ISLA BANK

A THRIFT BANK

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2020 ANNUAL REPORT

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ISLA BANK (A Thrift Bank), INC.
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CORPORATE GOVERNANCE

Corporate Governance Structure and Practices

The Bank's corporate governance structure, rules, policies and practices, qualifications and fundamental obligations of a director, duties and responsibilities of the Board of Directors, Board Committees and Senior Management, are embodied in our Corporate Governance Manual.

The Board of Directors ensures that senior management promotes good governance practices by ensuring that policies on governance as approved by the Board are consistently adopted across the Bank.

Corporate governance is the foundation by which the Bank is managed and controlled. The Board is committed to uphold the best corporate governance practices that is transparent, responsible, accountable and fair and these practices facilitate the promotion of reform within the Bank.

Elements of Good Corporate Governance:

Transparency:
The Board and Management adopt transparency that provides timely and reliable information and disclosure of all material matters concerning the Bank, including its financial position and results; and that any decision taken is in compliance with established policies, rules and regulations. Transparency is implemented on all levels within the Bank.

Responsibility:
The Board takes responsibility for the Bank and acts to promote its best interest in behalf of the shareholders, to whom it is accountable. The Bank's Board has effectively performed its oversight functions in the implementation of risk management policies which includes the detailed structure of limits, guidelines and parameters used to govern risk-taking and clear delineation of lines of responsibilities for managing risk, effective internal controls and comprehensive risk reporting process.

Accountability:
The Board is responsible for establishing strategic guidance for the Bank and accountable to all the stakeholders. Thus, an effective oversight of management including its control and accountability systems and assessment of the Bank's performance is implemented to provide assurance on the achievement of the Bank's objectives.

Fairness:
The Board and Management ensure that the principle of fairness is applied in every decision making and business transaction conducted in the regular course of business and upon terms not less favorable to the Bank than those offered to others. The Board acts honestly and in good faith, with loyalty and in the best interest of the Bank, its stockholders and other stakeholders such as its employees, depositors, investors, borrowers and the public at large.

Board Composition

Our Board consists of individuals who possess the skills, sound business experience, and expertise in their own fields or those who have financial expertise or other relevant experience which would be of value to the Bank in the performance of their duties as directors. The composition of the Board of Directors is one of the most critical component of the Bank's good governance.

The present Board which is composed of eleven Directors is commensurate to the size of the Bank and the nature and complexity of its business operations. Of the eleven, four are independent directors, while the rest are executive or non-executive directors. The executive directors are those who are officers of the Bank and are involved in the daily management of the affairs of the Bank, while non-executive directors are those who are not involved to the Bank's operations. These non-executive directors exercise independent judgement and act fairly to the best interest of the stakeholders.

The present Board has four Independent Directors (ID) in compliance with the required one –third (1/3) of the total number of directors and each has met the criteria of an independent director. The nomination and election took into consideration the rules and regulations for an independent director.

Election of the Board

The Directors who are elected during the annual stockholders' meeting shall hold office for a term of one year. The Independent Directors may hold the position for a maximum cumulative term of nine years to reckon from 2012 pursuant to BSP Circular 969.

The current Directors have effectively performed their duties and responsibilities individually and as a body. The Board has demonstrated excellent track record of professionalism, dedication and adeptness in their role as directors. The Board has maintained a cooperative and collegial atmosphere, and with their individual expertise, has addressed the different issues at hand, diversified and built strength through shared ideas and vision.

Selection Process for the Board and Senior Management

In nominating candidates who will serve as members of the Board of Directors of the Bank, the Corporate Governance Committee performs screening of candidates based on the criteria set by said Committee. For re-election of the present members of the Board of Directors, the overall performance of each individual director is considered. The Corporate Governance Committee considers the size, structure, complexity of operation to determine the composition of the Board of Directors and board-level committees. The installation of selection process is to ensure that a mix of competent directors, each of whom can add value and contribute independent judgement to the formulation of strategies and policies.

The Board of Directors has the power to oversee the selection process and appoint senior officers of the Bank who shall have the authority and ability to perform duties as may be prescribed by the Board. The Board shall apply "fit and proper" standards, qualifications, experience and competencies required from an individual to undertake the duties and responsibilities of the position he is appointed to. The Board regularly monitors the performance of senior management.

Board's Responsibility

The Board of Directors is the governing authority of the Bank and is responsible to all the stakeholders. It has the responsibility of setting the Bank's strategic objectives and structure and risk management policies. It performs the oversight functions of the Bank's operations and ensures that the highest standards of corporate governance are implemented.

It has the power to determine the board composition and organization. The Board performs its duties and responsibilities under the provision of relevant regulatory agency rules and regulations.

Chairman of the Board

The Chairman of the Board shall preside at all meetings of the Board of Directors, or in his absence or inability to so preside, the meeting shall be presided over by the Vice-Chairman, or any other Director to whom this power may have been delegated by the Chairman. He provides leadership and shall ensure effective functioning of the Board of Directors, including maintaining a relationship of trust.

He shall ensure that:

a. the meeting agenda focuses on strategic matters including discussion on risk appetites, and key governance concerns;

b. there is a sound decision making process;

c. it encourages and promotes critical discussion;

d. dissenting views can be expressed and discussed within the decision-making process;

e. members of the board of directors receive accurate, timely and relevant information;

f. it conducts a proper orientation for first time directors and provides training opportunities for all directors; and

g. it conducts a performance evaluation of the board of directors at least once a year.

Performance Evaluation and Self-Assessment

To ensure effective governance by the Board of Directors, the Corporate Governance Committee oversees the annual self-assessment of the individual directors, the Board as a body and various Board appointed committees, including its own performance evaluation and the position of President/CEO of the Bank. The evaluation is done to determine their performance and effectiveness in accordance with their respective oversight functions and/or duties and responsibilities. The Bank has an approved evaluation standards/criterion for the Performance Evaluation/Self-Assessment of the individual Directors, the Board as a body, the various Board appointed committees and the key officers of the Bank. The evaluation for the positions of the Chief Compliance Officer (CCO) and Internal Auditor are conducted by the Audit Committee while the President evaluates the performance of the senior officers directly reporting to him. The results of the Performance Evaluation/ Self-Assessment are presented by the Corporate Governance Committee to the Board for final approval.

Board Committees

The Board of Directors created the following committees to assist the Board in fulfilling oversight responsibilities and to ensure efficiency. The Bank has seven board committees as follows:

Risk Management Committee (RMC)

The Risk Management Committee shall be responsible for the development and oversight of the risk management program of the Bank. It shall oversee the system of limits to discretionary authority that the Board delegates to management, ensure that the system remains effective, that the limits are observed and that immediate corrective actions are taken whenever limits are breached.

Asset and Liability Management Committee (ALCO)

The ALCO shall be responsible for setting up strategies relating to the management of risks inherent in the Bank's balance sheet, primarily the Bank's interest-earning assets (loans and investment securities) and interest-bearing liabilities (deposits and other borrowings) of the Bank. The Committee is responsible for enforcing all policies that involve market risk such as liquidity, interest rate and credit risk.

Audit Committee

The Audit Committee provides oversight over the Bank's financial reporting policies, practices and the review of the effectiveness of the Bank's internal controls, financial, operational, compliance controls, and quality of compliance with the applicable laws and regulations.

Executive Committee

The Executive Committee shall act on behalf of the Board of Directors in fulfilling its duties by providing management sound guidance and advices, policies and strategic guidelines on the day to day activities of the Bank. It is also responsible for the evaluation process in accordance with the policies and procedures on Related Party Transactions (RPTs) and approval of RPTs that are non-loan related and below the threshold limit.

Information Technology (IT) Committee

The IT Committee shall review and recommend to the Board, management's strategies relating to information technology aligned to the Bank's overall strategy and objectives. It shall ensure that the Bank is taking appropriate measures to identify, assess, monitor, control and mitigate risks in the areas of information technology management.

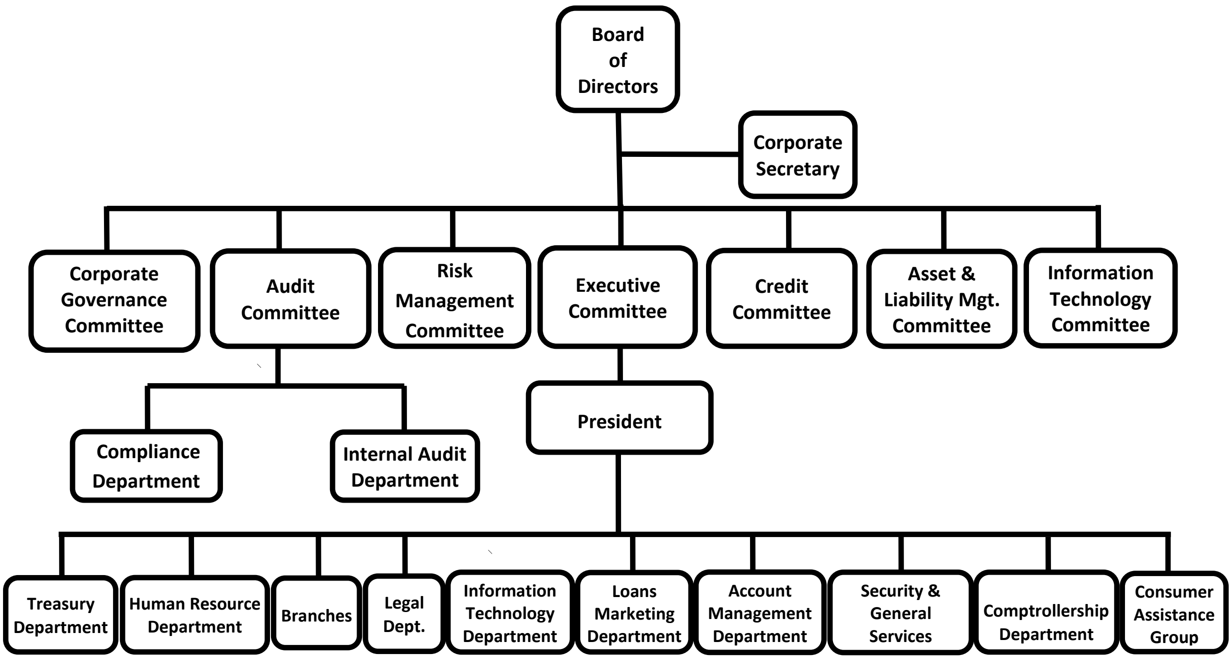
Corporate Governance Committee

The Corporate Governance Committee assists the Board of Directors in fulfilling its corporate governance responsibilities, and ensures the Board's effectiveness and due observance of corporate governance principles and guidelines. It shall also evaluate the qualifications of all persons nominated to the Board as well as those nominated to other positions requiring appointment by the Board of Directors, as well as oversee performance evaluation of the Board, Board level Committees and Senior Management.

