KPMG

R.G. Manabat & Co.
The KPMG Center, 9/F
6787 Ayala Avenue, Makati City
Philippines 1226
Telephone +63 (2) 8885 7000
Fax +63 (2) 8894 1985
Website home.kpmg/ph
Email ph-inquiry@kpmg.com

REPORT OF INDEPENDENT AUDITORS TO ACCOMPANY FINANCIAL STATEMENTS FOR FILING WITH THE BUREAU OF INTERNAL REVENUE

The General Manager
Industrial and Commercial Bank of China Limited - Manila Branch
24th Floor, The Curve
32nd Street corner 3rd Avenue
Fort Bonifacio, Taguig City

We have audited the accompanying financial statements of Industrial and Commercial Bank of China Limited - Manila Branch (the "Manila Branch") as at and for the year ended December 31, 2019, on which we have rendered our report dated June 16, 2020.

In compliance with Revenue Regulations V-20, we are stating that no partner of our Firm is related by consanguinity or affinity to the General Manager and Senior Management of the Manila Branch.

R.G. MANABAT & CO.

Vanessa P. Macamos

BUREAU OF INTERNAL REVENUE
REVENUE REGION NO. 8B - SOUTH NCR
Revenue District Office No. 044
Taguig/Pateros
RECEIVED
JUN 25 2020
RDO CODE: 184051

VANESSA P. MACAMOS
Partner
CPA License No. 0102309
BSP Accreditation No. 102309-BSP, Group A, valid for 5-year audit period (2019 to 2023)
SEC Accreditation No. 1619-A, Group A, valid until June 30, 2020
Tax Identification No. 920-961-311
BIR Accreditation No. 08-001987-38-2019
Issued September 25, 2019; valid until September 24, 2022
PTR No. MKT 8116770
Issued January 2, 2020 at Makati City

June 16, 2020
Makati City, Metro Manila

KPMG

R.G. Manabat & Co.
The KPMG Center, 9/F
6787 Ayala Avenue, Makati City
Philippines 1226
Telephone +63 (2) 8885 7000
Fax +63 (2) 8894 1985
Website home.kpmg/ph
Email ph-inquiry@kpmg.com

REPORT OF INDEPENDENT AUDITORS

The General Manager
Industrial and Commercial Bank of China Limited - Manila Branch
24th Floor, The Curve
32nd Street corner 3rd Avenue
Fort Bonifacio, Taguig City

BUREAU OF INTERNAL REVENUE
REVENUE REGION NO. 8B - SOUTH NCR
Revenue District Office No. 044
Taguig/Pateros
RECEIVED
JUN 2 5 2020

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Industrial and Commercial Bank of China Limited - Manila Branch (the "Manila Branch") which comprise the statements of financial position as at December 31, 2019 and 2018, and the statements of comprehensive income, statements of changes in assigned capital funds and statements of cash flows for the year then ended December 31, 2019 and for the period from August 2, 2018 (incorporation date) to December 31, 2018, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Manila Branch as at December 31, 2019 and 2018, and its financial performance and its cash flows for the year then ended December 31, 2019 and for the period from August 2, 2018 (incorporation date) to December 31, 2018 in accordance with Philippine Financial Reporting Standards.

Basis for Opinion

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

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

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

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

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information required under BSP Circular No. 1074 in Note 28 and Revenue Regulations 15-2010 in Note 29 to the financial statements is presented for purposes of filing with the BSP and Bureau of Internal Revenue, respectively, and is not a required part of the basic financial statements. Such information is the responsibility of the management of the Manila Branch. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

R.G. MANABAT & CO.

Vanessa P. Macamos

VANESSA P. MACAMOS
Partner
CPA License No. 0102309
BSP Accreditation No. 102309-BSP, Group A, valid for 5-year audit
period (2019 to 2023)
SEC Accreditation No. 1619-A, Group A, valid until June 30, 2020
Tax Identification No. 920-961-311
BIR Accreditation No. 08-001987-38-2019
Issued September 25, 2019; valid until September 24, 2022
PTR No. MKT 8116770
Issued January 2, 2020 at Makati City

June 16, 2020
Makati City, Metro Manila

INDUSTRIAL AND COMMERCIAL BANK OF CHINA LIMITED - MANILA BRANCH

STATEMENTS OF FINANCIAL POSITION

	Note	December 31 2019	2018
ASSETS			
Due from Bangko Sentral ng Pilipinas	*8*	**P38,374,580**	P -
Due from Other Banks	*9*	**39,409,184**	3,794,816,191
Financial Asset at Fair Value through Profit or Loss (FVTPL)	*10*	**156,605**	-
Financial Asset at Fair Value through Other Comprehensive Income (FVOCI)	*11*	**20,686,365**	-
Investment Securities at Amortized Cost - net	*12*	**3,669,368,541**	-
Loans and Receivables - net	*13*	**2,745,963,285**	-
Due from Head Office - net	*19*	**-**	40,155,425
Property and Equipment - net	*15*	**159,362,185**	173,584
Other Assets	*16, 26*	**13,564,166**	122,153,065
		P6,686,884,911	P3,957,298,265
LIABILITIES AND ASSIGNED CAPITAL FUNDS			
LIABILITIES			
Deposit Liabilities	*17*	**P45,726,713**	P -
Financial Liability at FVTPL	*10*	**9,128,000**	-
Due to Head Office and Other Branches	*19*	**2,760,685,965**	-
Accrued Expenses and Other Payables	*20*	**41,501,990**	1,709,077
Lease Liabilities	*18*	**63,381,657**	-
Other Liabilities		**2,211,258**	-
		2,922,635,583	1,709,077
Assigned Capital Funds			
Assigned capital	6	**3,975,770,000**	3,975,770,000
Deficit	6	**(227,467,264)**	(20,180,812)
Appropriation for general loan loss provision	6	**16,106,925**	-
Cumulative translation adjustment		**(160,333)**	-
		3,764,249,328	3,955,589,188
		P6,686,884,911	P3,957,298,265

See Notes to the Financial Statements.

BUREAU OF INTERNAL REVENUE REGION NO. Revenue District Taguig/Pateros RECEIVED JUN 25 2020

INDUSTRIAL AND COMMERCIAL BANK OF CHINA LIMITED - MANILA BRANCH

STATEMENTS OF COMPREHENSIVE INCOME

	Note	Years Ended December 31 2019	2018*
INTEREST INCOME CALCULATED USING EFFECTIVE INTEREST METHOD			
Investment securities at amortized cost	*12*	**P172,680,116**	P -
Loans and receivables	*13*	**24,755,660**	-
Due from other banks	*9*	**2,311,820**	7,025,068
		199,747,596	7,025,068
INTEREST EXPENSE			
Due to Head Office and other branches	*19*	**13,647,243**	-
Lease liabilities	*18*	**382,413**	-
Deposit liabilities	*17*	**73,913**	-
		14,103,569	-
NET INTEREST INCOME		**185,644,027**	7,025,068
OTHER INCOME			
Fees and commissions	*21*	**11,152,237**	-
OPERATING EXPENSES			
Salaries, bonuses and allowances	*22*	**151,054,109**	1,593,077
Credit and impairment losses	*14*	**56,669,972**	-
Depreciation and amortization	*15*	**49,231,351**	-
Taxes and licenses		**27,812,325**	1,287,115
Management and other professional services		**13,504,348**	6,827,107
Representation and entertainment		**4,165,178**	31,559
Occupancy expenses	*18*	**6,505,872**	6,118,457
Foreign exchange loss - net		**1,565,070**	-
General and administrative expenses	*23*	**41,424,860**	9,945,598
		351,933,085	25,802,913
LOSS BEFORE INCOME TAX EXPENSE		**(155,136,821)**	(18,777,845)
INCOME TAX EXPENSE	*24*	**36,042,706**	1,402,967
NET LOSS		**(191,179,527)**	(20,180,812)
OTHER COMPREHENSIVE INCOME			
Item that may be reclassified to profit or loss			
Translation adjustment		**(160,333)**	-
TOTAL COMPREHENSIVE LOSS		**(P191,339,860)**	(P20,180,812)

*The Manila Branch was incorporated with the Philippine Securities and Exchange Commission on August 2, 2018 and started commercial operations on February 14, 2019.

See Notes to the Financial Statements.

BUREAU OF INTERNAL REVENUE
REVENUE REGION NO. 8B - SOUTH NCR
Revenue District Office No. 044
Taguig/Pateros
RECEIVED
JUN 25 2020

INDUSTRIAL AND COMMERCIAL BANK OF CHINA LIMITED - MANILA BRANCH

STATEMENTS OF CHANGES IN ASSIGNED CAPITAL FUNDS

Years Ended December 31

	Note	Assigned Capital (Note 6)	Deficit (Note 6)	Appropriation on General Loan Loss Provision (Note 6)	Cumulative Translation Adjustment	Total
Balances at January 1, 2019		**P3,975,770,000**	**(P20,180,812)**	**P -**	**P -**	**P3,955,589,188**
Appropriation for general loan loss provision	*6*	-	**(16,106,925)**	**16,106,925**	-	-
Total comprehensive loss during the year:						
Net loss for the year		-	**(191,179,527)**	-	-	**(191,179,527)**
Other comprehensive income:						
Item that may be reclassified to profit or loss:						
Translation adjustment		-	-	-	**(160,333)**	**(160,333)**
			(191,179,527)	-	**(160,333)**	**(191,339,860)**
Transaction with owners in their capacity as owners:						
Capital infusion from Head Office		-	-	-	-	-
Balance as at December 31, 2019		**P3,975,770,000**	**(P227,467,264)**	**P16,106,925**	**(P160,333)**	**P3,764,249,328**
Balances at August 2, 2018*		P -	P -	P -	P -	P -
Appropriation for general loan loss provision	*6*	-	-	-	-	-
Total comprehensive loss during the year:						
Net loss for the year		-	(20,180,812)	-	-	(20,180,812)
Other comprehensive income:						
Item that may be reclassified to profit or loss:						
Translation adjustments		-	-	-	-	-
		-	(20,180,812)	-	-	(20,180,812)
Transaction with owners in their capacity as owners:						
Capital infusion from Head Office		3,975,770,000	-	-	-	3,975,770,000
Balance as at December 31, 2018		P3,975,770,000	(P20,180,812)	P -	P -	P3,955,589,188

*The Manila Branch was incorporated with the Philippine Securities and Exchange Commission on August 2, 2018 and started commercial operations on February 14, 2019.

See Notes to the Financial Statements.

INDUSTRIAL AND COMMERCIAL BANK OF CHINA LIMITED - MANILA BRANCH

STATEMENTS OF CASH FLOWS

	Note	Years Ended December 31 2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before income tax expense		**(P155,136,821)**	(P18,777,845)
Adjustments for:			
Interest income	*9, 12, 13*	**(199,747,596)**	(7,025,068)
Credit and impairment losses	*14*	**56,669,972**	-
Depreciation and amortization	*15*	**49,231,351**	-
Interest expense	*17, 18, 19*	**14,103,569**	-
Net unrealized losses from financial instruments at FVTPL		**8,971,395**	-
Operating loss before working capital changes		**(225,908,130)**	(25,802,913)
Decrease (increase) in:			
Loans and receivables - net		**(2,750,776,385)**	-
Other assets		**3,587,273**	(122,153,065)
Due from Head Office - net	*19*	**-**	(40,155,425)
Deposit liabilities	*17*	**45,710,775**	-
Accrued expenses and other payables		**39,444,260**	1,709,077
Other liabilities		**2,211,258**	-
Net cash absorbed by operations		**(2,885,730,949)**	(186,402,326)
Interest received		**166,327,480**	7,025,068
Income taxes paid		**(35,706,581)**	(1,402,967)
Interest paid		**(440,389)**	-
Net cash used in operating activities		**(2,755,550,439)**	(180,780,225)
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of investment securities at amortized cost	*12*	**(3,647,637,344)**	-
Acquisition of financial asset at FVOCI	*11*	**(20,686,365)**	-
Acquisition of property and equipment	*15*	**(24,801,410)**	(173,584)
Cash used in investing activities		**(3,693,125,119)**	(173,584)
CASH FLOWS FROM A FINANCING ACTIVITIES			
Due to Head Office and other branches	*19*		
Proceeds from borrowings		**2,755,917,951**	-
Interest paid		**(8,879,229)**	-
Principal payment of lease liability	*18*	**(15,235,258)**	-
Assigned capital	*6*	**-**	3,975,770,000
Net cash provided by financing activities		**2,731,803,464**	3,975,770,000

Forward

	Note	Years Ended December 31 2019	2018*
NET EFFECT OF EXCHANGE RATE DIFFERENCES		**(P160,333)**	P -
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**(3,717,032,427)**	3,794,816,191
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR			
Due from Bangko Sentral ng Pilipinas	*8*	**-**	-
Due from other banks	*9*	**3,794,816,191**	-
		3,794,816,191	-
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR			
Due from Bangko Sentral ng Pilipinas	*8*	**38,374,580**	-
Due from other banks	*9*	**39,409,184**	3,794,816,191
		P77,783,764	P3,794,816,191

*The Manila Branch was incorporated with the Philippine Securities and Exchange Commission on August 2, 2018 and started commercial operations on February 14, 2019.

See Notes to the Financial Statements.

1. Reporting Entity

Industrial and Commercial Bank of China Limited - Manila Branch (the "Manila Branch") is the Philippine branch of Industrial and Commercial Bank of China Limited (the "Head Office"), a China-based commercial bank and perpetually existing joint stock limited company, organized under the Company Law of the People's Republic of China. The ultimate parent of the Manila Branch is China Investment Corporation, a state-owned entity which was established in Beijing, China and holds 34.71% ordinary shares of the Head Office.

The Manila Branch acquired its license to transact business issued by the Securities and Exchange Commission (SEC) on August 2, 2018. The Manila Branch was authorized to operate as a foreign branch with commercial banking license and to operate an Expanded Foreign Currency Deposit Unit (EFCDU) in the Philippines by the Bangko Sentral ng Pilipinas (BSP) on November 7, 2018. The Manila Branch started business operations on February 14, 2019. To date, the Manila Branch has no authority to engage in trust operations.

The Manila Branch's principal activities are to provide commercial banking services such as deposit products, loans and trade finance and settlement products.

The Manila Branch's registered address and principal place of business is at 24th Floor, The Curve, 32nd Street corner 3rd Avenue, Fort Bonifacio, Taguig City.

2. Basis of Preparation and Presentation

Statement of Compliance
The financial statements of the Manila Branch have been prepared in accordance with Philippine Financial Reporting Standards (PFRS), which include all applicable PFRS, Philippine Accounting Standards (PAS) and interpretations issued by the IFRS Interpretations Committee (IFRIC), Philippine Interpretations Committee (PIC) and Standing Interpretations Committee (SIC) as approved by the Financial Reporting Standards Council (FRSC) and Board of Accountancy (BOA) and adopted by the SEC.

This is the first set of the Manila Branch's annual financial statements in which PFRS 16, *Leases*, has been applied. The related changes to significant accounting policies is described in Note 3.

These financial statements of the Manila Branch were authorized for issue by the General Manager, as authorized by the Head Office, on June 16, 2020.

Basis of Measurement
The Manila Branch's financial statements have been prepared using the historical cost basis, except for the following items:

Items	Measurement Bases
Financial asset and liability at fair value through profit or loss (FVTPL)	Fair value
Financial asset at fair value through other comprehensive income (FVOCI)	Fair value
Lease liability	Present value of remaining lease payments, discounted using the Manila Branch's incremental borrowing rate

Presentation and Functional Currency
The financial statements are presented in Philippine Peso (PHP), the Manila Branch's presentation currency. The financial statements of the Manila Branch include the accounts maintained in the Regular Banking Unit (RBU) and Foreign Currency Deposit Unit (FCDU). The functional currency of RBU and FCDU is PHP and United States Dollar (USD), respectively. For financial reporting purposes, FCDU accounts and foreign currency-denominated accounts in the RBU are translated into their equivalents in PHP (see accounting policy on Foreign Currency Transactions and Translation). The financial statements of these units are combined after eliminating inter-unit accounts.

All information has been rounded off to the nearest peso, except when otherwise indicated.

Presentation of Financial Statements
The Manila Branch presents its statements of financial position in order of liquidity. An analysis regarding recovery or settlement within 12 months after reporting date (current) and more than 12 months after reporting date (non-current) is presented in Note 25.

3. Summary of Significant Accounting Policies

The accounting policies set out below have been applied consistently to the comparative years presented in these financial statements, and have been applied consistently by the Manila Branch, except for the changes in accounting policies as explained below.

The Manila Branch has adopted the following new standard, amendments to standards and interpretation starting January 1, 2019 and accordingly, changed its accounting policies. Except as otherwise indicated, the adoption of these new standard, amendments to standards and interpretation did not have any significant impact on the Manila Branch's financial statements.

- PFRS 16, *Leases* supersedes PAS 17, *Leases* and the related Philippine Interpretations. The new standard introduces a single lease accounting model for lessees under which all major leases are recognized on-balance sheet, removing the lease classification test. Lease accounting for lessors essentially remains unchanged except for a number of details including the application of the new lease definition, new sale-and-leaseback guidance, new sub-lease guidance and new disclosure requirements.

The Manila Branch applied PFRS 16 using the modified retrospective approach. Accordingly, the comparative information has not been restated and continues to be reported under PAS 17. Additionally, the disclosure requirements in PFRS 16 have not generally been applied to comparative information.

As a lessee, the Manila Branch previously classified property leases as operating leases under PAS 17 based on its assessment of whether the lease transferred substantially all of the risks and rewards incidental to ownership of the underlying asset to the Manila Branch.

Under PFRS 16, the Manila Branch recognizes right-of-use assets and lease liabilities for leases of branch and office premises.

Further, the Manila Branch has not entered into any new leases during the period ended December 31, 2019 other than lease of car for an employee's transportation needs.

At commencement or on modification of a contract that contains a lease component, the Manila Branch allocates the consideration in the contract to each lease component based on its relative stand-alone prices. For leases of branch and office premises, the Manila Branch has elected to separate non-lease components and account for lease and associated non-lease components separately.

On transition, for these leases, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Manila Branch's incremental borrowing rate as at January 1, 2019.

Right-of-use assets are measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments.

The Manila Branch used the following practical expedients when applying PFRS 16 to leases previously classified as operating leases under PAS 17. In particular, the Manila Branch:

- applied PFRS 16 only to contracts that were previously identified as leases;
- used a single discount rate to a portfolio of leases with reasonably similar characteristics;
- excluded initial direct costs from measuring the right-of-use asset at the date of initial application; and
- used hindsight in determining the lease term.

New estimates and judgmental thresholds that affect the identification, classification and measurement of lease transactions, as well as requirements to reassess certain key estimates and judgments at each reporting date were introduced.

Impact on Transition
The impact on transition is summarized below:

	Note	January 1, 2019
Right-of-use assets presented in property and equipment	*15*	P78,616,916
Lease liabilities		78,616,916

When measuring lease liabilities that were classified as operating leases, the Manila Branch discounted the lease payments using its incremental borrowing rate at January 1, 2019. The weighted average incremental borrowing rate applied is 5.45%.

	January 1, 2019
Operating lease commitments as at December 31, 2018 as disclosed under PAS 17	P86,195,314
Effect of discounting using the incremental borrowing rate	(1,939,452)
Value added tax component	(5,638,946)
Lease liabilities recognized at January 1, 2019	P78,616,916

- *Prepayment Features with Negative Compensation (Amendments to* PFRS 9, *Financial Instruments)*. The amendments cover the following areas:

  - *Prepayment features with negative compensation.* The amendment clarifies that a financial asset with a prepayment feature could be eligible for measurement at amortized cost or fair value through other comprehensive income irrespective of the event or circumstance that causes the early termination of the contract, which may be within or beyond the control of the parties, and a party may either pay or receive reasonable compensation for that early termination.

