,228
Due to related party	12	304,747	822,345
Other liabilities		9,900,700	6,413,103
		90,483,858	99,396,956

Accounts payable pertains to payable due to the purchase of retail treasury bonds and insurance payable.

Other liabilities include sundries and other payables.

Accounts payable and other liabilities are expected to be settled within the next financial year.

Note 12 - Share capital; accumulated reserves

Share capital

Details of share capital at December 31, 2020 and 2019 follow:

	Shares	Amount
Authorized, at P10 par value per share		
Common shares	100,000,000	1,000,000,000
Issued and outstanding shares		
Common shares	506,435,080	506,435,080

Retained earnings

As at December 31, 2020, the Company has retained earnings in excess of its additional paid-in capital amounting to P2.3 billion (2019 - P2.5 billion).

Dividends

On May 15, 2020 the Company declared cash dividends to the Parent Bank amounting to P500,000,000. The cash dividends were paid on May 29, 2020.

On October 29, 2019, the Company declared property dividends to the Parent Bank in the form of its investment in equities classified as financial assets at FVOCI (Note 4) with fair value of P19,181,476 at the date of settlement.

Accumulated reserves

The details and movements of the account for the years ended December 31 are summarized as follow:

	Note	2020	2019
Fair value reserve on financial assets at FVOCI, net of tax			
Beginning of year		33,783,049	(26,623,864)
Unrealized fair value (loss) gain	4	(66,480,508)	68,802,476
Fair value reserve of equities declared as property dividend		-	(8,395,563)
End of year		(32,697,459)	33,783,049
Remeasurement of retirement obligation, net of tax			
Beginning of year		10,995,194	9,726,858
Remeasurement gain		(15,586,047)	1,268,336
End of year	18	(4,590,853)	10,995,194
Stock option reserve			
Beginning of year		7,094,851	5,566,068
Employee stock option plan amortization		1,417,311	1,528,783
End of year		8,512,162	7,094,851
		(28,776,150)	51,873,094

Employee stock option plan amortization is booked under “Compensation and fringe benefits” in the statement of income.

Note 13 - Fees and commissions

The account for the years ended December 31 consists of income from the following activities:

	2020	2019
Underwriting and loan syndication	551,009,513	298,971,203
Broker’s fees	53,730,797	21,149,395
Financial advisory	15,110,626	114,445,996
Service fees	14,987,712	10,641,060
	634,838,648	445,207,654

Note 14 - Interest income

Interest income for the years ended December 31 are as follows:

	Notes	2020	2019
Investment securities at amortized cost	5	24,070,018	24,004,591
Cash in banks	2	16,063,422	2,551,795
Loans and receivables		1,355	2,085
Interbank loans receivable and SPAR		-	25,014,135
Due from BSP		-	15,039,126
Others		353,935	468,928
		40,488,730	67,080,660

Note 15 - Event after reporting date

Corporate Recovery and Tax Incentives for Enterprises Act (CREATE)

The Bicameral Conference Committee, under the 18th Congress of the Philippines, approved the reconciled version of the House Bill No. 4157 and Senate Bill No.1357 or the CREATE. The Committee report on CREATE was ratified by the Senate and House of Representatives on February 3, 2021. The bill was transmitted to the President of the Philippines on February 24, 2021 for signature. Among the salient provisions of CREATE include changes to the Corporate Income Tax (CIT) as follows:

1) Reduction in CIT rate effective July 1, 2020 as follows:
   a) Domestic Corporations will be subject to the following reduced CIT rates depending on their assets and taxable income:
      i) Those with assets amounting to P100,000,000 and below, and with taxable income equivalent to P5,000,000 and below will be subjected to a 20% tax rate;
      ii) Those with assets above P100,000,000 or those with taxable income amounting to more than P5,000,000 will be subjected to a 25% tax rate.
   b) Foreign Corporations (resident and nonresident foreign corporations) will have a fixed reduced tax rate of 25%.
2) Effective July 1, 2020 until June 30, 2023, the MCIT rate shall be one percent (1%).

Under CREATE, corporate taxpayers shall prepare their annual income tax return for the calendar year 2020 (CY2020) using the pro-rated CIT rate for CY2020 reckoned from July 1, 2020 (retrospective effect).

As at December 31, 2020, the CREATE bill is still pending ratification by both the Philippine Congress and Senate, and consequently pending approval of the President of the Republic of the Philippines. As such, the Company has assessed that the proposed tax law is not enacted or substantively enacted as of December 31, 2020.

For financial reporting purposes, the enactment of CREATE after the reporting date is deemed a non-adjusting subsequent event. Had the new CIT rates been applied on the December 31, 2020 financial statements of the Company, the financial impacts would have been as follows:

Decrease in	Amount
Deferred tax assets, net	(2,633,683)
Total non-current assets	(2,633,683)
Total assets	(2,633,683)
Income tax payable	(1,693,548)
Total current liabilities	(1,693,548)
Total liabilities	(1,693,548)
Current income tax expense	(3,971,520)
Deferred income tax expense	(1,827,575)
Net loss	(5,798,670)

Note 16 - Other operating expenses

Other operating expenses for the years ended December 31 consist of:

	Note	2020	2019
Outsourced services		34,392,746	57,486,419
Underwriting expenses		16,587,165	248,280
Periodicals and magazines		14,115,931	14,458,787
Directors' remuneration	19	5,060,000	4,412,778
Advertising expense		1,818,935	4,150,425
Postage and telegram		1,329,832	3,517,531
Stationery and office supplies		1,042,877	1,611,369
Transportation expense		648,603	1,219,822
Representation and entertainment		195,968	1,200,802
BSP supervision and examination fees		-	1,024,987
Others		10,215,848	5,156,069
		85,407,905	94,487,269

Others comprise mainly of interest expense from leases (Note 20), provision for impairment losses (Notes 6 and 10), travelling expenses, advertising costs, membership fees and dues and repairs and maintenance.

Note 17 - Income taxes

The reconciliation between income tax expense at the statutory rate and the actual income tax expense presented in the statement of income for the years ended December 31 follows:

	2020		2019	
	Amount	Rate (%)	Amount	Rate (%)
Statutory income tax	122,939,419	30.00	69,474,282	30.00
Income tax effects of permanent differences:				
Income subjected to lower tax rates, net	(3,888,203)	(0.95)	(5,300,298)	(2.29)
Tax-exempt income	(8,686,789)	(2.12)	(14,064,558)	(6.07)
Others	14,978,509	3.66	(4,769,148)	(2.06)
Effective income tax expense	125,342,936	30.59	45,340,278	19.58

Note 18 - Retirement benefits

The BPI Group maintains both defined benefit and defined contribution retirement plans. Assets of both retirement plans are held in trust and governed by local regulations and practices in the Philippines. The key terms of these pension plans are discussed below.

(a) Defined benefit retirement plan

BPI has a unified plan which covers all subsidiaries (including the Company) except insurance entities. Under this plan, the normal retirement age is 60 years. Normal retirement benefit consists of a lump sum benefit equivalent to 200% of the basic monthly salary of the employee at the time of his retirement for each year of service, if he has rendered at least 10 years of service, or to 150% of his basic monthly salary, if he has rendered less than 10 years of service. For voluntary retirement, the benefit is equivalent to 112.50% of the employee's basic monthly salary for a minimum of 10 years of service with the rate factor progressing to a maximum of 200% of basic monthly salary for service years of 25 or more. Death or disability benefit, on the other hand, shall be determined on the same basis as in voluntary retirement.

The net defined benefit cost and contributions to be paid by the entities within the BPI Group are determined by an independent actuary. The actuarial information applicable to the Company is presented below.

The amount recognized in the statement of financial position as at December 31 follows:

	Note	2020	2019
Fair value of plan assets		101,002,000	114,661,513
Present value of retirement obligation		(76,439,812)	(61,151,403)
Excess of plan assets over retirement obligation		24,562,188	53,510,110
Asset ceiling limit		(2,311,357)	(11,823,639)
Retirement benefit asset	10	22,250,831	41,686,471

The retirement benefit asset is recorded as part of the "Other assets" (Note 10) shown in the statement of financial position.

The movements in the present value of defined benefit obligation for the years ended December 31 follow:

	2020	2019
Beginning of year	61,151,403	40,258,961
Current service cost	5,615,149	3,470,322
Interest cost	3,406,133	4,749,522
Remeasurement - changes in financial assumptions	13,133,553	19,731,924
Remeasurement - experience	(6,866,426)	(7,059,326)
End of year	76,439,812	61,151,403

The movements in fair value of plan asset for the years ended December 31 are as follows:

	2020	2019
Beginning of year	114,661,513	84,515,333
Interest income	6,517,713	7,285,222
Contributions	4,333,701	4,980,427
Remeasurement - return on plan assets	(24,510,927)	17,880,531
End of year	101,002,000	114,661,513

The composition of the plan assets at fair value as at December 31 are as follows:

	2020	2019
Debt securities	36,269,818	35,542,055
Equity securities	41,845,129	53,892,418
Others	22,887,053	25,227,040
	101,002,000	114,661,513

The plan assets of the BPI unified plan include investments in BPI's common shares. The actual return net loss on plan assets attributable to the Company for the year ended December 31, 2020 amounted to P17,993,214 (2019 - P25,165,753 net gain).