Credit Committee

The Credit Committee assists the Board of Directors in fulfilling its responsibilities by providing oversight of Bank policies and management activities relating to the identification, assessment, and management of the credit risk on Bank loans. It is also responsible for the evaluation process in accordance with the policies and procedures on Related Party Transactions (RPTs) that are loan related and approval of RPT loans that are below the threshold limits.

O R G A N I Z A T I O N A L C H A R T



Eduardo V. Lim	- President and Chief Executive Officer		
Jocelyn M. Gozum	- Executive Vice President	-	Treasurer
Violeta G. Angeles	- Senior Vice President	-	Comptroller/CAG Head/I.T. Head
Maria Teresita R. Mendoza	- Vice President	-	AMD Head/HRD Head/Corp. Sec.
Manolo A. Hilario	- Vice President	-	Chief Compliance Officer
Maria Theresa Maura D. Samaniego	- Manager	-	Internal Auditor
Marco Antonio L. Santos	- Manager	-	Loans Marketing Head
Maria Dolores M. Muyco	- Manager	-	Main Office Branch Head
Jennifer Anne H. Lacson	- Manager	-	Bacolod Branch Head
Tommy P. Exito	- Acting Manager	-	Iloilo Branch Head
Wilson T. Alzate	- Asst. Manager	-	Security Officer/GSD Head
Atty. Arthur F. Tantuan	- Consultant	-	Legal Counsel

OUR VISION:

To be one of the leading thrift banks
in the industry

MISSION STATEMENTS:

To provide our clients with quality services responsive to their
banking needs and to assure a safe and stable
guardianship of their investments.

It has always been our mission to be one of the leading banks in the thrift banking industry, and we continue to do so. Although we may not have the size or resources of the major thrift banks, we have always been looked at by our peers in the industry, our clients and public for our adequate capital, strong liquidity and satisfactory asset quality.

As of year-end 2020, the Bank's Capital Adequacy ratio (CAR) of 170.23 percent remains more than adequate with the current and prospective risk exposures while our internal minimum liquidity ratio of 50 percent is above BSP's required Minimum Liquidity Ratio (MLR) of 16 percent. Bank's MLR compliance for December is 166.91%. In previous year 2019, the Bank has zero non-performing assets but due to the impact of COVID-19 pandemic on the economy, our loan borrowers were not exempted from these challenges. Despite this global shock, the Bank asset quality is still satisfactory with 3.7% ratio of Non-Performing Loans to Total Gross Loan Portfolio.

Despite carrying some NPLs in our auto loan portfolio, due to the inability of some clients to meet their amortization payments while a few took advantage of the Bayanihan 1 moratorium to defer payments, we will still continue to depend on automobile loans for our profitability, but will apply stricter lending criteria in the approval of loans. At the same time, the bank will continue to implement cost-cutting measures to reduce operating expenses, such as deferring capital spending and freeze hiring of personnel to offset the drop in income.

This year, however, we have added one major factor as far as our mission is concerned. We refer to the continuing welfare and safety of our officers and staff in view of the current pandemic situation today. We have made employee welfare our top priority. Even since the lockdown started in March, 2020, we have initiated steps to ensure their safety: having only a skeleton force in the bank, thus allowing staffers to stay home even for a day or two each week; providing daily transportation to employees to and from the bank to minimize exposure to other parties; fumigating bank premises on a regular basis; providing lunch to all employees (including security, janitorial and messengerial personnel), screening all outsiders entering the bank premises as well as their packages; allowing employees to stay home when they are suspected of having covid or quarantined because some member(s) of their family contacted the virus and at the same time not subjecting these leave to either vacation or sick leave; providing free swab testing when the situation arises. We are presently exerting all efforts to have all bank personnel vaccinated even though a majority of them do not belong to the priority list. Needless to say, we are also looking after the welfare of our clients and providing safety measures whenever possible.

We continue to build a Bank that gives importance on close client relationships. We exert maximum effort to fulfill their unique requirements and objectives, gaining their trust in every way. Since we have a small clientele base, we can afford to give them personalize service. As to the safety of their funds, we have continued emphasis on conservatism and observe prudence in our decision makings.

FINANCIAL HIGHLIGHTS
(in Philippine Pesos)

	2020	2019
Profitability		
Interest Income	64,889,677	80,723,871
Interest Expenses	(6,320,613)	(8,860,377)
Net Interest Income	58,569,064	71,863,494
Non- Interest Income		
Service charges, fees and commissions	6,970,193	8,713,640
Miscellaneous Income	357,186	100,914
Non-Interest Expenses	(52,218,608)	(56,241,272)
Pre-Tax pre-provision Profit	13,677,835	24,436,776
Allowance for Credit Losses	-	-
Taxes	(7,064,239)	(8,940,201)
Net Income	6,613,596	15,496,575
Other Comprehensive Income		
Remeasurements of retirement benefit plan	498,826	770,071
Total Comprehensive Income	7,112,422	16,266,646
Selected Balance Sheet Data		
Total Assets	1,377,759,504	1,390,898,180
Deposits	565,707,288	586,961,078
Liquid Assets	964,797,831	837,671,524
Gross Loans		
Loans and Receivables Arising from RA/CA/PR/SLB	154,069,090	340,342,172
Loans and Receivables-Others	275,128,273	343,118,766
Total Gross Loan Portfolio	429,197,363	683,460,938
Total Equity	782,970,779	775,858,357
Selected Ratios		
Return on Equity	0.85%	2.10%
Return on Assets	0.48%	1.10%
Capital-to Risk Assets Ratio	170.23%	136.70%

Total Assets stood at P 1.378 Billion as of the end of the year December 31, 2020, a decrease of P0.013 Billion (0.93%) over last year's total assets of P 1.391 Billion. The decrease in Total Assets was due to a drop in deposits by P 21.3 million, from P 587.0 million last year to P 565.7 million. The drop in deposits was the effect of lockdown due to COVID-19 pandemic where business were mostly closed so there were hardly any new funds coming in and cash transactions were mostly withdrawals to support business operations and for personal expenses of the clients during quarantine period.

In terms of investments, the Bank's concentration was still on automobile loans. However, we continued to be very selective on the type of borrower in order to maintain our high-quality portfolio. Gross Loans decreased by P 68.0 million in 2020 because of a decline in vehicle sales. The Bank registered low booking of new loans brought about by the COVID-19 pandemic.

For the first two months of the year 2020, vehicle sales slowed down due to Taal volcano eruption which forced some members of Automotive Manufacturers of the Philippines Inc. (CAMPI) and Truck Manufacturers Association (TMA) to temporarily suspend operations in Laguna plants of including Japanese carmaker Toyota Motor Corporation and some dealership in the Calabarzon (Cavite, Laguna, Batangas, Rizal, Quezon) region which were affected by the ashfall. Both the passenger car (PC) and commercial vehicle (CV) segments registered decline in sales. Before the industry can go back to normal activities, the government imposed an enhanced community quarantine (ECQ) restricting the movement of the population except for necessity, work and health circumstances, in response to COVID-19 pandemic starting March 17, 2020. Even during GCQ or a less strict quarantine, vehicle sales remain flat.

In view of this, car sales for the year 2020 decreased compared to 2019 figures. In 2020, automotive industry experienced a flat sale since consumers considered auto as non-essentials as the enhanced community quarantine shuttered dealerships. The fear created by COVID-19 prompted consumers to hold off spending on non-essential goods, such as cars.

Non-Performing Loans as of December 31, 2020 was P 16.0 million, from zero balance before the COVID-19 pandemic. The ratio of Non-Performing Loans to Total Gross Loan Portfolio of P 429.2 million as of month end December was 3.7%, despite the mandatory relief under the "Bayanihan to Heal s One Act". Extensive collection effort was implemented to control the increasing level of past due. The Bank's outstanding Allowance for Credit Losses as of month-end December was P 5.3 million which was adequate to cover the required 1% general and specific reserves for loans and other risk assets in accordance with the credit losses provisioning guidelines. As to the Bank's compliance with Small and Medium Enterprises (SME), ratios were 10.08% for small and 24.84% for medium as against the required 8% and 2%, respectively.

Excess funds were invested either in Loans and Receivables Arising from Repurchase Agreement (RRP) and Overnight Deposit Facility (ODF).