  - *Modification of financial liabilities.* The amendment to the Basis for Conclusions on PFRS 9 clarifies that the standard provide an adequate basis for an entity to account for modifications and exchanges of financial liabilities that do not result in derecognition and the treatment is consistent with the requirements for adjusting the gross carrying amount of a financial asset when a modification does not result in the derecognition of the financial asset - i.e. the amortized cost of the modified financial liability is recalculated by discounting the modified contractual cash flows using the original effective interest rate and any adjustment is recognized in profit or loss.

  The adoption of the amendments as at January 1, 2019 has no significant impact in the Manila Branch's accounting policies with respect to its financial instruments.

- *Annual Improvements to PFRSs 2015 - 2017 Cycle: Income tax consequences of payments on financial instruments classified as equity (Amendments to* PAS 12, *Income Taxes)*. The amendments clarify that all income tax consequences of dividends, including payments on financial instruments classified as equity, are recognized consistently with the transactions that generated the distributable profits, i.e. in profit or loss, other comprehensive income (OCI) or equity.

  The amendments did not significantly impact the Manila Branch since the Manila Branch does not receive any dividends, including payments on financial instruments classified as equity as at December 31, 2019.

- *Philippine Interpretation* IFRIC-23, *Uncertainty over Income Tax Treatments* clarifies how to apply the recognition and measurement requirements in PAS 12, *Income Taxes* when there is uncertainty over income tax treatments. Under the interpretation, whether the amounts recorded in the financial statements will differ to that in the tax return, and whether the uncertainty is disclosed or reflected in the measurement, depends on whether it is probable that the tax authority will accept the Manila Branch's chosen tax treatment.

If it is not probable that the tax authority will accept the Manila Branch's chosen tax treatment, the uncertainty is reflected using the measure that provides the better prediction of the resolution of the uncertainty - either the most likely amount or the expected value.

The interpretation also requires the reassessment of judgments and estimates applied if facts and circumstances change - e.g. as a result of examination or action by tax authorities, following changes in tax rules or when a tax authority's right to challenge a treatment expires.

The adoption has no material impact on the financial position and the financial result of the Manila Branch as at and for the period ended December 31, 2019.

Foreign Currency Transactions and Translation

Transactions in foreign currencies are initially recorded at the functional rate of exchange at the date of transaction.

The foreign currency-denominated monetary assets and liabilities in the RBU are translated into their equivalents in PHP based on the Bankers Association of the Philippines (BAP) closing rate prevailing at the statements of financial position date and foreign currency-denominated income and expenses at the prevailing exchange rate at the date of transaction.

Foreign exchange differences arising from revaluation and re-translation of foreign currency-denominated monetary assets and liabilities are credited to or charged against operations in the year in which the rates change under "Foreign exchange loss - net" account in the statements of comprehensive income. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The assets and liabilities of the FCDU are translated into the Manila Branch's presentation currency at BAP closing rate prevailing at the statements of financial position date, and its income and expenses are translated at BAP weighted average rate for the year. Exchange differences arising from translation to the presentation currency are taken directly to other comprehensive income (OCI) to the statements of comprehensive income under "Translation adjustment". Upon disposal of the FCDU or upon actual remittance of FCDU profits to RBU, the deferred cumulative amount recognized in the statements of OCI is recognized in profit or loss.

Financial Instruments

Initial Recognition and Subsequent Measurement

Financial assets and financial liabilities are recognized in the Manila Branch's financial statements on the trade date when it becomes a party to the contractual provisions of the instrument. Financial assets and liabilities are recognized initially at fair value. Transaction costs that are directly attributable to the acquisition or issue of the financial assets or financial liability are included in the initial measurement of the Manila Branch's financial instruments, except for instruments classified at fair value through profit or loss.

Business Model in Managing Financial Assets
Business model reflects the manner by which financial assets will be managed to generate cash flows such as by collecting contractual cash flows or selling of financial assets or by both collecting contractual cash flows and selling the financial assets, among others. The Manila Branch determines the business model for managing the financial assets according to the facts and based on the specific business objective for managing the financial assets determined by the management. Once the business model of financial assets is determined, it cannot be changed randomly.

In this respect, these scenarios do not include "worst case" or "stress case" scenarios.

a) The criteria that are used in determining the business model for managing financial assets are applied to financial assets on a portfolio basis.

b) Business models for managing financial assets are reviewed and approved by the Head Office on an annual basis, or if there is any adjustment, and are adequately documented. The documentation for each business model includes, among others, detailed description of specific business objectives (whether to hold in order to collect contractual cash flows, to sell or both); cases of sales and/ or derecognition of financial assets and conditions for changes in business model; and appropriate level of authority designated to approve determination of business model of specific portfolios of financial assets as well as the sales, derecognition, and changes in business model of financial assets.

c) Changes in business model are expected to be rare and determined as a result of external or internal changes which are significant to the Manila Branch's operations and evident to external parties. Change in intention related to the management of particular financial assets does not constitute a change in business model. The change in business model is approved by the appropriate level of authority based on sound justifications and in accordance with accounting standards. The qualitative and quantitative impacts of the change in business model are adequately documented and appropriately disclosed in the financial statements in line with the disclosure of risk management policies on the relevant risk exposure.

d) All affected financial assets are reclassified when, and only when, the Manila Branch changes its business model for managing financial assets. Financial liabilities are not allowed to be reclassified. If cash flows are realized in a way that is different from the expectations at the date at which the Manila Branch assessed the business model, it does not constitute a change in the classification of the remaining financial assets as long as the Manila Branch considered all relevant and objective information available when it initially made the business model assessment.

Once determined, the business model of each type of credit assets cannot be changed without proper authorization. In cases where the Manila Branch changes a business model, the financial assets within the said model are not reclassified within the reporting period that the change in business model is made. The reclassification in this case only takes effect in the next financial reporting period. In this respect, any previously recognized gains, losses or interest are not restated.

Assessment whether Contractual Cash Flows are SPPI
In assessing whether the contractual cash flows are solely payments of principal and interest (SPPI), the Manila Branch considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition.

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as the consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g., liquidity risk and administrative costs), as well as profit margin.

Classification

Financial Assets

On initial recognition, a financial asset is classified as measured at: (a) amortized cost (AC), (b) fair value through other comprehensive income (FVOCI) or (c) fair value through profit or loss (FVTPL), based on their contractual cash flow characteristics and the business model for managing the financial assets.

Debt Instruments

Financial Assets Measured at Amortized Cost

A financial asset that is a debt instrument is measured at amortized cost if it meets both of the following conditions and is not designated as FVTPL:

- The financial asset is held within a business model whose objective is to hold financial assets to collect contractual cash flows; and

- The contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI on the principal amount outstanding.

Debt financial assets meeting these criteria are measured initially at fair value plus transaction costs. These financial assets are subsequently measured at amortized cost using the effective interest method less any impairment allowance, with the interest calculated and recognized as "Interest income calculated using the effective interest method" in profit or loss.

The Manila Branch's financial assets at amortized cost include "Due from BSP", "Due from other banks", "Investment securities at amortized cost - net", "Loans and receivables - net", "Due from Head Office - net", and advances to officers and employees, accounts receivable, and securities deposit presented under "Other assets", in the statements of financial position as at December 31, 2019 (see Notes 8, 9, 12, 16 and 19).

Debt Financial Assets Measured at FVOCI

A financial asset that is a debt instrument is measured at FVOCI if it meets both of the following conditions and is not designated as FVTPL:

- The financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and

- The contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI on the principal amount outstanding.

Debt instruments at FVOCI are subsequently measured at fair value with gains and losses due to changes in fair value recognized in OCI. Interest earned on these instruments is reported under "Interest income calculated using the effective interest method" in profit or loss.

As at December 31, 2019 and 2018, the Manila Branch has no debt instruments at FVOCI.

Financial Assets Measured at FVTPL
All other financial assets not measured at AC or at FVOCI are classified as measured at FVTPL, except when the financial asset is part of a hedging relationship.

Financial assets measured at FVTPL consist of: (a) financial assets held for trading (HFT), which include stand-alone and/ or embedded derivatives, except a derivative that is a financial guarantee contract or designated and effective hedging instruments; and (b) other financial assets other than those that are HFT and are designated at FVTPL.

The Manila Branch may, at initial recognition, irrevocably designate financial assets that are debt instruments as measured at FVTPL, provided that the designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognizing the gains or losses on them on different bases.

As at December 31, 2019, the Manila Branch's financial assets at FVTPL consists of derivative assets (see Note 10).

The Manila Branch enters into contracts with off-books risks. These contracts are entered into as a service to customers and as a means of reducing and managing the Manila Branch's risk exposures, as well as for trading purposes. These derivative financial instruments are initially recognized at fair value on the date when the derivative contract is entered into and are subsequently remeasured at their fair value. All derivatives are reported as assets when fair value is positive and as liabilities when fair value is negative.

The method of recognizing fair value gains and losses depends on whether derivatives are held-for-trading or are designated as hedging instruments, and if the latter, the nature of the risks being hedged.

In 2019, the Manila Branch did not apply hedge accounting treatment for any of its derivative transactions since the derivatives are held-for-trading and not designated as hedging instruments.

Equity Instruments
Financial assets that are equity instruments are classified under any of the following categories:

a. Financial assets measured at FVTPL which shall include HFT financial assets; or

b. Financial assets at FVOCI which consist of equity instruments that are irrevocably designated at FVOCI at initial recognition that are neither held for trading nor contingent consideration recognized by an acquirer in a business combination to which PFRS 3, *Business Combinations* applies.

All equity investments are to be measured at fair value in the statements of financial position, with value changes recognized in profit or loss, except for those equity investments for which the Manila Branch has elected to present value changes in OCI.

In 2019, the Manila Branch irrevocably designated at FVOCI investments in unquoted equity instruments amounting to P20.69 million presented under "Financial asset at fair value through other comprehensive income" in the statements of financial position (see Note 11).

Financial Liabilities
Financial liabilities are initially recognized at fair value. Transaction costs are deducted from the initial measurement of the Manila Branch's financial liabilities except for debt instruments classified at FVTPL.

Financial Liabilities Measured at Amortized Cost
Financial liabilities are classified and subsequently measured at amortized cost using the effective interest method, except for:

(a) financial liabilities measured at FVTPL which consist of:
   i. financial liabilities HFT, including derivative liabilities that are not accounted for as hedging instruments; and
   ii. financial liabilities designated at fair value through profit or loss. A BSP-Supervised Financial Institution (BSFI) may, at initial recognition, irrevocably designate financial liabilities as measured at FVTPL.
(b) financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies;
(c) financial guarantee contracts;
(d) commitments to provide a loan at a below-market interest rate; and
(e) contingent consideration recognized by an acquirer in a business combination.

The Manila Branch's financial liabilities at amortized cost include deposits from customers, borrowings from Head Office and other branches presented under "Due to Head Office and other branches" account and accrued interest payable presented under "Accrued expenses and other payables" account (see Notes 17, 19 and 20).

Financial liabilities at FVTPL include derivative liabilities held-for-trading arising from currency swaps. Similar to derivative assets, any gains or losses arising from changes in fair values of derivative liabilities are taken directly to "Foreign exchange loss - net" account in the statements of comprehensive income. Derivatives are carried as liabilities when the fair value is negative.

Reclassification of Financial Assets and Financial Liabilities
Financial assets are reclassified when, and only when, the Manila Branch changes its business model for managing financial assets in accordance with the provisions of PFRS 9. Reclassifications other than due to change in business model are not permitted.

A change in the Manila Branch's business model is expected to be very infrequent and must be determined as a result of external and internal changes that are significant to the Manila Branch's operations and demonstrable to external parties. Hence, such change in business model must be authorized by the Manila Branch's management and such fact properly documented.

A change in the objective of the Manila Branch's business model must be effected before the reclassification date.

The Manila Branch does not effect a reclassification within the period of change in the business model. Any reclassification of financial assets due to change in business model should take effect from the beginning of the next reporting period of the Manila Branch's financial statements; provided, that the change in business model be disclosed in the financial statements in the period of change consistent with PFRS 7, *Financial Instruments: Disclosures* which require among others the disclosure of objectives, policies and processes for managing the risk from financial instruments and any changes to those objectives, policies and procedures.

Financial liabilities are not reclassified.

Impairment of Financial Instruments
The Manila Branch uses reasonable and supportable information that is available without undue cost or effort to determine the credit risk at the date that a financial instrument was initially recognized.

Expected Credit Loss Model
Expected Credit Loss (ECL) is a probability weighted estimate of credit loss within the expected lifetime of the financial instruments. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Manila Branch expects to receive).

The Manila Branch's method of measuring the ECL of the financial instruments reflects the following elements:

a. the unbiased weighted average probability determined by the results of evaluating a range of possible outcome;

b. the time value of money; and

c. the reasonable and evidenced-based information about past events, current conditions and future economic forecasts that are available at no additional cost or effort at the end of the reporting period.

The maximum period considered when estimating ECL is the maximum contractual period (including extension options) over which the Manila Branch is exposed to credit risk.

The Manila Branch classifies financial instruments into three (3) stages and makes provisions for expected credit losses accordingly, depending on whether credit risk on that financial instrument has increased significantly since initial recognition.

- Stage 1 - A financial instrument of which the credit risk has not significantly increased since initial recognition. The amount equal to 12-month expected credit losses is recognized as loss allowance.

- Stage 2 - A financial instrument with a significant increase in credit risk since initial recognition but is not considered to be credit-impaired. The amount equal to lifetime expected credit losses is recognized as loss allowance. Refer to Note 5 credit risk for the description of how the Manila Branch determines when a significant increase in credit risk has occurred.

- Stage 3 - A financial instrument is considered to be credit-impaired as at the end of the reporting period. The amount equal to lifetime expected credit losses is recognized as loss allowance. Refer to Note 5 for the definition of credit-impaired financial assets.

The ECL model was applied to all financial assets measured at amortized cost and certain loan commitments and financial guarantees not measured at FVTPL.

Presentation of Allowance for ECL
ECL is remeasured at the end of each reporting period to reflect changes in the financial instrument's credit risk since initial recognition. Any change in the ECL amount is recognized as an impairment gain or loss in profit or loss. The Manila Branch recognizes an impairment gain or loss for financial instruments measured at amortized cost with a corresponding adjustment to their carrying amount through a loss allowance account; for debt instruments that are measured at FVOCI, the loss allowance is recognized in other comprehensive income.

Detailed discussions on the recognition and measurement of ECL in relation with Credit Risk Management practices are disclosed in Note 5.

Modifications of Financial Instruments
In some cases, the Manila Branch may renegotiate or otherwise modify the financial assets contracts. The Manila Branch would assess whether the new contractual terms are substantially different to the original terms. If the terms are substantially different, the Manila Branch derecognizes the original financial asset and recognizes a 'new' asset under the revised terms. If the renegotiation or modification does not result in derecognition, but lead to changes in contractual cash flows, the Manila Branch assesses whether a significant increase in credit risk has occurred based on the risk of default from the date of initial recognition under original terms and the revised terms as at the end of the reporting period.

Derecognition of Financial Assets and Liabilities

Financial Assets
Financial asset is derecognized when one of the following conditions is met:

- the Manila Branch's contractual rights to the cash flows from the financial asset expire;
- the financial asset has been transferred and the Manila Branch transfers substantially all of the risks and rewards of ownership of the financial asset; or
- the financial asset has been transferred, although the Manila Branch neither transfers nor retains substantially all of the risks and rewards of ownership of the financial asset, it does not retain control over the transferred asset.

Where the Manila Branch has transferred its rights to receive cash flows from an asset or has retained its rights to receive cash flows from the asset but assumed the obligation to pay those cash flows to the eventual recipients and meanwhile meet the conditions of the transfer of financial assets, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Manila Branch's continuing involvement in the asset.

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

Financial Liabilities
The Manila Branch derecognizes a financial liability (or part of it) only when its contractual obligation (or part of it) is extinguished.

Offsetting Financial Instruments

Financial assets and liabilities are offset and the net amount reported in the statements 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.

A right to offset must be available today rather than being contingent on a future event and must be exercisable by any of the counterparties, both in the normal course of business and in the event of default, insolvency or bankruptcy.

Fair Value Measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Manila Branch has access at that date. The fair value of a liability reflects its non-performance risk.

When one is available, the Manila Branch measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as 'active' if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the Manila Branch uses valuation techniques that maximize the use of relevant observable inputs and minimize the use of unobservable inputs. The chosen valuation technique incorporates all the factors that market participants would take into account in pricing a transaction.

The best evidence of the fair value of a financial instrument on initial recognition is normally the transaction price - i.e. the fair value of the consideration given or received. If the Manila Branch determines that the fair value on initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique for which any unobservable inputs are judged to be insignificant in relation to the measurement, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value on initial recognition and the transaction price. Subsequently, that difference is recognized in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

"Day 1" Difference

Where the transaction price in a non-active market is different from the fair value of other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable markets, the Manila Branch recognizes the difference between the transaction price and fair value (a "Day 1" Difference) as part of current operations in the period when the asset is acquired or the liability is incurred. In cases where the transaction price used is based on inputs which are not observable, the difference between the transaction price and model value is only recognized as part of current operations in the period when the inputs become observable or when the instrument is derecognized. For each transaction, the Manila Branch determines the appropriate method of recognizing the "Day 1" difference.

Prepayments

Prepayments represent expenses not yet incurred but already paid in cash. Prepayments are initially recorded as assets and measured at the amount of cash paid. Subsequently, these are charged to profit or loss as they are consumed in operations or expire with the passage of time.

Property and Equipment

Property and equipment refer to the tangible assets held by the Manila Branch to provide services or for operations management, with service life longer than one (1) year and unit value of RMB 2,000 or its peso equivalent. Expenditures which do not qualify for capitalization are expensed outright and recorded as part of "Equipment costs" account under "General and administrative expenses" in the statements of comprehensive income.

Property and equipment are initially measured at cost. The cost of an item of property and equipment comprises:

- purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates; and
- any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

At the end of each reporting period, items of property and equipment measured using the cost model are carried at cost less any subsequent accumulated depreciation and amortization and impairment loss.

Subsequent expenditures relating to an item of property and equipment that have already been recognized are added to the carrying amount of the asset when it is probable that future economic benefits, in excess of the originally assessed standard of performance of the existing asset, will flow to the Manila Branch. All other subsequent expenditures are recognized as expenses in the period in which those are incurred.

Property and equipment are depreciated from the date these are available for use. Depreciation is calculated using the straight-line basis over their estimated useful lives. Depreciation is generally recognized in profit or loss, unless the amount is included in the carrying amount of another asset. Leasehold improvements are amortized over the shorter of the lease term and their estimated useful life.

The estimated useful lives of the Manila Branch's property and equipment based on Head Office's policy are as follows:

	Useful Life (in years)
Office furniture and fixtures	5
Right-of-use assets	5
Electronic equipment	3
Leasehold improvements	Lease term or estimated useful life of the improvement of 5 years, whichever is shorter

An item of furniture, fixtures and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

Impairment of Non-financial Assets
The Manila Branch assesses whether there is any indication that any of its property and equipment may have suffered an impairment loss annually. If any such indication exists, the recoverable amount of the asset is estimated to determine the extent of the impairment loss, if any. When it is not possible to estimate the recoverable amount of an individual asset, the Manila Branch estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized as an expense.

Impairment losses recognized in prior periods are assessed at the end of each reporting period for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized. A reversal of an impairment loss is recognized as income in the statements of comprehensive income.