The Company has no other transactions with the fund other than the contributions presented above.

The components of pension expense recognized in the statement of income for the years ended December 31 consist of:

	2020	2019
Current service cost	5,615,149	4,749,522
Net interest cost	(2,453,003)	(2,637,299)
Pension expense	3,162,146	2,112,223

Pension expense is presented as part of “Compensation and fringe benefits” in the statement of income for the years ended December 31, 2020 and 2019.

The movements in reserve for remeasurement of defined benefit obligation as at December 31 are as follows:

	Note	2020	2019
Beginning of year		(19,543,187)	(13,786,976)
Remeasurement (gain) recognized in OCI			
Remeasurement (gain) loss on retirement obligation		6,267,127	12,672,598
Remeasurement loss (gain) on plan assets		24,510,927	(17,880,531)
Changes in the effect of asset ceiling		(10,170,858)	(3,015,226)
		20,607,196	(8,223,159)
Deferred tax effect		(6,182,160)	2,466,948
End of year	12	(5,118,151)	(19,543,187)

Expected maturity analysis of undiscounted retirement benefits as at December 31:

	Less than a year	Between 1-5 years	Between 5-10 years	Between 10-15 years	More than 15 years
December 31, 2020	1,806,485	9,601,358	55,704,559	35,670,870	184,304,381
December 31, 2019	612,723	3,698,922	55,407,964	68,626,424	258,696,548

Critical accounting estimate - Calculation of defined benefit obligation

The present value of the retirement benefit obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost for pensions include the discount rate and future salary increases as follows:

	2020	2019
Discount rate	3.97%	5.57%
Future salary increases	5.00%	5.00%

Assumptions regarding future mortality and disability experience are based on published statistics generally used for local actuarial valuation purposes.

The defined benefit plan typically exposes the Company to a number of risks such as investment risk, interest rate risk and salary risk. The most significant of which relate to investment and interest rate risk. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of government bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability. A decrease in government bond yields will increase the defined benefit obligation although this will also be partially offset by an increase in the value of the plan’s fixed income holdings. Hence, the present value of defined benefit obligation is directly affected by the discount rate to be applied by the Company. However, the Company believes that due to the long-term nature of the pension liability and the strength of the Company itself, the mix of debt and equity securities holdings of the plan is an appropriate element of the Company’s long-term strategy to manage the plan efficiently.

The Company ensures that the investment positions are managed within an asset-liability matching framework that has been developed to achieve long-term investments that are in line with the obligations under the plan. The Company's main objective is to match assets to the defined benefit obligation by investing primarily in long-term debt securities with maturities that match the benefit payments as they fall due. The asset-liability matching is being monitored on a regular basis and potential change in investment mix is being discussed with the trustor, as necessary to better ensure the appropriate asset-liability matching.

For the year ended December 31, 2020, the weighted average duration of the defined benefit obligation is 12.26 years (2019 - 13.62 years).

The sensitivity of the defined benefit plan to changes in the weighted principal assumptions is presented as follows:

	Change in assumption	Impact on defined benefit plan	
		Increase in assumption	Decrease in assumption
December 31, 2020			
Discount rate	0.5%	4,886,596	(4,486,315)
Salary increase rate	1.0%	10,004,482	(8,609,150)
December 31, 2019			
Discount rate	0.5%	(3,979,473)	4,349,995
Salary increase rate	1.0%	9,071,933	(7,730,787)

The sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions the same method (present value of the defined benefit obligation calculated with the projected unit credit method at the end of the reporting period) has been applied as when calculating the retirement benefit obligation recognized in the statement of financial position.

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

(b) Defined contribution retirement plan

All non-unionized employees hired on or after the January 1, 2016 are automatically under the new defined contribution plan. Employees hired prior to the effective date shall have the option to elect to become members of the new defined contribution plan.

The defined contribution retirement plan has a defined benefit minimum guarantee equivalent to a certain percentage of the monthly salary payable to an employee at normal retirement age with the required credited years of service based on the provisions of Republic Act ("RA") No. 7641.

Under the normal or late retirement, employees are entitled to a benefit equal to the total of the following amounts:

- The higher between (a) cumulative fund balance equivalent to 8% of the basic monthly salary and (b) the minimum legal retirement benefit under the Retirement Law.
- Employee contributions fund.

Accordingly, the liability for the defined benefit minimum guarantee is actuarially calculated similar to the defined benefit plan.

Following are the details of the Company's defined contribution plan that has a defined benefit minimum guarantee as at December 31:

	2020	2019
Fair value of plan assets	17,905,479	26,155,555
Present value of retirement obligation	(10,370,299)	(10,627,462)
Excess of plan assets over retirement obligation	7,535,180	15,528,093
Asset ceiling limit	(7,535,180)	(15,528,093)
Retirement benefit asset	-	-

The movements in the present value of retirement obligation for the years ended December 31 are as follows:

	2020	2019
Beginning of year	10,627,462	4,282,026
Current service cost	2,751,736	1,494,003
Interest expense	591,950	382,385
Benefits paid from plan assets	(1,794,706)	(67,348)
Remeasurement - changes in financial assumptions	2,518,128	4,295,613
Remeasurement - experience	(4,324,271)	240,783
End of year	10,370,299	10,627,462

The movements in the fair value of plan asset for the years ended December 31 are as follows:

	2020	2019
Beginning of year	26,155,555	17,459,554
Interest income	1,529,457	1,559,138
Contributions	3,840,155	4,241,827
Benefits paid from plan assets	(1,794,706)	(67,348)
Remeasurement - return on plan assets	(11,824,982)	2,962,384
End of year	17,905,479	26,155,555

The components of pension expense recognized in the statement of income for the years ended December 31 consist of:

	2020	2019
Current service cost	2,751,736	1,494,003
Net interest cost	(72,592)	-
Pension expense	2,679,144	1,494,003

Pension expense is presented as part of "Compensation and fringe benefits" in the statement of income for the years ended December 31, 2020 and 2019.

The movements in reserve for remeasurement of net defined contribution asset as at December 31 are as follows:

	Note	2020	2019
Beginning of year		8,547,994	4,060,119
Remeasurement (gain) recognized in OCI			
Remeasurement (gain) loss on retirement obligation		(1,806,143)	4,536,396
Remeasurement loss (gain) on plan assets		11,824,982	(2,962,384)
Changes in the effect of asset ceiling		(8,857,828)	1,173,812
		1,161,011	2,747,824
Deferred tax effect		-	1,740,051
End of year	12	9,709,005	8,547,994

Remeasurements on retirement benefits recognized in other comprehensive income are presented in the statement of comprehensive income.

Note 19 - Related party transactions

In the normal course of business, the Company transacts with its Parent Bank and other related entities and with its directors, officers, shareholders and related interest (DOSRI).

These transactions such as loans and advances, deposit arrangements, underwriting/advisory services and advances for operating expenses are made in the normal operating activities and have terms and conditions that are generally comparable to those offered to non-related parties and to similar transactions in the market.

Transactions with the Parent Bank include outsourcing of services related to the following activities: (a) anti-money laundering; (b) accounting and securities administration services; (c) deposit arrangements; and (d) loan operations, treasury operations, human resource-related functions and information systems.

BPI Family Savings Bank, Inc. (BPI FSB) and BPI Payments Holdings, Inc. (BPHI) are fellow entities under common control. Transactions with these fellow subsidiaries consist primarily of outsourcing of services related to information systems.

Significant related party transactions as at and for the years ended December 31 are summarized below:

	Transactions for the year	Outstanding Balances	Terms and conditions
December 31, 2020			
Trade receivables, net			
Parent Bank	885,069	898,836	These are unsecured, non-interest bearing, non-guaranteed and collectible in cash on demand.
Cash deposits to:			
Parent Bank	709,478,726	709,552,518	These are time, demand and savings deposits bearing the following average interest rates: - Time - 0.125% - Demand - 0.22% to 0.41% - Savings - 0.76% to 1.14%
BPI Family Savings Bank	(1,557,619)	-	
Accounts payable and other liabilities			
Parent Bank	(517,598)	304,747	These are unsecured, non-interest bearing, non-guaranteed, payable in cash on demand.

	Transactions for the year	Outstanding Balances	Terms and conditions
December 31, 2019			
Trade and other receivables, net			
Parent Bank	(724,953)	13,767	These are unsecured, non-interest bearing, non-guaranteed, collectible in cash on demand and unsecured.
Cash deposits to:			
Parent Bank	1,138,959,356	1,419,031,244	These are time, demand and savings deposits bearing the following average interest rates: - Time - 0.125% - Demand - 0.22% to 0.41% - Savings - 0.76% to 1.14%
BPI Family Savings Bank	6,302	1,557,619	
Accounts payable and other liabilities			
Parent Bank	716,952	822,345	- Unsecured - Non-interest bearing - Payable in cash on demand

The aggregate amounts included in the determination of income before income tax that resulted from transactions with each class of related parties are as follows:

	2020	2019
Interest income		
Parent Bank	15,643	252,013
Fees and commission		
Ayala Land Inc.	95,553,688	19,664,484
Parent Bank	55,759,529	2,531,750
BPI Family Savings Bank Inc.	23,004,961	5,658,432
Ayala Real Estate Investment Trust Inc.	20,004,316	-
Manila Water Company Inc.	16,176,667	6,652,518
BPI Securities	2,856,000	-
BPI Asset Management and Trust Corporation	2,544,702	-
BPI Investment Management Inc.	1,418,606	1,052,632
	217,318,469	35,559,816
Outsourcing services		
Parent Bank	34,392,746	57,654,598
Rent		
Parent Bank	-	385,758
Ayala Real Estate Investment Trust Inc	17,320,827	-
Brokerage services		
BPI Securities	1,489,980	-
Insurance fees		
BPI Philam Life Assurance Corporation	569,267	-
BPI MS Insurance Corporation	996	-
Other operating expenses		
Ayala Land Inc.	14,664,450	-
Retirement benefits		
Key management personnel	3,238,876	3,399,640
Salaries, allowances and other short-term benefits		
Key management personnel	55,842,691	59,072,992
Directors' remuneration	5,060,000	4,412,778

There were no provisions recognized against receivables from related parties. Also, no additional provision was recognized during the year.

