

# COVER SHEET

## For AUDITED FINANCIAL STATEMENTS

SEC Registration Number

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### COMPANY NAME

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C	H	I	N	A		L	I	M	I	T	E	D	-	M	A	N	I	L	A		B	R	A	N	C	H			

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

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3	2	n	d		S	t	r	e	e	t		c	o	r	n	e	r		3	r	d		A	v	e	n	u	e	
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Form Type

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Department requiring the report

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Secondary License Type, If Applicable

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### COMPANY INFORMATION

Company's email Address

N/A
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Company's Telephone Number/s

632 280 3300/ 632 403 2023
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Mobile Number

N/A
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No. of Stockholders

N/A
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Annual Meeting (Month / Day)

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Fiscal Year (Month / Day)

December 31
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### CONTACT PERSON INFORMATION

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

Name of Contact Person

YANMING SUN
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Email Address

yanming.sun@ph.icbc.com.cn
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Telephone Number/s

82803308
----------

Mobile Number

N/A
-----

### CONTACT PERSON'S ADDRESS

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

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

# INDUSTRIAL AND COMMERCIAL BANK OF CHINA LIMITED - MANILA BRANCH

FINANCIAL STATEMENTS  
December 31, 2020 and 2019

With Independent Auditors' Report



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

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 officers of the Manila Branch.

Thomas P. Malone

## Partner

CPA License No. 0102309

BSP Accreditation No. 102309-BSP, Group A, valid for 5-year audit period (2019 to 2023)

SEC Accreditation No. 102309-SEC, Group A, valid for one (1) year covering the audit of 2020 financial statements

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 8533906

Issued January 4, 2021 at Makati City

April 20, 2021

Makati City, Metro Manila

**Firm Regulatory Registration & Accreditation:**

PRC-BOA Registration No. 0003, valid until November 21, 2023

SEC Accreditation No. 0003-SEC, Group A, valid for five (5) years covering the audit of 2020 to 2024 financial statements (2019 financial statements are covered by SEC Accreditation No. 0004-FR-5)

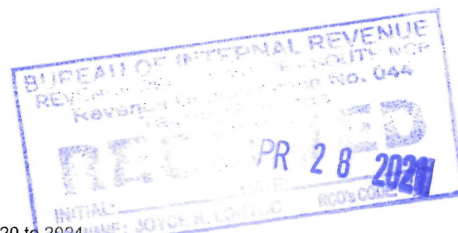
IC Accreditation No. 0003-IC, Group A, valid for five (5) years covering the audit of 2020 to 2024

financial statements (2019 financial statements are covered by IC Circular Letter (CL) No. 2019-39, Transition clause)

BSP Accreditation No. 0003-BSP, Group A, valid for five (5) years covering the audit of 2020 to 2024

financial statements (2019 financial statements are covered by BSP Monetary Board Resolution No. 2161, Transition clause)

R.G. Manabat & Co., a Philippine partnership and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee





R.G. Manabat & Co.  
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Philippines 1226  
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Fax +63 (2) 8894 1985  
Internet [www.home.kpmg/ph](http://www.home.kpmg/ph)  
Email [ph-inquiry@kpmg.com](mailto: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

### Report on the Audit of the Financial Statements

#### *Opinion*

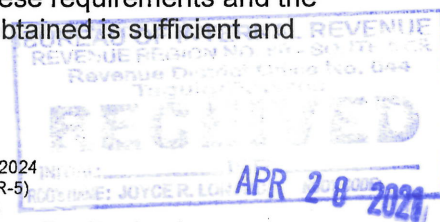
We have audited the financial statements of Industrial and Commercial Bank of China Limited - Manila Branch (the "Manila Branch") which comprise the statements of financial position as at December 31, 2020 and 2019, and the statements of comprehensive income, statements of changes in assigned capital funds and statements of cash flows for the years then ended, 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, 2020 and 2019, and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards.

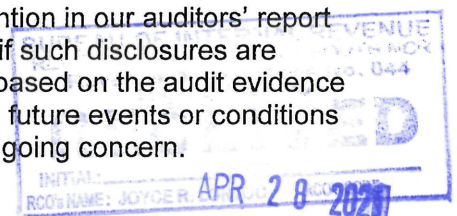
#### *Basis for Opinion*

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.

Firm Regulatory Registration & Accreditation:  
PRC-BOA Registration No. 0003, valid until November 21, 2023  
SEC Accreditation No. 0003-SEC, Group A, valid for five (5) years covering the audit of 2020 to 2024 financial statements (2019 financial statements are covered by SEC Accreditation No. 0004-FR-5)  
IC Accreditation No. 0003-IC, Group A, valid for five (5) years covering the audit of 2020 to 2024 financial statements (2019 financial statements are covered by IC Circular Letter (CL) No. 2019-39, Transition clause)  
BSP Accreditation No. 0003-BSP, Group A, valid for five (5) years covering the audit of 2020 to 2024 financial statements (2019 financial statements are covered by BSP Monetary Board Resolution No. 2161, Transition clause)









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

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

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

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information in Notes 30 and 31 to the financial statements are presented for purposes of filing with the Bangko Sentral ng Pilipinas and Bureau of Internal Revenue, respectively, and are not a required part of the basic financial statements. Such information is the responsibility of management. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

**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)

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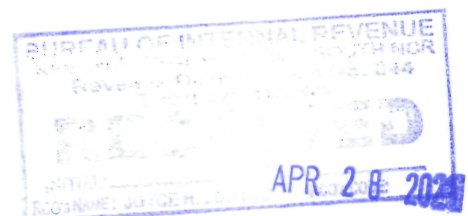
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April 20, 2021

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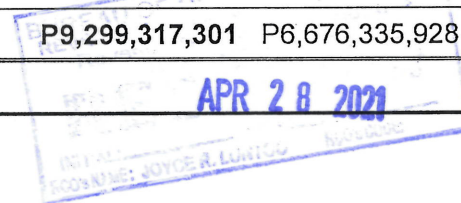


**INDUSTRIAL AND COMMERCIAL BANK OF CHINA LIMITED -  
MANILA BRANCH**

**STATEMENTS OF FINANCIAL POSITION**

		December 31	
	Note	2020	2019
<b>ASSETS</b>			
Due from Bangko Sentral ng Pilipinas (BSP)	8	P574,225,538	P38,374,580
Due from Other Banks	9	177,800,318	28,860,201
Financial Asset at Fair Value through Profit or Loss (FVTPL)	12	2,594,190	156,605
Investment Securities at Amortized Cost	14	3,211,603,608	3,669,368,541
Loans and Receivables	10	5,173,055,724	2,745,963,285
Financial Asset at Fair Value through Other Comprehensive Income (FVOCI)	13	20,686,365	20,686,365
Property and Equipment	15	119,541,065	159,362,185
Deferred Tax Assets	26	36,813	-
Other Assets	16	19,773,680	13,564,166
		<b>P9,299,317,301</b>	<b>P6,676,335,928</b>
<b>LIABILITIES AND ASSIGNED CAPITAL FUNDS</b>			
<b>LIABILITIES</b>			
Due to Other Banks	18	P495,347,259	P -
Due to Head Office and Other Branches - net	17	3,397,069,522	P2,750,136,982
Financial Liability at FVTPL	12	10,055,316	9,128,000
Deposit Liabilities	19	1,649,815,075	45,726,713
Accrued Expenses and Other Payables	20	64,710,252	41,501,990
Lease Liabilities	21	55,333,723	63,381,657
Retirement Liability	22	122,709	-
Other Liabilities	23	2,378,498	2,211,258
		<b>5,674,832,354</b>	<b>2,912,086,600</b>
<b>Assigned Capital Funds</b>			
Assigned Capital	6	3,975,770,000	3,975,770,000
Deficit	6	(364,075,380)	(227,467,264)
Reserve for General Loan Loss Provision	6	14,929,115	16,106,925
Employee Benefit Reserve	22	1,926	-
Cumulative Translation Adjustment		(2,140,714)	(160,333)
		<b>3,624,484,947</b>	<b>3,764,249,328</b>
		<b>P9,299,317,301</b>	<b>P6,676,335,928</b>

See Notes to the Financial Statements.



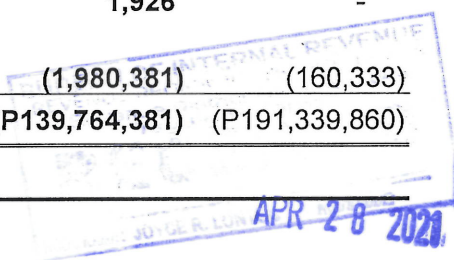


**INDUSTRIAL AND COMMERCIAL BANK OF CHINA LIMITED -  
MANILA BRANCH**

**STATEMENTS OF COMPREHENSIVE INCOME**

Years Ended December 31			
	Note	2020	2019
<b>INTEREST INCOME CALCULATED USING EFFECTIVE INTEREST METHOD</b>			
Investment securities at amortized cost	14	P188,343,051	P172,680,116
Loans and receivables	10	160,795,778	24,755,660
Due from BSP	8	8,499,318	-
Due from Head Office and other branches	17, 18	6,047,245	339,521
Due from other banks	9	534,115	1,972,299
		<b>364,219,507</b>	<b>199,747,596</b>
<b>INTEREST EXPENSE</b>			
Due to Head Office and other branches	17	32,773,017	13,647,243
Deposit liabilities	19	1,047,422	73,913
Lease liabilities	21	822,329	382,413
Due to other banks	18	347,259	-
		<b>34,990,027</b>	<b>14,103,569</b>
<b>NET INTEREST INCOME</b>		<b>329,229,480</b>	<b>185,644,027</b>
<b>OTHER INCOME</b>			
Fees and commissions	23	15,738,153	11,152,237
<b>OPERATING EXPENSES</b>			
Salaries, bonuses and allowances	24	168,712,488	151,054,109
Credit and impairment losses	11	120,885,945	56,669,972
Depreciation and amortization	15	53,094,565	49,231,351
General and administrative expenses	25	33,581,622	41,424,860
Taxes and licenses	30	31,214,713	27,812,325
Foreign exchange loss - net	12	15,748,970	1,565,070
Occupancy expenses	21	9,005,481	6,505,872
Management and other professional services		3,074,934	13,504,348
Representation and entertainment		1,169,144	4,165,178
		<b>436,487,862</b>	<b>351,933,085</b>
<b>LOSS BEFORE INCOME TAX EXPENSE</b>		<b>(91,520,229)</b>	<b>(155,136,821)</b>
<b>INCOME TAX EXPENSE</b>	26	<b>46,265,697</b>	<b>36,042,706</b>
<b>NET LOSS</b>		<b>(137,785,926)</b>	<b>(191,179,527)</b>
<b>OTHER COMPREHENSIVE INCOME (LOSS)</b>			
<i>Item that will not be reclassified subsequently to profit or loss</i>			
Remeasurement gain on retirement liability		2,751	-
Tax effect		(825)	-
		<b>1,926</b>	<b>-</b>
<i>Item that may be reclassified to profit or loss</i>			
Cumulative translation adjustment		(1,980,381)	(160,333)
<b>TOTAL COMPREHENSIVE LOSS</b>		<b>(P139,764,381)</b>	<b>(P191,339,860)</b>

See Notes to the Financial Statements.



**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)	Reserve for General Loan Loss Provision (Note 6)	Employee Benefit Reserve (Note 22)	Cumulative Translation Adjustment
Balances at January 1, 2020		P3,975,770,000	(P227,467,264)	P16,106,925	P -	(P160,333)
Reserve for general loan loss provision	6	-	1,177,810	(1,177,810)	-	-
Total comprehensive loss during the year:						
Net loss for the year		-	(137,785,926)	-	-	0
Other comprehensive income (loss):						
Item that will not be reclassified subsequently to profit or loss:						
Remeasurement gain on retirement liability		-	-	-	2,751	-
Income tax effect		-	-	-	(825)	-
Item that may be reclassified to profit or loss:						
Cumulative translation adjustment		-	-	-	-	(1,980,381)
Total comprehensive income (loss)		-	(137,785,926)	-	1,926	(139,764,381)
Balance as at December 31, 2020		P3,975,770,000	(P364,075,380)	P14,929,115	P1,926	(P2,140,714)
Balances at January 1, 2019		P3,975,770,000	(P20,180,812)	P -	P -	P -
Reserve 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)	-	-	-
Other comprehensive income:						
Item that may be reclassified to profit or loss:						
Translation adjustment		-	-	-	-	(160,333)
Total comprehensive loss		-	(191,179,527)	-	-	(160,333)
Balance as at December 31, 2019		P3,975,770,000	(P227,467,264)	P16,106,925	P -	(P160,333)

See Notes to the Financial Statements.