Net Income from operations for the year 2020 was P 7.1 million compared to P 16.2 million for the year 2019 a decrease of P 9.1 million. Net Interest Income decreased by P 13.3 million. Decrease in Net Interest Income was due to decrease in volume of earning assets by P 12.2 million (from P 1.295 Billion to P 1.283 Billion) and decrease in Net Interest Margin by 1.27%. Likewise, Other operating income decreased by P 1.5 million. On the hand, we managed our operating cost which resulted to a decrease of P1.5 million. Due to decrease in gross earning, taxes registered a decrease of P 4.4 million.

Business Model

Our balance sheet structure in terms of liquidity, capital, deposits and investments is aligned with Bank's objective. Management maintains a conservative strategy with low risk appetite. Risk assessment result is Low and Stable.

Liquidity remains strong in view of Management's strategy to maintain substantial liquidity. Isla Bank maintains an internal minimum liquidity ratio of 50 percent which is above BSP's required Minimum Liquidity Ratio (MLR) of 20 percent, reduced to 16 percent till end-2020 per Memorandum No. M2020-020 in response to COVID-19. Bank's MLR compliance for December is 166.9 percent.

Liquidity consisted of highly liquid assets such as Cash on Hand (CIV), Demand Deposit Account (DDA) with the BSP, deposit in other banks, Reverse Repurchase (RRP) and Overnight Deposits Facilities (ODF) with the BSP. The bank also has investment in government securities and corporate bonds which it can be disposed in case the highly liquid assets is insufficient to cover liquidity or funding requirements of deposits and other liabilities.

The Bank's Capital Adequacy ratio (CAR) of 170.23 percent remains more than adequate with the current and prospective risk exposures. There are no foreseen potential losses that could negatively affect the capital position of the Bank.

The Bank's other sources of funds are traditional deposits. The Bank has no recorded short- or long-term borrowings and has a very strong liquid position to manage its operations in such a manner as to ensure that sufficient funds are available to meet credit demands of its clients and repay deposits on demand or upon maturity. Bulk of liquid funds is maintained in deposits with the BSP and investments in government securities.

In terms of operations, investments activities are channeled to low risk financial assets but with stable return. The Bank's asset quality is Satisfactory. The asset profile consistently registered a high-quality portfolio with 69.7 percent zero risk-weighted assets comprising of placement in BSP's deposit and RRP facilities, Philippine government securities and loans secured by hold-out on deposits. Other significant components are investment in debt securities issued by private companies, classified as class A companies, (Ayala Land Inc. and Philippine Long-Distance Telephone Inc.). Gross Loan accounts inclusive of Reverse Repurchase Agreement (RRP) is P 429.2 Million of which P 16.0 Million is classified as Non-Performing Loans or ratio of 3.85 percent to Total Loan Portfolio. Outstanding Allowance for Credit Losses amounted to P 5.3 Million is more than adequate to cover the required 1 percent General and Specific Allowance for Loans and Other Risk Assets. Gross Loans of P 429.2 Million are secured by hold-out on deposits and government securities (63.7 percent), chattel (28.5 percent) and real estate mortgage (6.2 percent). The Bank is also into auto financing to improve profitability of the Bank. The Bank's strategy in auto financing is to be very selective in approvals. The target of the Bank for auto loans are the class A & B customers and high-end units. We implemented customer retention program for our existing auto loan clients with excellent payment records.

Message from the Chairman and the President:

2020 was a most difficult year for the Philippines, as it faced several disasters –from a volcanic eruption in January to a succession of super typhoons in the last quarter of the year and crippling public health and economic crises. Without a doubt, the most devastating of all, of course, was the worldwide Coronavirus Disease, known as Covid 19. First identified in Wuhan, China, in December 2019, the disease had since spread worldwide, leading to an ongoing pandemic. The pandemic brought social and economic life to a standstill and plunged the world in recession far worse than the global financial crisis a decade ago.

In March, the entire island of Luzon was placed on "enhanced community quarantine" (ECQ-Luzon), strictly imposing a home quarantine, thus suspending work, public transportation and non-essential travel. The lockdown, one of the world's longest and strictest is still ongoing due to our inability to control the virus and came at a huge cost to the economy.

For 2020, the Philippine Gross Domestic Product (GDP) shrunk 9.5 percent—the steepest economic contraction in Philippine history, and the first economic contraction in more than two decades or since the -0.5 percent seen in 1998 amid the Asian financial crisis. The Philippines was the worst performing country among major Asian economies.

Prices of basic goods and services went up during the year. Average inflation rate for 2020 was 2.6 percent, slightly higher than the 2.5 percent attained in 2019, but still within the BSP's forecast.

Despite the pandemic, however, the Philippines ended 2020 with the highest gross international reserves (GIR) in its history, ending the year with $110.1 billion, higher than the previous year's $87.8 billion, because of a substantial decline in imports and inflows from government borrowing abroad. The Philippine peso continued to perform strong against the dollar to settle at P48.036 to $1.00 in 2020 from P50.744 in 2019 and P52.58 in 2018.

To support the economy during the crisis, BSP slashed rates by a total of 200 basis points during the year, bringing down the overnight reverse repurchase, lending and deposit rates to all-time lows of 2.0 percent, 2.5 percent and 1.5 percent, respectively. It also slashed the reserve requirement ratio of universal and commercial banks by 200 basis points (bps) to 12 percent, while those of thrift and rural banks were reduced by 100 bps to 3.0 percent and 2.0 percent, respectively. Among the several responses dealing with COVID-19's impacts were several bills passed such as the Bayanihan to Heal as One Act (Bayanihan 1) and the Bayanihan to Recover as One Act (Bayanihan 2) which realigned funds from within the 2020 national budget for cash handouts to poor families and gave borrowers a 30-day grace period for all bank loan payments that were falling due within the enhanced community quarantine (ECQ) period.

The pandemic took its toll on the banking industry as banks witnessed low single-digit growth, rising bad loans and credit costs and lower profitability. The non-performing loan (NPL) ratio of Philippine banks rose to 3.61 percent at the end of 2020, higher than the 2.04 percent recorded in December 2019 and the highest gross NPL ratio in more than seven years since the 3.48 percent recorded in January 2013. Bank lending contracted for the first time in over fourteen years, falling by 0.7 percent year on year, as lenders tightened credit standards and as demand for loans remained weak amid the recession.

Notwithstanding the pandemic, the Philippine banking system remains sound and well-capitalized, with no emerging risks seen to pose problems to the industry going forward. Total bank deposits in the Philippines reached nearly P15.0 trillion during the pandemic year, up by 9 percent from P13.6 trillion in 2019.

Isla Bank's total resources decreased slightly to P1.37 billion from P1.39 billion last year, a dip of 1.4 percent. Our investible funds stood at P594.1 million at year-end, an increase of 5.6 percent compared to P562.4 million in 2019. Our loan portfolio dropped substantially, by 20.4 percent, from P338.2 million in 2019 to P269.3 million. Since our concentration was on auto loans, demand for vehicles was weak this year with consumers putting off purchases of big-ticket items due to the pandemic, preferring to use their cash for essentials. Philippine car sales slumped from 410,000 units in 2019 to 245,000 units in 2020, a 40 percent decline. This time, the bank carried Non-Performing Assets (NPLs) of P16 million in its auto loan portfolio, due to the inability of some clients to meet their amortization payments while a few took advantage of the Bayanihan 1 moratorium to delay payments.

The crisis took its toll on the banking industry's profitability, and Isla Bank was no exception. Business slowdown, decline in bank lending, reduced interest rates and temporary loan grace period moratorium, severely affected the bank's profitability. For 2020, the bank reported a Net Income of P7.1 million, a drop of 56.2 percent from the P16.3 million income it earned the previous year. This was due primarily to a drop in net interest income by 18.5 percent from P71.8 million to P58.5 million, while other income also fell by 17 percent from P8.8 million to P7.3 million. However, due to some cost-cutting measures we undertook, we managed to reduce our Operation Expenses by 7.1 percent, from P56.2 million to P52.2 million.

While 2021 was initially expected to be a year of economic recovery for the Philippines, the inability to control the virus resulting in the recent surge in Covid-19 cases, plus the resumption of strict lockdown amid a severe shortage of vaccine worldwide, the country is once again expected to underperform this year.

For our part, we will continue to be ultra conservative and prudent in our management of bank funds. To maintain its profitability, we shall still depend on automobile loans, applying stricter lending criteria in the approval of loans. At the same time, the bank will continue to implement cost-cutting measures to reduce operating expenses such as deferring capital spending and freeze hiring of personnel to offset the drop in income.

Your bank will continue to take the necessary steps to protect the health and safety of its officers, staff and clients, while delivering continued services to its clients.

The year 2021 will again be another challenging one for the Bank. However, with the guidance of our board of directors, the support and patience of our stockholders, the dedication of our management team and employees and continued support of our clients, we hope to meet the challenges facing us in this ongoing COVID-19 pandemic.