Note 20 - Leases

The Company has a lease agreement with the Parent Bank for its office space renewable under certain terms and conditions and for a period of 4 years from January 1, 2019 to April 1, 2023. The balances arising from these leases are presented below.

Details of right-of-use assets and lease liability at December 31 are as follows:

	Note	2020	2019
Right-of-use assets - Office space and leasehold improvement	8		
Cost		52,670,701	52,670,701
Accumulated depreciation		(23,175,108)	(10,534,140)
		29,495,593	42,136,561
Lease liability			
Current		12,951,804	11,418,472
Non-current		19,795,898	32,770,434
		32,747,702	44,188,906

The movement in lease liabilities for the year ended December 31 are as follows:

	2020	2019
At January 1	44,188,906	-
Non-cash changes		
Additions	-	52,670,701
Interest expense	2,675,426	2,790,417
Cash outflows for principal and interest payments	(14,116,630)	(11,272,212)
At December 31	32,747,702	44,188,906

There are no variable lease payments as at December 31, 2020 and 2019.

Amounts recognized in the statement of income relating to leases as at December 31 are as follows:

	Note	2020	2019
Right-of-use-assets - Office space and leasehold improvement			
Depreciation expense (included in "Occupancy and equipment-related expenses")	8	12,640,969	10,534,140
Interest expense (included in "Others" under Other operating expenses)		2,675,426	2,790,417
Expense relating to short-term leases (included in "Occupancy and equipment-related expenses")		1,466,081	1,171,051
Expense relating to leases of low-value assets that are not shown above as short-term leases (included in "Occupancy and equipment-related expenses")		672,607	769,859
		17,455,083	15,265,467

Critical accounting judgment - Determining the lease term
In determining the lease term, the Company considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated).

Management believes that lease extension and terminations will not be exercised, thus, extension and termination options have not been included in the lease liabilities.

Critical accounting judgment - Determining the incremental borrowing rate
The Company's incremental borrowing rate applied to the lease liability arising from the lease contract entered into in 2019 was 6.8433%. The rate was determined in reference to the prevailing bank lending rates that are reflective of the Company's own credit risk taking into consideration the nature of the leased asset and other terms and conditions of the lease contracts.

Note 21 - Financial risk and capital management

The Board of Directors carries out its risk management function through the Risk Management Committee (RMC) of the BOD. The RMC is tasked with nurturing a culture of risk management across the enterprise. The RMC sets the risk appetite; proposes and approves risk management policies, frameworks, and guidelines; and regularly reviews risk management structures, metrics, limits, and issues across the Company, in order to meet and comply with regulatory and international standards on risk measurement and management.

At the management level, the Risk Management Office (RMO) is headed by the Chief Risk Officer (CRO). The CRO is ultimately responsible in leading the formulation of risk management policies and methodologies in alignment with the overall business strategy of the Company, ensuring that risks are prudently and rationally undertaken and within its risk appetite, as well as commensurate and disciplined to maximize returns on shareholders' capital. Risk management is carried out by a dedicated team of skilled risk managers and senior officers who have extensive prior operational experience. The Company's risk managers regularly monitor key risk indicators and report exposures against carefully established financial and business risk metrics and limits approved by the RMC. Finally, independent reviews are regularly conducted by the Internal Audit group and regulatory examiners to ensure that risk controls and mitigants are in place and functioning effectively as intended.

The possibility of incurring losses is, however, compensated by the possibility of earning more than expected income. Risk-taking is, therefore, not entirely negative to be avoided. Risk-taking actions present opportunities if risks are fully identified and accounted, deliberately taken, and are kept within prudent and rationalized limits.

The most important financial risks that the Company manages are credit risk, liquidity risk and market risk.

21.1 Credit risk

The Company takes on exposure to credit risk, which is the risk that counterparty will cause a financial loss for the Company by failing to discharge an obligation. Significant changes in the economy, or in the health of a particular industry segment that may represent a concentration in the Company's portfolio, could result in losses that are different from those provided for at the reporting date. Management therefore carefully manages its exposure to credit risk. Credit exposures arise principally in trade and other receivables and debt securities.

21.1.1 Credit risk management

(a) Trade and other receivables

The Company applies the simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade and other receivables. The detailed impairment policy of the Company is disclosed in Note 23.

(b) Debt securities carried at amortized cost

Investments in high grade securities and bills are viewed as a way to gain better credit quality mix and at the same time, maintain a readily available source to meet funding requirements. The level of credit risk for treasury and other investment debt securities and their associated probability of default (PD) are determined using reputable external ratings and/or available and reliable qualitative and quantitative information. In the absence of credit ratings, a comparable issuer or guarantor rating is used. Should there be a change in the credit rating of the chosen comparable, evaluation is made to ascertain whether the rating change is applicable to the security being assessed for impairment.

Classifications	Credit Risk Grade following S&P or its equivalent
Standard monitoring	IG (AAA to BBB-)
Special monitoring	Non-IG (BB+ to C)
Default	Default (D)

21.1.2 Risk limit control and mitigation policies

The Company manages limits and controls concentrations of credit risk wherever they are identified, in particular, to individual counterparties and groups, to industries and sovereigns.

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

The exposure to any one borrower is further restricted by sub-limits covering on- and off- balance sheet exposures. Actual exposures against limits are monitored regularly.

Exposure to credit risk is also managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate.

21.1.3 Maximum exposure to credit risk

Credit risk exposures relating to financial assets are as follows:

	2020	2019
Cash and cash equivalents	709,552,518	1,420,588,863
Financial assets at FVTPL - debt securities	787,827,921	361,296,827
Financial assets at FVOCI - debt securities	767,001,202	700,522,745
Investment securities at amortized cost, net	561,401,977	559,845,877
Trade receivables	26,531,198	59,452,354
	2,852,314,816	3,101,706,666

The carrying amount of financial assets above also represents the Company's maximum exposure to credit risk.

The following table contain an analysis of the credit risk exposure of each financial instrument.

21.1.4 Credit quality of financial assets other than trade and other receivables

Credit risk exposures relating to on-balance sheet assets are as follows:

	2020				**2019**			
	Stage 1 12-month ECL	**Stage 2** Lifetime ECL	**Stage 3** Lifetime ECL	**Total**	**Stage 1** 12-month ECL	**Stage 2** Lifetime ECL	**Stage 3** Lifetime ECL	**Total**
Cash and cash equivalent	709,552,518	-	-	709,552,518	1,420,588,863	-	-	1,420,588,863
Financial assets at FVTPL	787,827,921	-	-	787,827,921	361,296,827	-	-	361,296,827
Financial assets at FVOCI	767,001,202	-	-	767,001,202	700,522,745	-	-	700,522,745
Investment securities at amortized cost, net	561,401,977	-	-	561,401,977	559,845,877	-	-	559,845,877
Gross carrying amount	2,825,783,618	-	-	2,825,783,618	3,042,254,312	-	-	3,042,254,312
Loss allowance	-	-	-	-	-	-	-	-
Carrying amount	2,825,783,618	-	-	2,825,783,618	3,042,254,312	-	-	3,042,254,312

Cash and cash equivalents substantially consist of time deposit placements with the Parent Bank and its subsidiary

The cash and cash equivalents are deemed to have low credit risk. Accordingly, the applicable 12-month expected credit loss is deemed not material for financial reporting purposes.

21.1.5 Credit quality of trade receivables, net

The carrying amount of the Company's trade receivables as at December 31, 2020 amounts to P26,531,198 (2019 - P59,452,354).

The Company's trade and other receivables generally arise from transactions with various unrated counterparties with good credit standing. The Company applies the simplified approach to measuring expected credit losses which uses a lifetime expected loss methodology for trade and other receivables.