APR 28 2021



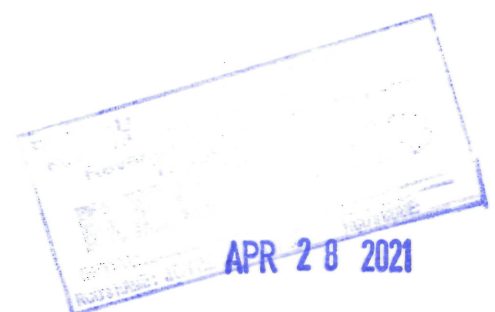
**INDUSTRIAL AND COMMERCIAL BANK OF CHINA LIMITED -  
MANILA BRANCH**

**STATEMENTS OF CASH FLOWS**

Years Ended December 31

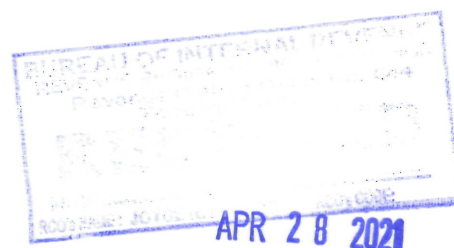
	Note	2020	2019 (As reclassified - Note 29)
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Loss before income tax expense		(P91,520,229)	(P155,136,821)
Adjustments for:			
Interest income	8, 9, 10, 14	(364,219,507)	(199,747,596)
Credit and impairment losses	11	120,885,945	56,669,972
Depreciation and amortization	15	53,094,565	49,231,351
Interest expense	17, 18, 19, 21	34,990,027	14,103,569
Unrealized foreign exchange loss - net		15,748,970	8,971,395
Retirement expense	22	2,236,592	-
Operating loss before working capital changes		(228,783,637)	(225,908,130)
Decrease (increase) in:			
Loans and receivables	10	(2,572,806,352)	(2,750,776,385)
Deposit liabilities		1,604,176,173	45,710,775
Due to HO and other branches - net	29	625,863,220	2,745,368,968
Due from other banks	18	495,347,259	-
Accrued expenses and other payables		23,528,446	39,444,259
Other assets		(2,175,210)	3,587,273
Other liabilities		(56,563)	2,211,258
Net cash absorbed by operations		(54,906,664)	(140,361,982)
Interest received		388,577,943	166,327,480
Income taxes paid		(50,574,020)	(35,706,582)
Interest paid on borrowings	29	(30,472,522)	(8,937,204)
Contributions paid	22	(2,111,132)	-
Interest paid on leases	21	(822,329)	(382,413)
Net cash provided by (used in) operating activities		249,691,276	(19,060,701)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Maturities (acquisition) of investment securities at amortized cost	14	458,401,559	(3,647,637,344)
Acquisition of property and equipment	15	(3,330,153)	(24,801,410)
Acquisition of financial asset at FVOCI	13	-	(20,686,365)
Cash provided by (used in) investing activities		455,071,406	(3,693,125,119)
<b>CASH FLOWS FROM FINANCING ACTIVITY</b>			
Principal payment of lease liability	21	(17,991,226)	(15,235,258)
Net cash provided by financing activity		(17,991,226)	(15,235,258)

Forward



Years Ended December 31			
		2020	2019 (As reclassified - Note 29)
	Note		
NET EFFECT OF EXCHANGE RATE DIFFERENCES		(1,980,381)	(160,333)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		684,791,075	(3,727,581,411)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR			
Due from Bangko Sentral ng Pilipinas	8	38,374,580	-
Due from other banks	9	28,860,201	3,794,816,192
		67,234,781	3,794,816,192
CASH AND CASH EQUIVALENTS AT ENDING OF YEAR			
Due from Bangko Sentral ng Pilipinas	8	574,225,538	38,374,580
Due from other banks	9	177,800,318	28,860,201
		P752,025,856	P67,234,781

See Notes to the Financial Statements.



**INDUSTRIAL AND COMMERCIAL BANK OF CHINA LIMITED -  
MANILA BRANCH**

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**NOTES TO THE FINANCIAL STATEMENTS**

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**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. 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 Ground Floor/24th Floor, The Curve, 32nd Street corner 3rd Avenue, Fort Bonifacio, Taguig City.

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**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.

These financial statements of the Manila Branch were authorized for issue by the General Manager, as authorized by the Head Office, on April 20, 2021.

#### 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
Net retirement liability	Present value of defined benefit obligation less the fair value of plan assets

#### 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 27.

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### **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.

#### Adoption of Amendments to Standards and Framework

The Manila Branch has adopted the following amendments to standards and framework starting January 1, 2020 and accordingly, changed its accounting policies. Except as otherwise indicated, the adoption of these amended standards and framework did not have any significant impact on the Bank's financial statements.

- *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.

The amendments to the Conceptual Framework in PFRS had no significant impact in the Manila Branch's financial statements.

- *Definition of Material (Amendments to PAS 1, Presentation of Financial Statements and PAS 8 Accounting Policies, Changes in Accounting Estimates and Errors).* The amendments refine the definition of what is considered material. The amended definition of 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 what is considered material and its application by:
  - raising the threshold at which information becomes material by replacing the term 'could influence' with 'could reasonably be expected to influence';
  - including the concept of 'obscuring information' alongside the concept of 'omitting' and 'misstating' information in the definition;
  - clarifying that the users to which the definition refers are the primary users of general purpose financial statements referred to in the Conceptual Framework;
  - clarifying the explanatory paragraphs accompanying the definition; and
  - aligning the wording of the definition of material across PFRS Standards and other publications.

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

The definition of material had no significant impact on the Manila Branch's financial statements.

- *COVID-19- Related Rent Concessions (Amendment to PFRS 16, Leases).* The amendments introduce an optional practical expedient that simplifies how a lessee accounts for rent concessions that are a direct consequence of COVID-19. A lessee that applies the practical expedient is not required to assess whether eligible rent concessions are lease modifications, and accounts for them in accordance with other applicable guidance. The practical expedient applies if:
  - the revised consideration is substantially the same or less than the original consideration;



- the reduction in lease payments relates to the payments due on or before June 30, 2021; and
- no other substantive changes have been made to the terms of the lease.

No practical expedient is provided for lessors.

For the year ended December 31, 2020, the Manila Branch does not have rent concession agreement with its lessor.

#### 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) in the statements of comprehensive income under "Cumulative 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", "Loans and receivables - net", "Investment securities at amortized cost - net", "Due from Head Office" presented under "Due to Head Office and other branches" account, and securities deposit presented under "Other assets", in the statements of financial position as at December 31, 2020 and 2019 (see Notes 8, 9, 10, 14, 16 and 17).

#### 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, 2020 and 2019, 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, 2020 and 2019, the Manila Branch's financial assets at FVTPL consists of derivative assets (see Note 12).

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 2020 and 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 both 2020 and 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 13).

#### 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 - net" account, due to other banks, deposit liabilities, and accrued interest payable presented under "Accrued expenses and other payables" account (see Notes 9, 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.

There were no reclassifications of financial assets during the years ended December 31, 2020 and 2019.

*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.

If the terms of a financial asset are modified, then the Manila Branch evaluates whether the cash flows of the modified asset are substantially different.

If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognized, and a new financial asset is recognized at fair value plus any eligible transaction costs. Any fees received as part of the modification are accounted as follows:

- fees that are considered in determining the fair value of the new asset and fees that represent reimbursement of eligible transaction costs are included in the initial measurement of the asset; and
- other fees are included in statements of income and expenses as part of the gain or loss on derecognition.

If cash flows are modified when the borrower is in financial difficulties, then the objective of the modification is usually to maximize recovery of the original contractual terms rather than to originate a new asset with substantially different terms. If the Manila Branch plans to modify a financial asset in a way that would result in forgiveness of cash flows, then it first considers whether a portion of the asset should be written off before the modification takes place. This approach impacts the result of the quantitative evaluation and means that the derecognition criteria are not usually met in such cases.

To determine whether a modification of a financial asset is substantial or non-substantial, the guidance set out in this policy should be applied. Where it is not clear whether a "substantial modification" has occurred based on the application of this guidance, a 10.0% net present value change (equivalent to the PFRS 9 - test for financial liabilities) should be applied as a backstop.

In some cases, whether or not a modification is substantial will be clear with little or no analysis while in others a high degree of judgment may be required.

The modification of a financial asset could involve one or both of the following:

- a. Changes in contractual terms that have a direct impact on the contractual cash flows. For example: changes to limit, tenor (maturity), interest rate, currency, or introduction or removal of features that give rise to cash flows other than payments of principal and interest on the principal amount outstanding;
- b. Changes in contractual terms that do not have a direct impact on the contractual cash flows. For example: changes in security, collateral or other credit enhancements that change the credit risk associated with the loan.

Based on the Manila Branch's policy, the delineation between substantial and non-substantial modifications should focus on category (a) modifications, specifically changes in credit limit, tenor, currency or SPPI characteristics.

If the modification of a financial asset measured at amortized cost or FVOCI does not result in derecognition of the financial asset, then the Manila Branch first recalculates the gross carrying amount of the financial asset using the original EIR of the asset and recognizes the resulting adjustment as a modification gain or loss in statement of income.

For floating-rate financial assets, the original EIR used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification. Any costs or fees incurred and fees received as part of the modification adjust the gross carrying amount of the modified financial asset and are amortized over the remaining term of the modified financial asset.

If such modification is carried out because of the financial difficulties of the borrower, then the gain or loss is presented together with impairment losses. In other cases, it is presented as interest income calculated using the effective interest method.

#### *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	3 - 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.

#### Reserve for General Loan Loss Provision

Reserve for general loan loss provision represents the appropriation of accumulated profits in relation to allowance for credit losses which are less than the 1.0% general provision prescribed by the BSP for regulatory purposes.

#### 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	<p>Fee for every trade-related transaction.</p> <p>This also includes fees charged for providing customers a distinct good or service that are recognized separately from the underlying lending product.</p>	<p><i>Guarantee Fees</i> Revenue is recognized upon execution of the trade finance products (e.g., letters of credit, letters of guarantees and acceptances, etc.).</p> <p>Revenue is recognized over the term of the service.</p> <p><i>Commitment Fees</i> 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.</p>
Non-lending fees and commission	<p>Non-lending fees and commission pertain outward telegraphic transfer fees, import and export fees and other non-lending services costs.</p> <p>Fees or components of fees that are linked to a certain performance are recognized after fulfilling the corresponding criteria.</p>	<p><i>Service Transfer Fees</i> Revenue is recognized at point in time that the associated service is provided.</p>

#### Expense Recognition

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.

#### Employee Benefits

##### *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.

##### *Retirement Benefits*

The Manila Branch accrues retirement expense based on a noncontributory defined benefit plan, as required by existing law covering all of its qualified employees.

The calculation of defined benefit obligation is performed on a periodic basis by a qualified actuary using the projected unit credit method. When the calculation results in a potential asset for the Manila Branch, the recognized asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan.

Remeasurement of defined benefit liability, which comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), are recognized immediately in other comprehensive income. The Manila Branch determines the net interest expense (income) on the defined benefit liability (asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then defined benefit liability (asset), taking into account any changes in the defined liability (asset) during the period as a result of contributions and benefit payments. Net interest expense and other expenses related to the defined benefit plan are recognized in profit or loss.

The Manila Branch recognizes gains and losses on the settlement of a defined benefit plan when the settlement occurs.

#### Leases

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.

##### *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 of the lease payments that are not paid at the commencement date, 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.