Assigned Capital
Permanently assigned capital represents the capital permanently assigned by the Head Office to the Manila Branch.

Deficit
Deficit represents accumulated net losses incurred by the Manila Branch.

Revenue Recognition
Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Manila Branch and the revenue can be reliably measured. Revenue recognized reflects the amount of consideration to which the Manila Branch expects to be entitled in exchange for transferring promised services to customers, and when its performance obligation in contracts is satisfied.

Interest Income
For all financial instruments measured at amortized cost and interest-generating financial instruments classified as financial assets measured at FVOCI, interest income is recorded at the effective interest rate, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument, where appropriate, to the book value of the financial asset, or the amortized cost of financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the effective interest rate, but not ECL.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of financial assets and is included in interest income, except for:

(a) For purchased or originated credit-impaired financial assets since initial recognition, whose interest income is calculated by applying the credit-adjusted effective interest rate to their amortized cost; and

(b) Financial assets that are not purchased or originated credit-impaired but have subsequently become credit-impaired, whose interest income is calculated by applying the effective interest rate to their amortized cost (i.e. net of the expected credit loss provision). If, in a subsequent period, the financial assets improve their qualities so that they are no longer credit-impaired and the improvement in credit quality is related objectively to a certain event occurring after the application of the above-mentioned rules, then the interest income is calculated by applying the effective interest rate to their book value.

The calculation of the effective interest rate includes all fees and points paid or received that are an integral part of the effective interest rate, transactions costs and all other premiums or discounts. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.

Fees and Commission
The Manila Branch earns fees and commission income from a diverse range of services it provides to its customers. The fees and commission income recognized by the Manila Branch reflects the amount of consideration to which the Manila Branch expects to be entitled in exchange of transferring promised services to customers, and income is recognized when its performance obligation in contracts is satisfied.

The table below provides information about the nature and timing of the satisfaction of performance obligations in contracts with customers, including significant payment terms, and the related revenue recognition standards:

Type of income	**Nature and timing of satisfaction of performance obligation**	**Revenue recognition under IFRS 15**
Lending fees and commission	Fee for every trade-related transaction. This also includes fees charged for providing customers a distinct good or service that are recognized separately from the underlying lending product.	*Guarantee Fees* Revenue is recognized upon execution of the trade finance products (e.g., letters of credit, letters of guarantees and acceptances, etc.). Revenue is recognized over the term of the service. *Commitment Fees* Revenue is recognized when service (i.e. loan processing and drawdown) is provided. If there are contract milestones, these arrangement fees are recognized upon completion of such milestones.

Non-lending fees and commission	Non-lending fees and commission pertain outward telegraphic transfer fees, import and export fees and other non-lending services costs. Fees or components of fees that are linked to a certain performance are recognized after fulfilling the corresponding criteria.	*Service Transfer Fees* Revenue is recognized at point in time that the associated service is provided.

<u>Expense Recognition</u>

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. Expenses are recognized in profit or loss:

- on the basis of a direct association between the costs incurred and the earning of specific items of income;

- on the basis of systematic and rational allocation procedures when economic benefits are expected to arise over several accounting periods and the association with income can only be broadly or indirectly determined; or

- immediately when an expenditure produces no future economic benefits or when, and to the extent that, future economic benefits do not qualify, or cease to qualify, for recognition in the statements of financial position as an asset.

Expenses in the statements of comprehensive income are presented using the nature of expense method.

Income and expenses are presented on a net basis only when required or permitted under PFRS, including gains and losses arising from a group of similar transactions.

<u>Employee Benefits</u>

Short-term Benefits

The Manila Branch recognizes a liability net of amounts already paid and an expense for services rendered by employees during the accounting period that are expected to be settled wholly before 12 months after the end of the reporting period. A liability is also recognized for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Manila Branch has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

Short-term employee benefit obligations such as employee salaries, bonuses and social security contributions are measured on an undiscounted basis and are expensed as the related service is provided.

Leases
Applicable from January 1, 2019

At inception of the contract, the Manila Branch assesses whether a contract is, or contains, a lease. A contract is, or contains, lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Manila Branch uses the definition of a lease in PFRS 16.

This policy is applied to contracts entered into (or changed) on or after January 1, 2019.

The Manila Branch as Lessee
At commencement or on modification of a contract that contains a lease component, the Manila Branch allocates consideration in the contract to each lease component on the basis of its relative stand-alone price. the Manila Branch has elected to separate non-lease components and account for lease and associated non-lease components separately.

The Manila Branch recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove any improvements made to branches or office premises. The right-of-use asset is depreciated using the straight-line method. If the lessee is reasonably certain to exercise a purchase option by the end of the lease term, the right-of-use asset is depreciated over the remaining useful lives of the underlying asset. Otherwise, the right-of-use asset is depreciated from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term.

The lease liability is initially measured at the present value if the lease payments that are not paid at the commencement ate, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Manila Branch's incremental borrowing rate. Generally, the Manila Branch uses its incremental borrowing rate as the discount rate.

The Manila Branch determines its incremental borrowing rate by analyzing its borrowings from various external sources and makes certain adjustments to reflect the terms of the lease and type of asset leased.

Lease payments included in the measurement of the lease liability comprise the following:

(a) fixed payments, including in-substance fixed payments;
(b) variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
(c) amounts expected to be payable under a residual value guarantee; and
(d) the exercise price under a purchase option that the Manila Branch is reasonably certain to exercise, lease payments in an optional renewal period if the Manila Branch is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Manila Branch is reasonably certain not to terminate early.

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Manila Branch's estimate of the amount expected to be payable under a residual value guarantee, if the Manila Branch changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The right-of-use asset and lease liability are presented under "Property and equipment" and "Lease liabilities" accounts, respectively, in the statements of financial position.

Short-term Leases and Leases of Low-value Assets
The Manila Branch has elected not to recognize a right-of-use assets and lease liabilities for leases of low-value assets. The Manila Branch recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term under "Occupancy expenses" account in statements of comprehensive income.

Applicable before January 1, 2019

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

A reassessment is made after inception of the lease only if one of the following applies:

(a) There is a change in contractual terms, other than a renewal or extension of the arrangement;

(b) A renewal option is exercised, or extension granted, unless that term of the renewal or extension was initially included in the lease term;

(c) There is a change in the determination of whether fulfillment is dependent on a specified asset; or

(d) There is a substantial change to the asset.

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

The Manila Branch as Lessee - Operating Lease
Operating lease payments are recognized as an expense on a straight-line basis over the lease term, except when another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognized as an expense in the period in which they are incurred. Operating lease payments are recognized under "Occupancy expenses" account in statements of comprehensive income.

Income Tax

Current, deferred and final tax are recognized in profit or loss, except when they relate to items that are recognized in OCI or directly in equity, in which case, the current and deferred tax are also recognized in OCI or directly in equity.

Current Income Tax

Current income tax is the expected tax payable on the taxable income for the period, using tax rates and laws that have been enacted or substantively enacted at the statements of financial position date, together with adjustments to tax payable in respect of prior years. The amount of current tax payable is the best estimate of the tax amount expected to be paid that reflects uncertainty related to income taxes, if any.

Deferred Tax

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

Deferred tax liabilities are recognized for all taxable temporary differences, including asset revaluations. Deferred tax assets are recognized for all deductible temporary differences, carry-forward benefits of unused tax credits from the excess of minimum corporate income tax (MCIT) over the regular corporate income tax (RCIT), and unused net operating loss carryover (NOLCO) to the extent that it is probable that sufficient taxable income will be available against which the deductible temporary differences and carryforward benefits of unused tax credits from MCIT and unused NOLCO can be utilized.

Deferred tax, however, is not recognized on temporary differences that arise from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting income nor taxable income.

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

Deferred tax assets and liabilities are measured at the tax rates that are applicable to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date, and reflect uncertainty related to income taxes, if there is any.

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

Final Tax

Final tax is a kind of withholding tax which is prescribed on certain income payments and is not creditable against the income tax due of the payee on other income subject to regular rates of tax for the taxable year. Tax withheld constitutes the full and final payment of the tax due from the payee on the particular income subjected to final withholding tax.

Provisions

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

Where discounting is used, the increase in the provision due to the passage of time is recognized as interest expense.

Contingent Assets and Contingent Liabilities

Contingent assets are not recognized in the statements of financial position but are disclosed in the notes to the financial statements when an inflow of economic benefits is probable.

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

Events After the Reporting Date

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

Amendments to Standards issued but Not Yet Adopted

A number of amendments to standards are effective for annual periods beginning after January 1, 2019. However, the Manila Branch has not early adopted the following amended standards in preparing these financial statements. Based on management's assessment, unless otherwise stated, none of these are expected to have a significant effect on the Manila Branch's financial statements.

Effective on January 1, 2020

- *Amendments to References to Conceptual Framework in PFRS Standards* sets out amendments to PFRS Standards, their accompanying documents and PFRS practice statements to reflect the issuance of the revised Conceptual Framework for Financial Reporting in 2018 (2018 Conceptual Framework). The 2018 Conceptual Framework includes:

  - a new chapter on measurement;
  - guidance on reporting financial performance;
  - improved definitions of an asset and a liability, and guidance supporting these definitions; and
  - clarifications in important areas, such as the roles of stewardship, prudence and measurement uncertainty in financial reporting.

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

These amendments are effective for annual reporting periods beginning on or after January 1, 2020.

- *Definition of Material (Amendments to PAS 1, Presentation of Financial Statements and PAS 8, Accounting Policies, Changes in Accounting Estimates and Errors).* The amendments refine the definition of material. The amended definition of material states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general-purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity. The amendments clarify the definition of material and its application by:

  (a) raising the threshold at which information becomes material by replacing the term 'could influence' with 'could reasonably be expected to influence;

  (b) including the concept of 'obscuring information' alongside the concept of 'omitting' and 'misstating' information in the definition;

  (c) clarifying that the users to which the definition refers are the primary users of general purpose financial statements referred to in the Conceptual Framework;

  (d) clarifying the explanatory paragraphs accompanying the definition; and

  (e) aligning the wording of the definition of material across PFRS and other publications.

  The amendments are expected to help entities make better materiality judgments without substantively changing existing requirements.

  The amendments apply prospectively for annual periods beginning on or after January 1, 2020. Earlier application is permitted. The management is currently assessing the potential impact on its financial statements resulting from the application of the amendments to PAS 1.

- *Interest Rate Benchmark Reform (Amendments to PFRS 9, Financial Instruments, PAS 39, Financial Instruments: Recognition and Measurement and PFRS 7, Financial Instruments: Disclosures).* The amendments provide temporary exceptions to all hedging relationships directly affected by interest rate benchmark reform - the market-wide reform of an interest rate benchmark, including the replacement of an interest rate benchmark with an alternative benchmark rate such as that resulting from the recommendations set out in the Financial Stability Board's July 2014 report 'Reforming Major Interest Rate Benchmarks'.

The exceptions relate to the following requirements:

- *The highly probable requirement.* When determining whether a forecast transaction is highly probable, an entity shall assume that the interest rate benchmark on which the hedged cash flows are based is not altered as a result of the reform.

- *Prospective assessments.* When performing prospective assessments, a company shall assume that the interest rate benchmark on which the hedged item, hedged risk and/ or hedging instrument are based is not altered as a result of the interest rate benchmark reform.

- *PAS 39 retrospective assessment.* An entity is not required to undertake the PAS 39 retrospective assessment for hedging relationships directly affected by the reform. However, the entity must comply with all other PAS 39 hedge accounting requirements, including the prospective assessment.

- *Separately identifiable risk components.* For hedges of a non-contractually specified benchmark component of interest rate risk, an entity shall apply the separately identifiable requirement only at the inception of such hedging relationships.

An entity shall cease applying the exceptions when the uncertainty arising from interest rate benchmark reform is no longer present with respect to the timing and the amount of the interest rate benchmark-based cash flows or the hedging relationship is discontinued. End of application does not apply to the test for separately identifiable risk components.

Specific disclosure requirements apply to hedging relationships affected by the amendments including information about the significant interest rate benchmarks, extent of risk exposure directly affected by the reform, how the entity manages the process to transition to alternative benchmark rates, significant assumptions and judgements made in applying the exceptions, and the nominal amount of the hedging instruments in those hedging relationships.

The FRSC has yet to approve the local adoption of the amendment. When approved, the amendments apply for annual reporting periods beginning on or after January 1, 2020. Earlier application is permitted.

4. Significant Accounting Judgements and Estimates

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

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

Critical Judgments in Applying Accounting Policies
The following are the critical judgments, apart from those involving estimations, that management has made in the process of applying the Manila Branch's accounting policies and that may have the most significant effect on the amounts recognized in financial statements.

Applicable in 2019 only

Leases

Lease Identification
The Manila Branch applies judgment to determine whether a contract includes an identified asset and whether the customer has the right to control the identified asset for a period of time in exchange for consideration. When determining whether an arrangement is or contains a lease, the Manila Branch evaluates the following:

- There is an identified asset that is either explicitly identified in the contract or is implicitly specified by being identified at the time that the asset is made available for use by the Manila Branch;
- The Manila Branch has the right to obtain substantially all of the economic benefits from the use of the identified asset throughout the period of use (e.g., by having exclusive use of the asset throughout that period). When assessing whether the Manila Branch has the right to obtain substantially all the economic benefits from the use of an asset, the Manila Branch considers the economic benefits that result from use of the asset within the defined scope of the Manila Branch's right to use the asset;
- The Manila Branch has the right to direct the use of the identified asset throughout the period of use. In making this evaluation, the Manila Branch considers the decisions that most directly impact the economic benefits to be derived from the use of the asset, including:
  i. The customer has the right to direct how and for what purpose the asset is used throughout the period of use.
  ii. The relevant decisions about how and for what purpose an asset is used are predetermined and the Manila Branch either:
     (1) has the right to operate the asset, or to direct others to operate the asset in a manner that it determines, throughout the period of use, without the lessor having the right to change those operating instructions; or
     (2) designed the asset, or specific aspects of the asset, in a way that predetermines how and for what purpose the asset will be used throughout the period of use.

Lease Term
Judgment is required when the lease contains termination options, renewal options or options that allow the entity to purchase the underlying asset. When evaluating whether a lessee is reasonably certain to exercise an option to renew the lease, not terminate the lease or to purchase the underlying asset, the Manila Branch assesses all relevant factors that create an economic incentive to exercise lease renewal, termination or purchase options (i.e., contract-based, asset-based, entity-based and market-based factors).

These factors may include, among other considerations:

- the pricing of a purchase option or lease renewal option (e.g., fixed rates, discounted rates, "bargain" rates);
- contingent amounts due under residual value guarantees and other variable lease payments;
- significant customization (e.g., leasehold improvements), installation costs or relocation costs;
- the importance of the leased asset to the Manila Branch's operations, considering the potential business disruptions from not having the leased asset and the availability of a replacement asset.

PFRS 16 requires lessees to monitor leases for certain events that could trigger a change in the lease term upon the occurrence of a significant event or a significant change in circumstances that are within the control of the Manila Branch, such as constructing significant leasehold improvements.

<u>Low-value Leases</u>
PFRS 16 permits a lessee to account for leases for which the underlying asset is of low value.

The Manila Branch assesses the value of an underlying asset based on the value of the asset when it is new, regardless of the age of the asset being leased. The assessment of whether an underlying asset is of low value is performed on an absolute basis and is not affected by the size, nature or circumstances of the lessee.

An underlying asset can only be of low-value if both:

- The Manila Branch can benefit from use of the assets on their own, or together with, other resources that are readily available to the lessee; and
- The underlying asset is not dependent on, or highly interrelated with, other assets.

The Manila Branch makes an election for leases for which the underlying asset is of low value on a lease-by-lease basis and does not recognize a lease liability or ROU on its statements of financial position. Instead, the Manila Branch recognizes the lease payments associated with those leases as an expense on either a straight-line basis over the lease term or another systematic basis, if that basis is more representative of the pattern of the Manila Branch's benefit. Accordingly, the Manila Branch considered a lease to be low value at an amount of USD 5,000 or its peso equivalent.

Applicable in 2019 and 2018

Assessment of Functional Currency
PAS 21, *The Effects of Changes in Foreign Exchange Rates* requires management to determine its functional currency such that it must faithfully represent the economic effects of the underlying transactions, events and conditions that are relevant to the Manila Branch.

In making this judgment, the Manila Branch considers the following:

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

Based on the economic substance of the underlying circumstances relevant to the Manila Branch, the functional currency of the RBU books and FCDU books have been determined to be the PHP and USD, respectively. The PHP is the currency of the primary economic environment in which the Manila Branch operates. It is the currency that mainly influences the Manila Branch in determining the cost and selling price of its services.

Business Model Assessment
The Manila Branch determines its business model at the level that best reflects how it manages financial assets to achieve its business objective including the risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed.

The expected frequency, value and timing of sales are also important aspects of the Manila Branch's assessment. The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account.

If cash flows after initial recognition are realized in a way that is different from the Manila Branch's original expectations, the Manila Branch does not change the classification of the remaining financial assets held in that business model but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

Assessment of Whether Contractual Cash Flows are SPPI
The Manila Branch assesses the contractual terms of the financial asset to identify whether they meet the SPPI test. This involves assessment of whether the contractual cash flows that are SPPI are consistent with a basic lending arrangement. In a basic lending arrangement, consideration for the time value of money and credit risk are typically the most significant elements of interest.

As such, the Manila Branch applies judgment and considers relevant factors such as the currency in which the financial asset is denominated, the period for which the interest rate is set and the contractual terms that change the timing or amount of the cash flows.

Significant Increase in Credit Risk
Impairment of loans to customers is a subjective area due to the degree of judgment applied by management in determining impairment allowances. From the Manila Branch's perspective, the determination of the loss allowances is heavily dependent on the external macro environment and the Manila Branch's internal credit risk management strategy, and the judgments in determining the loss given default or the assessment of recoverable cash flows relating to individual loans to customers, where loans were unsecured or were subject to potential collateral shortfalls.

Management exercises judgment in determining recoverable cash flow based on a range of factors. These factors include available remedies for recovery, the financial situation of the borrowers, collateral valuation, the seniority of the claim and the existence and cooperativeness of other creditors.

Going Concern
In 2019, in view of the COVID-19 pandemic, the management made an assessment on the Manila Branch 's ability to continue as a going concern. While the outbreak has not significantly affected the Manila Branch's operations based on evaluation, the Manila Branch's business or financial performance is still exposed to risks arising from decline in local, regional or global economic conditions.

As it is too early to predict the impact of the expanding pandemic, it cannot be quantified as at the reporting date, due to uncertainties. The management expects that the financial impact of the outbreak will be apparent on the succeeding months after the issuance of these financial statements (see Note 27).

Given the consequences of the outbreak did not materially affect the operating results and financial position after the reporting date and does not constitute a material uncertainty that may cast significant doubt on the Manila Branch's ability to continue as a going concern, the financial statements as at and for the year ended December 31, 2019 continued to be prepared on the going concern basis.

In 2018, the Manila Branch's management has made an assessment of the Manila Branch's ability to continue as a going concern and is satisfied that the Manila Branch has the resources to continue its business in the foreseeable future. Thus, the financial statements were prepared on a going concern basis without material uncertainty over the Manila Branch's ability to continue as a going concern.

Applicable in 2018 only

Leases - Manila Branch as a Lessee
The Manila Branch entered into operating lease agreements for the premises it used for its operations. The Manila Branch determined that all significant risks and rewards of ownership of the properties it leases on operating lease arrangements were retained by the lessor.

In determining whether or not a lease should be treated as an operating lease, the retention of ownership title to the leased property, period of lease contract relative to the estimated economic useful life of the leased property and bearer of executory costs, among others, were considered.