Credit risk exposures relating to trade receivables follows:

	2020				2019			
	Stage 1 12-month ECL	**Stage 2** Lifetime ECL	**Stage 3** Lifetime ECL	**Total**	**Stage 1** 12-month ECL	**Stage 2** Lifetime ECL	**Stage 3** Lifetime ECL	**Total**
Trade receivables	16,885,764	9,542,762	251,813	26,680,339	59,452,354	-	73,400,405	132,852,759
Loss allowance	-	-	(149,141)	(149,141)	-	-	(73,400,405)	(73,400,405)
Carrying amount	**16,885,764**	**9,542,762**	**102,672**	**26,531,198**	**59,452,354**	**-**	**-**	**59,452,354**

21.2 Concentration of risk on financial assets with credit risk exposure

The Company's main credit exposure at their carrying amounts, as categorized by industry sectors are as follows:

At December 31, 2020

	Financial institutions	Manufacturing	Real estate	Others	Total
			(In Millions of Pesos)		
Cash and cash equivalents	710	-	-	-	710
Financial assets at FVTPL - debt securities	788	-	-	-	788
Financial assets at FVOCI - debt securities	767	-	-	-	767
Investment securities at amortized cost	561	-	-	-	561
Trade receivables, net	-	16	-	11	27
	2,826	16	-	11	2,853

At December 31, 2019

	Financial institutions	Manufacturing	Real estate	Others	Total
			(In Millions of Pesos)		
Cash and cash equivalent	1,421	-	-	-	1,421
Financial assets at FVTPL - debt securities	355	-	6	-	361
Financial assets at FVOCI - debt securities	701	-	-	-	701
Investment securities at amortized cost	559	-	-	-	559
Trade receivables, net	27	-	22	10	59
	3,063	-	28	10	3,101

21.3 Market risk management

The Company is exposed to market risk - the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk management is guided by policies and procedures reviewed by the Company's RMC and approved by the Executive Committee/Board of Directors.

The Company reviews and controls market risk exposures in its trading operations. Trading portfolios include those positions arising from the Company's market-making transactions.

To estimate its exposure to market risk, the Company computes the statistical "value at risk" (VaR) of its trading position on a daily basis. The VaR measurement estimates, at 99% degree of confidence, the maximum loss, due to adverse market movements, that could be incurred by portfolios over assumed holding periods. As such, there remains 1% statistical probability that portfolios' actual loss could be greater than the VaR estimate.

VaR of the Company as at December 31 follows:

	2020	2019
	(Amounts in thousands of Pesos)	
Balance Sheet VaR	21,634	23,203

VaR is an integral part of the Company's market risk control system. VaR limits for all trading portfolios are set by the Company's Board of Directors. Actual market risk exposures vis-à-vis market risk limits are reported daily to the Company's management as well as the Parent Bank's RMC.

21.4 Foreign exchange risk

The Company takes on exposure to the effects of fluctuations in the prevailing exchange rates on its foreign currency financial position and cash flows.

The Company's exposure to foreign currency exchange rate risk at December 31, 2020 arises from its cash and other cash items denominated in United States Dollar (US Dollar) equivalent to P14,066,276 (2019 - P10,045,176). The Company has no foreign-currency denominated liabilities as at December 31, 2020 and 2019.

Realized foreign exchange loss, net from foreign currency denominated transactions for the year ended December 31, 2020 amounted to P8,959,146 (2019 - P6,832,131, realized foreign exchange gain, net).

At December 31, 2020 and 2019, if the Philippine Peso had weakened/strengthened by 1% against the US Dollar based on rate 60 days after reporting period with all other variables held constant, pre-tax income as at and for the year ended December 31, 2020 would have been P0.14 million (2019 - P0.13 million) higher/lower, mainly as a result of foreign exchange gains/losses on translation of US Dollar-denominated assets.

21.5 Interest rate risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. The Company takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on both its fair value and cash flow risks. Interest margins may increase as a result of such changes but may also result in losses in the event that unexpected movements arise. The Board of Directors sets limits on the level of mismatch of interest rate repricing that may be undertaken.

The Company's trade and other receivable carry fixed interest rate while most investments in debt securities are held amortized cost thus, are insensitive to fluctuations in interest rate. Likewise, financial liabilities are subject to fixed interest rates. Interest rate risk, therefore, arises mainly from debt securities at FVTPL and FVOCI at P787,827,921 and 767,001,202, respectively, as at December 31, 2020 (2019 - P361,296,827 and 700,522,745, respectively).

A shift of +/- 100 basis points on the prevailing market rates (with all other variables held constant), would reduce/increase its income for the year ended December 31, 2020 by P7,959,390 (2019 - P3,655,140).

21.6 Price risk

The Company is exposed to price risk to the extent of equity securities at fair value through profit or loss and through other comprehensive income. The Company's sensitivity and exposure to price risk on its equity securities are measured and monitored through the Company's VaR (Note 21.2).

21.7 Liquidity risk

Liquidity risk is the risk that the Company is unable to meet its payment obligations associated with its financial liabilities when they fall due and to replace funds when they are withdrawn. The consequence may be the failure to meet current obligations and/or immediate sale of securities.

The Company's liquidity management process, as carried out within the Company includes:

- Day-to-day funding managed by monitoring future cash flows to ensure that requirements can be met. This includes replenishment of funds as they mature or are borrowed by customers;
- Maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any unforeseen interruption to cash flow;
- Monitoring balance sheet liquidity ratios against internal and regulatory requirements; and
- Managing the concentration and profile of debt maturities.

Monitoring and reporting take the form of cash flow measurement and projections for the next day, week and month respectively, as these are key periods for liquidity management. The starting point for these projections is an analysis of the contractual maturity of the financial liabilities and the expected collection date of the financial assets.

The table below presents the maturity profile of non-derivative financial instruments based on undiscounted cash flows, which the Company uses to manage the inherent liquidity risk. The analysis into maturity grouping is based on the remaining period from the end of the reporting period to the contractual maturity date or, if earlier, the expected date the financial asset will be realized, or the financial liability will be settled.

	Up to 1 year	Over 1 up to 3 years	Over 3 years	Total
As at December 31, 2020				
Financial assets				
Cash and cash equivalent	709,552,518	-	-	709,552,518
Financial assets at FVTPL - debt securities	793,173,531	-	-	793,173,531
Financial assets at FVOCI - debt securities	767,002,228	-	-	767,002,228
Investment securities at amortized cost	24,120,317	556,469,365	-	580,589,682
Trade receivables, net	26,531,198	-	-	26,531,198
Total financial assets	2,320,379,792	556,469,365	-	2,876,849,157
Financial liabilities				
Accounts payable	7,885,902	-	-	7,885,902
Accrued expenses, excluding accrued taxes and licenses and other non-financial liabilities	15,761,488	-	-	15,761,488
Due to related party	304,747	-	-	304,747
Lease liability	14,798,593	20,801,571	-	35,600,164
Other liabilities	8,139,420	-	-	8,139,420
Total financial liabilities	46,890,150	20,801,571	-	67,691,721
Total maturity surplus	2,273,489,642	535,667,794	-	2,809,157,436

	Up to 1 year	Over 1 up to 3 years	Over 3 years	Total
As at December 31, 2019				
Financial assets				
Cash and cash equivalent	1,420,588,863	-	-	1,420,588,863
Financial assets at FVTPL - debt securities	361,296,827	-	-	361,296,827
Financial assets at FVOCI - debt securities	700,522,745	-	-	700,522,745
Investment securities at amortized cost	40,113,229	528,532,303	-	568,645,532
Trade receivables, net	59,452,354	-	-	59,452,354
Total financial assets	2,581,974,018	528,532,303	-	3,110,506,321
Financial liabilities				
Accounts payable	4,119,211	-	-	4,119,211
Accrued expenses, excluding accrued taxes and licenses and other non-financial liabilities	29,565,782	-	-	29,565,782
Due to related party	822,345	-	-	822,345
Lease liability	14,093,898	30,337,116	5,263,048	49,694,062
Other liabilities	6,413,103	-	-	6,413,103
Total financial liabilities	55,014,339	30,337,116	5,263,048	90,614,503
Total maturity surplus (gap)	2,526,959,679	498,195,187	(5,263,048)	3,019,891,818

21.8 Fair value hierarchy

The following table presents the fair value hierarchy of the Company's significant assets and liabilities at December 31:

	Fair value			
2020	Level 1	Level 2	Level 3	Total
Recurring measurements				
Financial assets				
Financial assets at FVTPL	857,380,315	11,333,187	-	868,713,502
Financial assets at FVOCI	1,082,111,642	-	394,604,725	1,476,716,367
Fair values disclosed				
Financial assets				
Cash and cash equivalent	-	709,552,518	-	709,552,518
Financial assets at amortized cost	569,540,786	-	-	569,540,786
Trade receivables, net	-	26,531,198	-	26,531,198
Other receivables	-	171,211	-	171,211
Financial liabilities				
Accounts payable	-	7,885,902	-	7,885,902
Accrued expenses, excluding accrued taxes and licenses and other non-financial liabilities	-	15,761,488	-	15,761,488
Due to related parties	-	304,747	-	304,747
Lease liability	-	32,747,702	-	32,747,702
Other liabilities	-	8,139,420	-	8,139,420

	Fair value			
2019	Level 1	Level 2	Level 3	Total
Recurring measurements				
Financial assets				
Financial assets at FVTPL	433,125,767	9,802,259	-	442,928,026
Financial assets at FVOCI	1,110,995,555	-	304,404,494	1,415,400,049
Fair values disclosed				
Financial assets				
Cash and cash equivalent	-	1,420,588,863	-	1,420,588,863
Financial assets at amortized cost	558,244,532	-	-	558,244,532
Trade receivables, net	-	59,452,354	-	59,452,354
Other receivables	-	661,274	-	661,274
Financial liabilities				
Accounts payable	-	4,119,211	-	4,119,211
Accrued expenses, excluding accrued taxes and licenses and other non-financial liabilities	-	29,565,782	-	29,565,782
Due to related parties	-	822,345	-	822,345
Lease liability	-	44,188,906	-	44,188,906
Other liabilities	-	6,413,103	-	6,413,103

The Company's RMC is responsible for performing the valuation of fair value measurements included in the financial statements, including Level 3 fair values. The valuation processes and results for recurring measurements are reviewed and approved by the Chief Risk Officer (CRO) at least once every quarter, in line with the Company's quarterly reporting dates. The valuation processes and results for non-recurring measurements are reviewed and approved by the CRO in the quarter in which the measurement occurs. All Level 3 valuation results are discussed with the Audit Committee as part of its quarterly review of the Company's financial statements.