### 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 or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable 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 period beginning after January 1, 2020. However, the Manila Branch has not early adopted the following amended standards in preparing these financial statements. Unless otherwise stated, none of these are expected to have significant impact on the Manila Branch's financial statements.

#### *Effective January 1, 2022*

- *Property, Plant and Equipment – Proceeds before Intended Use (Amendments to PAS 16, Property, Plant and Equipment)*. The amendments prohibit an entity from deducting from the cost of an item of property, plant and equipment the proceeds from selling items produced before that asset is available for use. The proceeds before intended use should be recognized in profit or loss, together with the costs of producing those items which are identified and measured in accordance with PAS 2, *Inventories*.

The amendments also clarify that testing whether an item of property, plant and equipment is functioning properly means assessing its technical and physical performance rather than assessing its financial performance.



For the sale of items that are not part of a company's ordinary activities, the amendments require the company to disclose separately the sales proceeds and related production cost recognized in profit or loss and specify the line items in which such proceeds and costs are included in the statement of comprehensive income. This disclosure is not required if such proceeds and cost are presented separately in the statement of comprehensive income.

The amendments are effective for annual reporting periods beginning on or after January 1, 2022. Earlier application is permitted. The amendments apply retrospectively, but only to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented in the financial statements in which the company first applies the amendments.

- *Onerous Contracts - Cost of Fulfilling a Contract (Amendment to PAS 37 Provisions, Contingent Liabilities and Contingent Assets)*. The amendments clarify that the cost of fulfilling a contract when assessing whether a contract is onerous includes all costs that relate directly to a contract - i.e. it comprises both incremental costs and an allocation of other direct costs.

The amendments are effective for annual reporting periods beginning on or after January 1, 2022 to contracts existing at the date when the amendments are first applied. At the date of initial application, the cumulative effect of applying the amendments is recognized as an opening balance adjustment to retained earnings or other component of equity, as appropriate. The comparatives are not restated. Earlier application is permitted.

- *Annual Improvements to PFRS Standards 2018-2020*.
  - *Fees in the '10 per cent' Test for Derecognition of Financial Liabilities (Amendment to PFRS 9)*. The amendment clarifies that for the purpose of performing the '10 per cent' test for derecognition of financial liabilities, the fees paid net of fees received included in the discounted cash flows include only fees paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf.
  - *Lease Incentives (Amendment to Illustrative Examples accompanying PFRS 16 Leases)*. The amendment deletes from the Illustrative Example 13 the reimbursement relating to leasehold improvements to remove the potential for confusion because the example had not explained clearly enough the conclusion as to whether the reimbursement would meet the definition of a lease incentive in PFRS 16.

The amendments are effective for annual reporting periods beginning on or after January 1, 2022. Earlier application is permitted.

#### *Effective January 1, 2023*

- *Classification of Liabilities as Current or Non-current (Amendments to PAS 1 Presentation of Financial Statements)*. To promote consistency in application and clarify the requirements on determining whether a liability is current or non-current, the amendments:
  - removed the requirement for a right to defer settlement of a liability for at least twelve months after the reporting period to be unconditional and instead requires that the right must have substance and exist at the end of the reporting period;

- clarified that a right to defer settlement exists only if the company complies with conditions specified in the loan agreement at the end of the reporting period, even if the lender does not test compliance until a later date; and
- clarified that settlement of a liability includes transferring a company's own equity instruments to the counterparty, but conversion options that are classified as equity do not affect classification of the liability as current or non-current.

The amendments apply retrospectively for annual reporting periods beginning on or after January 1, 2023. Earlier application is permitted.

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#### 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.

##### *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.

#### Low-value Leases

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 USD5,000 or its peso equivalent.

#### *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.

#### 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.

#### *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.

#### *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 P137.40 million and to P16.51 million as at December 31, 2020 and 2019, respectively (see Note 11). 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.

The COVID-19 outbreak has spread across the globe causing disruptions to businesses and economic activities. On January 30, 2020, the World Health Organization announced COVID-19 as a global health emergency and, on March 11, 2020, declared it as a pandemic. The general methodology for the ECL calculation did not change from prior year, however, the Manila Branch identified one account that is vulnerable to impact of COVID-19 and this was subjected to individual impairment assessment. This account is monitored closely paying more attention to its actual performance during the year.

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 2020 and 2019 amounting to P161.79 million and P81.86 million, respectively, 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 26).

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## 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 Oversight Committee (ROC), which is the decision-making body within the Manila Branch responsible for reviewing and strengthening risk 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 Credit Risk Officer, also the Deputy 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, 2020 and 2019 (in thousands):

	2020						Total
	Government and Official Institutions	Financial Institutions	Electricity, Energy, Power	Manufacturing	Real Estate, Renting and Business Activities	Others	
Due from BSP	P574,226	P -	P -	P -	P -	P -	P574,226
Due from other banks	-	177,816	-	-	-	-	177,816
Loans and receivables:							
Loans to customers	-	250,000	977,268	944,209	1,220,345	1,883,363	5,275,185
Accrued interest receivable	-	1,201	11,442	825	4,771	12,541	30,780
Financial asset at FVTPL	-	2,594	-	-	-	-	2,594
Financial asset at FVOCI	-	20,686	-	-	-	-	20,686
Investment securities at amortized cost	3,216,068	-	-	-	-	-	3,216,068
Due from Head Office	-	-	-	-	-	-	-
Other assets*	-	-	-	-	7,202	-	7,202
	P3,790,294	P452,297	P988,710	P945,034	P 1,232,318	P1,895,904	P9,304,557

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



2019						
	Government and Official Institutions	Financial Institutions	Electricity, Energy, Power	Manufacturing	Real Estate, Renting and Business Activities	Others
Due from BSP	P38,375	P -	P -	P -	P -	P -
Due from other banks	-	28,860	-	-	-	-
Loans and receivables:						
Loans to customers	-	-	1,569,685	681,091	500,000	-
Accrued interest receivable	-	-	4,937	810	841	-
Financial asset at FVTPL	-	157	-	-	-	-
Financial asset at FVOCI	-	20,686	-	-	-	-
Investment securities at amortized cost	3,674,470	-	-	-	-	-
Due from Head Office	-	40,155	-	-	-	-
Other assets*	-	-	-	-	6,523	10
	P3,712,845	P 89,858	P1,574,622	P681,901	P507,364	P10
						P6,566,600

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

### *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, 2020 and 2019 after taking into account any collateral held or other credit enhancements (in thousands):

	2020			2019		
	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	P574,226	P -	P574,226	P38,375	P -	P38,375
Due from other banks	177,800	-	177,800	28,860	-	28,860
Loans and receivables	5,305,964	1,140,546	4,165,418	2,757,364	506,350	2,251,014
Financial asset at FVTPL	2,594	-	2,594	157	-	157
Financial asset at FVOCI	20,686	-	20,686	20,686	-	20,686
Investment securities at amortized cost	3,216,068	-	3,216,068	3,674,470	-	3,674,470
Due from Head Office	-	-	-	40,155	-	40,155
Other assets*	7,202	-	7,202	6,533	-	6,533
	P9,304,540	P1,140,546	P8,163,994	P6,566,600	P506,350	P6,060,250

### *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.

<b>Internal Borrower's Risk Ratings</b>	<b>Moody's Equivalent Grades</b>	<b>Standard &amp; Poor's and Fitch's Equivalent Grades</b>	<b>Description</b>
sAAA+	Aaa, Aa1, Aa2	AAA, AA+, AA	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.
AAA+	Aa3	AA-	
sAAA	Aaa, Aa1, Aa2	A+	
AAA	A2	A	
sAAA-	A3	A-	
AAA-	Baa1	BBB+	
sAA+	Baa2	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.
AA+	Baa2	BBB	
sAA	Baa3	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.
AA	Baa3	BBB-	
sAA-	Ba1	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.
AA-	Ba1	BB+	

Internal Borrower's Risk Ratings	Moody's Equivalent Grades	Standard & Poor's and Fitch's Equivalent Grades	Description
sA+	Ba2	BB	Customers with general operating and financial strength as well as acceptable solvency and will be greatly affected by changes in the external economic environment; it has a slightly poor net cash flow, fair customer market competitiveness.
A+	Ba2	BB	
A	Ba3	BB-	
A-	B1	B+	
BBB+	B2	B	Customers with weak financial position, very poor operating and financial strength, weak and unstable solvency, as well as a weak ability to withstand risks; has a poor cash flow, an extremely heavy dependence on banking facilities, and weak customer market competitiveness.
BBB	B3	B-	
BBB-	Caa1, Caa2, Caa3	CCC	
BB	Ca, C	CC, C	It suffers severe losses or losses for consecutive years, has an extremely poor financial performance, is almost insolvent, and has basically no ability to withstand risks; it has an insufficient cash flow, very weak customer market competitiveness.
B	C	D	The customer goes bankrupt and shuts down or materially defaults on its debts.

The table below shows the credit score rating comprising each category of credit quality and risk category.

Standard & Poor's Equivalent Grades	Credit Quality Description	Risk Category
AAA / AA+ / AA	Highest Quality	Very Low Risk
AA- / A+	High Quality	Low Risk
A / A-	Upper Medium Grade	Low Risk
BBB+ / BBB / BBB-	Medium Grade	Moderate Risk
BB+ / BB / BB- / B+	Speculative	Substantial Risk
B / B-	Speculative	High Risk
CCC	Poor	Very High Risk
CC/ C	Poor	Very High Risk
D	Default	Very High Risk

The credit quality of the assets held by the Manila Branch is generally monitored through the internal and external ratings, which is then used to detect any deterioration in the quality of assets and tracks migration of credit risks.

#### *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.

As at December 31, 2020, the Manila Branch has no past due financial assets.

#### *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, 2020 (in thousands):

	2020			POCI	Total
	Stage 1	Stage 2	Stage 3		
<b>Due from BSP and Other Banks</b>					
AAA / AA+ / AA	P752,042	P -	P -	P -	P752,042
AA- / A+	-	-	-	-	-
A / A-	-	-	-	-	-
BBB+ / BBB / BBB-	-	-	-	-	-
BB+ / BB / BB- / B+	-	-	-	-	-
B / B-	-	-	-	-	-
CCC	-	-	-	-	-
CC / C	-	-	-	-	-
D	-	-	-	-	-
Unrated	-	-	-	-	-
<b>Loss Allowance</b>	(16)	-	-	-	(16)
<b>Carrying Amount</b>	<b>P752,026</b>	<b>P -</b>	<b>P -</b>	<b>P -</b>	<b>P752,026</b>
<b>Financial asset at FVOCI</b>					
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
<b>Loss Allowance</b>	-	-	-	-	-
<b>Carrying Amount</b>	<b>P20,686</b>	<b>P -</b>	<b>P -</b>	<b>P -</b>	<b>P20,686</b>

Forward

	2020				
	Stage 1	Stage 2	Stage 3	POCI	Total
<b>Investment Assets at Amortized Cost</b>					
AAA / AA+ / AA	P -	P -	P -	P -	P -
AA- / A+	-	-	-	-	-
A / A-	-	-	-	-	-
BBB+ / BBB / BBB-	3,216,068	-	-	-	3,216,068
BB+ / BB / BB- / B+	-	-	-	-	-
B / B-	-	-	-	-	-
CCC	-	-	-	-	-
CC / C	-	-	-	-	-
D	-	-	-	-	-
Unrated	-	-	-	-	-
<b>Loss Allowance</b>	<b>(4,465)</b>	-	-	-	<b>(4,465)</b>
<b>Carrying Amount</b>	<b>P3,211,603</b>	<b>P -</b>	<b>P -</b>	<b>P -</b>	<b>P3,211,603</b>
<b>Loans and Receivables</b>					
AAA / AA+ / AA	P2,246,016	P -	P -	P -	P2,246,016
AA- / A+	1,774,117	-	-	-	1,774,117
A / A-	492,174	-	-	-	492,174
BBB+ / BBB / BBB-	-	793,657	-	-	793,657
BB+ / BB / BB- / B+	-	-	-	-	-
B / B-	-	-	-	-	-
CCC	-	-	-	-	-
CC / C	-	-	-	-	-
D	-	-	-	-	-
Unrated	-	-	-	-	-
<b>Loss Allowance</b>	<b>(29,899)</b>	<b>(103,009)</b>	-	-	<b>(P 132,908)</b>
<b>Carrying Amount</b>	<b>P4,482,408</b>	<b>P690,648</b>	<b>P -</b>	<b>P -</b>	<b>P5,173,056</b>
<b>Other Assets</b>					
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	7,202	-	-	-	7,202
<b>Loss Allowance</b>	-	-	-	-	-
<b>Carrying Amount</b>	<b>P7,202</b>	<b>P -</b>	<b>P -</b>	<b>P -</b>	<b>P7,202</b>