Key Source of Estimation Uncertainty
There is a key assumption concerning the future and other key sources of estimation uncertainty at the end of the reporting period that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Applicable in 2019 only

Leases - Incremental Borrowing Rate (IBR)
The Manila Branch estimated the IBR for existing leases upon adoption of PFRS 16. The Manila Branch uses interest rate that a lessee would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment as IBR.

To determine the IBR, the Manila Branch made estimates considering the costs of current borrowings, the term of the lease arrangement, the nature and quality of the leased asset, and economic environment and currency at which the lease is entered into among others. These inputs to estimate may change over time and may affect the subsequent estimation of the IBR for new, reassessed or modified leases.

When a reassessment of the discount rate is required following a change in lease term or a lease modification, a lessee will need to periodically reconsider the IBR it uses to calculate new, reassessed, or modified lease liabilities and right-of-use assets.

Applicable in 2019 and 2018

Measurement of the Expected Credit Loss Allowance
The measurement of the expected credit loss allowance for financial assets measured at amortized cost and with exposure arising from loan commitments and financial guarantee contracts, is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behavior (the likelihood of customers defaulting and the resulting losses). Refer to Note 5 for the explanation of the inputs, assumptions and estimation techniques used in measuring ECL.

The loss allowance on financial instruments amounted to P16.51 million and nil as at December 31, 2019 and 2018, respectively (see Note 14). This includes loss allowance on investment securities at amortized cost, loans and receivables, and off-balance sheet commitments and financial guarantee contracts.

Determining Inputs into ECL Measurement Model
In computing the ECL, the Manila Branch uses three (3) variables: (a) PD; (b) LGD; and (c) EAD. The determination of the amounts of the variables involves identifying and documenting key drivers of credit risk and credit losses for each portfolio of financial instruments and using an analysis of historical data and forward-looking assumptions to estimate relationships between macro-economic variables and credit risk and credit losses. Identified drivers for credit risk include GDP growth, inflation and unemployment rate.

Detailed discussions on the Manila Branch's inputs to the ECL model are disclosed in Note 5.

Fair Value of Financial Instruments
Where the fair values of financial assets and financial liabilities recognized in the statements of financial position cannot be derived from active markets, these are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are taken from observable markets where possible, but where deriving from observable market is not feasible, a degree of judgment is required in establishing fair values. These estimates may include consideration of liquidity, volatility and correlation. Changes in assumptions about these factors could affect the reported fair values of financial instruments. Fair values of relevant affected assets are disclosed in Note 7.

Deferred Tax Assets (DTA)
DTA is recognized for all unused tax losses and deductible temporary differences to the extent that it is probable that taxable income will be available against which the temporary differences and unused tax losses can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the forecasted timing and amount of future taxable income together with future tax planning strategies.

The estimates of future taxable income indicate that certain temporary differences will be realized in the future.

The Manila Branch did not recognize deferred tax assets in 2019 and 2018 since management believes that it is unlikely that future taxable income may be available from which these deferred income tax assets will be utilized before these assets expire (see Note 24).

5. Financial Risk Management Objectives and Policies

Financial Risk Management Objectives and Policies
The Head Office has the ultimate role and responsibilities in developing and approving a comprehensive risk management framework for the ICBC Group through its Risk Management Committee and the Audit Committee of the Board of Directors. Business authorization is granted to the Manila Branch by the Head Office on an annual basis, as well as guidance and support on business development, risk management, internal governance, compliance, considering the safeguarding of the Manila Branch's long-term financial stability, solvency and liquidity situation.

The General Manager of the Manila Branch has the overall responsibility for the establishment and oversight of various risk management measures within the mandate of the Head Office.

The management has established the Risk Management Committee (RMC), which is the decision-making body of the General Manager responsible for reviewing and strengthening risk and compliance management measures and assessing indicator results of risk and compliance management. Its risk mission and objectives are to consistently and accurately consider risks and return in evaluating transactions and exposures while preserving and maintaining adequate risk-based capital, and to ensure adequate returns on such capital. Risk mitigation strategies form an integral part on the risk management activities.

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

- Credit Risk
- Liquidity and Funding Risk
- Market Risk

The Manila Branch's policies and objective in managing these risks are summarized below:

Credit Risk
Credit risk is defined by the Manila Branch as the risk of financial loss arising from the borrower's inability to repay principal and/or interest. Of all forms of risk faced by the Manila Branch, credit risk from non-payment or late payment is the most significant as potential losses from mismanagement of credit risk may be substantial.

The Manila Branch assumes credit risk in a wide range of lending and other activities in diverse markets. Credit risks arise not only from traditional lending to customers, but also from inter-bank, treasury and capital markets activities.

The Manila Branch's credit risk is mainly attributable to its loans, due from banks and other non-financial institutions and financial investments. The Manila Branch is also exposed to credit risk arising from derivative financial instruments but is limited to derivative financial assets recorded in the statements of financial position. In addition, the Manila Branch provides guarantees for customers and may therefore be required to make payments on their behalf. These payments will be recovered from customers in accordance with the terms of the agreement. Therefore, the Manila Branch assumes a credit risk similar to that arising from loans and applies the same risk control procedures and policies to reduce risks.

Credit Risk Management

The Head Office delegates credit business authority to the General Manager based on the annual operation and management authorization, who may then sub-delegate, in whole or in part, its credit business authority to different levels of authorized approvers. Credit Management from Risk Control Department conducts independent credit assessment and evaluation of all counterparties and other risks presented for approval by the Front Office. The General Manager oversees the credit and credit risk management processes of the Manila Branch as the chairman of the Credit Review Committee.

The Manila Branch has adopted stringent procedures in extending credit terms to borrowers and in monitoring its credit risk. Personnel involved in the management of credit risk and the credit process must therefore exercise due diligence and sound judgment in the evaluation and assessment of risks when assessing lending requests from borrowers as well as in post-lending management of credit facilities since credit facilities should only be granted for genuine business requirements.

The final part of the end-to-end credit process is comprised of post-approval and monitoring procedures, such as annual credit reviews, which aims to maintain the quality of credits and safeguard the assets of the Manila Branch with the view of avoiding potential losses. This is achieved by ensuring that all transactions are within the approved limits, appropriateness of the credit rating is monitored and credit limits and that other credit issues such as amount, maturity, security, repayment and other financial covenants are in accordance with the approved terms.

Risk Concentrations of the Maximum Exposure to Credit Risk

Concentration risk can arise from excessive exposures to individual obligors, groups of connected counterparties and groups of counterparties with similar characteristics (e.g., counterparties in specific geographical locations, economic or industry sectors) or entities in a foreign country or a group of countries with strongly interrelated economies that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations of risk are managed by counterparty and by industry sector.

The Manila Branch generally considers concentration risk as excessive when the ratio of a segment's exposure (e.g., this may be an industry demographic attribute or a program) to the total portfolio exceeds the BSP threshold. The BSP considers that credit concentration risk exists when the total loan exposure to an industry or economic sector exceeds 30.00% of the total loan portfolio or 10.00% of Tier 1 capital, except for commercial real estate industry which has regulatory limit of 20.00% of total loan portfolio excluding interbank loans receivable.

The table below shows the credit quality of the Manila Branch's financial assets by type of industry, gross of allowance for credit and impairment losses as at December 31, 2019 and 2018 (in thousands):

	2019						
	Government and Official Institutions	Financial Institutions	Electricity, Energy, Power	Manufacturing	Real Estate, Renting and Business Activities	Others	Total
Due from BSP	P38,375	P -	P -	P -	P -	P -	P38,375
Due from other banks	-	39,409	-	-	-	-	39,409
Financial asset at FVTPL	-	157	-	-	-	-	157
Financial asset at FVOCI	-	20,686	-	-	-	-	20,686
Investment securities at amortized cost	3,674,470	-	-	-	-	-	3,674,470
Loans and receivables:							
Loans to customers	-	-	1,569,685	681,091	500,000	-	2,750,776
Accrued interest receivable	-	-	4,937	810	841	-	6,588
Due from Head Office	-	40,155	-	-	-	-	40,155
Other assets*	-	-	-	-	6,523	10	6,533
	P3,712,845	P100,407	P1,574,622	P681,901	P507,364	P10	P6,577,149

Other assets consist of refundable security deposits, advances to officers and employees, and accounts receivable.

	2018						
	Government and Official Institutions	Financial Institutions	Electricity, Energy, Power	Manufacturing	Real Estate, Renting and Business Activities	Others	Total
Due from BSP	P -	P -	P -	P -	P -	P -	P -
Due from other banks	-	3,794,816	-	-	-	-	3,794,816
Financial asset at FVTPL	-	-	-	-	-	-	-
Financial asset at FVOCI	-	-	-	-	-	-	-
Investment securities at amortized cost	-	-	-	-	-	-	-
Loans and receivables:							
Loans to customers	-	-	-	-	-	-	-
Accrued interest receivable	-	-	-	-	-	-	-
Due from Head Office	-	40,155	-	-	-	-	40,155
Other assets*	-	-	-	-	6,616	3,139	9,755
	P -	P3,834,971	P -	P -	P6,616	P3,139	P3,844,726

Other assets consist of refundable security deposits, advances to officers and employees, and accounts receivable.

As at December 31, 2019, the Manila Branch has 57.06% concentration in the electricity, energy, power sector, respectively (2018: nil). Management believes this should not be a cause for concern because the main target of the Manila Branch are large industry leaders with good development prospects to expand business scale.

As at December 31, 2019 and 2018, the Manila Branch has no credit concentration risk to any particular industry exceeding 10% of Tier 1 capital.

Collateral and Other Credit Enhancements

The amount and type of collateral required depend on the assessment of the credit risk of the counterparty. Guidelines are in place specifying the types of collateral and valuation parameters which can be accepted.

The Manila Branch holds collateral against certain loans in the form of mortgage interest over real property. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and are updated periodically or when a loan is individually assessed as impaired.

Management monitors the market value of collateral periodically and requests additional collateral in accordance with the underlying agreement when it is considered necessary.

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

The Manila Branch's exposure to credit risk arises from the default of the counterparty, with a maximum exposure equal to the carrying amounts of these assets.

The table below shows the maximum exposure to credit risk as at December 31, 2019 and 2018 after taking into account any collateral held or other credit enhancements (in thousands):

	2019			2018		
	Carrying Amount	**Fair Value of Collateral**	**Maximum Exposure to Credit Risk**	Carrying Amount	Fair Value of Collateral	Maximum Exposure to Credit Risk
Due from BSP	**P38,375**	**P -**	**P38,375**	P -	P -	P -
Due from other banks	**39,409**	**-**	**39,409**	3,794,816	-	3,794,816
Financial asset at FVTPL	**157**	**-**	**157**	-	-	-
Financial asset at FVOCI	**20,686**	**-**	**20,686**	-	-	-
Investment securities at amortized cost	**3,674,470**	**-**	**3,674,470**	-	-	-
Loans and receivables	**2,757,364**	**506,350**	**2,251,014**	-	-	-
Due from Head Office	**40,155**	**-**	**40,155**	40,155	-	40,155
Other assets*	**6,533**	**-**	**6,533**	9,755	-	9,755
	P6,577,149	**P506,350**	**P6,070,799**	P3,844,726	P -	P3,844,726

Credit Quality Per Class of Financial Assets
The credit quality of financial assets is managed by the Manila Branch using internal and external credit ratings which covers both on- and off- balance sheet exposures.

Internal Rating
The Manila Branch has adopted its Head Office's internal rating model which is based on quantitative and qualitative assessment of a corporate customer. The quantitative assessment takes into consideration profitability, accounting quality, cash flow and liquidity, capital and debt structure and solvency among others while qualitative assessment includes industry environment, the entity's market position and competitive strengths and weaknesses, management and corporate governance.

External Rating
In ensuring quality investment portfolio, the Manila Branch uses the credit risk rating based on the rating of Moody's, Standard & Poor's and Fitch.

The table below shows the credit risk rating comprising the equivalent external grades for each internal credit risk rating following the Head Office's master scale of 21-grade credit rating applied for comparison purposes only.

Internal Borrower's Risk Ratings	Moody's Equivalent Grades	Standard & Poor's and Fitch's Equivalent Grades	Description
sAAA+ AAA+ sAAA AAA sAAA- AAA-	Aaa, Aa1, Aa2 Aa3 Aaa, Aa1, Aa2 A2 A3 Baa1	AAA, AA+, AA AA- A+ A A- BBB+	Customers with great operating and financial strength as well as strong and very stable solvency and have demonstrated that they can withstand and bear major internal and external adverse change, with very reliable and predictable net cash flow.
sAA+ AA+	Baa2 Baa2	BBB BBB	Customers with very good operating and financial strength as well as very strong solvency and can withstand and bear large internal and external adverse changes, with good financial performance and sufficient cash flows.
sAA AA	Baa3 Baa3	BBB- BBB-	Customers with very good operating and financial strength as well as very strong solvency and may be affected by adverse changes in internal and external economic situations.
sAA- AA-	Ba1 Ba1	BB+ BB+	Customers with moderately good operating and financial strength as well as moderately strong solvency but will be affected by adverse changes in internal and external economic situations; has moderately sufficient cash flow; moderate strong customer market competitiveness.

Significant Increase in Credit Risk
The assessment of significant increase since initial recognition in the credit risk is performed at least on a quarterly basis for financial instruments held by the Manila Branch. The Manila Branch takes into consideration all reasonable and supportable information (including forward-looking information) that reflects significantly change in credit risk for the purposes of classifying financial instruments. The main considerations are regulatory and operating environment, internal and external credit risk gradings, debt-servicing capacity, operating capabilities, contractual terms, and repayment records. The Manila Branch compares the risk of default of a single financial instrument or a portfolio of financial instruments with similar credit risk characteristics as at the end of the reporting period and its risk of default at the date of initial recognition to determine changes in the risk of default during the lifetime of a financial instrument or a portfolio of financial instruments. In determining whether credit risk of a financial instrument has increased significantly since initial recognition, the Manila Branch considers factors indicating whether the probability of default has risen sharply, whether the financial instrument has been past due for more than 30 days, and whether the market price has been falling to assess deterioration.

Default
The Manila Branch defines a corporate borrower as in default when it meets one or more of the following criteria at the timing of recognition:

(i) The principal or interest of loan is past due more than 90 days;
(ii) The corporate borrower is unlikely to pay its credit obligations in full, without recourse by the Manila Branch to actions such as liquidation against collateral; or
(iii) The corporate borrower has the above matters in other financial institutions refers to (i), (ii).

Purchase or Originated Credit Impaired (POCI) Assets
POCI assets are financial assets that are credit-impaired on initial recognition. Impairment on a POCI asset is determined based on lifetime ECL from initial recognition. POCI assets are recognized initially at an amount net of impairment and are measured at AC using a credit-adjusted EIR. In subsequent periods, any changes to the estimated lifetime ECL are recognized in profit or loss. Favorable changes are recognized as a reversal of impairment if the lifetime ECL at the reporting date is lower than the estimated lifetime ECL at origination.

Stage of Financial Instruments
The Manila Branch classifies financial instruments into three (3) risk stages and makes provisions for expected credit losses accordingly, depending on whether credit risk on that financial instrument has increased significantly since initial recognition.

	DETERIORATION IN CREDIT QUALITY		
	Stage 1	**Stage 2**	**Stage 3**
Impairment Stage	No significant increase in credit risk	Significant increase in credit risk	Credit impaired
Recognition of expected credit losses	Collective 12-month ECL when credit risk is low to moderate or risk of default has not increased significantly	Collective or Individual Lifetime ECL when credit quality deteriorates significantly but not credit impaired	Individual Lifetime ECL when credit losses are incurred, or asset is credit impaired

Expected credit losses are updated at each reporting date for new information and changes in expectations even if there has not been a significant increase in credit risk.

Refer to Note 3 Impairment of Financial Instruments for the definition of the three (3) risk stages.

The table below shows the credit quality of the Manila Branch's financial assets by credit risk rating and stage as at December 31, 2019 (in thousands):

	2019				
	Stage 1	Stage 2	Stage 3	POCI	Total
Due from BSP and other banks					
AAA / AA+ / AA	P77,784	P -	P -	P -	P77,784
AA- / A+	-	-	-	-	-
A / A-	-	-	-	-	-
BBB+ / BBB / BBB-	-	-	-	-	-
BB+ / BB / BB- / B+	-	-	-	-	-
B / B-	-	-	-	-	-
CCC	-	-	-	-	-
CC / C	-	-	-	-	-
D	-	-	-	-	-
Unrated	-	-	-	-	-
Loss Allowance	-	-	-	-	-
Carrying Amount	P77,784	P -	P -	P -	P77,784
Financial asset at FVOCI					
AAA / AA+ / AA	P -	P -	P -	P -	P -
AA- / A+	-	-	-	-	-
A / A-	-	-	-	-	-
BBB+ / BBB / BBB-	-	-	-	-	-
BB+ / BB / BB- / B+	-	-	-	-	-
B / B-	-	-	-	-	-
CCC	-	-	-	-	-
CC / C	-	-	-	-	-
D	-	-	-	-	-
Unrated	20,686	-	-	-	20,686
Loss Allowance	-	-	-	-	-
Carrying Amount	P20,686	P -	P -	P -	P20,686
Investment assets at amortized cost					
AAA / AA+ / AA	P -	P -	P -	P -	P -
AA- / A+	-	-	-	-	-
A / A-	-	-	-	-	-
BBB+ / BBB / BBB-	3,674,470	-	-	-	3,674,470
BB+ / BB / BB- / B+	-	-	-	-	-
B / B-	-	-	-	-	-
CCC	-	-	-	-	-
CC / C	-	-	-	-	-
D	-	-	-	-	-
Unrated	-	-	-	-	-
Loss Allowance	(5,101)	-	-	-	(5,101)
Carrying Amount	P3,669,369	P -	P -	P -	P3,669,369
Loans and receivables					
AAA / AA+ / AA	P566,317	P -	P -	P -	P566,317
AA- / A+	1,683,291	-	-	-	1,683,291
A / A-	507,757	-	-	-	507,757
BBB+ / BBB / BBB-	-	-	-	-	-
BB+ / BB / BB- / B+	-	-	-	-	-
B / B-	-	-	-	-	-
CCC	-	-	-	-	-
CC / C	-	-	-	-	-
D	-	-	-	-	-
Unrated	-	-	-	-	-
Loss Allowance	(11,401)	-	-	-	(11,401)
Carrying Amount	P2,745,964	P -	P -	P -	P2,745,964

	2019				
	Stage 1	**Stage 2**	**Stage 3**	**POCI**	**Total**
Due from Head Office					
AAA / AA+ / AA	P -	P -	P40,155	P -	P40,155
AA- / A+	-	-	-	-	-
A / A-	-	-	-	-	-
BBB+ / BBB / BBB-	-	-	-	-	-
BB+ / BB / BB- / B+	-	-	-	-	-
B / B-	-	-	-	-	-
CCC	-	-	-	-	-
CC / C	-	-	-	-	-
D	-	-	-	-	-
Unrated	-	-	-	-	-
Loss Allowance	-	-	40,155	-	40,155
Carrying Amount	P -	P -	P -	P -	P -

	2019				
	Stage 1	**Stage 2**	**Stage 3**	**POCI**	**Total**
Other assets					
AAA / AA+ / AA	P -	P -	P -	P -	P -
AA- / A+	-	-	-	-	-
A / A-	-	-	-	-	-
BBB+ / BBB / BBB-	-	-	-	-	-
BB+ / BB / BB- / B+	-	-	-	-	-
B / B-	-	-	-	-	-
CCC	-	-	-	-	-
CC / C	-	-	-	-	-
D	-	-	-	-	-
Unrated	6,533	-	-	-	6,533
Loss Allowance	-	-	-	-	-
Carrying Amount	P6,533	P -	P -	P -	P6,533