The Company's Level 2 financial instruments include government debt securities. The fair values of Level 2 financial instruments are estimated using values obtained from government board summary.

The table below shows the valuation techniques and applicable unobservable inputs used to measure the Company’s Level 3 financial instruments (equities classified at FVOCI) as at December 31:

Description	Valuation technique	Unobservable inputs	2020	2019
Unlisted equity securities	Net asset value; investment multiple	Net asset value; investment multiple	394,604,725	304,404,494

The investment valuation sensitivity of the underlying portfolio investee company is mainly impacted by the movement in net asset value and investment multiple. At December 31, 2020 and 2019, if the net asset value and investment had increased/ decreased by 1% with all other variables held constant, net income and equity as at and for the year ended December 31, 2020 would have been P1,118,230 (2019 - P9,852,087) higher/lower.

21.9 Capital management

Capital management is understood to be a facet of risk management. The primary objective of the Company is the generation of recurring acceptable returns to shareholders’ capital. To this end, the Company’s policies, business strategies and activities are directed towards the generation of cash flows that are in excess of its fiduciary and contractual obligations to its depositors, and to its various funders and stakeholders.

Cognizant of its exposure to risks, the Company understands that it must maintain sufficient capital to absorb unexpected losses, to stay in business for the long haul, and to satisfy regulatory requirements. The Company further understands that its performance, as well as the performance of its various units, should be measured in terms of returns generated vis-à-vis allocated capital and the amount of risk borne in the conduct of business.

Effective January 1, 2014, the BSP, through its Circular 781, requires each bank and its financial affiliated subsidiaries to adopt new capital requirements in accordance with the provisions of Basel III. The new guidelines are meant to strengthen the composition of the bank's capital by increasing the level of core capital and regulatory capital. The Circular sets out minimum Common Equity Tier 1 (CET1) ratio and Tier 1 Capital ratios of 6% and 7.5%, respectively. A capital conservation buffer of 2.5%, comprised of CET1 capital, was likewise imposed. The minimum required capital adequacy ratio remains at 10% which includes the capital conservation buffer.

Qualifying capital and risk-weighted assets are computed based on BSP regulations. The qualifying capital of the Company consists of core tier 1 capital and tier 2 capital. Tier 1 capital comprises paid-up capital stock, paid-in surplus, surplus including net income for the year, surplus reserves less deductions such as deferred income tax, unsecured credit accommodations to DOSRI and unrealized fair value losses on financial assets at fair value through other comprehensive income. Tier 2 capital includes net unrealized fair value gains on financial assets at fair value through other comprehensive income, and general loan loss provisions for BSP reporting purposes.

In 2019, the Company surrendered its quasi-banking license and thus, the CAR requirement is no longer applicable in 2020. The Company has fully complied with the CAR requirement in 2019.. The Company’s capital-to-risk assets ratio in 2019 was 73.27%.

Under the provisions of Section 8 of Republic Act (RA) No. 8366, an Act amending Presidential Decree No. 29, otherwise known as the Investment Houses Law, the Company is required to maintain a minimum paid-up capital of P300,000,000. At December 31, 2019, the Company had complied with the CAR required by BSP and the minimum capital requirement prescribed by the Investment Houses Law. The requirement however, no longer applies to the Company in 2020 following the surrender of its quasi-banking license.

Note 22 - Basic quantitative indicators of financial performance

The key financial performance indicators of the Company follow:

	2020	2019
Return on average equity[1]	7.27%	4.51%
Return on average assets[2]	7.00%	4.27%
Net interest margin[3]	1.84%	1.69%

[1]Net income divided by average total equity for the period indicated. Average equity is based on the daily average balance of equity for the years ended December 31, 2019 and 2018.
[2]Net income divided by average total assets as at period indicated. Average total assets is based on the daily average balance of total assets as at December 31, 2019 and 2018.
[3]Net interest income divided by average interest-earning assets. Average interest earning assets is based on the daily average balance of interest earning assets as at December 31, 2019 and 2018.

Note 23 - Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to both years presented, unless otherwise stated.

23.1 Basis of preparation

The financial statements of the Company have been prepared in accordance with Philippine Financial Reporting Standards (PFRS). The term PFRS in general includes all applicable PFRS, Philippine Accounting Standards (PAS), and interpretations of the Philippine Interpretations Committee (PIC), Standing Interpretations Committee (SIC) and International Financial Reporting Interpretations Committee (IFRIC) which have been approved by the Financial Reporting Standards Council (FRSC) and adopted by the SEC.

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets at fair value through profit or loss, financial assets at fair value through other comprehensive income and plan assets of the retirement plans which are measured at fair value.

The preparation of financial statements in conformity with PFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are shown below:

Critical accounting estimates and judgment

- Fair value of other financial instruments (Note 4)
- Impairment of investment securities at amortized cost (Note 5)
- Trade receivables ECL (Note 6)
- Impairment of investment in subsidiary (Note 7)
- Realization of DIT assets (Note 9)
- Principal assumptions and estimation of retirement obligation (Note 18)
- Determining the lease term and incremental borrowing rate of the lease contracts (Note 20)

Changes in accounting policy and disclosures

(a) New standards adopted by the Company

The Company has adopted the following standards effective January 1, 2020 and accordingly, changed its accounting policies. Except as otherwise indicated, the adoption of these new standard and interpretation did not have any significant impact on the Company's financial statements:

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

  The amendments clarify that the reference to obscuring information addresses situations in which the effect is similar to omitting or misstating that information, and that an entity assesses materiality in the context of the financial statements as a whole, and; the meaning of 'primary users of general purpose financial statements' to whom those financial statements are directed, by defining them as 'existing and potential investors, lenders and other creditors' that must rely on general purpose financial statements for much of the financial information they need.

The adoption of the above amendments did not have a material impact on the financial statements of the Company.

- Amendments to PFRS 7, '*Financial Instruments: Disclosures'*, and PFRS 9, *'Financial Instruments'*

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

  The adoption of the above amendments did not have a material impact on the financial statements of the Company.

- Revised Conceptual Framework for Financial Reporting

  The revised Framework includes the following changes:
  - increasing the prominence of stewardship in the objective of financial reporting;
  - reinstating prudence as a component of neutrality;
  - defining a reporting entity, which may be a legal entity, or a portion of an entity;
  - revising the definitions of an asset and a liability;
  - removing the probability threshold for recognition and adding guidance on derecognition;
  - adding guidance on different measurement basis; and
  - stating that profit or loss is the primary performance indicator and that, in principle, income and expenses in other comprehensive income should be recycled where this enhances the relevance or faithful representation of the financial statements.

  No changes will be made to any of the current accounting standards. However, entities that rely on the Framework in determining their accounting policies for transactions, events or conditions that are not otherwise dealt with under the accounting standards will need to apply the revised Framework from January 1, 2020. These entities will need to consider whether their accounting policies are still appropriate under the revised Framework.

  The adoption of the revised Framework did not have a material impact on the financial statements of the Company.

- Amendments to PFRS 16, *"Leases"*

The amendment provides lessees with an option to treat qualifying rent concessions in the same way as they would if they were not lease modifications. In many cases, this will result in accounting for the concessions as variable lease payments in the period in which they are granted.

The adoption of the above amendments did not have an impact on the financial statements of the Company.

(b) New standards and amendments to existing standards not yet adopted by the Company

The following new accounting standards and interpretations are mandatory for annual periods after December 31, 2020 and have not been early adopted by the Company:

- Amendments to PAS 1, *'Presentation of Financial Statements'*

  The amendments to PAS 1 clarify that liabilities are classified as either current or non-current, depending on the rights that exist at the end of the reporting period. Classification is unaffected by the expectations of the entity or events after the reporting date (e.g. the receipt of a waiver or a breach of covenant).

- Amendments to PAS 16, 'Property, Plant and Equipment'

  The amendment prohibits an entity from deducting from the cost of an item of property, plant and equipment any proceeds received from selling items produced while the entity is preparing the asset for its intended use. It also clarifies that an entity is 'testing whether the asset is functioning properly' when it assesses the technical and physical performance of the asset.

- PAS 37, *'Provisions, Contingent Liabilities and Contingent Assets'*

  The amendment clarifies that the direct costs of fulfilling a contract include both the incremental costs of fulfilling the contract and an allocation of other costs directly related to fulfilling the contracts. Before recognizing a separate provision for an onerous contract, the entity recognizes any impairment loss that has occurred on assets used in fulfilling the contract.