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

	2019				
	Stage 1	Stage 2	Stage 3	POCI	Total
<b>Due from BSP and Other Banks</b>					
AAA / AA+ / AA	P67,235	P -	P -	P -	P67,235
AA- / A+	-	-	-	-	-
A / A-	-	-	-	-	-
BBB+ / BBB / BBB-	-	-	-	-	-
BB+ / BB / BB- / B+	-	-	-	-	-
B / B-	-	-	-	-	-
CCC	-	-	-	-	-
CC / C	-	-	-	-	-
D	-	-	-	-	-
Unrated	-	-	-	-	-
<b>Loss Allowance</b>	-	-	-	-	-
<b>Carrying Amount</b>	<b>P67,235</b>	<b>P -</b>	<b>P -</b>	<b>P -</b>	<b>P67,235</b>

Forward



	2019				
	Stage 1	Stage 2	Stage 3	POCI	Total
<b>Financial Asset at FVOCI</b>					
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
<b>Investment Assets at Amortized Cost</b>					
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
<b>Loans and Receivables</b>					
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
<b>Due from Head Office</b>					
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 -
<b>Other Assets</b>					
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

### *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.

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

As at December 31, 2020 and 2019, the ECL of the Manila Branch amounted to P137.40 million and P16.51 million, respectively. The management has identified a 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 Head Office 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 Head Office.

#### *Sensitivity of ECL in Future Economic Conditions*

The ECL are sensitive to judgements and assumptions made regarding formulation of forward-looking scenarios and how such scenarios are incorporated into the calculations.

The ICBC Group has carried out sensitivity analysis of key economic variables, used in forward-looking measurement. As at December 31, 2020, when the key economic indicators in the neutral scenario move up or down by 10%, the ECL will not change by more than 5%.

This sensitivity calculation of ICBC Group is applicable to 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.

#### *Restructured Loans*

Where possible, the Manila Branch seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, the loan is no longer considered past due. Management continuously reviews restructured loans to ensure that all criteria are met and the future payments are likely to occur. When the loan has been restructured but not derecognized, the Bank also reassesses whether there has been a SICR and considers whether the assets should be classified as Stage 3. If the restructuring terms are substantially different, the loan is derecognized and a new 'asset' is recognized at fair value using the revised EIR.

#### *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.

#### Liquidity and Funding Risk

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, 2020 and 2019 are as follows (in thousands):

2020								
	Note	Carrying Amount	Gross Nominal Inflow/ Outflow	Less than 1 Month	1-3 Months	3-12 Months	1-5 Years	More than 5 Years
<b>Financial Assets</b>								
Due from BSP	8	P5,742,255	P5,742,255	P5,742,255	P -	P -	P -	P -
Due from other banks	9	1,778,003	1,778,003	1,778,003	-	-	-	-
Financial asset at FVTPL	12	2,594	2,594	-	-	2,594	-	-
Financial asset at FVOCI	13	20,686	20,686	20,686	-	-	-	-
Investment securities at amortized cost	14	3,211,604	3,216,068	26,832	-	-	3,189,236	-
Loans and receivables	10	5,173,056	5,305,964	30,779	-	500,000	3,835,474	939,711
Due from Head Office	17	-	-	-	-	-	-	-
Other assets*	16	7,202	7,202	-	-	-	7,202	-
		15,935,400	16,072,772	7,598,555	-	502,594	7,031,912	939,711
<b>Financial Liabilities</b>								
Deposit liabilities	19	1,649,815	1,649,815	1,649,815	-	-	-	-
Financial liability at FVTPL	12	10,055	10,055	-	-	9,416	640	-
Due to other banks		495,347	495,347	347	-	495,000	-	-
Accrued expense and other payables**	20	43,382	43,382	43,382	-	-	-	-
Due to Head Office and other branches	17	3,397,070	3,397,070	1,001	3,396,069	-	-	-
		5,595,669	5,595,669	1,694,545	3,396,069	504,416	640	-
<b>Net Liquidity Surplus (Gap)</b>		<b>P10,339,731</b>	<b>P10,447,090</b>	<b>P5,903,997</b>	<b>(P3,396,069)</b>	<b>(P1,822)</b>	<b>P7,031,272</b>	<b>P939,711</b>

\* 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.

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
<b>Financial Assets</b>								
Due from BSP	8	P38,375	P38,375	P38,375	P -	P -	P -	P -
Due from other banks	9	28,860	28,860	28,860	-	-	-	-
Financial asset at FVTPL	12	157	157	157	-	-	-	-
Financial asset at FVOCI	13	20,686	20,686	20,686	-	-	-	-
Investment securities at amortized cost	14	3,669,369	3,674,470	-	24,633	475,699	3,174,138	-
Loans and receivables	10	2,745,963	2,757,364	6,588	-	500,000	2,250,776	-
Due from Head Office	17	-	40,155	40,155	-	-	-	-
Other assets*	16	6,533	6,533	10	-	-	6,523	-
		6,509,943	6,566,600	134,831	24,633	975,699	5,431,437	-
<b>Financial Liabilities</b>								
Deposit liabilities	19	45,726	45,726	45,726	-	-	-	-
Financial liability at FVTPL	12	9,128	9,128	9,128	-	-	-	-
Due to other banks		-	-	-	-	-	-	-
Accrued expense and other payables**	20	22,778	22,778	22,778	-	-	-	-
Due to Head Office and other branches	17	2,750,137	2,750,137	(5,781)	2,512,870	243,048	-	-
		2,827,769	2,827,769	71,851	2,512,870	243,048	-	-
<b>Net Liquidity Surplus (Gap)</b>		<b>P3,682,174</b>	<b>P3,738,831</b>	<b>P62,980</b>	<b>(P2,488,237)</b>	<b>P732,651</b>	<b>P5,431,437</b>	<b>P -</b>

\* 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, 2020, 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, 2020 and 2019. Included in the table are the Manila Branch's assets and liabilities at carrying amounts, categorized by currency (PHP equivalents in thousands).

	2020			Total
	USD	EUR	CNY	
<b>Financial Assets</b>				
Due from other banks	P -	P -	P74	P74
Loans and receivables	-	704,895	-	704,895
	-	704,895	74	704,969
<b>Financial Liabilities</b>				
Deposit liabilities	-	-	257,476	257,476
Accrued interest payable	-	-	38	38
Due to Head Office and other branches	720,345	698,844	(262,098)	1,157,091
	720,345	698,844	(4,584)	1,414,605
<b>Net Position</b>	<b>(P720,345)</b>	<b>P6,051</b>	<b>P4,658</b>	<b>(P709,636)</b>

	2019			Total
	USD	EUR		
<b>Financial Assets</b>				
Due from other banks		P -	P1,878	P1,878
Loans and receivables		-	675,569	675,569
		-	677,447	677,447
<b>Financial Liabilities</b>				
Deposit liabilities		-	-	-
Accrued interest payable		-	39	39
Due to Head Office and other branches	511,471	674,762		1,186,233
	511,471	674,801		1,186,272
<b>Net Position</b>	<b>(P511,471)</b>	<b>P2,646</b>		<b>(P508,825)</b>

The table below indicates the currencies which the Manila Branch has significant exposure to as at December 31, 2020 and 2019 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.

	2020			
	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	(2.7040%)	(19,445)	2.7040	19,445
EUR	2.3400%	126	(2.3400)	(126)
CNY	0.0957%	31	(0.0957)	(31)

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	(1.9800%)	(9,604)	1.9800	9,604
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, 2020 and 2019 (in thousands):

	2020							
	Overnight to 1 Month	1-3 Months	3-6 Months	6-12 Months	1-2 Years	Beyond 2 Years	Non-rate Sensitive	Total
<b>Assets</b>								
Due from BSP	P538,857	P -	P -	P -	P -	P -	P35,295	P574,152
Due from other banks	47,473	-	-	-	-	-	130,343	177,816
Investment securities at amortized cost (gross)	-	-	-	-	712,400	2,472,371	26,832	3,211,603
Loans and receivables (gross)	-	-	-	500,000	-	4,775,185	-	5,275,185
	586,330	-	-	500,000	712,400	7,247,556	192,470	9,238,756
<b>Liabilities</b>								
Deposit liabilities	1,649,727	-	-	-	-	-	-	1,649,727
Due to Head Office and other branches	3,397,070	-	-	-	-	-	-	3,397,070
	5,046,797	-	-	-	-	-	-	5,046,797
<b>Net Repricing Gap</b>	<b>(P4,460,467)</b>	<b>P -</b>	<b>P -</b>	<b>P500,000</b>	<b>P712,400</b>	<b>P7,247,556</b>	<b>P192,470</b>	<b>P4,191,959</b>

	2019							
	Overnight to 1 Month	1-3 Months	3-6 Months	6-12 Months	1-2 Years	Beyond 2 Years	Non-rate Sensitive	Total
<b>Assets</b>								
Due from other banks	P1,664	P -	P -	P -	P -	P -	P27,196	P28,860
Investment securities at amortized cost (gross)	-	-	99,680	388,572	705,386	2,454,001	26,832	3,674,471
Loans and receivables (gross)	-	-	500,000	-	-	2,250,776	6,588	2,757,364
	1,664	-	599,680	388,572	705,386	4,704,777	60,616	6,460,695
<b>Liabilities</b>								
Deposit liabilities	45,727	-	-	-	-	-	-	45,727
Due to Head Office and other branches	-	-	2,745,369	-	-	-	4,768	2,750,137
	45,727	-	2,745,369	-	-	-	4,768	2,795,864
<b>Net Repricing Gap</b>	<b>(P44,063)</b>	<b>P -</b>	<b>(P2,145,689)</b>	<b>P388,572</b>	<b>P705,386</b>	<b>P4,704,777</b>	<b>P55,848</b>	<b>P3,664,831</b>

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, 2020 and 2019.

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, 2020 and 2019. The impact from non-parallel movements may be materially different from the estimated impact of parallel movements (in thousands).

	Increase/Decrease in Interest Rate (in basis points)	Effect in Income before Income Tax
2020	+250bps	P104,799
	-250bps	(104,799)
2019	+200bps	P72,724
	-200bps	(72,724)

#### *Market Risk*

As at December 31, 2020 and 2019, 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 2020 and 2019, 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, 2020 and 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 <1M (0.0417Y)	1M<1.5M (0.1667Y)	3M<6M (0.375Y)	6M<9M (0.625Y)	9M<1Y (0.875Y)
	1Y<1.5Y (1.25Y)	1.5Y<2Y (1.75Y)	-	-	-	-
Mid-term rates	2Y<3Y (2.5Y)	3Y<4Y (3.5Y)	4Y<5Y (4.5Y)	5Y<6Y (5.5Y)	6Y<7Y (6.5Y)	-
Long-term rates	7Y<8Y (7.5Y)	8Y<9Y (8.5Y)	9Y<10Y (9.5Y)	10Y<15Y (12.5Y)	15Y<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.

250 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 250 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.

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## **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, 2020 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, 2020 and 2019, the Manila Branch recorded a deficit amounting to P364.08 million and P227.47 million, respectively. Notwithstanding the unfavorable results, the Manila Branch is still compliant with BSP Circular No. 854.