EDUARDO V. LIM
President

JOSE MA. J. LOPEZ-VITO III
Chairman

CAPITAL ADEQUACY

The Bank's regulatory capital position as of December 31 follows:

	2020	2019
Tier 1 Capital		
Common stock	P 566,727,900	P 566,727,900
Surplus and reserves	209,629,283	193,633,882
Undivided profits for the year	6,613,596	15,496,575
	782,970,779	775,858,357
Less deduction from Tier 1 capital		
Total outstanding unsecured		
DOSRI loans	(31,665)	(35,946)
Deferred tax assets	(5,181,137)	(5,156,154)
	777,757,977	770,666,257
Tier 2 Capital		
General loan loss provision	1,400,000	2,884,512
Total Qualifying Capital	P 779,157,977	P 773,550,769
Total Risk Weighted Assets		
Credit risk	P 327,170,175	P 454,407,681
Operational risk	130,554,370	113,380,315
Market risk	-	-
	P 457,724,545	P 567,787,996

The Bank's credit risk weighted assets as of December 31 are computed as follows:

(a) 0% Risk Weight

	2020	2019
Cash on hand	P 10,098,635	P 7,450,310
Due from BSP	458,456,863	250,160,226
Investment securities at amortized cost	320,637,866	220,908,189
Loans and receivables arising from RA/CA/PR/SLB	154,043,416	340,153,198
Loans to the extent covered by hold-out on, or assignment of, deposit substitutes maintained with the lending bank	111,558,769	115,510,988
	1,054,795,550	934,182,911
	0%	0%
	P -	P -

(b) 150% Risk Weight

	2020	2019
Other non-performing loan except NPA to Individual for housing purposes	16,038,049	-
ROPA	-	-
	150%	150%
	P 24,057,074	P -

(c) 100% Risk Weight

		2020		2019
Other assets, gross of general loan loss provision	P	308,325,903	P	459,599,781
Less:				
Total outstanding unsecured credit accommodations, both direct and indirect to DOSRI, net of allowance for credit losses	(	31,665)	(	35,946)
Deferred tax assets	(	5,181,137)	(	5,156,154)
		303,113,100		454,407,681
		100%		100%
	P	303,113,100	P	454,407,681

There were no on-balance sheet accounts classified under 20%, 50% and 75% risk weights as of December 31, 2020 and 2019.

The Bank's operational risk weighted assets as of December 31 are computed as follows:

		2020		2019
Net Interest Income				
Interest income	P	85,612,054	P	72,926,463
Interest expense		(8,377,117)		(8,263,687)
		77,234,937		64,662,776
Other Non-interest Income				
Fees and commissions income		9,712,662		10,854,014
Other income		88,648		70,087
		9,801,310		10,924,101
Gross Income		87,036,247		75,586,877
Capital Charge (12%)		10,444,350		9,070,425
Adjusted Capital Charge (125%)		13,055,437		11,338,032
Multiplied by factor 10		10		10
Total Operational Risk-Weighted Assets	P	130,554,370	P	113,380,320

The Bank is not engaged in trading and has no foreign currency denominated assets subject to market risk.

	2020	2019
Capital Ratios		
Total regulatory capital expressed as percentage of total risk weighted assets	170.23%	136.70%
Total Tier 1 capital expressed as percentage of total risk weighted assets	169.92%	136.21%

As of December 31, 2020, and 2019, based on the above capital ratios, the Bank has complied with the BSP requirement on the ratio of combined capital accounts against the risk assets.

STOCKHOLDERS

Name of Stockholders	Nationality	Number of Direct and Indirect Shares Held	Percentage of Shares Held to Total Outstanding Shares of the Bank	Voting Status
Jose Ma. J. Lopez-Vito III	Filipino	5,037,226	88.88262%	*
Jocelyn M. Gozum	Filipino	360,004	6.35233%	*
Eduardo V. Lim	Filipino	200,004	3.52910%	*
Others	Filipino	70,045	1.23595%	*

*** Pursuant to Article 111, Section 5 of the Bank's By-Laws, voting is by shares of stock.**

BOARD OF DIRECTORS

Name of Director		Type of Directorship	Start	End	Years served as Director	Number of Direct and Indirect Shares Held	Percentage of Shares Held to Total Outstanding Shares of the Bank	2020 Attendance at Board Meetings	12 Meetings in 2020
Jose Ma. J. Lopez-Vito III	Chairman	Executive	Feb'1997		23	5,037,226	88.88262%	100.000%	12
Rafael J. Lopez-Vito	Vice-Chairman	Non-Executive	Sep'1977		43	5,474	0.09659%	50.000%	6
Maria Melinda J. Lopez-Vito	Member	Non-Executive	Feb'1997		23	4	0.00007%	100.000%	12
Ma. Pilar J. Lopez-Vito	VP	Executive	Feb'1997	May'2020	22	5,342	0.09426%	40.000%	2
Eduardo V. Lim	Pres/CEO	Executive	Feb'1997		23	200,004	3.52910%	100.000%	12
Jocelyn M. Gozum	EVP/ Treasurer	Executive	Feb'1997 Apr'2019	Oct'2018	21 1.7	360,004	6.35233%	100.000%	12
Jose Manuel J. Lopez-Vito	Member	Non-Executive	Jul'1997		23	5,340	0.09423%	75.000%	9
Carmenia H. Sason	Member	Independent Director	Apr'2017		2 Years & 7 months	1	0.00002%	50.000%	6
David J. Dichupa Jr.	Member	Independent Director	Apr'2017		2 Years & 7 months	1	0.00002%	100.000%	12
Ma. Suzette Q. Montalvo	Member	Independent Director	Aug'2017		2 Years & 7 months	1	0.00002%	50.000%	6
Ma. Teresa L. Bilbao	Member	Independent Director	Nov'2018		2 Year & 2 months	1	0.00002%	50.000%	6
Violeta G. Angeles	Member	Executive	Jun'2020		6 months	40,000	0.70581%	100.000%	7

Note: There is no Nominee Director

DIRECTORS

Jose Ma. J. Lopez-Vito III

Mr. Lopez-Vito III, 70, Filipino, is the Chairman of the Board of the Bank. He is an AB Economics graduate of the Ateneo de Manila, Class of 1970, and started his career at the Far East Bank & Trust Co. which he joined in 1971 as Investment Researcher in the Trust & Investments Division. He steadily rose through the ranks and was appointed as its youngest Assistant Vice-President in 1976. In 1979, Mr. Lopez-Vito III joined the Bank of the Philippine Islands as Vice-President of its Trust & Investments Group, a position he occupied until September 1981. He joined the Savings Bank of Manila as its Executive Vice-President and served in this position until 1983 when he joined Fortune Cement Corporation initially as Executive Vice-President and finally its President the following year.

Together with Messrs. Enrique Zobel and Benito Araneta, Mr. Lopez-Vito III spearheaded the creation of what was to become the Araneta-Zobel Cement Group. The group purchased Fortune Cement from the Laurel-Buenaventura families in 1985 and rapidly expanded its investments into the cement industry through the purchase of Filipinas Cement Corporation 1987, Midland Cement Corporation in 1989 and the Universal Cement Corporation in 1991. By this time, the Araneta Group had become the country's most successful and second largest conglomerate in the cement industry. Mr. Lopez-Vito is also Chairman of Lovitierra Holdings Inc., LHI Real Estate Corp., Radcliffe Properties & Development Corp. Inc., Craftsperson Inc., Digital Strategist, Inc., Macstore, Inc. and Portal Trading, Inc.

Eduardo V. Lim

Mr. Lim, 74, Filipino, is the President and Chief Executive Officer (CEO) of the Bank. He is a Liberal Arts-Commerce (LiaCom) graduate of De La Salle University. Immediately after graduation, he took and passed the Certified Public Accountancy (CPA) exams in 1968.

He started his banking career at Far East Bank and Trust Company in January, 1969 as an Investment Analyst at its Trust Division. He was promoted to officer level in August of the same year, and was transferred to its Portfolio Management Department, where he remained and eventually was promoted to Assistant Vice President (and head of Portfolio Management Department) in 1978, a position he held until his resignation in 1981. In 1978, he also took up the Management Development program (post graduate) at the Asian Institute of Management.

He moved to Security Bank and Trust Company in July, 1981 as Vice President and head of the bank's Trust and Investment Division. In October, 1983, he joined the Trust Group of Bank of the Philippine Islands and remained there until his retirement in 1995. During his stint at BPI, he became President of the Trust Officers Association of the Philippines.

Nevertheless, his banking career continued in March, 1996 with a short stint at Asia Trust and Development Bank as head of its Trust Division. In late December of the same year, he was invited to join Isla Bank as Director and President/Chief Operating Officer (COO). He presently holds a position as President/Chief Executive Officer (CEO).

He is also presently director and treasurer of Realty Investment, Inc., a real estate firm.

Rafael J. Lopez-Vito

Mr. Rafael J. Lopez-Vito, 76, Filipino, is the Bank's Vice-Chairman since 1997. He is a graduate of Ateneo de Manila in 1968 with a degree of Bachelor of Laws. He passed the Licensure Bar Examination for Lawyers in 1969. He was a Senior Partner at the Lopez-Vito Valencia and Arungayan Law Office from 1969 to 2017. He worked at Philbanking Corporation as Branch Manager of Iloilo Branch from 1974 to 1977. He was the moving force in the establishment of Iloilo Savings and Loan Association in 1977 and served as Supervising Director until 1995. Iloilo Savings and Loan Association was eventually converted to a savings bank, Isla Bank, Inc., where he served as director and Vice Chairman, which he holds until the present. He was elected Congressman of the Lone District of Iloilo City in 1987 and served in this capacity for two consecutive terms. He is also a stockholder and director of Remyco Realty, Inc. and Heirs of Jose Ma. Lopez-Vito Agricultural Corp.

Maria Melinda I. Lopez-Vito

Ms. Maria Melinda I. Lopez-Vito, 68, Filipino, is a graduate of the Assumption College with a degree of Bachelor of Science in Management. She joined Prudential Bank as Executive Secretary from 1974 to 1975. From 1975 to 1977, she worked as Marketing Assistant for American European Asian Development Corp. She has been a director since 1997 and Corporate Secretary until 2018.

She is also stockholder and director of Lovitierra Holdings Inc., B & C Design, LHI Real Estate Corporation and Portal Trading, Inc.