- Annual Improvements to PFRS Standards 2018-2020

  The following improvements were finalized in May 2020:
  i. PFRS 9, *'Financial Instruments'*, clarifies which fees should be included in the 10% test for derecognition of financial liabilities.
  ii. PFRS 16, *'Leases'*, amendment to remove the illustration of payments from the lessor relating to leasehold improvements, to remove any confusion about the treatment of lease incentives.

The adoption of the above amendments is not expected to have a material impact on the financial statements of the Company.

23.2 Exemption from consolidation

These financial statements are prepared as the Company's separate financial statements. The Company does not issue consolidated financial statements because it is a wholly-owned subsidiary and its ultimate parent company publishes consolidated financial statements which are available for public use and prepared in accordance with Philippine Financial Reporting Standards. In accordance with PFRS 10, *Consolidated Financial Statements*, a parent that is in itself a controlled subsidiary and that meets certain requirements need not present consolidated financial statements. The ultimate parent company's consolidated financial statements include the financial statements of the Company and its wholly-owned subsidiary.

23.3 Cash and cash equivalents

Cash and cash equivalents consist of cash and time deposits with maturities of less than three months from the date of acquisition and that are subject to insignificant risk of changes in value.

23.4 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. The Company recognizes a financial instrument in the statements of condition when, and only when, the Company becomes a party to the contractual provisions of the instrument.

23.4.1 Measurement methods

Amortized cost and effective interest rate

The amortized cost is the amount at which the financial asset or financial liability is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any loss allowance.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of a financial asset (i.e. its amortized cost before any impairment allowance) or to the amortized cost of a financial liability. The calculation does not consider expected credit losses and includes transaction costs, premiums or discounts and fees and points paid or received that are integral to the effective interest rate, such as origination fees.

When the Company revises the estimates of future cash flows, the carrying amount of the respective financial assets or financial liability is adjusted to reflect the new estimate discounted using the original effective interest rate. Any changes are recognized in profit or loss.

Initial recognition and measurement

Financial assets and financial liabilities are recognized when the entity becomes a party to the contractual provisions of the instrument. Regular way purchases and sales of financial assets are recognized on trade-date, the date on which the Company commits to purchase or sell the asset.

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

When the fair value of financial assets and liabilities differs from the transaction price on initial recognition, the entity recognizes the difference as follows:

- When the fair value is evidenced by a quoted price in an active market for an identical asset or liability (i.e. a Level 1 input) or based on a valuation technique that uses only data from observable markets, the difference is recognized as a gain or loss.
- In all other cases, the difference is deferred, and the timing of recognition of deferred day one profit or loss is determined individually. It is either amortized over the life of the instrument, deferred until the instrument's fair value can be determined using market observable inputs, or realized through settlement.

23.4.2 Financial assets

23.4.2.1 Classification and subsequent measurement

The Company classifies its financial assets in the following measurement categories: at fair value through profit or loss, fair value through other comprehensive income and at amortized cost. The classification requirements for debt and equity instruments are described below:

Debt instruments

Debt instruments are those instruments that meet the definition of a financial liability from the issuer's perspective, such as loans, government and corporate bonds and trade receivables purchased from clients in factoring arrangements without recourse.

Classification and subsequent measurement of debt instruments depend on the Company's business model for managing the asset and the cash flow characteristics of the asset.

Based on these factors, the Company classifies its debt instruments into one of the following three measurement categories:

- *Amortized cost*
  Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest ('SPPI'), and that are not designated at FVTPL, are measured at amortized cost. The carrying amount of these assets is adjusted by any expected credit loss allowance recognized and measured. Interest income from these financial assets is included in "Interest income" using the effective interest rate method. Amortized cost financial assets include due from BSP, interbank loans receivable and securities purchased under agreements to resell, investment debt securities, trade receivables and other financial receivables.

- *Fair value through other comprehensive income (FVOCI)*
  Financial assets that are held for collection of contractual cash flows and for selling the assets, where the assets' cash flows represent solely payments of principal and interest, and that are not designated at FVTPL, are measured at fair value through other comprehensive income (FVOCI). Movements in the carrying amount are taken through other comprehensive income, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses on the instrument's amortized cost which are recognized in the statements of comprehensive income. When the financial asset is derecognized, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss. Interest income from these financial assets is included in "Interest income" using the effective interest rate method.

- *Fair value through profit or loss (FVTPL)*
  Assets that do not meet the criteria for amortized cost or FVOCI are measured at FVTPL. A gain or loss on a debt investment that is subsequently measured at FVTPL and is not part of a hedging relationship is recognized in profit or loss and presented in the statements of comprehensive income within "Trading gain on securities" in the period in which it arises, unless it arises from debt instruments that were designated at fair value or which are not held for trading, in which case the are presented separately.

Business model: The business model reflects how the Company manages the assets in order to generate cash flows. That is, whether the Company's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of assets. If neither of these is applicable, then the financial assets are classified as part of 'other' business model and measured at FVTPL. Factors considered by the Company in determining the business model for a group of assets include past experience on how the cash flows for these assets were collected, how the asset's performance is evaluated and reported to key management personnel, how risks are assessed and managed and how managers are compensated.

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

The Company reclassifies debt investments when and only when its business model for managing those assets changes. The reclassification takes place from the start of the first reporting period following the change. Such changes are expected to be very infrequent and none occurred during the period.

Equity instruments

Equity instruments are instruments that meet the definition of equity from the issuer's perspective; that is, instruments that do not contain a contractual obligation to pay and that evidence a residual interest in the issuer's net assets.

The Company subsequently measures all equity investments at FVTPL, except where the Company's management has elected, at initial recognition, to irrevocably designate an equity investment at FVOCI. The Company's policy is to designate equity investments as FVOCI when those investments are held for purposes other than to generate investment returns. When this election is used, fair value gains and losses are recognized in other comprehensive income and are not subsequently reclassified to profit or loss, even on disposal. Impairment losses (and reversal of impairment losses) are not reported separately from other changes in fair value. Dividends, when representing a return on such investments, continue to be recognized in profit or loss as other income when the Company's right to receive payments is established. Gains and losses on equity investments at FVTPL are included in the "Trading gain on securities" in the statements of comprehensive income.

23.4.2.2 Impairment of financial assets

(a) Trade and other receivables

The Company applies the PFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade and other financial receivables.

To measure the expected credit losses, trade and other receivables have been grouped based on shared credit risk characteristics and the days past due.

The expected loss rates are based on the payment profiles of customers over a period of 36 month and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. The Company has identified the domestic GDP and the inflation rate to be the most relevant factors, and accordingly adjusts the historical loss rates based on expected changes in these factors.

(b) Debt investments

All of the Company's debt investments at amortized cost and FVOCI are considered to have low credit risk, and the loss allowance recognized is therefore limited to 12-month expected credit losses. Management considers "low credit risk" for listed bonds to be an investment grade credit rating with at least one major rating agency. Other debt instruments are considered to be low credit risk when they have a low risk of default and the issuer has a strong capacity to meet its contractual cash flow obligations in the near term.

23.4.2.3 Derecognition of financial assets

Financial assets are derecognized when the contractual right to receive cash flows from the financial assets has ceased to exist or the Company has transferred substantially all risks and rewards of ownership.

23.4.3 Financial liabilities

The Company classifies its financial liabilities as: (i) financial liabilities at fair value through profit or loss (including financial liabilities held for trading and those that are designated at fair value); and (ii) other financial liabilities measured at amortized cost.

23.4.3.1 Classification

(a) Financial liabilities at fair value through profit or loss

This category comprises two sub-categories: financial liabilities classified as held for trading, and financial liabilities designated by the Company as at fair value through profit or loss upon initial recognition.

A financial liability is classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Derivatives are also categorized as held for trading unless they are designated and effective as hedging instruments. Financial liabilities held for trading also include obligations to deliver financial assets borrowed by a short seller. The Company has no financial liabilities that are held for trading or designated at fair value through profit loss.

(b) Other liabilities measured at amortized cost

The Company's other financial liabilities at amortized cost comprise mainly of accounts payable and other liabilities (except for payables to the Bureau of Internal Revenue and other government agencies for taxes and remittances and advances from a customer), which are carried at amortized cost using the effective interest rate method. These are included in current liabilities, except for maturities greater than 12 months after the reporting date or when the Company has an unconditional right to defer settlement for at least 12 months after the reporting date which are classified as non-current liabilities.

23.4.3.2 Recognition and measurement

(a) Recognition

Financial liabilities are recognized in the statement of financial position when, and only when, the Company becomes a party to the contractual provisions of the instrument.

(b) Measurement

Financial liabilities carried at fair value through profit or loss are initially recognized at fair value, and transaction costs are expensed in profit or loss. Other financial liabilities carried at amortized cost are initially recognized at fair value plus transaction cost.

Financial liabilities carried at fair value through profit or loss are subsequently carried at fair value. Other financial liabilities at amortized cost are subsequently measured at amortized cost using the effective interest rate method.

Gains or losses arising from changes in the fair value of financial assets and liabilities at fair value through profit or loss, including interest and dividend income and interest expense, are presented in profit or loss within other income (expenses) in the period in which they arise. Dividend income from financial assets at fair value through profit and loss is recognized in profit or loss as part of other income when the Company's right to receive payment is established.