### BASEL III

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% comprised 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, 2020 and 2019 based on Basel III requirements reported to the BSP is shown below (amounts in millions):

	2020	2019
Tier 1 Capital	<b>P3,607</b>	P3,741
Tier 2 Capital	<b>36</b>	10
Total Qualifying Capital	<b>P3,643</b>	P3,751
Total Risk-weighted Assets	<b>4,216</b>	1,933
Common Equity Tier 1 Ratio	<b>85.54%</b>	193.53%
Capital Conservation Buffer	<b>79.54%</b>	187.53%
Tier 1 Capital Ratio	<b>85.54%</b>	193.53%
Total Capital Adequacy Ratio	<b>86.40%</b>	194.03%

The breakdown of the Manila Branch's risk-weighted assets as at December 31, 2020 and 2019 are as follows (amounts in millions):

	2020	2019
Credit risk	<b>P4,031</b>	P1,905
Operational risk	<b>156</b>	18
Market risk	<b>30</b>	11
	<b>P4,217</b>	P1,934

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 2020 and 2019 based on the Basel III Leverage Ratio Report as at December 31, 2020 and 2019 as presented below (in millions):

	2020	2019
On balance sheet exposure	<b>P9,326</b>	P6,680
Derivative exposures	<b>11</b>	-
Off-balance sheet exposures	<b>456</b>	410
Total exposures (a)	<b>9,793</b>	7,090
Tier 1 Capital (b)	<b>3,607</b>	3,741
Basel III: Leverage Ratio (b)/(a)	<b>36.83%</b>	52.76%

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 reports submitted to the BSP as at December 31, 2020 and 2019, the Manila Branch's LCR is 261% and 546%, respectively, which are above the prescribed minimum requirement initially set at 100.0% (amounts in millions):

	2020
High- Quality Liquid Assets (a)	<b>P3,928</b>
Net Cash Outflows (b)	<b>1,507</b>
Liquidity Coverage Ratio (a/b)	<b>261%</b>
	2019
High- Quality Liquid Assets (a)	P3,825
Net Cash Outflows (b)	701
Liquidity Coverage Ratio (a/b)	546%

#### Net Stable Funding Ratio (NSFR)

Based on the NSFR reports submitted to the BSP as at December 31, 2020 and 2019, the Manila Branch's NSFR is 155% and 235%, respectively, which are above the prescribed minimum requirement initially set at 100.0% (amounts in millions).

	2020
Available stable funding (ASF)	<b>P6,417</b>
Required stable funding (RSF)	<b>4,153</b>
Ratio of ASF to RSF	<b>155%</b>
	2019
Available stable funding (ASF)	P5,147
Required stable funding (RSF)	2,188
Ratio of ASF to RSF	235%

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.

#### Reserve for 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 P14.93 million and P16.11 million as at December 31, 2020 and 2019, respectively, to comply with such requirement.

#### 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. The Manila Branch submitted its latest ICAAP document on June 28, 2019. 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.

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## **7. Fair Value Measurement**

The majority of valuation models deploy only observable market data as inputs. This has not changed as a result of COVID-19, however the Manila Branch has considered the impact of related economic and market disruptions on fair value measurement assumptions and the appropriateness of valuation inputs, notably valuation adjustments, as well as the impact of COVID-19 on the classification of exposures in the fair value hierarchy.

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, and Due to Other Banks*  
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 securities 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 amortized cost 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):

	2020				
	Carrying Amount	Level 1	Level 2	Level 3	Fair Value
<b>Assets Measured at Fair Value</b>					
Financial asset at FVTPL:					
Derivative assets	P2,594	P -	P2,594	P -	P2,594
Financial asset at FVOCI:					
Unquoted equity	20,686	-	-	20,686	20,686
<b>Assets for which Fair Values are Disclosed</b>					
Financial assets at amortized cost:					
Investment securities at amortized cost	3,216,068	3,216,068	-	-	3,216,068
Loans and receivables	5,305,964	-	-	5,305,964	5,305,964
Other assets*	7,202	-	-	7,202	7,202
	P8,552,514	P3,216,068	P2,594	P5,333,852	P8,552,514
<b>Liabilities Measured at Fair Value</b>					
Financial liability at FVTPL					
Derivative liabilities	P10,055	P -	P10,055	P -	P10,055
<b>Liabilities for which Fair Values are Disclosed</b>					
Due to other banks	495,347	-	-	495,347	495,347
Due to Head Office and other branches	3,397,070	-	-	3,397,070	3,397,070
Deposit liabilities	1,649,815	-	-	1,649,815	1,649,815
Accrued expenses and other payables**	43,395	-	-	43,395	43,395
	P5,585,627	P -	P10,055	P5,585,627	P5,585,627

\*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.

	2019				
	Carrying Amount	Level 1	Level 2	Level 3	Fair Value
<b>Assets Measured at Fair Value</b>					
Financial asset at FVTPL:					
Derivative assets	P157	P -	P157	P -	P157
Financial asset at FVOCI:					
Unquoted equity	20,686	-	-	20,686	20,686
<b>Assets for which Fair Values are Disclosed</b>					
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
Other assets*	6,533	-	-	6,533	6,533
	P6,459,210	P3,674,470	P157	P2,784,583	P6,459,210
<b>Liabilities Measured at Fair Value</b>					
Financial liability at FVTPL					
Derivative liabilities	P9,128	P -	P9,128	P -	P9,128
<b>Liabilities for which Fair Values are Disclosed</b>					
Due to Head Office and other branches	2,750,137	-	-	2,750,137	2,750,137
Deposit liabilities	45,726	-	-	45,726	45,726
Accrued expenses and other payables**	22,791	-	-	22,791	22,791
	P2,827,782	P -	P9,128	P2,818,654	P2,827,782

\*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, 2020 and 2019, there have been no transfers into and out of each of the levels of the fair value hierarchy.

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#### 8. Due from Bangko Sentral ng Pilipinas

Due from Bangko Sentral ng Pilipinas consists of:

	2020	2019
Overnight Deposit Facility account (ODF)	P390,048,750	P -
Overnight Reverse Repurchase (RRP)	148,881,578	-
Demand Deposit account (DDA)	35,295,210	38,374,580
	<b>P574,225,538</b>	<b>P38,374,580</b>

ODF represents short-term interest-earning balances for funds placed with the BSP which earned interest rate ranging from 1.50% to 3.50% per annum in 2020.

RRP pertains to overnight lending transactions with interest rates ranging from of 2.00% to 4.00% per annum in 2020.

DDA represents non-interest earning deposit maintained by the Philippine Branch with BSP.

Interest income on Due from BSP amounted to P8.50 million in 2020 and nil in 2019.

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#### 9. Due from Other Banks

This account consists of the following:

	Note	2020	2019
Due from other banks		P177,816,021	P28,860,364
Allowance for credit and impairment losses	11	(15,703)	(163)
		<b>P177,800,318</b>	<b>P28,860,201</b>

Due from other banks amounting to P177.80 million represent deposit accounts with domestic and foreign banks which earn interest at the prevailing rate of .10% to .125% per annum in 2020 and 2.5% in 2019 for PHP denominated transactions, while .05% to 1% per annum in 2020 and .25% in 2019 for foreign currency-denominated transactions.

Interest income earned from these savings account amounted to P0.53 million and P1.97 million in 2020 and 2019, respectively, presented under "Interest income calculated using the effective interest method" account in the statements of comprehensive income.

Out of the total deposits with other banks, the Manila Branch's foreign currency deposit under FCDU as at December 31, 2020 and 2019 amounted to P168.77 million and P27.23 million, respectively.

## 10. Loans and Receivables

This account consists of:

	Note	2020	2019
Loans to customers at amortized cost:			
Syndicated loans		P4,775,184,920	P2,250,776,385
Corporate loans		500,000,000	500,000,000
Accrued interest receivable:		30,779,078	6,587,739
		5,305,963,998	2,757,364,124
Allowance for credit and impairment losses	11	(132,908,274)	(11,400,839)
		P5,173,055,724	P2,745,963,285

As at December 31, 2020, 82.01% of the total loans of the Manila are subject to periodic interest repricing (2019: 63.42%). Remaining peso denominated loans earn annual interest rates ranging from 3.87% to 4.90% per annum in 2020 and 5.13% to 5.48% in 2019. Foreign-currency denominated receivables from customers are subject to annual interest rates ranging from 1.05% to 6.94% per annum in 2020 and 1.05% to 6.25% in 2019.

Interest income earned from loans and receivables amounted to P160.80 million and P24.76 million in 2020 and 2019, respectively.

On March 25, 2020, Republic Act No. 11469, otherwise known as the Bayanihan to Heal as One Act ("Bayanihan 1") was enacted. Bayanihan 1 provides that all covered institutions shall implement a 30-day grace period for all loans with principal and/or interest falling due within the enhanced community quarantine period without incurring interest on interest, penalties, fees and other charges. Subsequently, on September 11, 2020, Republic Act No. 11494, otherwise known as the Bayanihan to Recover as One Act ("Bayanihan 2") was enacted. Under Bayanihan 2, a one-time 60-day grace period is granted for the payment of all existing, current and outstanding loans falling due, or any part thereof, on or before December 31, 2020, without incurring interest on interest, penalties, fees and other charges, thereby extending the maturity of the said loans.

Based on the Manila Branch's assessment, the modifications in the contractual cash flows as a result of the above reliefs are not substantial and therefore did not result in the derecognition of the affected financial assets.

### BSP Regulatory Reporting

The following table shows the breakdown of loans and advances to customers at amortized cost, excluding allowance for credit and impairment losses and accrued interest receivable, as to secured and unsecured and the breakdown of secured loans as to type of security as at December 31, 2020 and 2019:

	2020		2019	
	Amounts	%	Amounts	%
Secured loans:				
Real estate mortgages	P2,091,682,067	39.7%	P506,350,000	18.4%
Unsecured loans	3,183,502,853	60.3%	2,244,426,385	81.6%
	P5,275,184,920	100.0%	P2,750,776,385	100.0%

As at December 31, 2020 and 2019, there were no loans pledged as collateral for liabilities.

As at December 31, 2020 and 2019, information on the concentration of credit as to industry follows (amounts in thousands, except percentages):

	2020		2019	
	Amount	%	Amount	%
Government and official institutions	P -	0.0%	P -	0.0%
Financial institutions	250,000	4.7%	-	0.0%
Electricity, energy, power	977,268	18.5%	1,569,685	57.1%
Manufacturing	944,209	17.9%	681,091	24.8%
Real estate, renting and business activities	1,220,345	23.1%	500,000	18.2%
Transportation and storage	792,380	15.0%	-	-
Others*	1,090,983	20.7%	-	0.0%
	<b>P5,275,185</b>	<b>100.0%</b>	<b>P2,750,776</b>	<b>100.0%</b>

*\*Others include Information and Communication and Water Supply, Sewerage, Waste Management and Remediation Activities.*

BSP considers that concentration of credit risk exists when the total loan exposure to a particular industry or economic sector exceeds 30.0% of the total loan portfolio.

As at December 31, 2020 and 2019, the Manila Branch has 18.53% and 57.06% concentration in the electricity, energy, power sector, respectively. Management believes that the high concentration in the electricity, energy, power sector 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, 2020 and 2019, other than the above mentioned, the Manila Branch has no credit concentration risk to any particular industry exceeding 10% of Tier 1 capital.

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, 2020 and 2019, 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 2020 and 2019, the Manila Branch has been in compliance with the regulations on Single Borrower's Limit of the BSP. As at December 31, 2020 and 2019, there were no loans pledged as collateral for liabilities.