Jose Manuel J. Lopez-Vito

Mr. Jose Manuel J. Lopez-Vito, 82, Filipino, has a degree in Bachelor of Science in Chemistry having graduated from the University of San Agustin, Iloilo City and a degree in Bachelor of Science and Criminology from University of Negros Occidental-Recoletos, class of 1983. He also has a masteral degree in National Security Administration from the National Defense College of the Philippines. He was Dean of the Criminology Department of the University of Negros Occidental-Recoletos from 1985 to 1998. He also manages his farms, Hacienda Leonor, Hacienda Soledad and Hacienda Tres Hermanos, located at Negros Occidental. He is a director of the Bank since 1997.

Violeta G. Angeles

Violeta G. Angeles, 66, Filipino, is a Banker by profession. In college, she took up Bachelor of Science in Commerce majoring in Accounting at the Far Eastern University graduating in 1975. Her career in Banking saw its beginning when, fresh from college, she joined Pilipinas Bank in 1976 as Budget Analyst. She moved to Savings Bank of Manila in 1981 as Manager of Comptrollership Group. When UCPB acquired Savings Bank of Manila in 1984, she was promoted to Assistant Comptroller with the rank of Assistant Vice President (under the new name of the bank, UCPB Savings Bank) a position she held until she became the Vice President/Comptroller in 1990. In March, 1997 she was invited by the Chairman, Jose Ma. J. Lopez-Vito III, to join Isla Bank to become its Senior Vice President and Comptroller, the position she currently holds.

Jocelyn M. Gozum

Ms. Gozum, 60, Filipino, is a graduate of St. Paul's College of Manila, Class of 1981 with the degree of BS Commerce major in Accounting. She passed the Licensure Board Examination for Accountants in 1982. She started her career in banking when she joined Savings Bank of Manila in February 1982 as an Accounting Bookkeeper and rose to the ranks as Assistant Manager of UCPB Savings Bank in 1986. In 1987, she left UCPB Savings Bank to join the Araneta-Zobel Cement Group as the General Manager of Formark, Inc., the marketing arm of FR Cement Corporation. In 1991, with the aggressive move of the Araneta Group to expand its investment in the cement industry not only in Metro Manila but also in Cebu, she simultaneously held the position of Finance Officer for Lloyd's Richfield Industrial Corporation (Cebu-based) and SVP-Marketing for FR Cement Corporation. In February 1997, Ms. Gozum again moved back to banking and joined ISLA Bank as Executive Vice-President and Treasurer.

Ma. Suzette Q. Montalvo

Ms. Ma. Suzette Q. Montalvo, 61, Filipino, joined the Bank as an Independent Director in 2017. She earned her Bachelor of Science major in Management degree from the University of St. La Salle, Bacolod City in 1980 and took graduate studies in Administration in the same university after graduation. She worked as Accounting Clerk at the Countryside Credit Corporation, Bacolod City in 1980, as New Accounts Clerk at the Union Bank of the Philippines, Bacolod Branch in 1981, then as Senior Teller from 1983 to 1988. She acted as OIC/Finance Officer of Prawntech, Inc. in General Santos City from 1989 to 1990. She was Manager/Partner of Chryslene Boutique also in General Santos City from 1990 to 1992. She joined Isla Bank as Senior Teller/Cashier when the Bacolod Branch opened in 1997, and became the Assistant Manager-Branch Operations Officer in 1999 to 2003. She acted as Assistant Manager-Marketing Officer/Cashier from 2003 to 2008 and as Branch Manager from 2008 till she left in 2012. She was Manager/Consultant at the London Beach Resort & Hotel, Inc. from 2013 to 2014, then as Finance Manager in 2015.

Presently, she owns and manages TM Lucky Ventures which operates food kiosks under trade names Buko Splash offering fresh coconut juice and coconut shakes; and Food to Go that serves rice meals, with three (3) outlets in different malls in General Santos City.

David J. Dichupa, Jr.

Mr. David J. Dichupa, Jr., 72, Filipino, joined the Bank as an Independent Director in 2017. He is a BS Chemical Engineering graduate of University of San Agustin in Iloilo City. Right after graduation Mr. Dichupa worked for Worldwide Paper Mills. In 1999, he was tasked to put up the company's subsidiary Dasmarinas Paper Mills Inc. where he assumed the position as Executive Vice President until his resignation in 2004. Currently, he is actively involved in their family business Tordich Corporation which operates a food kiosk in Bonifacio Global City.

He also became one of the Managers of the De La Salle University men's basketball and volleyball teams as well as its ladies volleyball team.

In 2016, he was appointed the Technical Consultant of Filoil Energy Company, Inc., a leading independent player in the Philippine oil industry.

Carmenia H. Sason

Ms. Carmenia H. Sason, 44, Filipino, joined the Bank as an Independent Director in 2017. She earned her Bachelor's degree in Commerce major in Marketing from the University of St. La Salle, Bacolod City in 1996. After graduation, she joined Metropolitan Bank and Trust Company where she stayed for 19 years (1996 to 2015). She rose from the rank, initially as New Accounts Clerk (1996 to 2000), then as Teller (2001 to 2005). She was promoted as Branch Operations Officer in 2006 and to Senior Assistant Manager in 2015. She presently manages her husband's family business, Sason Shop, Inc. since August, 2015. The shop is into furniture making which exports to Europe, Asia and Middle East.

Ma. Teresa L. Bilbao

Ms. Ma. Teresa L. Bilbao, 80, Filipino, Independent Director, joined the Bank in November, 2018. She is a graduate of Maryknoll College, now known as Miriam College, with a Bachelor of Arts degree, major in History and minor in Philosophy. Currently, she is an independent director of Iloilo Doctors' College and Chairperson of the Committee on Social and Spiritual Affairs. She was previously elected as Mayor of Hinoba-an, Negros Occidental and served for two terms from 2007 to 2013. Presently, she serves as Punong Barangay of Barangay Pook, Hinoba-an and manages Hacienda Paz, a sugar farm, and Sunshine Resort, a beach resort, both located in Hinoba-an.

BOARD COMMITTEES:

The Risk Management Committee — **5 Meetings held during the year**

Members		Attendance	%
Ma. Suzette Q. Montalvo, Independent Director	Chairman	5	100.00%
David J. Dichupa Jr., Independent Director	Member	5	100.00%
Ma. Teresa L. Bilbao, Independent Director	Member	5	100.00%

The Asset and Liability Committee — **12 Meetings held during the year**

Members		Attendance	%
Eduardo V. Lim, President/CEO	Chairman	12	100.00%
Jocelyn M. Gozum, EVP/Treasurer	Member	12	100.00%
Violeta G. Angeles, SVP/Comptroller	Member	11	92.00%
Maria Teresita R. Mendoza, Vice President	Member	12	100.00%

The Audit Committee — **9 Meetings held during the year**

Members		Attendance	%
David J. Dichupa Jr., Independent Director	Chairman	9	100.00%
Carmenia H. Sason, Independent Director	Member	9	100.00%
Rafael J. Lopez-Vito, Vice Chairman of the Board	Member	9	100.00%

The Executive Committee — **5 Meetings held during the year**

Members		Attendance	%
Eduardo V. Lim, President/CEO	Chairman	5	100.00%
Jocelyn M. Gozum, EVP/Treasurer	Member	5	100.00%
Violeta G. Angeles, SVP/Comptroller	Member	5	100.00%

The Information Technology Committee — **4 Meetings held during the year**

Members		Attendance	%
Violeta G. Angeles, SVP/Comptroller	Chairperson	4	100.00%
Jose Manuel J. Lopez-Vito, Non-Executive Director	Member	4	100.00%
Maria Teresita R. Mendoza, Vice President	Member	4	100.00%
Eric P. Pascua, IT Security and Data Privacy Officer	Member	4	100.00%

The Corporate Governance Committee — **4 Meetings held during the year**

Members		Attendance	%
Ma. Suzette Q. Montalvo, Independent Director	Chairman	4	100.00%
Carmenia H. Sason, Independent Director	Member	4	100.00%
Jose Ma. J. Lopez-Vito III, Chairman of the Board	Member	4	100.00%

The Credit Committee — **12 Meetings held during the year**

Members		Attendance	%
Eduardo V. Lim, President/CEO	Member	12	100.00%
Jocelyn M. Gozum, EVP/Treasurer	Member	12	100.00%
Maria Teresita R. Mendoza, Vice President	Member	12	100.00%

M A N A G E M E N T D I R E C T O R Y

EDUARDO V. LIM	President / Chief Executive Officer
JOCELYN M. GOZUM	Executive Vice President and Treasurer
VIOLETA G. ANGELES	Senior Vice President and Comptroller
MANOLO A. HILARO	Vice President and Chief Compliance Officer
MARIA TERESITA R. MENDOZA	Vice President and Corporate Secretary
MARIA THERESA MAURA D. SAMANIEGO	Manager / Internal Auditor

Eduardo V. Lim

Mr. Lim, 74, Filipino, is the President and Chief Executive Officer (CEO) of the Bank. He is a Liberal Arts-Commerce (LiaCom) graduate of De La Salle University. Immediately after graduation, he took and passed the Certified Public Accountancy (CPA) exams in 1968.

He started his banking career at Far East Bank and Trust Company in January, 1969 as an Investment Analyst at its Trust Division, He was promoted to officer level in August of the same year, and was transferred to its Portfolio Management Department, where he remained and eventually was promoted to Assistant Vice President (and head of Portfolio Management Department) in 1978, a position he held until his resignation in 1981. In 1978, he also took up the Management Development program (post graduate) at the Asian Institute of Management.

He then moved to Security Bank and Trust Company in July, 1981 as Vice President and head of the bank's Trust and Investment Division. In October, 1983, he joined the Trust Group of Bank of the Philippine Islands and remained there until his retirement in 1995. During his stint at the Bank, he became President of the Trust Officers Association of the Philippines.