(c) Derecognition

Financial liabilities are derecognized when it is extinguished, that is, when the obligation specified in a contract is discharged or cancelled, or when the obligation expires. When an existing financial liability is replaced by another financial liability from the same creditor with substantially different terms, or the terms of an existing liability are substantially modified, such modification is treated as a derecognition of the original financial liability and a recognition of a new financial liability, and the difference in the respective carrying amounts is recognized in profit or loss within finance costs.

23.5 Offsetting of financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the Company or the counterparty.

There are no offsetting of financial assets and liabilities as at December 31, 2020 and 2019.

23.6 Determination of fair value of financial instruments

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 of a non-financial asset is measured based on its highest and best use. The asset's current use is presumed to be its highest and best use.

The fair value of financial and non-financial liabilities takes into account non-performance risk, which is the risk that the entity will not fulfill an obligation.

The Company classifies its fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed equity securities and debt instruments on exchanges (for example, Philippine Stock Exchange, Inc., Philippine Dealing and Exchange Corp., etc.).

- Level 2 - Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices). This level includes the majority of the over-the-counter ("OTC") derivative contracts. The primary source of input parameters like LIBOR yield curve or counterparty credit risk is Bloomberg.

- Level 3 - Inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes equity investments and debt instruments with significant unobservable components. This hierarchy requires the use of observable market data when available.

The appropriate level is determined on the basis of the lowest level input that is significant to the fair value measurement.

The fair value of financial instruments traded in active markets is based on quoted market prices at the reporting date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Company is the most representative price within the bid-ask spread. These instruments are included in Level 1.

The fair value of assets and liabilities that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximize the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the asset or liability is included in Level 2. If one or more of the significant inputs is not based on observable market data, the asset or liability is included in Level 3.

Specific valuation techniques used to value financial instruments include:

- Quoted market prices or dealer quotes for similar instruments.
- The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows based on observable yield curves.
- The fair value of forward foreign exchange contracts is determined using forward exchange rates at the reporting date, with the resulting value discounted back to present value.
- Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

23.7 Investments in subsidiaries

Subsidiaries are all entities over which the Company has control. The Company controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The Company also assesses existence of control where it does not have more than 50% of the voting power but is able to govern the financial and operating policies by virtue of de-facto control. De-facto control may arise in circumstances where the size of the Company's voting rights relative to the size and dispersion of holdings of other shareholders give the Company the power to govern the financial and operating policies.

Subsidiaries are fully consolidated from the date on which control is transferred to the Company. They are de-consolidated from the date that control ceases.

The Company applies the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Company. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Company recognizes any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets.

Acquisition-related costs are expensed as incurred.

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

Any contingent consideration to be transferred by the Company is recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognized in accordance with PAS 39 either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not re-measured, and its subsequent settlement is not accounted for within equity.

The excess of the aggregate of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the Company's share of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognized and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognized directly in profit or loss.

When the Company ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognized in profit or loss. The fair value is the initial carrying amount for purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognized in other comprehensive income in respect of that entity are accounted for as if the Company had directly disposed of the related assets or liabilities. This may mean that amounts previously recognized in other comprehensive income are reclassified to profit or loss.

As allowed under PFRS 10, *Consolidated Financial Statements*, investment in a wholly-owned subsidiary is accounted for at cost method in the separate financial statements of the Company. Under this method, income from investment is recognized in the statement of income only to the extent that the investor receives distributions from accumulated net income of the investee arising subsequent to the date of acquisition.

23.8 Other assets

Other assets are recognized in the event that payment has been made in advance of obtaining right of access to goods or receipt of services and measured at nominal amounts. These are derecognized upon delivery of goods or when services have been rendered, through amortization over a certain period of time, and use or consumption.

Creditable withholding tax is recognized as asset to the extent that it is probable that the benefit will flow to the Company. This are derecognized when applied against the related tax liability or refunded by the tax authorities as prescribed by the relevant tax laws.

Other assets are included in current assets, except when the related goods or services are expected to be received or rendered more than twelve (12) months after the reporting date, which are then classified as non-current assets.

23.9 Property and equipment

Property and equipment are stated at historical cost less accumulated depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or are recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the statement of income during the year in which they are incurred.

Depreciation is calculated using the straight-line method to allocate cost or residual values over the estimated useful lives of the assets as follows:

Furniture, fixtures and equipment	3-5 years
Computer equipment	3 years
Office space and leasehold improvement	4 years

Major renovations are depreciated over the remaining useful life of the related asset.

The asset's residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

The Company derecognizes the carrying amount of an item of property and equipment on disposal or when no future economic benefits are expected from its use or disposal.

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are included in the statement of income.

23.10 Software costs

Acquired software licenses are capitalized on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortized over their estimated useful life of three (3) years.

Cost associated with maintaining computer software programs are recognized as an expense when incurred.

The carrying amount of software costs is derecognized on disposal or when no future economic benefits are expected from its use or disposal. The gain or loss arising from derecognition is recognized in profit or loss.

23.11 Accounts payable and other liabilities

Accounts payable and other liabilities are obligations to pay for goods or services that have been acquired in the ordinary course of business. These are recognized in the period in which the related money, goods or services are received or when a legally enforceable claim against the Company is established or when the corresponding assets and expenses are recognized. Accounts payable and other liabilities are classified as current liabilities if payment is due within one year or less. If not, these are presented as non-current liabilities. These are measured at the original invoice amount (as the effect of discounting is immaterial) and subsequently measured at amortized cost using the effective interest rate method.

Accounts payable and other liabilities are derecognized when it is extinguished, that is, when the obligation specified in a contract is discharged or cancelled, or when the obligation expires.

23.12 Provisions

Provisions are recognized when the Company has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Provisions are not recognized for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized in profit or loss.

Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provision is reversed and derecognized in the statement of financial position.

23.13 Income taxes

The income tax expense for the period comprises current and deferred income tax. Income tax is recognized in profit or loss, except to the extent that that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the reporting date where the Company operates and generates taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognized on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statement. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted at reporting date and are expected to apply when the related deferred income tax asset is realized, or the deferred income tax liability is settled.

Deferred income tax assets are recognized for all deductible temporary differences, carry-forward of unused tax losses (net operating loss carryover or NOLCO) and unused tax credits (excess minimum corporate income tax or MCIT) to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized. Deferred income tax assets arising from NOLCO and excess MCIT are recognized to the extent that it is probable that the Company will have future taxable profit before any unused tax losses or unused tax credits expire as prescribed by the relevant tax provisions.

Deferred tax liabilities are the amounts of income taxes payable in future periods in respect of taxable temporary differences. Deferred income tax liabilities are recognized in full for all taxable temporary differences.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on the taxable entity and where there is an intention to settle the balances on a net basis.

The Company has substantial income from its investment in government securities subject to final withholding tax. Such income is presented at its gross amount and the tax paid or withheld is included in Current provision for income tax.

The Company re-assesses at each reporting date the need to derecognize a previously recognized deferred income tax asset.

23.14 Income and expense recognition

(a) Revenue from fees and commissions

The Company recognizes revenue when (or as) the Company satisfies a performance obligation by transferring a promised good or service to a customer (i.e. an asset). An asset is transferred when (or as) the customer obtains control of that asset.

The recognition of revenue can be either over time or at a point in time depending on when the performance obligation is satisfied.

When control of a good or service is transferred over time, that is, when the customer simultaneously receives and consumes the benefits, the Company satisfies the performance obligation and recognizes revenue over time. Otherwise, revenue is recognized at the point in time at the point of transfer control of the good or service to the customer.

Variable consideration is measured using either the expected value method or the most likely amount method depending on which method the Company expects to better predict the amount of consideration to which it will be entitled. This is the estimated amount of variable consideration, or the portion, if any, of that amount for which it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur. Where there is a single performance obligation, the transaction price is allocated in its entirety to that performance obligation. Where there are multiple performance obligations, the transaction price is allocated to the performance obligation to which it relates based on stand-alone selling prices.

The Company recognizes revenue based on the price specified in the contract, net of the estimated rebates/discounts and include variable consideration, if there is any. Accumulated experience is used to estimate and provide for the discounts and revenue is only recognized to the extent that it is highly probable that a significant reversal will not occur.

The Company does not expect to have any contracts where the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year. As a consequence, the Company does not adjust any of the transaction prices for the time value of money.

There are no warranties and other similar obligation and refunds agreed with customers.

Fees and commission income from underwriting, loan syndication and financial advisory activities are recognized in the period the related services are rendered and completed and the right to receive payment is established.

(a) Other income

Other income is recognized when earned and the Company's right to receive payment is established.

(c) Cost and expenses

Costs and expenses are recognized in profit or loss when a decrease in future economic benefit related to a decrease in an asset, or an increase in a liability has arisen, that can be measured reliably.

Brokerage fees and underwriting fees pertain to payments made by the Company to broker-dealers for brokering and underwriting services rendered related to certain underwritten deals.

23.15 Employee benefits

(a) Pension benefits

The Company has both defined benefit and defined contribution plans. A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation. A defined contribution plan is a pension plan under which the Company pays fixed contributions into a separate fund. Under a defined contribution plan, the Company has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

Defined benefit plan

The Company's defined benefit plan is funded through payments to a trustee-administered fund as determined by periodic actuarial calculations.