**Other assets consist of refundable security deposits, advances to officers and employees, and accounts receivable*

	2018				
	Stage 1	Stage 2	Stage 3	POCI	Total
Due from BSP and other banks					
AAA / AA+ / AA	P3,794,816	P -	P -	P -	P3,794,816
AA- / A+	-	-	-	-	-
A / A-	-	-	-	-	-
BBB+ / BBB / BBB-	-	-	-	-	-
BB+ / BB / BB- / B+	-	-	-	-	-
B / B-	-	-	-	-	-
CCC	-	-	-	-	-
CC / C	-	-	-	-	-
D	-	-	-	-	-
Unrated	-	-	-	-	-
Loss Allowance	-	-	-	-	-
Carrying Amount	P3,794,816	P -	P -	P -	P3,794,816

	2018				
	Stage 1	Stage 2	Stage 3	POCI	Total
Financial asset at FVOCI					
AAA / AA+ / AA	P -	P -	P -	P -	P -
AA- / A+	-	-	-	-	-
A / A-	-	-	-	-	-
BBB+ / BBB / BBB-	-	-	-	-	-
BB+ / BB / BB- / B+	-	-	-	-	-
B / B-	-	-	-	-	-
CCC	-	-	-	-	-
CC / C	-	-	-	-	-
D	-	-	-	-	-
Unrated	-	-	-	-	-
Loss Allowance	-	-	-	-	-
Carrying Amount	P -	P -	P -	P -	P -

	2018				
	Stage 1	Stage 2	Stage 3	POCI	Total
Investment assets at amortized cost					
AAA / AA+ / AA	P -	P -	P -	P -	P -
AA- / A+	-	-	-	-	-
A / A-	-	-	-	-	-
BBB+ / BBB / BBB-	-	-	-	-	-
BB+ / BB / BB- / B+	-	-	-	-	-
B / B-	-	-	-	-	-
CCC	-	-	-	-	-
CC / C	-	-	-	-	-
D	-	-	-	-	-
Unrated	-	-	-	-	-
Loss Allowance	-	-	-	-	-
Carrying Amount	P -	P -	P -	P -	P -
Loans and receivables					
AAA / AA+ / AA	P -	P -	P -	P -	P -
AA- / A+	-	-	-	-	-
A / A-	-	-	-	-	-
BBB+ / BBB / BBB-	-	-	-	-	-
BB+ / BB / BB- / B+	-	-	-	-	-
B / B-	-	-	-	-	-
CCC	-	-	-	-	-
CC / C	-	-	-	-	-
D	-	-	-	-	-
Unrated	-	-	-	-	-
Loss Allowance	-	-	-	-	-
Carrying Amount	P -	P -	P -	P -	P -
Due from Head Office					
AAA / AA+ / AA	P40,155	P -	P -	P -	P40,155
AA- / A+	-	-	-	-	-
A / A-	-	-	-	-	-
BBB+ / BBB / BBB-	-	-	-	-	-
BB+ / BB / BB- / B+	-	-	-	-	-
B / B-	-	-	-	-	-
CCC	-	-	-	-	-
CC / C	-	-	-	-	-
D	-	-	-	-	-
Unrated	-	-	-	-	-
Loss Allowance	-	-	-	-	-
Carrying Amount	P40,155	P -	P -	P -	P40,155
Other assets					
AAA / AA+ / AA	P -	P -	P -	P -	P -
AA- / A+	-	-	-	-	-
A / A-	-	-	-	-	-
BBB+ / BBB / BBB-	-	-	-	-	-
BB+ / BB / BB- / B+	-	-	-	-	-
B / B-	-	-	-	-	-
CCC	-	-	-	-	-
CC / C	-	-	-	-	-
D	-	-	-	-	-
Unrated	9,755	-	-	-	9,755
Loss Allowance	-	-	-	-	-
Carrying Amount	P6,533	P -	P -	P -	P9,755

**Other assets consist of refundable security deposits, advances to officers and employees, and accounts receivable*

Impairment Assessment

Generally, a financial asset is considered to be credit-impaired if:

(i) It has been overdue for more than 90 days;
(ii) In light of economic, legal or other factors, the Manila Branch has made concessions to a borrower in financial difficulties, which would otherwise have been impossible under normal circumstances;
(iii) The borrower is probable to be insolvent or carry out other financial restructurings;
(iv) Due to serious financial difficulties, the financial asset cannot continue to be traded in an active market;

(v) There are other objective evidences that the financial asset is impaired.

Description of Parameters, Assumptions, and Estimation Techniques
ECL for a financial instrument is measured at an amount equal to 12-month ECL or lifetime ECL depending on whether a significant increase in credit risk on that financial instrument has occurred since initial recognition or whether an asset is considered to be credit-impaired. The loss allowance is measured using risk parameters method.

The key parameters are as follows:

- Probability of Default (PD)
  PD is the possibility that a customer will default on its obligation within a certain period of time in light of forward-looking information. The Manila Branch's PD is adjusted based on the results of the Internal Rating-Based Approach under the New Basel Capital Accord, taking the forward-looking information into account and deducting the prudential adjustment to reflect the debtor's point-in-time (PIT) PD under the current macroeconomic environment.

- Loss Given Default (LGD)
  LGD is the magnitude of the likely loss if there is a default considering forward-looking information. The LGD is depending on the type of counterparty, the method and priority of the recourse, and the type of collaterals, with taking the forward-looking information into account.

- Exposure at Default (EAD)
  EAD refers to the total amount of on-balance sheet and off-balance sheet exposures in the event of default and is determined based on the historical repayment records.

The assumptions underlying the ECL calculation, such as how the PDs and LGDs of different maturity profiles change are monitored and reviewed on a quarterly basis by the Head Office and Manila Branch.

There have been no significant changes in estimation techniques or significant assumptions made during the year.

As at December 31, 2019 and 2018, the ECL of the Manila Branch amounted to P16.51 million and nil, respectively, as the management believes that there was no significant increase in credit risk on its financial assets measured at amortized cost from origination date.

Forward-looking Information Contained in ECL
The calculation of ECL incorporates forward-looking information. The Manila Branch has performed historical analysis and identified the key economic variables, including Gross Domestic Product ("GDP"), Inflation Rate and Change Rate of Total Import Goods, impacting ECL for each portfolio. The impact of these economic variables on the PD has been determined by performing statistical regression analysis to understand the correlations among the historical changes of the economic variables. The Head Office provides forecasts of these economic variables quarterly including the best estimate view of the economy over the next year.

When calculating the weighted average ECL, the optimism, neutral and pessimism scenarios and its weightings determined by a combination of macro-statistical analysis and expert judgment are taken into account by the Manila Branch.

Recovery of Impairment Loss
If in a subsequent period, an improvement in scenarios arise whereby the borrower's credit rating, financial strength and the overall economy recovery and others, the previously recognized impairment loss is reversed directly to profit and loss, in line with the adjustment of the impairment loss account.

Write-off
The Manila Branch writes off financial assets when it has exhausted practical recovery efforts and has concluded there is no reasonable expectation of recovery.

<u>Liquidity and Funding Risk</u>
The Manila Branch defines liquidity and funding risk as the risk to the bank's earnings, capital and solvency, arising from inability to meet contractual payments and other financial obligations on their due date, or the inability to fund (at a reasonable cost) the business needs of the bank and, by extension, the needs of its customers, and risk that the Manila Branch will not be able to meet efficiently both expected and unexpected current and future cash flow without affecting either the daily operations or its financial condition.

Liquidity Risk Management
The objective of the Manila Branch's liquidity and funding risks management is to maintain at all times liquidity resources which are adequate, both as to amount and quality, to ensure that there is no significant risk that its liabilities cannot be met as they fall due.

In order to implement effective internal control on liquidity risk, the Manila Branch has established a sound framework for measuring, monitoring and controlling liquidity risk across different time horizons and stress scenarios:

- Identification
  The Manila Branch examines its key liquidity and funding risks drivers in the context of a comprehensive list of potential liquidity and funding risks factors which is reviewed and approved by the RMC at least annually.

- Measurement
  The Manila Branch uses a series of measures to monitor both short and long-term liquidity including: ratios, cash outflow triggers, wholesale funding maturity profile, and early warning indicators. Strict criteria and limits are in place to ensure highly liquid marketable securities are available as part of the portfolio of liquid assets. The Manila Branch's liquidity measurement involves assessing cash inflows against outflows and the liquidity value of its assets to identify the potential for future net funding shortfalls.

- Liquidity and Funding Risks Control through Limits
  The Manila Branch has set limits to control liquidity risk exposure and vulnerabilities and established corresponding escalation procedures. These limits are not only used for managing day-to-day liquidity, but also include measures aimed at ensuring that it can continue to operate in a period of market stress, bank-specific stress and a combination of the two to ensure that, under stressed conditions, available liquidity exceeds liquidity needs.

- Intraday Liquidity Management
  The Manila Branch actively manages its intraday liquidity positions so that it is able to meet payment and settlement obligations on a timely basis under both normal and stress financial conditions.

The Manila Branch also has a formal Liquidity Contingency Plan (LCP) that sets out the strategies for addressing liquidity shortfalls in emergency situations. The LCP outlines policies to manage a range of stress environments and establish clear lines of responsibility, and details clear invocation and escalation procedures. The results of the scenarios and the assumptions used in stress tests are factored in the LCP's design, plans and procedures which, in turn, are closely integrated with the Manila Branch's liquidity and funding risk appetite setting.

The maturity profile of the Manila Branch's financial assets and liabilities as at December 31, 2019 and 2018 are as follows (in thousands):

		2019						
	Note	Carrying Amount	Gross Nominal Inflow/ Outflow	Less than 1 Month	1-3 Months	3-12 Months	1-5 Years	More than 5 Years
Financial Assets								
Due from BSP	*8*	P38,375	P38,375	P38,375	P -	P -	P -	P -
Due from other banks	*9*	39,409	39,409	39,409	-	-	-	-
Financial asset at FVTPL	*10*	157	157	157	-	-	-	-
Financial asset at FVOCI	*11*	20,686	20,686	20,686	-	-	-	-
Investment securities at amortized cost	*12*	3,669,369	3,674,470	-	24,633	475,699	3,174,138	-
Loans and receivables	*13*	2,745,963	2,757,364	6,588	-	500,000	2,250,776	-
Due from Head Office	*19*	-	40,155	40,155	-	-	-	-
Other assets*	*16*	6,533	6,533	10	-	-	6,523	-
		6,520,492	6,577,149	145,380	24,633	975,699	5,431,437	-
Financial Liabilities								
Deposit liabilities	*17*	45,726	45,726	45,726	-	-	-	-
Financial liability at FVTPL	*10*	9,128	9,128	9,128	-	-	-	-
Accrued expense and other payables**	*20*	22,791	22,791	22,791	-	-	-	-
Due to Head Office and other branches	*19*	2,760,686	2,760,686	25,079	2,492,559	243,048	-	-
		2,838,331	2,838,331	102,724	2,492,559	243,048	-	-
Net Liquidity Surplus (Gap)		P3,682,161	P3,698,663	P2,501	(P2,467,926)	P732,651	P5,431,437	P -

** Other assets consist of refundable security deposits, advances to officers and employees, and accounts receivable.*
***Accrued expense and other payables consist of accrued salaries and accounts payable.*

		2018						
	Note	Carrying Amount	Gross Nominal Inflow/ Outflow	Less than 1 Month	1-3 Months	3-12 Years	1-5 Years	More than 5 Years
Financial Assets								
Due from BSP	*8*	P -	P -	P -	P -	P -	P -	P -
Due from other banks	*9*	3,794,816	3,794,816	3,794,816	-	-	-	-
Financial asset at FVTPL	*10*	-	-	-	-	-	-	-
Financial asset at FVOCI	*11*	-	-	-	-	-	-	-
Investment securities at amortized cost	*12*	-	-	-	-	-	-	-
Loans and receivables	*13*	-	-	-	-	-	-	-
Due from Head Office	*19*	40,155	40,155	40,155	-	-	-	-
Other assets*	*16*	9,755	9,755	3,139	-	-	6,616	-
		3,844,726	3,844,726	3,838,110	-	-	6,616	-
Financial Liabilities								
Deposit liabilities	*17*	-	-	-	-	-	-	-
Financial liability at FVTPL	*10*	-	-	-	-	-	-	-
Accrued expense and other payables**	*20*	726	726	726	-	-	-	-
Due to Head Office and other branches	*19*	-	-	-	-	-	-	-
		726	726	726	-	-	-	-
Net Liquidity Surplus		P3,844,000	P3,844,000	P3,837,384	P -	P -	P6,616	P -

** Other assets consist of refundable security deposits, advances to officers and employees, and accounts receivable.*
***Accrued expense and other payables consist of accrued salaries and accounts payable.*

As at December 31, 2019, there are no financial assets pledged as collateral.

Market Risk

Market risk is the risk of a loss in the Manila Branch's on-balance-sheet or off-balance-sheet business due to unfavorable changes in market prices. The value of a financial instrument may change as a result of changes in equity prices, interest rates, foreign currency exchange rates and other market changes. Given the Manila Branch's current business model, foreign exchange risk from banking book and trading book are the major sources of market risk.

Market Risk Management

The Manila Branch follows a prudent policy on managing its financial assets and financial liabilities to ensure that exposure to fluctuations in market prices are kept within acceptable limits. Through market risk management, it is ensured that the market risks undertaken are well managed within the Manila Branch's risk appetite and that the income after risk-adjustment is maximized.

It is the senior management's responsibility to ensure that the structure of the Manila Branch's business and the level of market risk it assumes are effectively managed, that appropriate policies and procedures are established to control and limit these risks, and that resources are available and sufficient for evaluating and controlling market risk. Senior management is particularly responsible for maintaining:

(i) Appropriate limits on risk taking;
(ii) Adequate systems and standards for measuring risk;
(iii) Standards for valuing positions and measuring performance;
(iv) A comprehensive market risk reporting and management review process; and
(v) Effective internal controls.

Consistent with the Head Office's market risk management policy, the Manila Branch's trading book consists of all positions in financial instruments and commodities held either with trading intent or in order to hedge against other elements of the trading book and which are either free of any restrictive covenants on their tradability or able to be hedged. Positions held with trading intent are those held intentionally for short-term resale and/ or with the intent of benefiting from actual or expected short-term price movements or to lock in arbitrage profits.

The Manila Branch segregates their business between trading book and banking book activity on a consistent basis and allocates transactions accordingly for the purpose of adopting more pertinent market risk management measurement.

Trading book positions are accurately valued on daily basis while the portfolio is actively managed. All positions that are not in the Manila Branch's trading book are included in the Manila Branch's banking book. If a specific financial instrument is used to hedge an exposure in banking book, it will be taken out of the trading book for the period of the hedge and included in the banking book.

As the Manila Branch currently do not undertake proprietary trading and market making, trading book exposure only result from client servicing.

The market risk exposure is measured both across risk types, such as interest rate, foreign exchange and across the entire portfolio. The Manila Branch identifies and measures the impact of any new transaction on its market risk position on an on-going basis.

Currency Risk

Foreign currency exposure is used to measure foreign exchange risk, which refers to the risk of loss caused by currency imbalance between foreign exchange assets and foreign exchange liabilities due to adverse exchange rate changes. The major foreign exchange rate risks of the Manila Branch arise from foreign exchange exposure generated from client transactions and conversion of working capital in PHP into US dollar.

The table below summarizes the Manila Branch's exposure to foreign exchange risk as at December 31, 2019 and 2018. Included in the table are the Manila Branch's assets and liabilities at carrying amounts, categorized by currency (PHP equivalents in thousands).

	2019		
	USD	**EUR**	**Total**
Financial Assets			
Due from other banks	**P35,899**	**P1,878**	**P37,777**
Loans and receivables	**1,580,954**	**675,569**	**2,256,523**
	1,616,853	**677,447**	**2,294,300**
Financial Liabilities			
Deposit liabilities	**27,196**	**-**	**27,196**
Accrued interest payable	**4,739**	**39**	**4,778**
Due to Head Office and other branches	**2,060,845**	**674,762**	**2,735,607**
	2,092,780	**674,801**	**2,767,581**
Net Position	**(P475,927)**	**P2,646**	**(P473,281)**

The table below indicates the currencies which the Manila Branch has significant exposure to as at December 31, 2019 and 2018 on its foreign currency-denominated assets and liabilities and its forecasted cash flows. The analysis calculates the effect of a reasonably possible movement of other currency rates against the PHP, with all other variables held constant on the results of operations (due to the fair value of currency sensitive monetary assets and liabilities) and other comprehensive income. A negative amount in the table reflects a potential net reduction of net income or other comprehensive income while positive amount reflects a net potential increase. Change in currency rates are based on the historical movements of each currency for the same period.

	2019			
	Foreign Currency Appreciates Against PHP by	**Effects on Profit before Tax (in thousands)**	**Foreign Currency Depreciates by**	**Effects on Profit before Tax (in thousands)**
Currency:				
USD	**(P1.9800)**	**P8,936**	**P1.9800**	**(P8,936)**
EUR	**(3.9598)**	**87**	**3.9598**	**(87)**

Interest Rate Risk

Interest rate risk is defined as the current or prospective risk to both the capital and earnings of the Manila Branch arising from adverse movements in underlying interest rate.

One of the Manila Branch's primary business functions is providing financial products that meet the needs of its customers. Loans and deposits are tailored to the customers' requirements with regard to tenor credit standing. The Manila Branch has assessed its interest rate risk drivers and concluded that material risks arise from only re-pricing risk, which is the risk related to the timing mismatch in the maturity and re-pricing of assets and liabilities and off-balance-sheet short and long-term positions.

The table set forth the Manila Branch's interest rate repricing gap as at December 31, 2019 and 2018 (in thousands):

	2019							
	Overnight to 1 Month	1-3 Months	3-6 Months	6-12 Months	1-2 Years	Beyond 2 Years	Non-rate Sensitive	Total
Assets								
Due from other banks	P12,213	P -	P -	P -	P -	P -	P27,196	P39,409
Investment securities at amortized cost (gross)	-	-	99,679	388,571	705,386	2,454,002	26,832	3,674,470
Loans and receivables (gross)	-	-	500,000	-	-	2,250,776	6,588	2,757,364
	12,213	-	599,679	388,571	705,386	4,704,778	60,616	6,471,243
Liabilities								
Deposit liabilities	45,726	-	-	-	-	-	-	45,726
Due to Head Office and other branches	-	-	2,755,918	-	-	-	4,768	2,760,686
	45,726	-	2,755,918	-	-	-	4,768	2,806,412
Net Liquidity Surplus (Gap)	(P33,513)	P -	(P2,156,239)	P388,571	P705,386	P4,704,778	P55,848	P3,664,831

The sensitivity of the results of operations is measured as the effect of the assumed changes in interest rates on the net interest income for one period based on the floating rate of financial assets and financial liabilities held as at December 31, 2019 and 2018.

The table below demonstrates the potential impact of the Manila Branch's income before income tax attributed from a 200-basis point parallel move in interest rates, with all other variables held constant, as at December 31, 2019 and 2018. The impact from non-parallel movements may be materially different from the estimated impact of parallel movements (in thousands).

	Effect on Income before Income Tax Increase (Decrease)
Change in Interest Rate	2019
+200 basis point	P72,724
-200 basis point	(72,724)

As at December 31, 2018, the management believes that the Manila Branch is not exposed to any significant market risk as the Manila Branch's financial assets are concentrated in due from other banks denominated in PHP which earn interest at fixed bank interest rates. Consequently, no sensitivity analysis was presented

Equity Price Risk
Given the nature and amount of the Manila Branch's equity investments portfolio in 2019 and 2018, management believes that the Manila Branch's exposure to equity price risk is minimal.