Nevertheless, his banking career continued in March, 1996 with a short stint at Asia Trust and Development Bank as head of its Trust Division. In late December of the same year, he was invited to join Isla Bank as Director and President/Chief Operating Officer (COO). He presently holds a position as President/Chief Executive Officer (CEO).

He is also presently director and treasurer of Realty Investment, Inc., a real estate firm.

Jocelyn M. Gozum

Ms. Gozum, 60, Filipino, is the Executive Vice President and Treasurer of the Bank. She is a graduate of St. Paul's College of Manila, Class of 1981 with the degree of BS Commerce major in Accounting. She passed the Licensure Board Examination for Accountants in 1982. Ms. Gozum started her career in banking when she joined Savings Bank of Manila in February 1982 as an Accounting Bookkeeper and rose to the ranks as Assistant Manager of UCPB Savings Bank in 1986. In 1987 she left UCPB Savings Bank to join the Araneta-Zobel Cement Group as the General Manager of Formark, Inc., the marketing arm of FR Cement Corporation. In 1991 with the aggressive move of the Araneta Group to expand its investment in the cement industry not only in Metro Manila but also in Cebu, she simultaneously held the position of Finance Officer for Lloyd's Richfield Industrial Corporation (Cebu-based) and SVP-Marketing for FR Cement Corporation. In February 1997 Ms. Gozum again moved back to banking and joined ISLA Bank as Executive Vice-President and Treasurer.

Violeta G. Angeles

Violeta G. Angeles, 66, Filipino, is a Banker by profession. In college, she took up Bachelor of Science in Commerce majoring in Accounting at the Far Eastern University graduating in 1975. Her career in Banking saw its beginning when, fresh from college, she joined Pilipinas Bank in 1976 as Budget Analyst. She moved to Savings Bank of Manila in 1981 as Manager of Comptrollership Group. When UCPB acquired Savings Bank of Manila in 1984, she was promoted to Assistant Comptroller with the rank of Assistant Vice President (under the new name of the bank, UCPB Savings Bank) a position she held until she became the Vice President/Comptroller in 1990. In March, 1997 she was invited by the Chairman, Jose Ma. J. Lopez-Vito III, to join Isla Bank to become its Senior Vice President and Comptroller, the position she currently holds.

Manolo A. Hilario

Manolo A. Hilario, 85, Filipino, is a graduate of the University of the Philippines in 1956 and a Certified Public Accountant. He is a banker by profession with over fifty years of banking experience. He started his banking career when he joined Prudential Bank and Trust company soon after graduation and steadily rose from the ranks holding various managerial position in different departments of the organization. In 1977, he was promoted to the position of Assistant Vice President and later to Vice President of Controllership Division, the position he held until 2003. He was transferred to the Treasury Division as Treasurer and was eventually promoted to the position of Senior Vice President in 2004. In 2006, Bank of the Philippine Islands purchased Prudential Bank and Mr. Hilario played a vital role in the transition period as bank consultant until his retirement. On April, 2011, he was elected as Independent Director of Multinational Investment Corporation. He joined Isla Bank as Compliance Officer in August, 2011 and later as Chief Compliance Officer in April, 2012, a position he held until now.

Maria Teresita R. Mendoza

Maria Teresita R. Mendoza, 65, Filipino, is currently Vice President and Head of Accounts Management Division and Human Resource Department. She was Assistant Corporate Secretary in October 1998 and Corporate Secretary starting May 2018. She graduated from the College of the Holy Spirit in 1978 with a Bachelor of Science in Commerce major in Economics, and earned Master of Business Administration units from the La Salle Business School. Right after graduation she joined the then Far East Bank as Credit Analyst. In 1988 she was the Compliance Officer of UCPB Savings Bank and then as Credit Review Officer in 1994 and moved to UCPB as Manager in 1995. In March 1997, she joined Isla Bank as Head of the Loans Department and as Head of the Human Resource Department in July 1998.

Maria Theresa Maura D. Samaniego

Maria Theresa Maura D. Samaniego, 55, Filipino, is a Cum Laude graduate of the University of the East, with a Bachelor of Science in Accountancy degree and a Certified Public Accountant. She started out as Audit Clerk at Prudential Bank and rose from the ranks to become an Audit Officer in 2001, a position she held up to March 2006 when the bank was absorbed by the Bank of the Philippine Islands. In June, 2006, she resigned to take care of her sick child. After her child's recovery, she joined Isla Bank as Internal Auditor from June 2012 to the present.

OPERATIONAL POLICIES

Orientation and Education Program

As mandated by existing regulations, the Bank ensures that new directors undergo the requisite corporate governance seminar conducted by BSP accredited institutions, and on boarding seminars. New directors are furnished with copies of the general/specific duties and responsibilities of the Board and as an individual director upon election. The continuing Business Education is being provided internally for the Board of Directors and the various units of the Bank, in particular updates on Anti Money Laundering (AMLA).

Retirement and Succession Policy

The Bank has adopted the minimum requirements for retirement under Republic Act 7641. Directors however, are not entitled to retirement pay except for the executive directors. The Independent Directors have a cumulative term limit of nine (9) years.

The Senior Officers' position in the Bank is vital in the organization's success and ensuring that the functions are understood and shared by supervisors and among other senior officers. Standing Appointees have been identified as successors to key positions. Senior management provides the ExeCom with an annual performance report regarding its talents, key officers and other high potential individuals to ensure that there is a sufficient pool of qualified internal candidates to fill senior and leadership positions and to identify opportunities.

The Bank's retirement policy is adopted from Article 287 of the Labor Code: the employee may retire upon reaching the age of sixty and if he has served for at least five years, he is entitled to retirement pay equivalent to one-half month salary for every year of service.

Remuneration Policy and Structure

The CEO & Executive Directors receive remuneration as Officers of the Bank, consisting of basic monthly pay and bonuses. For the Directors, the Bank's By-Laws provides that "Each director shall receive a fee or per diem in such amount as the Board of Directors may determine for attendance at any meeting of the Board, for each day of session."

The Board is responsible in approving the remuneration package of Senior Management. Executive Directors do not participate in determining their remuneration package.

Amongst others, the following are some of the criteria adopted by the Bank in considering the remuneration of the Senior Management:

- The overall performance of the Company tracked against the annual plan and the general economic situation;
- Prevailing market practice and salary position against market;
- Skills, experience and individual performance.

Policy of Related Party Transactions (RPT)

The Bank transacts with related parties which consist of its stockholders, directors, officers and employees and their related interests. Related party transactions are not limited to lending and may include, among others, such as investment, borrowings, guarantees, lease agreements, purchases and sales of assets and contracts.

The Board of Directors shall have the overall responsibility in ensuring that transactions with related parties which are normal banking activities are handled in a sound and prudent manner. These are conducted on arm's length basis and is compliant with existing laws, rules and regulations at all times.

The Board approves all material RPTs, those that cross the materiality threshold of more than Five Hundred Thousand and write -off of material exposures to related parties, and submit the same for confirmation by majority vote of the stockholders during the annual stockholders meeting. Any renewal or material changes in the terms and conditions of the RPTs are also approved by the Board of Directors.

The designated Executive Committee has the responsibility for the RPTs that are below the materiality threshold, subject to the confirmation by the Board of Directors. These shall, however, exclude DOSRI transactions, which have to be approved by the Board.

Loans and advances granted to related parties as disclosed in the Audited Financial Statements, as Note 24 (f), on RPTs.

In the ordinary course of business, the Bank has loan transactions with certain DOSRI.

Under existing policies of the Bank, these loans are made substantially on the same terms as with other individuals and businesses of comparable risks.

The General Banking Act of the BSP provides that in aggregate, loans to DOSRI generally should not exceed the Bank's total equity or 15 percent of the Bank's total loan portfolio, whichever is lower. In addition, the amount of individual loans to DOSRI, of which 70 percent must be secured, should not exceed the amount of their deposits and the book value of their investments in the Bank. Unsecured DOSRI loans to the officers of the Bank are subject to 5 percent ceiling for loans under fringe benefits program under MORB. As of December 31, 2020, and 2019, the Bank has satisfactorily complied with these limits.

The following table shows the other information relating to the loans, other credit accommodations and guarantees granted to DOSRI in accordance with BSP reporting guidelines:

	2020	2019
	DOSRI Loans	
Total outstanding loans	P 31,665	P 1,034,648
% of loans to total loan portfolio	0.01%	0.30%
% of unsecured loans to total DOSRI/related party loans	0.05%	0.06%
% of past due loans to total DOSRI/related party loans	0.0%	0.0%
% of non-performing loans to total DOSRI/related party loans	0.0%	0.0%

	2020	2019
	Related Party Loans (inclusive of DOSRI)	
Total outstanding loans	P 58,451,396	P 59,470,969
% of loans to total loan portfolio	21.23%	17.03%
% of unsecured loans to total DOSRI/related party loans	0.0%	0.0%
% of past due loans to total DOSRI/related party loans	0.0%	0.0%
% of non-performing loans to total DOSRI/related party loans	0.0%	0.0%

Loans to DOSRI, which are shown as part of Receivables from customers under Loans and Receivables account in the statements of financial position (see Note 11). As of December 31, 2020, and 2019, the Bank does not have any past due or non-performing DOSRI loans.

Dividend Policy

Article XI, Section 1 of the By-Laws of the Bank, provides that dividends may be declared annually or as often as the Board of Directors may determine. The Board may declare dividends only from the surplus profits of the Bank after making proper provisions for the necessary reserves in accordance with rules and regulations of the Manual of Regulations for Banks.

For stock dividends, Article X1, Section 2 of the By-Laws, states that with the approval of the Stockholders representing two-thirds (2/3) of all the stock then outstanding and entitled to vote, given at a general meeting or at a special meeting duly called for the purpose, the Board may declare that dividends be paid in stock.