The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of government bonds that are denominated in Philippine Peso, and that have terms to maturity approximating the terms of the related retirement benefit obligation.

The liability recognized in the statement of financial position in respect of defined benefit plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. In cases when the amount determined results in a surplus (being an excess of the fair value of the plan assets over the present value of the defined benefit obligation), the Company measures the resulting asset at the lower of the surplus in the defined benefit plan and the present value of future benefits in the form of refunds or reductions in future contributions to the plan.

Restricted or non-transferrable assets of the fund are excluded in the determination of the fair value of plan assets.

Remeasurement gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited directly to other comprehensive income under remeasurement loss or gain in the period in which they arise.

All past service costs are recognized immediately in profit or loss.

The net interest cost is calculated by applying the discount rate to the net balance of the defined benefit obligation and the fair value of plan assets. This cost is included as part of retirement benefit expense recognized in profit or loss.

When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognized immediately in profit or loss. The Company recognizes gains or losses on the settlement of a defined benefit plan when the settlement occurs.

Defined contribution plan

The Company also maintains a defined contribution plan that covers certain full-time employees. Under its defined contribution plan, the Company pays fixed contributions based on the employees' monthly salaries to a privately trusteed-administered fund. Contribution is determined by periodic actuarial calculations and compensation. The Company, however, is covered under RA No. 7641, otherwise known as The Philippine Retirement Law, which provides for its qualified employees a defined benefit minimum guarantee. The defined benefit minimum guarantee is equivalent to a certain percentage of the monthly salary payable to an employee at normal retirement age with the required credited years of service based on the provisions of RA No. 7641. Accordingly, the Company accounts for its retirement obligation under the higher of the defined benefit obligation relating to the minimum guarantee and the obligation arising from the defined contribution plan.

For the defined benefit minimum guarantee plan, the liability is determined based on the present value of the excess of the projected defined benefit obligation over the projected defined contribution obligation at the end of the reporting period. The defined benefit obligation is calculated annually by a qualified independent actuary using the projected unit credit method.

The liability recognized in the statement of financial position in respect of defined benefit pension plans is the present value of the defined benefit obligation at the reporting date less the fair value of plan assets. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of government bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability. The fair value of plan asset is the defined contribution assets upon which the defined contribution benefits depend, with an adjustment for margin on asset returns, if any, where this is reflected in the defined contribution benefits.

The Company has no further payment obligations once the contributions have been paid. The contributions are recognized as employee benefit expense when these are due. Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in the future payments is available.

Remeasurement gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise.

Past-service costs are recognized immediately in profit or loss.

(b) Profit-sharing and bonus plans

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

(c) Share-based compensation

The Company's management awards high-performing employees bonuses in the form of options to purchase Parent Bank's common shares, from time to time, on a discretionary basis. The options are subject to certain service vesting conditions.

The fair value of the services received is measured by reference to the fair value of the shares or share options granted on the date of the grant. The grant by BPI of the options over its equity instruments to the employees of the Company is recorded in equity. The fair value of employee services received by the Company in respect of the options granted is recognized in profit or loss over the period that the services are received, which is the vesting period. The Company is recharged by BPI for the share-based payment when the award vests. The subsidiary recognizes the recharge over the vesting period as a charge to equity.

The fair value of the options granted is determined using option pricing models which take into account the exercise price of the option, the current share price, the risk-free interest rate, the expected volatility of the share price over the life of the option and other relevant factors.

When the stock options are exercised, the proceeds received, net of any directly attributable transaction costs, are credited to share capital (par value) and share premium for the excess of exercise price over par value.

(d) Termination benefits

Termination benefits are payable when employment is terminated by the Company before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Company recognizes termination benefits at the earlier of the following dates: (a) when the Company can no longer withdraw the offer of those benefits; and (b) when the entity recognizes costs for a restructuring that is within the scope of PAS 37 and involves the payment of termination benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the end of the reporting period are discounted to their present value.

23.16 Share capital; retained earnings

Common shares are classified as equity and are measured at par value for all shares issued. The amount of proceeds from the issuance or sale of shares representing the aggregate par or stated value is credited to share capital. Proceeds in excess of the aggregate par or stated value of shares, if any, are credited to share premium. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction from the proceeds, net of tax.

After initial recognition, share capital and share premium are carried at historical cost and are classified as equity in the statement of financial position.

Retained earnings represent the accumulated profit or loss as a result of the operations of the Company less any dividends declared.

23.17 Dividends on common shares

Dividends on common shares are recognized in the period in which they are approved by the Board of Directors.

23.18 Leases (the Company is the lessee)

Assets and liabilities arising from a lease are initially measured on a present value basis. The interest expense is recognized in the statements of income over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Measurement of lease liabilities
Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable
- variable lease payment that are based on an index or a rate
- amounts expected to be payable by the lessee under residual value guarantees
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Company, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

To determine the incremental borrowing rate, the Company:
- where possible, uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received,
- uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk for leases held for entities which do not have recent third-party financing, and
- makes adjustments specific to the lease (i.e. term, currency and security).

Lease payments are allocated between principal and interest expense. The interest expense is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Measurement of right-of-use assets
Right-of-use assets are measured at cost comprising the following:
- the amount of the initial measurement of lease liability,
- any lease payments made at or before the commencement date less any lease incentives received,
- any initial direct costs, and
- restoration costs.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Company is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life.

Extension and termination options
In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated). The lease term is reassessed if an option is actually exercised (or not exercised) or the Company becomes obliged to exercise (or not exercise) it. The assessment of reasonable certainty is revised only if a significant event or a significant change in circumstances occurs, which affects this assessment, and that is within the control of the lessee.

Short-term leases and leases of low-value assets
Payments associated with short-term leases and leases of low-value assets are recognized on a straight-line basis as an expense in the statements of income. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise IT-equipment and small items of office furniture.

Lease modification
Lease modifications are accounted either as a separate lease or not a separate lease. The Company accounts for the lease modification as a separate lease if both:

- the modification increases the scope of the lease by adding the right of use to one or more underlying assets; and
- the consideration for the lease increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

For lease modification that is not accounted for a separate lease, at the effective date of lease modification, the Company:

- allocates the consideration in the modified contract on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components;
- determine the lease term of the modified lease; and
- remeasure the lease liability by discounting the revised lease payments using a revised discount rate.

The revised discount rate is determined as the interest rate implicit in the lease for the remainder of the lease term, or the lessee's incremental borrowing rate at the effective date of the modification, if the interest rate implicit in the lease cannot be readily determined.

For a lease modification that is not accounted for as a separate lease, the Company accounts for the remeasurement of the lease liability by:

- decreasing the carrying amount of the right-of-use asset to reflect the partial or full termination of the lease for lease modifications that decrease the scope of the lease; and
- making a corresponding adjustment to the right-of-use asset for all other lease modifications.

The Company recognizes in profit or loss any gain or loss relating to the partial or full termination of the lease.

23.19 Related party relationships and transactions

Related party relationships exist when one party has the ability to control, directly, or indirectly through one or more intermediaries, the other party or exercises significant influence over the other party in making financial and operating decisions. Such relationships also exist between and/or among entities which are under common control with the reporting enterprise, or between, and/or among the reporting enterprise and its key management personnel, directors, or its shareholder. In considering each possible related party relationships, attention is directed to the substance of the relationship and not merely the legal form.

23.20 Foreign currency transactions and translation

Functional and presentation currency
Items included in the financial statements of the Company are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The financial statements are presented in Philippine Peso, which is the Company's functional and presentation currency.

Transactions and balances
Foreign currency transactions are translated into Philippine Peso using the exchange rates prevailing at the dates of the transaction. Foreign exchange gains and losses resulting from the settlement of foreign currency transactions and from the translation at the year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in profit or loss.

23.21 Subsequent events

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

Note 24 - Supplementary information required by Revenue Regulations No. 15-2010

The following information is presented for purposes of filing with the BIR and is not a required part of the basic financial statements.

(i) Withholding taxes

Withholding taxes accrued and/or withheld and paid as at and for the year ended December 31, 2020 consists of:

	Paid	Accrued	Total
Final income taxes withheld on interest on deposits and yield on deposit substitutes			
Income taxes withheld on compensation	37,232,476	3,017,678	40,250,154
Final income taxes withheld on income payment	2,112,205	177,095	2,289,300
Creditable income taxes withheld (expanded)	3,833,156	258,755	4,091,911
Fringe benefit tax	1,290,604	239,671	1,530,275
VAT withholding tax	1,062,581	115,946	1,178,527
	45,531,022	3,809,145	49,340,154

(ii) All other local and national taxes

All other local and national taxes paid/accrued for the year ended December 31, 2020 consist of:

	Paid	Accrued	Total
Gross receipts tax	40,399,822	11,486,929	51,886,751
Municipal taxes/Mayor's permit	83,578	-	83,578
Community tax	10,500	-	10,500
Others	269,754	-	269,754
	40,763,654	11,486,929	52,250,583

(iii) Tax assessment

As at December 31, 2020, the Company did not have outstanding preliminary or final assessment.

(iv) Tax cases

As of reporting date, there are no outstanding tax assessment and tax case under investigation, litigation nor prosecution in courts or bodies outside the BIR.