Interest Rate Risk in the Banking Book (IRRBB)
IRRBB refers to the current or prospective risk to the Manila Branch's capital and earnings arising from adverse movements in interest rates that affect the Manila Branch's banking book positions. The three main forms of IRRBB are gap risk, basis risk and option risk:

- Gap Risk
  Gap risk arises from the term structure of banking book instruments, and describes the risk arising from the timing of instruments' rate changes. The extent of gap risk depends on whether changes to the term structure of interest rates occur consistently across the yield curve (parallel risk) or differentially by period (non-parallel risk).

- Basis Risk
  Basis risk describes the impact of relative changes in interest rates for financial instruments that have similar tenors but are priced using different interest rate indices.

- Option Risk
  Option risk arises from option derivative positions or from optional elements embedded in a bank's assets, liabilities and/or off-balance sheet items, where the bank or its customer can alter the level and timing of their cash flows. Option risk can be further characterized into automatic option risk and behavioral option risk.

As at December 31, 2019, the Manila Branch has assessed its interest rate risk drivers and noted that only gap risk is the significant risk it faces.

IRRBB Management
The Manila Branch has established a management framework with the objective of decreasing the sensitivity of its earnings and economic value of equity to market fluctuations.

The Manila Branch adopted three methods to measure IRRBB:

- Standardized Measurement Framework
  A standardized approach for measurement of IRRBB based on changes in economic value. When applying this framework, the Manila Branch calculates the currencies whose balance accounts for more than 5% of the assets or liabilities in the banking books separately according to the characteristics of the nominal repricing cash flow of the relevant on/ off-balance-sheet items in the banking book. Rate sensitivity positions are allocated as fully standardized positions, semi-standardized positions and non-standardized positions.

  The nominal repricing cash flows of these positions are projected to given time buckets and discounted wherein changes in the net present value (excluding the automatic interest rate option positions) are calculated under the six types of scenarios of interest rate shocks. The value changes of automatic interest rate options are also calculated under the interest rate shock scenarios, which includes parallel up, parallel down and non-parallel shifts of the yield curve.

All future notional repricing cash flows of interest rate sensitive positions are projected into 19 predefined time buckets as set out below according to their repricing dates, which refers to the principal repayment date (at contractual maturity) for fixed rate instruments, first reset date for floating rate instruments, and the interest payment date for any principal that has not yet been repaid or repriced".

Short-term interest rate	Overnight (0.0028Y)	Overnight <t≤1M (0.0417Y)	1M<t≤3M (0.1667Y)	3M<t≤6M (0.375Y)	6M<t≤9M (0.625Y)	9M<t≤1Y (0.875Y)
	1Y<t≤1.5Y (1.25Y)	1.5Y<t≤2Y (1.75Y)	-	-	-	-
Mid-term rates	2Y<t≤3Y (2.5Y)	3Y<t≤4Y (3.5Y)	4Y<t≤5Y (4.5Y)	5Y<t≤6Y (5.5Y)	6Y<t≤7Y (6.5Y)	-
Long-term rates	7Y<t≤8Y (7.5Y)	8Y<t≤9Y (8.5Y)	9Y<t≤10Y (9.5Y)	10Y<t≤15Y (12.5Y)	15Y<t≤20Y (17.5Y)	t>20 (25Y)

Interest rate sensitive positions of banking book include:

(i) Interest rate sensitive assets, which are not deducted from Common Equity Tier 1 (CET1) capital and which exclude fixed assets such as real estate or intangible assets and equity exposures in the banking book;.
(ii) Interest rate sensitive liabilities, including debt instruments included in CET1 and CET2, etc.; and
(iii) Off-balance-sheet items of banking book interest rate sensitivity, including off-balance-sheet derivatives and off-balance-sheet commitments with fixed interest rates.

The sum of the changes in net present value of nominal repricing cash flows and the value changes of automatic interest rate options under interest rate shock scenarios equals the economic value changes under this interest rate scenario. After the aggregation of all currencies, the maximum loss of economic value changes under the six types of interest rate shock scenarios is the value of IRRBB based on the changes of economic value.

After the aggregation of all currencies, the maximum loss of economic value changes under the six types of interest rate shock scenarios is the value of IRRBB based on the changes of economic value.

- Earnings Perspective
  Earnings risk is defined as the short-term sensitivity of earnings to interest rate movements. The focus of earnings perspective is on the impact of interest rate movements on the net interest income (NII) over a time horizon of one year. Market interest rate changes sometimes also have an impact on banking activities that generate fee-based and other non-interest income.

  100 and 200 bps shift in interest rates in both directions are applied to measure the impact on net interest income (NII) within one year.

- Stress Testing
  The Manila Branch measures its vulnerability to loss under stressful market conditions and considers those results when establishing and reviewing its policies and limits for IRRBB.

  The Manila Branch carries out an evaluation of exposure to the IRRBB under stressful market conditions arising from its non-trading activities in IRRBB report on a quarterly basis.

Possible stress scenarios might include abrupt changes in the general level of interest rates (evaluation will cover effect of a sudden and unexpected parallel change in interest rates of 200 basis points in both directions), changes in the slope and the shape of the yield curve (i.e. yield curve risk).

In addition, a set of limits has been put in place to control the Manila Branch's exposure to IRRBB in line with its risk appetite which approved by the Asset and Liability Committee (ALCO).

Monitoring and oversight of Manila Branch's IRRBB have been delegated to the ALCO, which is responsible in ensuring that the structure of the Manila Branch's banking book business and the level of IRRBB are effectively managed, policies and procedures are updated and maintained regularly, and that hedging, and risk-management strategies are adequately reviewed prior execution. While the oversight function is assigned to the ALCO, active management of IRRBB is designated to Treasury Department which is the department in charge of implementing the balance sheet strategies of the Manila Branch. Risk Control Department conducts independent monitoring to ensure that risk-taking positions are within established risk appetite while Internal Audit, as the third line of defense, reviews the implementation and effectiveness of the IRRBB management framework.

6. Capital Management and Assigned Capital Funds

Capital Management

The Head Office implements a group-based capital management mechanism and takes capital as the object and instrument for its management activities, including planning, measurement, allocation, application and operation.

The Head Office's capital management aims at maintaining appropriate capital adequacy ratio and continuously meeting capital supervisory regulations and policies; ceaselessly strengthening and enhancing the bank-wide capital base and supporting business growth and implementation of strategic planning; establishing a value management system focusing on economic capital; reinforcing capital constraint and incentive mechanism and improving capital allocation efficiency; innovating and expanding capital replenishment channels, raising capital quality and optimizing capital structure.

The Head Office's capital management covers various operating entities in the Group, and its contents include capital adequacy ratio management, economic capital management, capital investment and financing management. One of the Head Office's objectives is to maintain reasonable capital adequacy ratio to continuously meet regulatory requirements on capital, keep stable capital base to ensure business growth and implement business development and strategic plans in order to achieve comprehensive, coordinated and sustainable development.

The senior management of the Manila Branch assumes the responsibilities to promote capital management work of the organization, implement the requirements of the Head Office for capital management, ensure that the institution's capital adequacy level continuously meet regulatory requirements, and approve the medium and long-term capital planning, annual capital management plan and other relevant policies.

Capital demand at the Manila Branch is driven mainly by business growth and local regulatory requirements set by the BSP.

The primary objectives of the Manila Branch's capital management are to ensure that it complies with externally imposed capital requirements, increases capital utilization efficiency and achieves optimal capital allocation through the economic allocation and management mechanism established by the Head Office.

To maintain sufficient eligible capital and withstand the possible losses, the Manila Branch should not only meet the minimum requirements set by the authorities but ensure that the target capital adequacy level adapts to the business development strategy, risk management level and external operating environment, balance short-term and long-term capital demands, and consider the long-term sustainability of various capital supplement sources. The Manila Branch reports the application of capital investment and financing projects to the Head Office with full communication.

The Head Office provides the required liquidity and capital to the Manila Branch.

Regulatory Capital
BSP sets and monitors capital requirements for the Manila Branch as a whole. The Manila Branch's capital position presented as at December 31, 2019 is based on the combined amounts of RBU and FCDU.

The BSP issued Circular No. 854, Series of 2014, *Minimum Capitalization of Banks,* which amended the capitalization of banks. Under the Circular, commercial banks are required to maintain minimum capitalization of P2.00 billion for Head Office branches.

On April 13, 2018, the Manila Branch received from Head Office an aggregate amount of P3.98 billion as capital infusion which was recorded under "Assigned Capital" account in the statements of financial position. As at December 31, 2019 and 2018, the Manila Branch recorded a deficit amounting to P227.47 million and P20.18 million, respectively. Notwithstanding the unfavorable results, the Manila Branch is still compliant with BSP Circular No. 854.

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

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

On November 21, 2014, the BSP issued Circular No. 858, *Amendments to Relevant Provisions of the Manual of Regulations for Banks Implementing Republic Act No. 10641* amending relevant provisions of the Manual of Regulations for Banks implementing R.A. No. 10641. Included in the amendments is the implementation of the new minimum capital requirements and definition of capital composition for Philippine branches of foreign banks, as follows:

1) Assigned capital
2) Undivided profits
3) Trust Department retained earnings
4) Any Net due from Head Office branches/agencies abroad

5) Accumulated net earnings comprise of;
   i. Unremitted profits not yet approved by the BSP for outward remittance.
   ii. Unrealized losses in operations
   iii. Capital adjustments in accordance with MORB Section X111 paragraph a - g as follows:
      a. Unbooked valuation reserve and other capital adjustments as maybe required by the BSP.
      b. Total outstanding unsecured credit accommodations, both direct and indirect to directors, officers, stockholders and related interests (DOSRI) granted by the bank proper.
      c. Unsecured loans and other credit accommodations and guarantees granted to subsidiaries and affiliates.
      d. Deferred income tax
      e. Appraisal increment reserve as a result of appreciation or an increase in the book value of bank assets.
      f. Equity investment of a bank in another bank or enterprise, whether foreign or domestic, if the other bank or enterprise has a reciprocal equity investment in the investing bank in which case the investment of the bank or the reciprocal investment of other bank or enterprise whichever is lower.
      g. In the case of rural banks/cooperative banks, the government counterpart equity, except those arising from conversion of arrearages under the SP rehabilitation program.

The Manila Branch is required to maintain a prescribed a risk-based capital adequacy ratio (expressed as a percentage of qualifying capital to risk weighted assets) of not less than 10.00%. In complying with the minimum capital requirements, the total capital shall be net of unbooked valuation reserves and other capital adjustments as may be required by the BSP, total outstanding unsecured credit accommodations to DOSRI, and deferred tax.

The regulatory capital position as at December 31, 2019 based on Basel III requirements reported to the BSP is shown below (amounts in millions):

	2019	2018
Tier 1 Capital	**P3,741**	P3,956
Tier 2 Capital	**10**	-
Total Qualifying Capital	**3,751**	3,956
Total Risk-weighted Assets	**1,933**	1,898
Common Equity Tier 1 Ratio	**193.53%**	208.46%
Capital Conservation Buffer	**187.53%**	202.44%
Tier 1 Capital Ratio	**193.53%**	208.46%
Total Capital Adequacy Ratio	**194.03%**	208.46%

The breakdown of the Manila Branch's risk-weighted assets as at December 31, 2019 follow (amounts in millions):

	2019	2018
Credit risk	**P1,905**	P1,898
Operational risk	**18**	-
Market risk	**11**	-
	P1,934	P1,898

The Manila Branch has complied with all externally imposed capital requirements throughout the year.

On June 9, 2015, the Monetary Board (MB) issued BSP Circular No. 881, *Implementing Guidelines on the Basel III Leverage Ratio Framework*, which approved the guidelines for the implementation of the Basel III Leverage Ratio in the Philippines and designed to act as supplementary measure to the risk-based capital requirements. It is defined as the capital measure (numerator) divided by the exposure measure (denominator). The leverage ratio shall not be less than 5.0% computed on both solo (head office plus branches) and consolidated bases (parent bank plus subsidiary financial allied undertakings but excluding insurance companies).

The Manila Branch exceeded the minimum leverage ratio 5.0% in 2019 and 2018 based on the Basel III Leverage Ratio Report as at December 31, 2019 and 2018 as presented below (in millions):

	2019	2018
On balance sheet exposure	**P6,680**	P3,845
Securities financing transaction exposures	**-**	-
Off-balance sheet exposures	**410**	-
Total exposures (a)	**7,090**	3,845
Tier 1 Capital (b)	**3,741**	3,956
Basel III: Leverage Ratio (b)/(a)	**52.76%**	102.89%

Amounts presented in the table above are in accordance with the financial reporting package submitted by Manila Branch to BSP.

On March 10, 2016, the MB approved the liquidity standards and issued BSP Circular No. 905, *Implementation of BASEL III Framework on Liquidity Standards-Liquidity Coverage Ratio (LCR) and Disclosure Standards*. The LCR is the ratio of high-quality liquid assets (HQLAs) to the total net cash outflows. Under normal situation, the value of ratio should be no lower than 100% daily because the stock of unencumbered HQLA is intended to serve as a defense against the potential onset of liquidity stress. The compliance with the LCR minimum requirement will commence on January 1, 2018 and the prescribed minimum shall be set initially at 90% for 2018 and shall rise to the minimum level of 100% on January 1, 2019.

This applies to universal and commercial banks as well as their subsidiary banks and quasi-banks with the framework anchored on the international standards issued by the Basel Committee on Banking Supervision known as the Basel 3 reforms.

Liquidity Coverage Ratio (LCR)

Based on the LCR report submitted to the BSP as at December 31, 2019, the Manila Branch's LCR is 545.87% which is above the prescribed minimum requirement initially set at 100.0% (amounts in millions):

	2019
High- Quality Liquid Assets (a)	**P3,825,335,641**
Net Cash Outflows (b)	**700,773,308**
Liquidity Coverage Ratio (a/b)	**545.87%**

Net Stable Funding Ratio (NSFR)
Based on the NSFR report submitted to the BSP as at December 31, 2019, the Manila Branch's NSFR is 235.27% which is above the prescribed minimum requirement initially set at 100.0%.

	2019
Available stable funding (ASF)	P5,146,664,792
Required stable funding (RSF)	2,187,563,094
Ratio of ASF to RSF	235.27%

This applies to U/KBs as well as their subsidiary banks and quasi-banks with the framework anchored on the international standards issued by the Basel Committee on Banking Supervision known as the Basel III reforms.

Appropriation of General Loan Loss Provisions (GLLP)
BSP Circular No. 1011, *Guidelines on the Adoption of the Philippine Financial Reporting Standard 9 - Financial Instruments,* requires banks to set up GLLP equivalent to 1.0% of all outstanding Stage 1 on-balance sheet loans, except for accounts considered as credit risk-free under existing regulations. In cases when the computed loss allowance on such Stage 1 accounts is less than the 1.0% general provision required, the deficiency shall be recognized by appropriating the retained earnings in compliance with existing BSP regulations. The Manila Branch appropriated a portion of P16.11 million as at December 31, 2019 to comply with such requirement (2018: nil).

Internal Capital Adequacy Assessment Process (ICAAP)
Circular No. 731 was issued on July 28, 2011 providing supplemental guidelines in relation to the adoption of the ICAAP and the related Supervisory Review Process (SRP) for foreign branches under Circular No. 639 dated January 15, 2009. For branches of foreign banks, the regulation provides that BSP's evaluation of ICAAP will refer to the ICAAP developed at the level of the head office/ parent bank, and the home supervisor's assessment thereof. However, BSP expects that there will be variation in the ICAAP prepared by the branches of foreign banks operating in the Philippines in accordance with the nature, size and complexity of its business in the Philippines, risks faced arising from the occurrence of domestically-oriented scenarios and specific circumstances.

The ICAAP document submitted by the Manila Branch included discussions on stress scenarios and the amount of capital requirements both under base case and stress scenarios. Provisions of Circular No. 822, Circular No. 854, Circular No. 856, and Circular No. 858 are considered by the Manila Branch in the ICAAP documentation.

7. Fair Value Measurement

The methods and assumptions used by the Manila Branch in estimating the fair values of financial instruments are as follows:

Due from BSP, Due from Other Banks, Due from Head Office, Advances to Officers and Employees, Due to Head Office and Other Branches
Fair values approximate carrying amounts given that these instruments are subject to an insignificant risk of change in value due to its short-term in nature.

Financial Asset at FVTPL
Fair value of the derivative instrument is determined based on published quotes or price valuations provided by counterparties or calculations using market-accepted valuation techniques.

Financial Asset at FVOCI
Unquoted equity securities are measured at fair value. These are interests in Philippine Clearing House Corporation held as per membership requirement.

Investment Securities at Amortized Cost
Debt securities issued by the Philippine government are measured at fair value using discounted cash flow technique subsequent to initial recognition on the basis of available market interest rates and the consideration of the relevant special clauses of the instruments evaluated.

Loans and Receivables
Loans and receivables are carried net of allowance for credit and impairment losses. For loans and receivables maturing within one (1) year, the carrying values approximates the fair values in view of the relatively insignificant impact of discounting due to short term nature of these instruments.

For loans and receivables maturing beyond one (1) year, the fair values of loans and receivables are estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date commensurate to the credit risk borne by the Manila Branch for each of the borrower. Where the instruments are repriced at different periods or have relatively short-term maturities, the carrying amounts approximate fair values.

Security Deposits
The carrying amount of refundable deposits presented under "Other assets" account approximates fair value at year end.

The Manila Branch believes that the effect of discounting and future cash flows for these instruments using the prevailing market rates is not significant. These are classified as current assets when they become collectible within 12 months from the reporting date.

Deposit Liabilities
The carrying amount of savings deposit liabilities approximates fair value, considering that these are due and demandable.

Other Financial Liabilities
The carrying amounts of other liabilities, excluding statutory payables and provisions for employee salaries, penalties, taxes and other accrued expenses included in "Accrued Expenses and Other Payables" account approximate fair values due mainly to either the demand feature of or the relatively short-term maturities of these liabilities.

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

The different fair valuation levels are defined as follows:

- Level 1 - quoted market prices in active markets for identical assets or liabilities; when fair values of listed equity and debt securities, as well as publicly traded derivatives at the reporting date are based on quoted market prices or binding dealer price quotations, without any deduction for transaction costs, the instruments are included within Level 1 of the hierarchy.

- Level 2 - those involving inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices); for all other financial instruments, fair value is determined using valuation techniques. Valuation techniques include net present value techniques, comparison to similar instruments for which market observable prices exist and other revaluation models; and

- Level 3 - those with inputs for the asset or liability that are not based on observable market data (unobservable inputs). Instruments included in Level 3 are those for which there are currently no active market.