On March 14, 2020, the BSP issued BSP Memorandum No. M-2020-008 Regulatory Reliefs for BSP-supervised financial institutions (BSFIs) Affected by the COVID-19, as amended by M-2020-0032 dated April 27, 2020 and M-2020-0022 dated April 8, 2020. The said memorandum provides for certain temporary regulatory relief measures for financial institutions supervised by the BSP, as follows:

- Staggered booking of allowance for credit losses over a maximum of five years for all types of credits extended to individuals and businesses directly affected by COVID-19 as of March 8, 2020, subject to prior approval of the BSP;
- Exclusion from the computation of past due and non-performing classification, the loans by borrowers in affected areas which should have been reclassified as past due as of March 8, 2020, including those loans becoming past due or non-performing six months thereafter, subject to the following: (a) such loans shall be reported to the BSP; (b) the exclusion shall be allowed from March 8, 2020 until December 31, 2021; and (c) BSP documentary requirements for restructuring of loans may be waived provided that the Bank will adopt appropriate and prudent operational control measures;
- Non-imposition of monetary policies for delays incurred in the submission of all supervisory reports to BSP due to be submitted from March 8, 2020 up to six months thereafter;
- Non-imposition of penalties on legal reserve deficiencies computed under Section 255 of the MORB starting from reserve week following March 8, 2020 up to six months thereafter, subject to prior approval of the BSP;
- Increase in the Single Borrower's Limit (SBL) from 25.0% to 30.0% until March 31, 2021;
- Allowance of (a) loans to Micro, Small and Medium Enterprises (MSMEs) and (b) loans to critically impacted large enterprises as alternative mode of compliance with reserve requirements until December 31, 2021; and

- Provision of financial assistance to officers affected by the present health emergency, for the grant of loans, advances or any other forms of credit accommodations, subject to the submission by the bank of a request for BSP approval within 30 calendar days from the approval thereof.

As at December 31, 2020, the Manila Branch did not avail any of the reliefs above.

## 11. Allowance for Credit and Impairment Losses

The composition and movements in the account are as follows:

	2020					Total
	Due from Other Banks (Note 9)	Investments in Securities at Amortized Cost (Note 14)	Loans and Receivables (Note 10)	Commitments and Financial Guarantee Contracts		
Balance at January 1, 2020	P163	P5,101,180	P11,400,839	P12,365		P16,514,547
Impairment loss for the year	14,594	(636,626)	121,507,435	542		120,885,945
Effect of foreign exchange rate difference	946	-	-	(473)		47
<b>Balance at December 31, 2020</b>	<b>P15,703</b>	<b>P4,464,554</b>	<b>P132,908,274</b>	<b>P12,434</b>		<b>P137,400,965</b>

	2019					Total
	Due from Other Banks (Note 9)	Investments in Securities at Amortized Cost (Note 14)	Loans and Receivables (Note 10)	Due from Head Office (Note 17)	Commitments and Financial Guarantee Contracts	
Balance at January 1, 2019	P -	P -	P -	P -	P -	P -
Impairment loss for the year	163	5,101,180	11,400,839	P40,155,425	12,365	56,669,972
Write-off during the year	-	-	-	(40,155,425)	-	(40,155,425)
<b>Balance at December 31, 2019</b>	<b>P163</b>	<b>P5,101,180</b>	<b>P11,400,839</b>	<b>P -</b>	<b>P12,365</b>	<b>P16,514,547</b>

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

This account consists of:

	Note	2020	2019
<b>Financial Asset</b>			
Currency swap		<b>P2,594,190</b>	P156,605
		<b>P2,594,190</b>	P156,605
<b>Financial Liability</b>			
Currency swap		<b>P9,415,779</b>	P9,128,000
Interest rate swap	<b>17</b>	<b>639,537</b>	-
		<b>P10,055,316</b>	P9,128,000

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 foreign exchange loss on financial assets and liabilities at FVTPL is presented in "Foreign exchange loss - net" account in the statements of comprehensive income for the period ending December 31, 2020 and 2019 amounted to P15.75 million P1.57 million, respectively.

Terms of the notional amounts of the positive and negative fair values of the currency swaps which are USD10,000,000 and USD5,000,000, 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.

On the other hand, the interest rate swap has a notional amount of USD 7,000,000 with a payment fixed rate of 0.49% quarterly and receiving rate of USD Libor 3months + 0 basis point quarterly. Term of the interest rate swap is five (5) years.

As at December 31, 2020 and 2019, there were no financial assets at FVTPL pledged as collateral for liabilities.

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### 13. 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, 2020 and December 31, 2019.

As at December 31, 2020 and 2019, there were no financial assets at FVOCI pledged as collateral for liabilities.

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### 14. Investment Securities at Amortized Cost

This account consists of:

	<i>Note</i>	<b>2020</b>	<b>2019</b>
Treasury bonds		<b>P3,189,235,785</b>	P3,159,386,317
Treasury bills		-	488,251,027
Accrued interest receivable		<b>26,832,377</b>	26,832,377
		<b>3,216,068,162</b>	3,674,469,721
Allowance for credit and impairment losses	<i>11</i>	<b>(4,464,554)</b>	(5,101,180)
		<b>P3,211,603,608</b>	P3,669,368,541

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% per annum in 2020. Interest income on these government securities amounted to P188.34 million and P172.68 million in 2020 and 2019, respectively, and is presented under "Interest income calculated using effective interest method" in the statements of comprehensive income.

Accrued interest income, shown as part of Accrued interest receivable under "Investment Securities at Amortized Cost - net" amounted to P26.83 million and P26.83 million as at December 31, 2020 and 2019, respectively. The annual nominal interest rates on government bonds range from 3.50% to 6.25% per annum and 0.00% to 6.25% per annum in 2020 and 2019, respectively.

As at December 31, 2020 and 2019, allowance for credit and impairment losses amounted to P4.46 million and P5.10 million, respectively (see Note 11).

None of these investments were disposed of or pledged as collateral for liabilities as at December 31, 2020.

## 15. Property and Equipment

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

	2020				
	Right-of-Use Assets (Note 21)	Office Furniture and Fixtures	Electronic Equipment	Leasehold Improvements	Total
<b>Cost</b>					
Balance as at January 1, 2020	P78,616,916	P43,160,859	P43,880,352	P42,935,409	P208,593,536
Additions	9,943,292	963,780	2,366,373	-	13,273,445
Balance at end of year	88,560,208	44,124,639	46,246,725	42,935,409	221,866,981
<b>Accumulated Depreciation and Amortization</b>					
Balance at beginning of year	15,320,251	9,083,272	15,627,383	9,200,445	49,231,351
Depreciation and amortization	18,326,046	9,246,631	16,321,444	9,200,445	53,094,565
Balance at end of year	33,646,297	18,329,903	31,948,827	18,400,890	102,325,916
<b>Net Book Value</b>					
Balance at beginning of year	P63,296,665	P34,077,587	P28,252,969	P33,734,964	P159,362,185
Balance at end of year	P54,913,911	P25,794,736	P14,297,898	P24,534,519	P119,541,065

	2019				
	Right-of-Use Assets (Note 21)	Office Furniture and Fixtures	Electronic Equipment	Leasehold Improvements	Total
<b>Cost</b>					
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
<b>Accumulated Depreciation and Amortization</b>					
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
<b>Net Book Value</b>					
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

As at December 31, 2020 and 2019, there are no fully depreciated property and equipment still in use.

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. These have been properly reclassified to the respective fixed asset accounts in 2019.

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:

	<i>Note</i>	<b>2020</b>	<b>2019</b>
Security deposits	21	<b>P7,202,448</b>	P6,522,549
Creditable withholding tax		<b>4,027,417</b>	92,856
Prepayments		<b>2,827,731</b>	2,261,404
Interest Rate (IR) swap interest receivable	17	<b>99,742</b>	-
Accounts receivable		-	10,359
Other long-term prepayments	21	<b>5,616,342</b>	4,676,998
		<b>P19,773,680</b>	P13,564,166

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

Interest rate swap receivable pertains to the interest receivable that Manila Branch has from the interest rate swap agreement with ICBC HO (See Note 17).

Prepayments pertain to advance payments on telecommunication and insurance expenses.

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, 2020 and 2019, there were no item of other assets pledged as collateral for liabilities.

## 17. 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, key management personnel and retirement plan. 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, 2020 and 2019 in (thousands):

Related Party/ Transactions	Note	Year	Amount/ Volume	Outstanding Balance		Nature, Terms and Conditions
				Due from Related Party	Due to Related Party	
Parent						
<i>Due from Head Office</i>						
<i>Due from banks</i>	<i>a</i>					
Deposits		2020	P48,461,788	P788,450	P -	Working fund with
Withdrawals			(47,683,887)	-	-	Head office; short term,
Deposits		2019	9,763,515	10,549	-	unsecured and
Withdrawals			(9,752,966)	-	-	unimpaired
<u>Accrued interest</u>	<i>a</i>	2020	534	-	-	
<u>Receivable</u>		2019	340	-	-	
<i>Due to Head Office</i>						
<u>Interoffice borrowings</u>						Fixed rate, interest
Proceeds	<i>b</i>	2020	13,841,342	-	3,141,805	bearing borrowings to
Withdrawals			(12,274,342)	-	-	Head office; short
Proceeds	<i>b</i>	2019	6,167,400	-	1,574,806	term, unsecured
Withdrawals			(4,592,594)	-	-	
<u>Accrued interest</u>	<i>b</i>	2020	12,494	-	352	
<u>Payable</u>		2019	13,536	-	4,465	
Entities under Common Control						
<i>Due from Other Branches</i>						
<u>Deposits and placements</u>						
Deposits	<i>a</i>	2020	34,962,426	261,670	-	Working fund with
Withdrawals			(34,700,756)	-	-	Head office; short
Deposits		2019	-	-	-	term, unsecured and
Withdrawals			-	-	-	unimpaired
<u>Accrued interest</u>		2020	5,513	167	-	
<u>Receivables</u>		2019	-	-	-	
<i>Due to Other Branches</i>						
<u>Interoffice borrowings</u>						
Proceeds	<i>b</i>	2020	28,110,474	-	1,304,382	Fixed rate, interest
Withdrawal			(27,987,204)	-	-	bearing borrowings to
Proceeds		2019	1,788,732	-	1,181,112	other ICBC branches;
Withdrawal			(607,620)	-	-	short term, unsecured
Accrued interest payable		2020	20,279	-	817	
		2019	111	-	303	
Due to Head Office and Other Branches						
		2020	P -	P -	P4,447,356	
		2019	P -	P -	P2,760,686	
Due from Head Office and Other Branches						
		2020		P1,050,287	P -	
		2019		P10,549	P -	

- a. Deposits pertain to demand deposit accounts used for inter-branch transactions with head office and other branches. Placements are short term unsecured lending to head office and other branches.

Interest income earned on deposit demand accounts for the period ended December 31, 2020 and 2019 amounted to P0.53 million and P0.34 million, respectively.

As at December 31, 2020 and December 31, 2019 accrued interest from placements with interest rates ranging from 1.00% to 3.30% per annum booked under FCDU amounted to P0.17 million and nil while, interest income earned amounted to P5.51 million and nil, respectively.

- b. These represent short-term loan borrowings and payable from the Head Office and other branches. The short-term loan borrowings have variable interest rates benchmarked to the London Interbank Offer Rate (LIBOR). In 2020, interest rates booked under RBU range from 0.12% to 2.11% per annum, while interest rates booked under FCDU range from -0.38% to 2.13% per annum.

Interest accrued on these short-term loan borrowings for the period ended December 31, 2020 and 2019 amounted to P1.17 million and P4.77 million, respectively while, interest expense amounted to P33.12 million and P13.65 million, respectively.

Moreover, the Manila Branch has an outstanding payable amounting to P20.3 million to head office which pertains to the amount paid by the HO in behalf of the Manila Branch to the PCHC.

#### *Financial instruments at FVPL*

The Manila Branch entered an interest rate swap contract with the Head Office. The interest rate swap has a notional amount of USD 7,000,000 with a payment fixed rate of 0.49% quarterly and receiving rate of USD Libor 3months + 0 basis point quarterly. Term of the interest rate swap is five (5) years (see Note 12).

The interest rate swap receivable, interest rate swap liability, financial liability at FVTPL and foreign exchange loss recognized by the Manila Branch for the period ended December 31, 2020 amounted to P99,742, P223,803, P639,537 and P764,980, respectively.

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, 2020 and 2019, 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 Manila Branch's compensation to key management personnel shown as part of "Salaries, bonus and allowances" account in the statements of comprehensive income for the period December 31, 2020 and 2019 amounted to P101.32 million and P91.57 million, respectively.

*Transactions with Retirement Plan*

Under PAS 24, certain post-employment benefit plans are considered as related parties. The Manila Branch's retirement plan is in the form of a trust administered by a trustee bank. The Manila Branch maintains a payroll account with the trustee bank (Note 22).