In accordance with X124 of the Manual of Regulations for Banks, the net amount available for dividends shall be the amount of unrestricted or free retained earnings and undivided profits reported in the Financial Reporting Package (FRP) as of the calendar/ fiscal year-end immediately preceding the date of divided declaration.

The derivation of the amount of dividends from the unrestricted/free retained earnings shall be based on a sound accounting system and loss provisioning processes under existing regulations which takes into account relevant capital adjustments including losses, bad debts and unearned profits or income.

Other Related Party Transactions

Related party transactions on loans with original principal amount of P58,500,000, has an outstanding balance of P58,419,731 and P58,436,321 as of December 31, 2020 and 2019, respectively, which are shown as part of Receivables from customers under Loans and Receivables account in the statements of financial position (see Notes 11 and 24), will mature within one to two years, and earn 3.1% to 12.0% interest in both 2020 and 2019. These loans are fully secured with deposits amounting to P58,419,731 and P58,521,203 in 2020 and 2019, respectively, with 12.3% interest in both years.

On July 1, 2007, the Bank entered into a five-year contract of lease with LHI Real Estate Corporation, a related entity under common ownership (see Note 19.2), and renewed on July 1, 2012 for another five years. On June 30, 2017, the same contract was renewed until June 30, 2022. In 2019, the Bank received written notice from the lessor waiving the rent until further notice.

Financial Consumer Protection Framework

The Bank has a Board approved Consumer Protection Framework that will help protect the interest of the financial consumers, address their concerns and take the corrective actions in a timely manner and institutionalize the responsibilities to all stakeholders.

The Board of Directors is responsible for developing consumer protection strategy. The Board approves and oversees the overall compliance with the consumer assistance protection policies and procedures to ensure that the Bank conforms with consumer protection laws, regulations, guidelines and other best practices/standards.

Senior Management is responsible for implementing the program to manage the customer compliance risks associated with the Bank's business and ensuring compliance with laws and regulations on a day-to-day basis.

The Bank's framework implements at all times the following protection standards for consumer risks:

a. Disclosure and Transparency

The Bank makes available to the client a written copy of the Terms and Conditions of the products and services. The employee assigned properly and carefully explains the terms and conditions of the products and services which the client is availing as well as the fundamental benefits and risks involved before consummating the transaction.

b. Protection of Client Information

The Bank ensures the Confidentiality and Security of Client Information by establishing policies on information and security to safeguard the customer personal data. The sharing of customer information is not allowed unless with the written consent of the client. On September 12, 2018, the Bank registered with the National Privacy Commission, an independent body created under Republic Act No. 10173 or the Data Privacy Act of 2012, mandated to administer and implement the provisions of the Act, and to monitor and ensure compliance of country with international standards set for data protection.

c. Fair Treatment

The Bank ensures that clients are treated fairly, honestly, professionally and are not sold inappropriate and harmful financial products and services. Safeguarding the best interest of the customer is always considered.

d. Financial Education and Awareness

The Bank recognizes the need for continuing training of personnel concerned on the matters of consumer protection laws, rules and regulations, related Bank's policies and procedures and products and services in order to maintain a sound consumer protection compliance program. The channel on how the clients can send their complaints/requests are communicated to the clients.

The Bank has a Code of Conduct applicable to all staff, spelling out the Bank's values and standards of professional conduct that uphold protection of clients. Bank employees demonstrate a culture of fair and responsible treatment of clients.

e. Consumer Assistance Process and Timeline

The Bank has defined the consumer assistance process and timeline in processing and addressing the client's complaints/requests and assigned designated personnel to handle the client concern.

The Bank monitors and analyzes the nature of all customer complaints and addresses these issues within the minimum timeframe set by the Bank. The Bank has an established guideline on the required monthly submission of report on customer complaint to the Board thru a Board committee and Senior Management including the frequency and information to be reported. Information Technology and Risk Management Committees discuss in their regular meetings, the category of complaints received, statistic, aging of complaints and resolutions/actions taken to resolve the complaints/requests. Immediate reporting is required on any significant/material complaint. The discussion includes the recommendation/s on how to avoid recurring complaints and suggestions for improvement, as needed.

The table below shows the summary of the number of complaints received by the Bank. As of the year end 2020, there were no outstanding unresolved complaints/issues.

	2020	2019
Total no. of complaints	16	8
-No cash dispensed (ATM)	14	8
-Captured card	1	0
-Unposted	1	0
Transactions (nearest peso)	73,300	27,278

Corporate Social Responsibility

The COVID-19 pandemic has affected everyone and it reinforced the need to help the most vulnerable in our society. However, social distancing and other measures to protect people and try to stem the spread of the virus have meant challenges to undertake volunteering or other charitable activities. Because of this, and the need to help our own employees, the Bank has adopted steps to help alleviate the impact of the pandemic in our own backyard. Management has provided transportation service for the employees so that they would not be exposed to Covid if they ride public utilities. To the extent possible, employees worked from home. We have also been lenient in the absences or tardiness and if any employee has to go on leave related to Covid, these are not charged to leave and are instead given their pay for the day. And for those who report for work, free lunch is served. Lastly, the Bank will shoulder the cost of the vaccines for the employees and their qualified beneficiaries. These benefits are not only accorded to Bank employees but to our guards and utilities as well.

INTERNAL CONTROL AND RISK MANAGEMENT

Internal Audit

Internal audit is a major role in conducting an independent and objective evaluation relative to the adequacy of the Bank's internal control system, its assurance in the quality of management, business activities, operational performance based on the risk-oriented principles and ensure compliance with legal and regulatory requirements and implementation of established policies and procedures. It performs its functions fairly and impartially, thus no conflict of interest with the Bank. It supports the senior management and the Board of Directors in the efficient and effective discharge of their responsibilities as they are well informed as to the development of an annual audit plan risk-based approach; its methodology also provided on-going risk and control assessments that strengthen the detection of fraud; recommendations to implement corrective measures to enhance effective controls/processes as well as reasonable assurance on the effectiveness of risk management and governance processes. The internal auditor reports directly to the Board of Directors through its Audit Committee; works closely with Compliance Department and external auditor; has free and unrestricted access to all records, information and properties. The internal audit activities conform to the generally accepted accounting and auditing standards, bank's operating procedures and processes, rules and regulation of regulatory agencies that ensure quality of performance.

The emergence of the pandemic outbreak COVID-19, where travel restrictions were strictly imposed, led the internal audit's function find alternative ways of remote audit in lieu of the conventional face-to-face audit. During these times, it was quite challenging to the audit engagement where we obtained some of the audit requirements and queries through emails and telephone calls, thus limited in access to data unlike onsite prior periods audit. In as much as objectivity, integrity and independence are utmost importance, we ensured maintaining a commitment to audit quality. Concerned auditees were interviewed and gathered collated information as supporting evidences to validate our examination was being undertaken for a smooth continuous audit.

The Audit Committee conducts an annual review of the internal audit performance by way of a self-assessment that serves as an evaluation to warrant the efficiency, effectiveness and competency of the internal audit functions.

The Committee is composed of three (3) members of its Board of Directors, one non-executive director and two (2) independent directors, one of whom is appointed as chairperson of the committee.

Compliance

The Bank's compliance is safe and sound and effectively managed by the Compliance Officer as he oversees, coordinates and observes the daily compliance activities of the Bank towards an effective implementation of good governance, compliance manual and compliance risks. He strictly monitors the bank's daily operational activities, controls, identifies and analyzes the risk areas to ensure its appropriateness and conformity as he carry out and perform its functions as the Bank adheres to the applicable/relevant laws, rules, regulations and other regulating agencies. It plays an essential role in helping to preserve the integrity and reputation of the Bank. Its independency leads to have access to all operational areas and information as well as any documents or files necessary to fulfill his duties and responsibilities efficiently that identifies, records, assesses and mitigates risks associated with the bank's operations. Also, new laws, regulations and other regulatory issuances including AML/CFT matters are being regularly updated to keep the officers and staff abreast with the latest developments and best practices in the banking services.

He manages the Compliance Department where he assures that its directive, activities and primary result areas are performed and delivered as he conducts an offsite and onsite compliance testing to various units/departments and branches of the bank. He reports any material compliance issues and concerns noted during the examination and transparently report to Senior Management and to the Board thru the Audit Committee for further evaluation, investigation and resolution as properly disclosed in the Compliance Testing Reports.

Anti-Money Laundering

The Bank has effective standards and guidelines with regards to following the existing established procedures, measures and controls to ensure compliance with Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT), thus regulate/manage and mitigate the risk against financial crimes. Regular risk assessment is being performed with proper implementation of Know Your Customer (KYC) and Customer Due Diligence (CDD) procedures by applying a risk-based approach in customer account opening processes; continuous monitoring of the clients' transactions/activities to determine both reportable covered and suspicious activities; and update the customers' profile and customer account information records which are all essential elements for an adequate and efficient ALM/CFT framework.

Risk Management

Risk Management Principles

A robust risk management is significant to the Bank's daily activities and it is the core of the operating structure where it manages the risk exposures within agreed levels of risk appetite. The Bank's risk management is proportionate to the nature, volume and simple operations, as well as its risk profile.

The Bank is committed to build and enhance the risk management capabilities that assist in delivering the growth plans in the financial institution. The Board of Directors and Senior Management play an active role in ensuring that risks are well managed and has existing appropriate approaches, systems, and controls that are in place to mitigate risk.

Effective and efficient risk management process is incorporated in all its business activities. This assures that the Bank has adopted policies and procedures for the identification, measurement, assessment, monitoring, controlling and mitigating of risks and reporting such risk; adequate organizational structure; sufficient process of management of all risks that the Bank is or may be exposed to in its operation; and adequate internal control system.