The following table provides the fair value hierarchy of the Manila Branch's assets and liabilities measured at fair value and those for which fair values should be disclosed (amounts in thousands):

	2019				
	Carrying Amount	**Level 1**	**Level 2**	**Level 3**	**Fair Value**
Assets Measured at Fair Value					
Financial asset at FVTPL:					
Derivative assets	P157	P -	P157	P -	P157
Financial asset at FVOCI:					
Unquoted equity	20,686	-	-	20,686	20,686
Assets for which Fair Values are Disclosed					
Financial assets at amortized cost:					
Investment securities at amortized cost	3,674,470	-	3,674,470	-	3,674,470
Loans and receivables	2,757,364	-	2,757,364	-	2,757,364
Due from Head Office	-	-	-	-	-
Other assets[a]	6,533	-	6,533	-	6,533
	P6,536,994	P3,752,254	P2,763,897	P20,686	P6,536,994
Liabilities Measured at Fair Value					
Financial liability at FVTPL					
Derivative liabilities	P9,128	P -	P9,128	P -	P9,128
Liabilities for which Fair Values are Disclosed					
Deposit liabilities	45,726	-	45,726	-	45,726
Accrued expenses and other payables[b]	22,791	-	22,791	-	22,791
Due to Head Office and other branches	2,760,686	-	2,760,686	-	2,760,686
	P2,838,331	P -	P2,838,331	P -	P2,838,331

[a] *Other assets consist of refundable security deposits, advances to officers and employees, and accounts receivable.*
[b] *Accrued expense and other payables consist of accrued salaries and accounts payable.*

	2018				
	Carrying Amount	Level 1	Level 2	Level 3	Fair Value
Assets Measured at Fair Value					
Financial asset at FVTPL:					
Derivative assets	P -	P -	P -	P -	P -
Financial asset at FVOCI:					
Unquoted equity	-	-	-	-	-
Assets for which Fair Values are Disclosed					
Financial assets at amortized cost:					
Due from BSP	-	-	-	-	-
Due from other banks	3,794,816	3,794,816	-	-	3,794,816
Investment securities at amortized cost	-	-	-	-	-
Loans and receivables	-	-	-	-	-
Due from Head Office	40,155	-	40,155	-	40,155
Other assets[a]	9,755	-	9,755	-	9,755
	P3,844,726	P3,794,816	P49,910	P -	P3,844,726

	2018				
	Carrying Amount	Level 1	Level 2	Level 3	Fair Value
Assets Measured at Fair Value					
Financial asset at FVTPL:					
Derivative assets	P -	P -	P -	P -	P -
Financial asset at FVOCI:					
Unquoted equity	-	-	-	-	-
Assets for which Fair Values are Disclosed					
Financial assets at amortized cost:					
Due from BSP	-	-	-	-	-
Due from other banks	3,794,816	3,794,816	-	-	3,794,816
Investment securities at amortized cost	-	-	-	-	-
Loans and receivables	-	-	-	-	-
Due from Head Office	40,155	-	40,155	-	40,155
Other assets[a]	9,755	-	9,755	-	9,755
	P3,844,726	P3,794,816	P49,910	P -	P3,844,726
Liabilities Measured at Fair Value					
Financial liability at FVTPL					
Derivative liabilities	P -	P -	P -	P -	P -
Liabilities for which Fair Values are Disclosed					
Deposit liabilities	-	-	-	-	-
Accrued expenses and other payables[b]	726	-	726	-	726
Due to Head Office and other branches	-	-	-	-	-
	P726	P -	P726	P -	P726

[a] *Other assets consist of refundable security deposits, advances to officers and employees, and accounts receivable.*
[b] *Accrued expense and other payables consist of accrued salaries and accounts payable.*

The Manila Branch does not have financial assets and financial liabilities measured at fair value subsequent to initial recognition as at December 31, 2018.

As at December 31, 2019 and 2018, there have been no transfers into and out of each of the levels of the fair value hierarchy.

8. Due from Bangko Sentral ng Pilipinas

Due from Bangko Sentral ng Pilipinas consists of noninterest-bearing demand deposit account maintained by the Manila Branch with the BSP amounting to P38.37 million and nil as at December 31, 2019 and 2018, to meet reserve requirements.

9. Due from Other Banks

Due from other banks represent deposit accounts with domestic and foreign banks amounting to P39.41 million and P3.79 billion as at December 31, 2019 and 2018, respectively, which earn interest at the prevailing rate of 0.25% per annum in 2019 and 2018.

Interest income earned from the savings account amounted to P2.31 million and P7.03 million in 2019 and 2018, respectively, and is presented under "Interest income calculated using the effective interest method" in the statements of comprehensive income.

Out of the total deposits with other banks, the Manila Branch's foreign currency deposit under FCDU amounted to P37.78 million and P34,795 as at December 31, 2019 and 2018, respectively.

10. Financial Asset and Liability at Fair Value through Profit or Loss

This account consists of:

	2019	2018
Financial Asset		
Currency swap	**P156,605**	P -
	P156,605	P -
Financial Liability		
Currency swap	**P9,128,000**	P -
	P9,128,000	P -

Derivative financial instruments are presented as part of financial asset at FVTPL when fair value is positive and part of financial liability at FVTPL when the fair value is negative in the statements of financial position.

The unrealized market valuation loss (gain) on currency swaps are presented in "Foreign exchange loss - net" account in the statements of comprehensive income.

Terms of the notional amounts of the positive and negative fair values of the currency swaps which are USD 4,900,000 and USD 4,800,000, respectively, fall between 30 to 180 days. The notional amount is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured.

As at December 31, 2019 and 2018, there were no financial assets at FVTPL pledged as collateral for liabilities.

11. Financial Assets at Fair Value through Other Comprehensive Income

This account consists of unquoted investments in equity securities maintained by the Manila Branch as part of the membership requirements with Philippine Clearing House Corporation amounting to P20.69 million as at December 31, 2019 (2018: nil).

As at December 31, 2019 and 2018, there were no financial assets at FVOCI pledged as collateral for liabilities.

12. Investment Securities at Amortized Cost - net

This account consists of:

	Note	**2019**	2018
Treasury bonds		**P3,159,386,317**	P -
Treasury bills		**488,251,027**	-
Accrued interest receivable		**26,832,377**	-
		3,674,469,721	-
Allowance for credit and impairment losses	*14*	**(5,101,180)**	-
		P3,669,368,541	P -

Treasury bills are short-term secured investments while treasury bonds are medium to long-term securities issued by the Philippine government.

The annual nominal interest rates on government bonds range from 3.50% to 6.25% in 2019. Interest income on these government securities amounted to P172.68 million and nil in 2019 and 2018, respectively, and is presented under "Interest income calculated using effective interest method" in the statements of comprehensive income.

As at December 31, 2019, allowance for credit and impairment losses amounted to P5.10 million (2018: nil) [see Note 14].

None of these investments were disposed of or pledged as collateral for liabilities as at December 31, 2019.

13. Loans and Receivables - net

This account consists of:

	Note	**2019**	2018
Loans to customers at amortized cost:			
Syndicated loans		**P2,250,776,385**	P -
Corporate loans		**500,000,000**	-
Accrued interest receivable:		**6,587,739**	-
		2,757,364,124	-
Allowance for credit and impairment losses	*14*	**(11,400,839)**	-
		P2,745,963,285	P -

As at December 31, 2019, 63.42% of the total loans of the Manila Branch are subject to periodic interest repricing (2018: nil). Remaining peso denominated loans earn annual interest rates ranging from 5.13% to 5.48% in 2019. Foreign-currency denominated receivables from customers are subject to annual interest rates ranging from 1.05% to 6.25% in 2019.

Interest income earned from loans and receivables amounted to P24.76 million and nil in 2019 and 2018, respectively.

The following table shows the breakdown of loans and advances to customers at amortized cost, excluding allowance for credit and impairment losses, as to secured and unsecured and the breakdown of secured loans as to type of security as at December 31, 2019 and 2018:

	2019		2018	
	Amounts	**%**	Amounts	%
Secured loans:				
Real-estate mortgages	**P506,350,000**	**18.4%**	P -	0.0%
Unsecured loans	**2,244,426,385**	**81.6%**	-	0.0%
	P2,750,776,385	**100.0%**	P -	0.0%

As at December 31, 2019 and 2018, there were no loans pledged as collateral for liabilities.

<u>BSP Regulatory Reporting</u>
Under Section 304 of MORB, loans shall be considered non-performing, even without any missed contractual payments, when it is considered impaired under existing accounting standards, classified as doubtful or loss, in litigation, and/ or there is evidence that full repayment of principal and interest is unlikely without foreclosure of collateral, if any. All other loans, even if not considered impaired, shall be considered non-performing if any principal and/or interest are unpaid for more than ninety (90) days from contractual due date, or accrued interests for more than ninety (90) days have been capitalized, refinanced, or delayed by agreement.

Non-performing loans (NPL), investments, receivables, or any financial asset (and/ or any replacement loan) shall remain classified as such until (a) there is sufficient evidence to support that full collection of principal and interests is probable and payments of interest and/or principal are received for at least six (6) months; or (b) written-off.

As at December 31, 2019 and 2018, the gross and net NPLs, as defined under Section 304 of MORB, of the Manila Branch amounted to nil.

Effective January 24, 2013, BSP Circular No. 779 amended the regulations on Single Borrower's Limit. Per amendment, the total amount of loans, credit accommodations and guarantees may be increased by an additional twenty-five percent (25%) of the Manila Branch's net worth provided those are granted for the purpose of undertaking infrastructure and/or development projects under the Public-Private Partnership Program of the government duly certified by the Secretary of Socio-Economic Planning; Provided, further that the total exposures of the Manila Branch to any borrower pertaining to the above-mentioned projects shall not exceed 25% of the Manila Branch's net worth and that it shall only be allowed for a period of six (6) years from December 28, 2010.

Effective December 6, 2014, BSP Circular No. 858 amended the regulations on Single Borrower's Limit. Per amendment, loans and credit commitments of foreign bank branches as of effectivity of R.A. No. 10641 may be maintained, but once repaid or expired, shall no longer be increased in excess of the ceiling allowed under this Circular. Further, existing foreign bank branches shall be given until December 31, 2019 to use twice the level of capital as defined in this Subsection as net worth, as reference point for purposes of determining the appropriate single borrower's limit.

During 2019 and 2018, the Manila Branch has been in compliance with the regulations on Single Borrower's Limit of the BSP.

As at December 31, 2019 and 2018, there were no loans pledged as collateral for liabilities.

14. Allowance for Credit and Impairment Losses

The composition and movements in the account are as follows:

	2019				
	Investments in Securities at Amortized Cost (Note 12)	Loans and Receivables (Note 13)	Due from Head Office (Note 19)	Commitments and Financial Guarantee Contracts (Note 20)	Total
Balance at January 1, 2019	P -	P -	P -	P -	P -
Credit and impairment losses	5,101,180	11,400,839	40,155,425	12,528	56,669,972
Balance at December 31, 2019	**P5,101,180**	**P11,400,839**	**P40,155,425**	**P12,528**	**P56,669,972**

As at December 31, 2018, there was no allowance for credit and impairment losses.

15. Property and Equipment - net

The composition of and movements in this account are as follows:

	2019				
	Right-of-Use Assets (Note 18)	Office Furniture and Fixtures	Electronic Equipment	Leasehold Improvements	Total
Cost					
Balance as at December 31, 2018, as previously reported	P -	P110,100	P63,484	P -	P173,584
Recognition of right-of-use assets on initial application of PFRS 16	78,616,916	-	-	-	78,616,916
Balance as at January 1, 2019, as restated	78,616,916	110,100	63,484	-	78,790,500
Additions	-	2,408,283	1,557,160	20,835,967	24,801,410
Reclassifications	-	40,642,476	42,259,708	22,099,442	105,001,626
Balance at end of year	78,616,916	43,160,859	43,880,352	42,935,409	208,593,536
Accumulated Depreciation and Amortization					
Balance at beginning of year	-	-	-	-	-
Depreciation and amortization	15,320,251	9,083,272	15,627,383	9,200,445	49,231,351
Balance at end of year	15,320,251	9,083,272	15,627,383	9,200,445	49,231,351
Net Book Value					
Balance at beginning of year	P78,790,400	P110,000	P63,484	P -	P129,803,037
Balance at end of year	P63,296,665	P34,077,587	P28,252,969	P33,734,964	P159,362,185

	2018				
	Right-of-Use Assets	Office Furniture and Fixtures	Electronic Equipment	Leasehold Improvements	Total
Cost					
Balance at beginning of year	P -	P -	P -	P -	P -
Additions	-	110,100	63,484	-	173,584
Reclassifications	-	-	-	-	-
Balance at end of year	-	110,100	63,484	-	173,584
Accumulated Depreciation and Amortization					
Balance at beginning of year	-	-	-	-	-
Depreciation and amortization	-	-	-	-	-
Balance at end of year	-	-	-	-	-
Net Book Value					
Balance at beginning of year	P -	P -	P -	P -	P -
Balance at end of year	P -	P110,100	P63,484	P -	P173,584

Property and equipment include right-of-use assets amounting to P78.62 million related to leased properties that do not meet the definition of investment property (see Note 18).

As at December 31, 2019, the Manila Branch capitalized expenditures amounting to P105.00 million related to properties that were paid but not yet recognized in 2018 (see Note 16). These have been properly reclassified to the respective fixed asset accounts in 2019.

In 2019 and 2018, depreciation and amortization of Property and equipment amounted to P49.23 million and nil, respectively.

There is neither restriction on the title of the Manila Branch's property and equipment nor was any of it pledged as collateral for liability. The Manila Branch has no contractual commitment for the acquisition of property and equipment.

16. Other Assets

This account consists of:

	Note	**2019**	2018
Security deposits	*18*	**P6,522,549**	P6,615,589
Prepayments		**2,261,404**	2,719,648
Tax receivables		**92,856**	-
Accounts receivable		**10,359**	459,204
Advances to suppliers	*15*	**-**	105,001,626
Advances to officers and employees	*19, 26*	**-**	2,680,000
Other long-term prepayments	*18*	**4,676,998**	4,676,998
		P13,564,166	P122,153,065

Security deposits refers to the sum of money initially paid for contract agreements, such as leases of office premises and residential properties for the Manila Branch's expatriates. Security deposits are refundable at the end of the lease term.

Prepayments pertain to advance payments on telecommunication and insurance expenses.

Tax receivables pertain to claims for refund of overpayment of income and other taxes to Bureau of Internal Revenue.

Accounts receivables represent advance payments to suppliers.

Other long-term prepayments pertain to the advance rental for leased office premises equivalent to three (3) monthly rent payments, which will be applied on the last three (3) months of the lease term.

As at December 31, 2019 and 2018, there were no item of other assets pledged as collateral for liabilities.

17. Deposit Liabilities

Peso-denominated and dollar denominated current deposits are subject to annual interest rates of 0.25% and 0.13%, respectively, in 2019.

Accrued interest payable arising from deposit liabilities amounted to P15,938 and nil as at December 31, 2019 and 2018, respectively.

Under Section X253 of the MORB and BSP Circular No. 1004, all local currency deposits and deposit substitute liabilities of universal/ commercial banks are subject to reserved requirements of 18.00% effective on the reserve week starting on June 1, 2018.

On May 27, 2019, the BSP issued Circular No. 1041, *Reduction in Reserve Requirement,* which decreased the reserve requirement to 17.00% effective on the reserve week starting on May 31, 2019. Reserve requirements shall gradually decrease to 16.50% and 16.00% effective June 28 and July 26, 2019, respectively, as part of the BSP's broad financial sector program reform agenda to promote a nonefficient system by lowering financial intermediation costs.

On December 3, 2019, the BSP issued Circular No. 1063, *Reduction in Reserve Requirement,* which further decreased the reserve requirement to 14.00% effective on the reserve week starting on December 6, 2019.

The required reserves of the Manila Branch are comprised of demand deposit account with the BSP (see Note 8).

As at December 31, 2019, the Manila Branch is compliant with BSP Circular No. 1004, No. 1041 and No. 1063, as applicable. The Manila Branch has no reserves maintained as at December 31, 2018 since it only started commercial operations on February 24, 2019. Total Due from BSP reported as required reserves amounted to P38.37 million and nil as at December 31, 2019 and 2018, respectively (see Note 8).

18. Leases

The Manila Branch rents its spaces from third parties.

The rent agreement for its main office is for a period of five (5) years, commencing on September 15, 2018 to September 14, 2023 and is automatically renewed for two (2) further terms of 5 years each, unless terminated. The lease contract includes annual escalation clause of 5.00% beginning on its second year and every year thereafter. The Manila Branch also rents parking slots and cars for its key employees.

Upon signing of the contract, the Manila Branch paid advance rent for office units equivalent to three (3) months' rent amounting to P4.68 million, which will be applied to the last 3 months of the lease term (see Note 16).

The Manila Branch paid refundable deposits pertaining to the reservation, construction and security of its office premises. As at December 31, 2019 and 2018, the Manila Branch's refundable deposits amounted to P6.52 million and P6.62 million, respectively (see Note 16).

In addition, the Manila Branch leases a car in which the Manila Branch elected not to recognize right-of-use assets and lease liability.

Future lease obligations on these short-term and of low-value items are payable as follows:

	2019	2018
Less than one year	**P1,568,320**	P -
Between one and five years	**2,774,720**	-
Total	**P4,343,040**	P -

Information about leases for which the Manila Branch is a lessee is presented below.

I. Right-of-Use Assets

Right-of-use assets related to leased branch and office premises that do not meet the definition of investment property are presented as property and equipment (see Note 15).

	Building
2019	
Balance at January 1	**P78,616,916**
Depreciation charge for the year	**15,320,251**
Balance at December 31	**P63,296,665**

II. Lease Liabilities

Lease liabilities are payable as follows:

	Future Minimum Lease Payments	Interest	Present Value of Minimum Lease Payments
Less than one year	**P16,398,554**	**P401,533**	**P15,997,021**
Between one and five years	**48,497,389**	**1,112,753**	**47,384,636**
	P64,895,943	**P1,514,286**	**P63,381,657**

III. Amounts Recognized in Profit or Loss

2019 - Leases under PFRS 16	
Interest on lease liabilities	**P382,413**
Expenses relating to short-term leases, including low-value assets	**6,505,872**
2018 - Operating leases under PAS 17	
Lease expenses	P6,118,457

IV. Amount Recognized in Statement of Cash Flows

In 2019, the total cash flows for leases amounted to P22,123,543, comprising P15,235,258 payment of lease liabilities as presented in the statement of cash flows, P382,413 payment of interest on lease liabilities, and P6,505,872 payments for short-term leases.

19. Related Party Transactions

Related Party Transactions

A related party transaction is a transfer of resources, services or obligations between the Manila Branch and a related party, regardless of whether a price is charged.

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

The Manila Branch's related parties include its Head Office, other branches and key management personnel. The Manila Branch's related party transactions are collected (for financial assets) or settled (for financial liabilities) in cash.