The Manila Branch's contribution to its defined benefits retirement plan amounted to P2.11 million and nil in 2020 and 2019, respectively.

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## 18. Due to Other Banks

This account consists of the following:

	2020	2019
Due to other banks	P495,000,000	P -
Accrued interest payable	347,259	-
	<b>P495,347,259</b>	<b>P -</b>

Due to other banks amounting to P495.35 million represent interbank loans payable to Metropolitan Bank and Trust Company which accrues interest at the prevailing rate of 1.49% per annum in 2020 and nil in 2019.

Accrued interest payable and interest expense arising from due to other banks amounted to P347,259 and nil as at December 31, 2020 and 2019, respectively.

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## 19. Deposit Liabilities

In 2020, peso-denominated, dollar-denominated and yuan-denominated current deposits are subject to annual interest rates of 0.125%, 0.025% and 0.15%, respectively. In 2019, Peso-denominated and dollar denominated current deposits are subject to annual interest rates of 0.25% and 0.13%, respectively. The deposit liabilities as at December 31, 2020 and 2019 amounted to P1.65 billion and P45.71 million, respectively.

Accrued interest payable arising from deposit liabilities amounted to P87,810 and P15,938 as at December 31, 2020 and 2019, respectively.

Interest expense arising from deposit liabilities amounted to P1.05 million and P0.07 million as at December 31, 2020 and 2019, 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.



Following the reduction in reserved requirement effective December 6, 2019 to 10.00%, the BSP issued Circular No. 1082, Reduction in Reserve Requirement, dated March 23, 2020 which approves the decrease in the reserve requirement ratios of deposit and deposit substitute liabilities of universal and commercial banks and non-bank financial institutions with quasi-banking functions to 12.00%. The Circular took effect on April 3, 2020.

As at December 31, 2020, the Manila Branch is compliant with BSP Circular No. 1082, as applicable. The Manila Branch has reserves maintained as at December 31, 2020 and 2019 amounting to P35.39 million and P38.37 million, respectively. Total Due from BSP reported as required reserves amounted to P574.23 million and P38.37 million as at December 31, 2020 and 2019, respectively (see Note 8).

## 20. Accrued Expenses and Other Payables

This account consists of:

	<i>Note</i>	<b>2020</b>	<b>2019</b>
Accrued salaries		<b>P43,078,896</b>	P19,109,982
Accrued taxes		<b>10,682,716</b>	12,294,634
Accrued penalties		<b>9,133,309</b>	4,718,934
Accounts payable		<b>303,555</b>	3,668,038
IR swap interest payable	17	<b>223,803</b>	-
Statutory contributions		<b>153,626</b>	139,026
Provision for liability	11	<b>12,434</b>	12,364
Income tax payable		-	336,124
Other accrued expenses		<b>1,121,913</b>	1,222,888
		<b>P64,710,252</b>	P41,501,990

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

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

Accrued penalties pertain to 2019 and 2020 accrual of 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 outstanding rent payable by the Manila Branch.

IR swap interest payable pertains to the interest payable that Manila Branch has from the interest rate swap agreement with ICBC HO.

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.

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## 21. Leases

### *Leases Within the Scope of PFRS 16*

The Manila Branch has two outstanding lease contracts as at December 31, 2020. These refer to the contract for the lease of office premises, parking lots and external signage.

The rent agreement for its office premises and parking lots 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.

Meanwhile, rent agreement for its external signage is for a period of forty-three months, commencing on March 1, 2020 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.

Upon signing of the contract, the Manila Branch paid advance rent for office units and external signage equivalent to three (3) months' rent amounting to P4.68 million and P0.84 million respectively, 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 maintenance, construction and security of its office premises. As at December 31, 2020 and 2019, the Manila Branch's refundable deposits amounted to P7.20 million and P6.52 million, respectively (see Note 16).

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).

	<b>Note</b>	<b>2020</b>	<b>2019</b>
Balance at 1 January		<b>P63,296,665</b>	P78,616,916
Additions		<b>9,943,292</b>	-
Amortization		<b>(18,326,046)</b>	(15,320,251)
Balance at 31 December	<b>15</b>	<b>P54,913,911</b>	P63,296,665

## II. Lease Liabilities

Lease liabilities are payable as follows:

	2020	2019
Maturity analysis - contractual undiscounted cash flows		
Less than one year	P20,237,232	P16,398,554
More than one year	36,788,965	48,497,389
Total undiscounted lease liabilities at December 31	57,026,197	64,895,943
Lease liabilities included in the statements of assets, liabilities and fund balance as at December 31	55,333,723	63,381,657
Current	P19,470,047	P15,997,021
Non-current	P35,863,676	P47,384,636

## III. Amounts Recognized in Profit or Loss

	2020	2019
Depreciation of right-of-use assets	P18,326,046	P15,320,251
Expenses relating to rent on car lease	9,005,481	6,505,872
Interest on lease liabilities	822,329	382,413
Total	P28,153,856	P22,208,536

## IV. Amount Recognized in Statement of Cash Flows

	2020	2019
Lease liabilities	P17,991,226	P15,235,258
Rent on car lease	9,005,481	6,505,872
Interest expense on lease liabilities	822,329	382,413
Total	P27,819,036	P22,123,543

### *Leases Outside the Scope of PFRS 16*

In January 2020, the Manila Branch entered into a car lease contract for its employees' transportation needs. The rent agreement is for a period of three (3) years beginning on December 3, 2019 and expiring on December 16, 2022 wherein parties may extend rental term upon mutual agreement in writing. This lease contract is not considered as lease contract under PFRS 16 since the lessor has substantive substitution rights on leased asset. The Manila Branch accounted for this as an expense in exchange for a service.

Future lease obligations on car lease is payable as follows:

	2020	2019
Less than one year	P1,447,680	P1,568,320
Between one and five years	1,327,040	2,774,720
Total	P2,774,720	P4,343,040

## 22. Retirement

The Manila Branch has a funded, non-contributory, defined benefit plan covering all of its officers and permanent employees (the "Plan"). Contributions and costs are determined in accordance with the actuarial studies made for the plan. Annual cost is determined using the projected unit credit method. The Manila Branch's latest actuarial valuation date is as at December 31, 2020. Valuations are obtained on a periodic basis.

The Plan entitles a retired employee to receive a lump sum pension payment. Employees who retire at the normal age of 60 with at least five (5) years of credited service are entitled to receive payment equal to 100% of the latest monthly salary per year of service.

Employees who are allowed by the Manila Branch to continue to work on a yearly extension basis beyond their normal retirement age shall continue to be a member of the Plan until they retire. However, the benefit shall be computed only up to the employee's normal retirement date.

The Plan is registered with the BIR as a tax-qualified plan under Republic Act No. 4917, an act providing that retirement benefits of employees of private firms shall not be subject to attachment, levy, execution or any tax whatsoever, as amended. The control and administration of the plan is vested in the senior management. The retirement plan is being administered by its trustee, BDO Unibank, Inc..

The movements of the retirement liability in the statements of financial position are as follows:

	2020
Defined benefit cost recognized in profit and loss	P2,236,592
Remeasurement gain - plan assets	(2,751)
Contributions to the plan	(2,111,132)
Retirement Liability as at December 31, 2020	P122,709

The details of the retirement plan recognized in the statement of comprehensive income is shown below:

	Note	2020
<b>Included in profit or loss</b>		
Current service cost		P2,236,592
	24	P2,236,592
<b>Included in other comprehensive income</b>		
Remeasurement gain on retirement liability		P2,751
Tax effect		(825)
<b>Balance at December 31</b>		<b>P1,926</b>

As at December 31, 2020, the principal actuarial assumptions used to determine the defined benefit obligation are as follows:

	2020
Discount rate	3.83%
Future salary increase rate	4.00%

Mortality rate is based on the 2001 CSO Table - Generational (Scale AA, Society of Actuaries). The disability rate used by the actuary is based on The Disability Study, Period 2 Benefit 5 (Society of Actuaries).

As at December 31, 2020, the weighted-average duration of the defined benefit obligation is 19.0 years.

#### Maturity Analysis

The following table shows the 10-year projection of expected future benefit payments of the defined benefit obligation as at December 31, 2020:

Financial Year	Amount
2021	P14,016
2022	20,522
2023	28,504
2024	38,369
2025	50,634
2026-2030	4,905,802

#### Sensitivity Analysis

The following table shows the sensitivity of the present value of defined benefit obligation as at December 31, 2020 to changes in the following actuarial assumptions:

	Defined Benefit Obligation	
	Increase	Decrease
Discount rate (1% movement)	(P376,030)	P476,031
Future salary growth (1% movement)	470,070	(378,724)

### **23. Fees and Commissions**

This account consists of:

	2020	2019
Commission income	<b>P13,123,908</b>	P10,889,771
Guarantee fees	<b>2,561,210</b>	249,441
Remittance fees	<b>47,668</b>	13,025
Advisory fees	<b>5,367</b>	-
	<b>P15,738,153</b>	P11,152,237

The Manila Branch has unearned income on guarantees pertaining to fees received in advance on its issuance of financial guarantees amounting to P2.38 million and P2.21 million as at December 31, 2020 and December 31, 2019, respectively. The unearned income is presented in the "Other liabilities" account in the statements of financial position.

## 24. Salaries, Bonuses and Allowances

This account consists of:

	2020	2019
Salaries and wages	P141,132,117	P119,628,664
Employee benefits	27,580,371	31,425,445
	<b>P168,712,488</b>	<b>P151,054,109</b>

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

Employee benefits consists of retirement benefits, insurance, rent, subsidies, and other benefits provided to its employees.

## 25. General and Administrative Expenses

General and administrative expenses consist of:

	Note	2020	2019
Utilities		P9,544,117	P10,833,802
Communications		5,193,458	4,339,136
Penalties	20	4,414,375	4,718,934
Agent bank charges		3,647,344	1,875,068
Service charges		1,615,959	-
Membership fees and dues		1,469,976	10,793,000
Trainings		1,408,769	1,145,847
Donation		100,035	-
Office supplies		99,488	1,487,786
Advertising		-	2,354,232
Others		6,088,101	3,877,055
		<b>P33,581,622</b>	<b>P41,424,860</b>

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.

Service charges pertain to expenses incurred after a settlement service or advisory services were acquired from other institutions.

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.

Others include equipment rent, company social, security services, repairs and maintenance among others.

## 26. 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:

	2020	2019
Current:		
RBU	P -	P -
FCDU	6,649,369	1,114,738
Final taxes	39,653,966	34,927,968
Deferred income tax benefit	(37,638)	-
	<b>P46,265,697</b>	<b>P36,042,706</b>

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

	2020	2019
Loss before income tax expense	(P91,520,231)	(P155,136,821)
Statutory income tax	(P27,456,069)	(P46,541,046)
Adjusted for the tax effects of:		
Tax-paid and tax-exempt income	(61,342,186)	(42,865,899)
Nondeductible expense	26,881,241	18,415,883
Unrecognized deferred tax assets	79,930,595	74,335,276
Final tax expense	39,653,966	34,927,968
Difference on statutory rate and 10% special rate for FCDU	(11,371,212)	(2,229,476)
Others	(37,638)	-
Income tax expense	P46,265,697	P36,042,706

The component of deferred tax assets for 2020 follow:

	Tax Base	Tax Effect
Retirement liability	P122,709	P36,813

The movement in the deferred tax balances as recognized in the statements of income and expenses and statements of comprehensive income is as follows:

	Balance at Beginning of Year	Recognized in Profit or Loss	Recognized in OCI	Balance as at December 31, 2020
Retirement liability	P -	P37,638	(P825)	P36,813
Deferred tax assets (liabilities)	P -	P37,638	(P825)	P36,813

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:

	2020		2019	
	Deductible Temporary Differences	Deferred Tax Asset	Deductible Temporary Differences	Deferred Tax Asset
NOLCO	P377,933,565	P113,380,070	P237,226,877	P71,168,063
Loss allowance	137,400,965	41,220,290	16,514,546	4,954,364
Accrued salaries	23,968,914	7,190,674	19,109,982	5,732,995
Accrued expenses	-	-	16,723	5,017
	P539,303,444	P161,791,034	P272,868,128	P81,860,439

As at December 31, 2020 and 2019, the Manila Branch has outstanding NOLCO amounting to P377.93 million and P237.23 million, respectively.

The BIR issued Revenue Regulations (RR) No. 25-2020 to implement Section 4 of R.A. No. 11494, Bayanihan to Recover as One Act, which provides that the NOLCO incurred for taxable years 2020 and 2021 can be carried over as a deduction from gross income for the next five (5) consecutive taxable years immediately following the year of such loss.



Details of the Company's NOLCO under RR No. 25-2020 are as follows:

Inception Year	Amount	Expired/Used	Balance	Expiry Year
2020	P140,746,679	P -	P140,746,679	2025

Details of the Manila Branch's NOLCO not covered by RR No. 25-2020 which could be carried over as a deduction from the Manila Branch's future taxable income for the next three (3) succeeding taxable years are as follows:

Inception Year	Amount	Expired/Used	Balance	Expiry Year
2018	P25,071,350	P -	P25,071,350	2021
2019	212,155,527	39,991	212,115,536	2022
<b>Total</b>	<b>P237,226,877</b>	<b>P39,991</b>	<b>P237,186,886</b>	

## 27. 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):

	2020			2019		
	Within One Year	Beyond One Year	Total	Within One Year	Beyond One Year	Total
<b>Financial Assets at Gross</b>						
Due from BSP	P574,226	P -	P574,226	P38,375	P -	P38,375
Due from other banks	177,800	-	177,800	28,860	-	28,860
Financial asset at FVTPL	2,594	-	2,594	157	-	157
Financial asset at FVOCI	20,686	-	20,686	20,686	-	20,686
Investment securities at amortized cost	1,623,809	1,587,794	3,211,603	500,332	3,174,138	3,674,470
Loans and receivables	530,779	4,775,185	5,305,964	506,588	2,250,776	2,757,364
Due from Head Office				40,155	-	40,155
Other assets <sup>a</sup>	100	7,202	7,302	10	6,523	6,533
	<b>2,929,994</b>	<b>6,370,181</b>	<b>9,300,175</b>	<b>1,135,163</b>	<b>5,431,437</b>	<b>6,566,600</b>
<b>Non-financial Assets at Gross</b>						
Property and equipment	-	221,867	221,867	-	208,594	208,594
Other assets	6,855	5,653	12,508	2,354	4,677	7,031
	<b>6,855</b>	<b>227,520</b>	<b>234,375</b>	<b>2,354</b>	<b>213,271</b>	<b>215,625</b>
	<b>2,936,849</b>	<b>6,597,701</b>	<b>9,534,550</b>	<b>P1,137,517</b>	<b>5,644,708</b>	<b>6,782,225</b>
<b>Less:</b>						
Allowance for credit losses	285	132,623	132,908	41,043	15,614	56,657
Accumulated depreciation and amortization	-	102,326	102,326	-	49,231	49,231
	<b>P2,936,564</b>	<b>P6,362,752</b>	<b>P9,299,316</b>	<b>P1,096,474</b>	<b>P5,579,863</b>	<b>P6,676,337</b>
<b>Financial Liabilities</b>						
Due to other banks	P495,347	P -	P495,347	P -	P -	P -
Due to Head Office and other branches	3,397,070	-	3,397,070	2,750,137	-	2,750,137
Financial liability at FVTPL	10,055	-	10,055	9,128	-	9,128
Deposit liabilities	1,649,815	-	1,649,815	45,726	-	45,726
Accrued expenses and other payables <sup>b</sup>	63,706	-	63,706	22,791	-	22,791
	<b>P5,615,993</b>	<b>P -</b>	<b>P5,615,993</b>	<b>2,827,782</b>	<b>-</b>	<b>2,827,782</b>
<b>Non-financial Liabilities</b>						
Accrued expenses and other payables	1,004	-	1,004	18,712	-	18,712
Lease liabilities	19,470	35,864	55,334	-	63,382	63,382
Other liabilities	2,378	123	2,501	2,211	-	2,211
	<b>22,852</b>	<b>35,987</b>	<b>58,839</b>	<b>20,923</b>	<b>63,382</b>	<b>84,305</b>
	<b>P5,638,845</b>	<b>P35,987</b>	<b>P5,674,832</b>	<b>P2,848,705</b>	<b>P63,382</b>	<b>P2,912,087</b>

<sup>a</sup> Other assets consist of refundable security deposits, advances to officers and employees, and accounts receivable.

<sup>b</sup> Accrued expense and other payables consist of accrued salaries and accounts payable.

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## 28. Event After the Reporting Date

On November 26, 2020, the Senate approved on third and final reading the Senate Bill No. 1357, otherwise known as the "Corporate Recovery and Tax Incentives for Enterprises Act" or "CREATE", which seeks to reduce the corporate income tax rates and to rationalize the current fiscal incentives by making it time-bound, targeted, and performance-based.

Initially, the House of the Representatives, which already passed their counterpart measure in September 2019, informed the Senate that the latter's version would be adopted by the Lower House. However, on December 15, 2020, the Senate received an official letter from the Lower House indicating that in fact, they have designated members for the bicameral conference, with the intention of holding a bicameral conference to reconcile disagreeing provisions on the Lower House and the Senate versions of the bill.

On March 26, 2021, the President of the Philippines has approved the Corporate Recovery and Tax Incentives for Enterprises or the CREATE Act, with nine (9) provisions vetoed by the President. Below are the salient features of the Act that are relevant to the Manila Branch:

- a. Corporate income tax rate is reduced from 30% to 20% for domestic corporations with net taxable income not exceeding P5 million and with total assets not exceeding P100 million. All other domestic corporations and resident foreign corporations will be subject to 25% income tax. Said reductions are effective July 1, 2020.
- b. Minimum corporate income tax (MCIT) rate is reduced from 2% to 1% effective July 1, 2020 to June 30, 2023.
- c. Percentage tax reduced from 3% to 1 % effective July 1, 2020 to June 30, 2023.
- d. The imposition of improperly accumulated earnings tax has been repealed.
- e. Deduction of a certain percentage of interest subject to final tax from the claimed interest expense to come up with the allowable interest expense, or the interest arbitrage was reduced from 33% to 20% effective July 1, 2020.

The enactment of the CREATE Law is a non-adjusting subsequent event thus, the current and deferred income taxes as of December 31, 2020 are measured using the applicable income tax rates as of December 31, 2020.

On April 8, 2021, the Bureau of Internal Revenue issued the following implementing revenue regulations that are effective immediately upon publication:

- BIR RR No. 2-2021, Amending Certain Provisions of Revenue Regulations No. 2-98, As Amended, to Implement the Amendments Introduced by Republic Act No. 11534, or the "Corporate Recovery and Tax Incentives for Enterprises Act" (CREATE), to the National Revenue Code of 1997, as Amended, Relative to the Final Tax on Certain Passive Income
- BIR RR No. 3-2021, Rules and Regulations Implementing Section 3 of Republic Act (RA). No. 11534, Otherwise Known as the "Corporate Recovery and Tax Incentives for Enterprises Act" or "CREATE", Amending Section 20 of the National Internal Revenue Code of 1997, As Amended

- BIR RR No. 4-2021, Implementing the Provisions on Value-Added Tax (VAT) and Percentage Tax Under Republic Act (RA) No. 11534, Otherwise Known as the "Corporate Recovery and Tax Incentives for Enterprises Act" (CREATE) Which Further Amended the National Revenue Code of 1997, as Amended, as Implemented by Revenue Regulations (RR) No. 16-2005 (Consolidated Value-Added Tax Regulations of 2005), As Amended
- BIR RR No. 5-2021, Implementing the New Income Tax Rates on the Regular Income of Corporations, on Certain Passive Incomes, Including Additional Allowable Deductions from Gross Income of Persons Engaged in Business or Practice of Profession Pursuant to Republic Act (RA) No. 11534 or the "Corporate Recovery and Tax Incentives for Enterprises Act" (CREATE), Which Further Amended the National Revenue Code (NIRC) of 1997The enactment of the CREATE Law is a non-adjusting subsequent event thus, the current and deferred income taxes as of December 31, 2020 are measured using the applicable income tax rates as of December 31, 2020.

The enactment of the CREATE Law is a non-adjusting subsequent event thus, the current and deferred income taxes as of December 31, 2020 are measured using the applicable income tax rates as of December 31, 2020.

Further, the Bureau of Internal Revenue has issued its Revenue Regulation No. 5-2021 to promulgate the implementation of the new income tax rates on the regular income of corporations, on certain passive incomes and additional allowable deductions of persons engaged in business or practice of profession as provided for in CREATE Law. The corporate income tax of the Manila Branch will be lowered from 30% to 25% for domestic corporations on which the Manila Branch would qualify, effective July 1, 2020.

Presented below is the estimated effect of changes in tax rates under the CREATE Act.

	As at December 31, 2020	Effect of Changes in Tax Rates	Amounts Based on the Reduced Tax Rates
<i>Statement of Comprehensive Income</i>			
Taxes and licenses (percentage tax)	P14,367,660	P -	P14,367,660
Current tax expense	6,649,369	(80,434)	6,568,935
Deferred tax expense (benefit)	(37,638)	6,273	(31,365)
Net loss for the year	137,785,926	(74,161)	137,711,765
<i>Statement of Financial Position</i>			
Creditable withholding tax	4,027,417	80,434	4,107,851
Deferred tax asset	36,813	(6,136)	30,677
<i>Statement of Changes in Equity</i>			
Reserves	1,926	137	2,063

## 29. Reclassification

The Manila Branch reclassified certain items in the 2019 statement of cash flows to appropriately reflect the appropriate use of resources between operating, investing and financing activities.

The following is the summary of the impact on the foregoing reclassifications to the 2019 statement of cash flows:

	As Previously Presented	Effect of Reclassification	As Reclassified
<b>Statement of Cash Flows</b>			
<i>Operating Activities</i>			
Due to Head Office and other branches - net	P -	P2,745,368,968	P2,745,368,968
Interest paid on borrowings	(57,975)	(8,879,229)	(8,937,204)
<i>Financing Activities</i>			
Due to Head Office and other branches			
Proceeds from borrowings	2,745,368,968	(2,745,368,968)	-
Interest paid	(8,879,229)	8,879,229	-

The reclassifications made have no impact to the net financial performance, cash flows and equity of the Manila Branch in 2019.

### 30. 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:

	2020	2019
Return on average equity	3.70%	4.95%
Return on average assets	1.72%	3.59%
Net interest margin on average earning assets	4.22%	2.96%

#### 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, 2020 and 2019 arising from off-book transactions:

	2020	2019
Performance standby letters of credit	P911,464,249	P820,232,977
Currency swaps	733,000,000	501,245,000
Interest rate swaps	336,161,000	-
Committed credit line	309,904,147	-
Total	P2,290,529,396	P1,321,477,977

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, 12, 14, 15, 16 and 21.

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**31. 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, 2020 are based on the combined amounts of the RBU and the FCDU.

**A. Documentary Stamp Tax**

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Debt instruments	P13,713,869
Others	33,231
	P13,747,100

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

**B. Withholding Taxes**

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Tax on compensation and benefits	P27,940,907
Expanded withholding taxes	1,330,681
VAT withholding taxes	120,937
Final withholding taxes	450,037
	P29,842,562

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

The Manila Branch has accrued withholding tax payable amounting to P4.53 million as at December 31, 2020.

**C. All Other Taxes (Local and National)**

This consists of the following:

	2020
<b><i>Other taxes paid during the year recognized under</i></b>	
<b><i>“Taxes and Licenses”</i></b>	
Gross receipts taxes	<b>P14,367,660</b>
Fringe benefit taxes	<b>12,706,940</b>
Documentary stamp taxes	<b>3,746,931</b>
License and permit fees	<b>212,837</b>
Others	<b>180,345</b>
	<b>P31,214,713</b>

The Manila Branch has accrued gross receipt tax payable amounting to P3.40 million as at December 31, 2020.

**D. Tax Cases and Assessments**

As at December 31, 2020, the Manila Branch has no pending tax cases nor tax assessment with the BIR.