The following table shows related party transactions included in the financial statements as at December 31, 2019 and 2018:

Related Party/ Transactions	Note	Year	Amount/ Volume	Outstanding Balance Due from Related Party	Outstanding Balance Due to Related Party	Nature, Terms and Conditions
Parent						
Assigned Capital Funds						
Inward remittance	*a*	**2019**	**P -**	P -	P -	
		2018	3,975,770,000	-	-	
Due from Head Office						
Due from banks	*b*					
Deposits		**2019**	**10,548,983**	**10,548,983**	-	Working fund with Head office; short term, unsecured and unimpaired
Withdrawals			-	-	-	
Deposits		2018	-	-	-	
Withdrawals			-	-	-	
Accrued interest receivable	*b*	**2019**	**339,521**	-	-	
		2018	-	-	-	
Receivables	*c*	**2019**	-	-	-	Noninterest-bearing, to be settled in cash, payable on demand, unsecured
		2018	40,155,425	40,155,425	-	
Due to Head Office						
Interoffice borrowings	*d*	**2019**	**1,574,805,941**	-	**1,574,805,941**	Fixed rate, interest bearing borrowings to Head office; short term, unsecured
		2018	-	-	-	
Accrued interest payable	*d*	**2019**	**13,536,073**	-	**4,465,269**	
		2018	-	-	-	
Entities under Common Control						
Due from Other Branches						
Interoffice borrowings	*d*	**2019**	**1,181,112,010**	-	**1,181,112,010**	Fixed rate, interest bearing borrowings to other ICBC branches; short term, unsecured
		2018	-	-	-	
Accrued interest payable	*d*	**2019**	**111,170**	-	**302,745**	
		2018	-	-	-	
Others						
Advances to/receivable from officers and employees	*e*	**2019**	-	-	-	Noninterest-bearing, to be settled in cash, payable on demand, unsecured and unimpaired
		2018	2,680,000	2,680,000	-	
Due to Head Office and Other Branches		**2019**		**P -**	**P2,760,685,965**	
		2018		-	-	
Due from Head Office		**2019**		**P -**	**P -**	
		2018		40,155,425	-	

a. This pertains to non-interest bearing inward remittances received from the Head Office for compliance with minimum capital regulations and working fund purposes (see Note 6).

b. Due from banks represent deposit with the Head Office for inter-branch transactions which is included as part of "Due from other banks" in the statements of financial position. Interest income earned on this deposit booked under FCDU amounted to P0.34 million for the year ended December 31, 2019.

c. This account, which is a claim for reimbursement of pre-operating expenses attributable to the Head Office, was assessed in 2019 as uncollectible from the Head Office due to restrictions on foreign exchange payments imposed by the State Taxation Administration of China. As the Manila Branch can no longer collect this account from the Head Office, this is included as part of "Credit and impairment losses" in statements of comprehensive income.

d. These represent short-term borrowings from the Head Office and other branches. These borrowings have variable interest rates benchmarked to the London Interbank Offer Rate (LIBOR) and Europe Interbank Offer Rate (EURIBOR). In 2019, interest rates booked under RBU ranged from 1.74% to 2.28%, while interest rates booked under FCDU ranged from (0.38%) to 2.45%.

   Interest was accrued for these short-term borrowings and is included as part of "Due to Head Office and other branches" account in the statements of financial position. Interest expense on these short-term borrowings for the year ended December 31, 2019 and 2018 amounted to P13.65 million and nil, respectively.

e. This refers to the payments made by the Manila Branch for the rent deposits of the apartments and condominiums of the expatriates' employees from the Head Office which were temporarily assigned to the Manila Branch in 2018. These rent deposits are paid initially by the Manila Branch on behalf of the expats and reimbursed in cash in 2019.

Existing banking regulations limit the amount of individual loans to directors, officers, stockholders and related interests (DOSRI), 70.0% of which must be secured, to the total of their respective deposits and book value of their respective investments in the Manila Branch. In the aggregate, loans to DOSRI generally should not exceed the respective total regulatory capital or 15.0% of total loan portfolio, whichever is lower.

On March 15, 2004, the BSP issued Circular 423, *Amendments to Section X326 to X338 of the Manual of Regulation for Banks including their Subsections to implement Section 36 of Republic Act 8791 or the Banking Law of 2000* which provides for the amended definition of DOSRI accounts. It clarifies that loans granted to officers and employees under an approved fringe benefit program is excluded from the individual ceiling but is subject to 5.0% aggregate ceiling.

As at December 31, 2019 and 2018, the Manila Branch has no loan transactions, other credit accommodations and guarantees with its directors, officers, and related interests as defined under BSP Circular No. 423.

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

The compensation to key management personnel of the Manila Branch, shown as part of "Salaries, bonus and allowances" account in the statements of comprehensive income, is comprised of short-term employee benefits amounting to P98.74 million in 2019. Compensation of the key management personnel of the Manila Branch were paid by the Head Office in 2018.

20. Accrued Expenses and Other Payables

This account consists of:

	Note	2019	2018
Accrued salaries		**P19,109,982**	P700,000
Accrued taxes		**12,294,634**	982,910
Accrued penalties	*23*	**4,718,934**	-
Accounts payable		**3,668,038**	26,167
Income tax payable		**336,124**	-
Statutory contributions		**139,026**	-
Provision for liability	*14*	**12,528**	-
Other accrued expenses		**1,222,724**	-
		P41,501,990	P1,709,077

Accrued salaries consists of accruals for salaries, bonuses and other employee related payables.

Accrued taxes consists of withholding tax on compensation, expanded withholding tax on rent and fringe benefits tax.

Accrued penalties contain regulatory penalties for non-compliance to the mandatory allocation of credit resources for Agriculture/ Agrarian Reform Credit Act of 2019 (Agri-Agra), Section 331 of the MORB.

Accounts payable pertains to the health insurance incurred by the Manila Branch for their employees.

Statutory contributions arise from mandatory contributions to PhilHealth, Pag-IBIG and Social Security System.

Provision for liability pertains to loss allowance on off-balance sheet items.

Other accrued expenses consist of accruals for professional services fees, utilities and telephone expenses.

21. Fees and Commissions

This account consists of:

	2019	2018
Commission income	**P10,889,771**	P -
Guarantee fees	**249,441**	-
Remittance fees	**13,025**	-
	P11,152,237	P -

The Manila Branch has unearned income on guarantees pertaining to fees received in advance on its issuance of financial guarantees amounting to P2.21 million as at December 31, 2019.

22. Salaries, Bonuses and Allowances

This account consists of:

	2019	2018
Salaries and wages	**P119,628,664**	P1,593,077
Employee benefits	**31,425,445**	-
	P151,054,109	P1,593,077

Salaries and wages pertain to the basic salary, overtime pay, de minimis benefits, and other fixed allowances of employees.

Employee benefits consists of insurance, rent, subsidies, and other benefits.

23. General and Administrative Expenses

General and administrative expenses consist of:

	Note	2019	2018
Membership fees and dues		**P10,793,000**	P -
Utilities		**10,833,802**	1,073,652
Penalties	*20*	**4,718,934**	-
Communications		**4,339,136**	814,759
Advertising		**2,354,232**	2,847,863
Agent bank charges		**1,875,068**	-
Office supplies		**1,487,786**	2,703,004
Trainings		**1,145,847**	9,000
Others		**3,877,055**	2,497,320
		P41,424,860	P9,945,598

Membership fees and dues pertain to payments made to Chinese Enterprise Philippine Association, Credit Management Association of the Philippines and Bankers' Association of the Philippines as part of membership requirements.

Penalties relates to the accrual of expense for under-compliance to the mandatory allocation of credit resources to Agri-Agra.

Agent bank charges pertain to the fees charged by BDO Unibank, Inc for the management of the Manila Branch's investment in government securities. It is expressed as a fixed percentage of the total assets being managed.

Others include service charges, equipment costs, company social, security services, repairs and maintenance among others.

24. Income Taxes

RBU

Under Philippine tax laws, the Manila Branch is subject to percentage and other taxes, as well as corporate income taxes. Percentage and other taxes paid consist primarily of gross receipts tax and documentary stamp tax which are presented as part of "Taxes and licenses" in the statements of comprehensive income. Income taxes consists of corporate income tax and final withholding tax of 20% on gross interest income from government securities, deposits and other deposit substitutes. This is presented as "Income taxes" in the statements of comprehensive income.

The corporate income tax rate for the RBU is 30%. Tax regulations also allow utilization of NOLCO which may be applied against the Manila Branch's income tax liability and regular taxable income, respectively, over a 3-year period from the year of incurrence. Under the Tax Code, MCIT of 2% of the gross income shall be imposed only beginning the fourth taxable year immediately following the taxable year in which such corporation commenced its business operations.

FCDU

R.A. No. 9294, the existing tax regulation governing Manila Branch, provides:

- Offshore income or the income derived by FCDUs from foreign currency transactions with non-residents, Offshore Banking Unit's (OBU) in the Philippines, local commercial banks including branches of foreign banks that may be authorized by the BSP to transact business with foreign currency deposit system units and other depository banks under the foreign currency deposit system shall be exempt from all taxes, except for net income from such transactions as may be specified by the Secretary of Finance, upon recommendation by the Monetary Board to be subject to the regular income tax payable by banks;

- Gross onshore income or interest income from foreign currency loans granted by other FCDUs to residents under the offshore units in the Philippines or other depository banks under the expanded system shall be subject to a final tax at a rate of 10%;

- Interest income derived by resident individual or corporation on deposits with other FCDUs and OBUs are subject to 15% final tax; and

- All other FCDU income not classified as either offshore or onshore are subject to the higher of the RCIT or MCIT.

The income tax expense consists of:

	2019	2018
Current:		
RBU	**P -**	P -
FCDU	**1,114,738**	-
Final taxes	**34,927,968**	1,402,967
	P36,042,706	P1,402,967

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

	2019	2018
Loss before income tax expense	**(P155,136,821)**	(P18,777,845)
Statutory income tax	**(P46,541,046)**	(P5,633,354)
Adjusted for the tax effects of:		
Unrecognized deferred tax assets	**74,335,276**	7,731,405
Tax-paid and tax-exempt income	**(42,865,899)**	(2,107,520)
Nondeductible expense	**18,415,883**	9,469
Difference on statutory rate and 10% special rate for FCDU	**(2,229,476)**	-
Current tax	**P1,114,738**	P -

Management believes that certain future deductible items may not be realized in the near foreseeable future as future taxable income may not be sufficient for the related tax benefits to be realized. Accordingly, the Manila Branch did not recognize deferred tax assets on the following:

	2019		2018	
	Deductible Temporary Differences	**Deferred Tax Asset**	Deductible Temporary Differences	Deferred Tax Asset
NOLCO	**P212,155,527**	**P63,646,658**	P25,071,350	P7,521,405
Accrued salaries	**19,109,982**	**5,732,995**	700,000	210,000
Accrued expenses	**16,723**	**5,017**	-	-
Loss allowance	**16,502,019**	**4,950,606**	-	-
	P247,784,251	**P74,335,276**	P25,771,350	P7,731,405

Details of the Manila Branch's NOLCO as at December 31, 2019 and 2018 are as follow:

Year Incurred	**Amount**	**Applied**	**Expired**	**Balance**	**Expiry Year**
2018	P25,071,350	P -	P -	P25,071,350	2021
2019	**P212,155,527**	**P -**	**P -**	**P212,155,527**	**2022**

25. Maturity Analysis of Assets and Liabilities

The following table presents the maturity profile of the assets and liabilities of the Manila Branch based on the amounts to be recovered or settled with and/ or after more than 12 months after the reporting period (in thousands):

	2019			2018		
	Within One Year	Beyond One Year	Total	Within One Year	Beyond One Year	Total
Financial Assets at Gross						
Due from BSP	P38,375	P -	P38,375	P -	P -	P -
Due from other banks	39,409	-	39,409	3,794,816	-	3,794,816
Financial asset at FVTPL	157	-	157	-	-	-
Financial asset at FVOCI	20,686	-	20,686	-	-	-
Investment securities at amortized cost	500,332	3,174,138	3,674,470	-	-	-
Loans and receivables	506,588	2,250,776	2,757,364	-	-	-
Due from Head Office	40,155	-	40,155	40,155	-	40,155
Other assets[a]	10	6,523	6,533	3,819	5,936	9,755
	1,145,712	5,431,437	6,577,149	3,838,790	5,936	3,844,726
Non-financial Assets at Gross						
Property and equipment	-	208,594	208,594	-	174	174
Other assets	2,354	4,677	7,031	107,721	4,677	112,398
	2,354	213,271	215,625	107,721	4,851	112,572
	1,148,066	5,644,708	6,792,774	3,946,511	10,787	3,957,298
Less:						
Allowance for credit losses	41,043	15,614	56,657	-	-	-
Accumulated depreciation and amortization	-	49,231	49,231	-	-	-
	P1,107,023	P5,579,863	P6,686,886	P3,946,511	P10,787	P3,957,298
Financial Liabilities						
Deposit liabilities	P45,726	P -	P45,726	P -	P -	P -
Financial liability at FVTPL	9,128	-	9,128	-	-	-
Due to Head Office and other branches	2,760,686	-	2,760,686	-	-	-
Accrued expenses and other payables[b]	22,791	-	22,791	726	-	726
	2,838,331	-	2,838,331	726	-	726
Non-financial Liabilities						
Accrued expenses and other payables	18,712	-	18,712	983	-	983
Lease liabilities	-	63,382	63,382	-	-	-
Other liabilities	2,211	-	2,211	-	-	-
	20,923	63,382	84,305	983	-	983
	P2,859,254	P63,382	P2,922,636	P1,709	P -	P1,709

[a] *Other assets consist of refundable security deposits, advances to officers and employees, and accounts receivable.*
[b] *Accrued expense and other payables consist of accrued salaries and accounts payable.*

26. Reclassification

Advances to officers and employees amounting to Php 2.68 million presented in 2018 under "Advances to Officers and Employees" has been reclassified to "Other assets" account to conform with the 2019 presentation.

27. Event After the Reporting Period

On January 31, 2020, World Health Organization (WHO) announced Corona Virus Disease 2019 (COVID-19) as a global health emergency and on March 11, 2020, declared COVID-19 to be pandemic following its rapid spread across the globe, with over 150 affected countries including the Philippines.

In response to the serious public health threat that the COVID-19 outbreak poses, state of calamity was declared throughout the Philippines for a period of six (6) months, unless earlier lifted or extended as circumstances may warrant through Proclamation No. 929, Series of 2020 on March 16, 2020. Consequently, an Enhanced Community Quarantine was imposed throughout Luzon until May 15, 2020 unless earlier lifted or extended as circumstances may warrant.

The economic impacts of these events include:

- Disruption to business operations, with impacts on upstream and downstream foreign supply chains;
- Significant disruption to businesses in certain sectors, including trade and transportation, travel and tourism, entertainment, manufacturing, construction, retail, insurance and education; and
- Increased economic uncertainty, reflected in more volatile asset prices and currency exchange rates.

Since the outbreak of the COVID-19, the Head Office has actively implemented relevant national decisions and arrangements, fully taken the role as a stabilizer in supporting the real economy, and completely ensured various financial services for the epidemic prevention and control. Meanwhile, the Manila Branch together with the Head Office has been closely following and continuously assessing the impacts of the outbreak on its business, and actively taking countermeasures to ensure the stability of the Manila Branch's financial position and financial performance.

The BSP recognizes that the outbreak of the COVID-19 has potential significant impact on the operations of BSFIs in terms of risks related to exposures to borrowers and/or industries or businesses severely affected by the COVID-19 as well as disruptions in operations due to measures implemented to control the spread of virus such as lockdown situation, localized work suspension, heightened health and safety risks faced by BSFIs' employees and customers.

With this, the BSP in its Memorandum No. M-2020-008 dated March 14, 2020 provides guidelines on the regulatory relief for BSFIs affected by the COVID-19. Per said BSP Memorandum, BSFIs are eligible to avail of the regulatory relief package within one (1) year from 8 March 2020, the date of declaration of the President of the state of public health emergency under Presidential Proclamation No. 922. The period of eligibility may be extended depending on the developments of the COVID-19 situation. In summary, the regulatory relief package in Annex A of the Memorandum relevant to the Manila Branch includes the following:

- Allowing BSFIs to provide financial assistance to officers who are affected by COVID-19;

- Upon grant by BSFIs of a temporary grace period for payment or upon approval of the restructuring, but subject to reporting to the BSP, exclusion from the computation of past due ratio of the loans of borrowers in affected areas;

- Non-imposition of monetary penalties for delays incurred in the submission of all supervisory reports due to be submitted from March 8, 2020 up to six (6) months thereafter;

- Staggered booking of allowance for credit losses over a maximum period of five (5) years for all types of credits extended to individuals and businesses directly affected by COVID-19 as of March 8, 2020;

- Moratorium, without penalty, on monthly payments due to the BSP for a period of six (6) months from 8 March 2020 for BSFIs with ongoing rehabilitation; and

- Non-imposition of penalties on legal reserve deficiencies starting from reserve week following March 8, 2020 up to six (6) months thereafter.

On March 19, 2020, the BSP issued its Memorandum No. M-2020-011 granting additional operational relief for all BSFIs affected by measures imposed to manage the COVID-19 situation. Relevant relief to the Manila Branch is as follows:

- Increase in the single borrowing limit (SBL) under Section 362 of the MORB from 25% to 30 % for a period of six (6) months from 19 March 2020, pursuant to national interest;

- Relaxation in the maximum penalty that may be imposed for reserve deficiencies under Section 255 of the MORB. The maximum penalty that may be imposed by the BSP for reserve deficiencies shall be the Overnight Lending Facility rate plus 50 basis points: Provided, that the maximum reserve deficiency of the BSFI shall be 200 basis points above the reserve requirement;

- Relaxation of the notification requirements related to changes in banking hours. A bank need not inform the BSP of changes in its banking hours, as required under Section 108 of the MORB, during the enhanced community quarantine period;

- Relaxation in the regulations governing the submission of reports and other documents to the BSP-Financial Supervision Sector (FSS).

- Extension in the period of compliance with BSP supervisory requirements.

The documentary requirements shall be submitted by the BSFI to the BSP in accordance with prevailing guidelines at the time of submission.

28. Supplementary Information Required Under BSP Circular 1074, Amendments to Regulations on Financial Audit of Banks

The following supplementary information is required by Appendix 55 - Disclosure Requirements to the Audited Financial Statements (AFS) to Section 174 of the MORB of the BSP, amended by BSP Circular No. 1074.

A. Financial Performance Indicators

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

	2019	2018
Return on average equity	**4.95%**	(2.55%)
Return on average assets	**3.59%**	(2.55%)
Net interest margin on average earning assets	**2.96%**	0.93%

B. Commitments and Contingencies

In the normal course of the Manila Branch's operations, there are outstanding commitments and contingencies which are not shown in these financial statements. The Manila Branch does not anticipate material losses as a result of these commitments and contingent liabilities.

The following is a summary of the Manila Branch's commitments and contingencies at their equivalent Philippine peso valued amounts as at December 31, 2019 and 2018 arising from off-book transactions:

	2019	2018
Performance standby letters of credit	P820,232,977	P -
Currency swaps	501,245,000	-
Total	P1,321,477,977	P -

The Manila Branch has no pending suits, claims and regulatory examinations that remain unsettled or outstanding.

Other relevant disclosures required by BSP Circular No. 1074 are in Notes 5, 6, 10, 11, 12, 13, 15, 16 and 19.

29. Supplementary Information Required Under Revenue Regulations No. 15-2010 of the BIR

In addition to the disclosures mandated under PFRSs, and such other standards and/ or conventions as may be adopted, companies are required by the BIR to provide in the notes to the financial statements, certain supplementary information for the taxable year. The amounts relating to such information may not necessarily be the same with those amounts disclosed in the financial statements which were prepared in accordance with PFRSs.

In compliance with the requirements set forth by RR No. 15-2010, the following tax information required for the taxable year ended December 31, 2019 are based on the combined amounts of the RBU and the FCDU.

A. Value Added Tax (VAT)

The Manila Branch has no transactions subject to VAT output tax.

B. Documentary Stamp Tax

Debt instruments	P1,648,194
Others	4,084
	P1,652,278

Documentary stamp taxes paid on debt instruments are assumed by customers.

C. Withholding Taxes

Tax on compensation and benefits	P35,977,745
Creditable withholding taxes	1,614,176
Final withholding taxes	336,091
	P37,928,012

The above withholding taxes pertain to total remittances to tax authority for the year.

The Manila Branch has accrued withholding tax payable amounting to P9.06 million as at December 31, 2019.

D. All Other Taxes (Local and National)

This consists of the following:

	2019
Other taxes paid during the year recognized under "Taxes and Licenses"	
Fringe benefit taxes	**P16,502,960**
Gross receipts taxes	**10,666,460**
License and permit fees	**138,698**
Documentary stamp taxes	**4,084**
Others	**500,123**
	P27,812,325

The Manila Branch has accrued gross receipt tax payable amounting to P3.24 million as at December 31, 2019.

E. Tax Cases and Assessments

As at December 31, 2019, the Manila Branch has no pending tax cases nor tax assessment with the BIR.