Risk Management Strategy

The Bank's risk management strategy encompasses minimizing or reducing risks exposure, limiting potential losses and ensuring continues adequacy of financial resources. The Bank continued its commitment to sound risk management that proved effective as shown in our capital and liquidity position. Moreover, strong corporate governance that focuses specifically on risk management helps the Bank reach its ultimate goals.

Risk Management Governance

The risk management governance applies the principles of sound governance in the identification, measurement, monitoring, and controlling of risks. It ensures that risk-taking activities are in line with Bank's strategy and risk appetite and covers all material risk categories applicable to the Bank.

To manage the Bank's risk effectively, the Board of Directors through the Risk Management Committee (RMC) adopts and promotes the Bank's risk culture and monitors adherence to the defined risk appetite. The RMC performs the oversight functions in the development of risk management strategies for risk identification and evaluation, risk monitoring, managing and controls. The Committee meets at least quarterly or more frequently as necessary.

To ensure objectivity, the Bank's RMC is made up of individuals who are independent of the Bank's business organization. RMC is composed solely of three directors of the Bank who are all independent directors and therefore not involved in the Bank's day-to-day operations.

Risk Management Scope and Structure

Risk culture pertains to the Bank's risk approach and is critical to sound risk management governance.

The Board promotes risk awareness within a sound risk culture. The Board does not support excessive risk taking and conveys to all units that the Bank operates within the established risk appetite and limits. The RMC ensures that material risk and risk-taking activities exceeding the risk appetite and limits are reported and addressed in a timely manner.

Risk Appetite

Risk appetite is the level of risk the Bank is willing to assume taking into account its overall risk bearing capacity, the extent of risk exposures, as well as the governance, monitoring and reporting of these risks. It draws the line between those risks which are acceptable and those considered unacceptable. It also forms the basis for establishing limits, controls and mitigation measures. Risk appetite and business strategy are aligned to risk bearing capacity and its established limits.

The RMC, in consultation with the Board, established the Bank's risk appetite, risk allocation and limits. The risk appetite is communicated throughout the Bank. The Board evaluates and supports the risk appetite at least annually. The RMC monitors the strategic, capital and operating plans within the risk appetite and established limits.

Stress Testing exercises are implemented to effectively manage exposures on specific risk areas of the Bank and to promote strong risk governance. Stress testing exercises are also linked to the risk appetite, business strategies as well as capital and liquidity plans of the Bank. The test will enable the Bank to quantify the impact of changes in risk factors on the assets and liabilities of the Bank.

RISK EXPOSURE AND ASSESSMENT

Risk Description	Risk Appetite	Mitigating Factors	Risk Exposure
Liquidity Risk Is the risk to earnings or capital arising from a Bank's inability to meet its obligations when they come due without incurring unacceptable losses.	*Low*	• The Bank has a liquidity risk management framework which identify, analyze, monitor, control and manage the liquidity position of the Bank at all times • The Bank's policy is to manage its operations in such a manner as to ensure that sufficient funds are available to meet credit demands of its clients and repay deposits on demand or upon maturity • The Bank maintains sufficient liquid assets at all times to meet immediate funding requirements. • To identify liquidity risk, a Liquidity Gap Analysis monitors the gap between assets and liabilities in terms of maturities and measures the direction and extent of asset-liability mismatch through either funding or maturity. Liquidity ratios are computed to determine compliance with internal liquidity limit and ratio while liquidity stress test measures Bank's capacity to handle stressful events affecting liquidity such as sizable and unexpected cash outflows. • A Contingency Funding Plan is in place detailing sources of funds according to availability and situations where it should be utilized with coordinated plan of action by the departments involved should such liquidity crisis occur. • A Minimum Liquidity Ratio (MLR) report was adopted per BSP Circular No. 996. The MLR promotes short-term resilience to liquidity shocks by measuring liquid assets in proportion to balance sheet liabilities.	***Low*** Liquidity remains strong in view of Management's strategy to maintain substantial liquidity. Funds sources are from capital (56.8 percent) and special and regular deposits (41.1 percent) of total resources. The Bank has a very strong liquidity as it has substantial liquid funds to service cash outflows from customers and borrowers. Bulk of liquid funds are maintained in deposits with the BSP and investments in government securities. The Bank's risk exposure to Liquidity Risk is Low.

		• A prudential MLR of 20% of the Bank's eligible stock of liquid assets to its total qualifying liabilities is to be complied on an ongoing basis even in the absence of liquidity risk. In comparison, Isla Bank maintains a 50% internal limit which is above the required MLR. • The liquidity risk methodologies are submitted to the Board through the Senior Management, ALCO, and the Risk Management Committee and are reviewed and updated. • Conduct Scheduled Stress Tests.	
Credit Risk Is the possibility of financial loss if a counterparty to a transaction defaults or fail to meet contractual obligations to the Bank.	*Low*	• The Bank manages its credit risk and loan portfolio through the Credit Committee, which undertakes several functions with respect to credit risk management. • The Bank structures the levels of credit risk it undertakes by setting limits on the amount of risk acceptable in relation to one borrower, or group of borrowers and to geographical and industry segments. Such risks are monitored on an evolving basis and subject to annual or more frequent review. • The Bank is operating under a sound credit granting process in accordance with credit scoring model. • The approval processes are in accordance with the approving authority and corresponding approval limits. • Monitoring of credit limits, large exposures and credit risk concentrations. • Implementation of credit risk management information and reporting systems. • The Bank has an established policy on Related Party Transactions (RPTs) and observes compliance to	***Low*** The Bank's credit risk exposure is low. The Bank asset quality is satisfactory. Asset profile consistently registered a high-quality portfolio with 69.7 percent zero risk - weighted assets comprising of placement in BSP's deposit and RRP facilities, Philippine government securities and loans secured by hold-out. Other significant components are investment in debt securities issued by private companies, classified as class A companies, (Meralco, Ayala Land Inc, and Philippine Long-Distance Telephone, Inc. Loan accounts are all classified as current and unclassified accounts and majority are secured by hold-out on deposits (63.7

		the guidelines. to ensure that transactions are to the best interest of the Bank and consistent with the policy of transparency, fairness and integrity.	percent), chattel (28.5 percent) and real estate mortgage (6.2 percent).
Market and Interest Rate Risk Is the risk to earnings or capital arising from changes in the value of loan and investment portfolio which arises from market-making, dealing and position-taking in interest rate, foreign exchange, equity and commodities market.	*Low*	• The Bank's exposure is limited to interest rate risk from its lending and deposit taking activities, placements with the BSP and local banks and investments in held-to-maturity prime corporate bonds and government securities. • Lending rates are fixed vis-a-vis prevailing market rates and are computed to provide a comfortable net interest margin and reasonable return of investment. Updates on the market risks are communicated to the Board thru the Senior Management, ALCO and the RMC. • An Interest Rate and Maturity Gap Analysis Measures Bank's exposure to interest rate fluctuations which can pose a significant threat to Bank's earnings and capital base. A single 100 basis points (+/- 100 bps) maximum threshold on earnings at risk (EaR) is adopted as Isla Bank has traditional and simple business and balance sheet. • These methodologies are submitted to the Board through the Senior Management, ALCO, and the Risk Management Committee (RMC) for their guidance and action, and are reviewed and updated, when necessary, while the RMC updates the Board of various risk management activities.	***Low*** The Bank does not engage in market-making, dealing and position-taking in the domestic financial market. The Bank's investment portfolio is made up of blue-chip private corporate bonds and government securities which are held-to-maturity. The portfolio therefore, is not exposed to adverse movements of interest rates in the financial market.
Information Technology Risk Is the risk of any potential Information Technology (IT)	*Low*	• The information security is managed by the Information Security Officer (ISO) who is responsible for the oversight of the Bank's Information Security Risks with regards to confidentiality, integrity and availability of the IT infrastructure, processing systems in line with the	***Low*** There were no reported compromised ISLA ATM cards, security breaches, fraud, theft or vandalism.

failures to disrupt the Bank's business such as hardware and software failure, human error, viruses, malicious attacks as well as natural disasters.		Information Technology compliance monitoring processes to meet IT policies and applicable regulatory requirements. • The Bank has an approved Information Technology Risk System which provide guidelines in managing risks associated with use of technology commensurate to the size, nature of e-banking products and services and degree of adoption of technology by the Bank. • Report on the IT risks are submitted to the Board thru the IT Committee on a regular basis with such recommendations as the Committee may deem appropriate, thus the Board is informed of the Committee's activities. Also, all security issues relevant to the Bank's technology activities and any other important IT matters are also being reported. • The Bank conducts a business resumption testing at least once a year to ensure that the Bank's operations can withstand the effects of major disruptions of critical operations due to internal and external threats, which may be natural, man-made or technical in origin. • IT risk exposure is commensurate to the classification of the Bank as "Simple" in terms of degree of complexity of the Bank's systems and IT profile. IT risk management system, governance, structure, security controls and processes in place are commensurate to the classification.	ATM complaints were minimal and resolved within 1 to 3 banking days. Business continuity and disaster recovery plan is tested annually. For security risk management, an adequate security program is in place. The inspection of security devices is being conducted regularly. Likewise, in coordination with the Bureau of Fire Protection, fire and earthquake drills are conducted yearly. The results of the annual performance evaluation of all the service providers of the Bank were Very Satisfactory.

Reputational Risk Is the risk that could arise from failure to mitigate the risks in its business. This is the risk of collective negative public perceptions and opinions, past and present, about an organization.	*Low*	• The Bank demonstrates a high standard in setting clear business policies and practices with integrity and trust. • Create a happy and productive workplace for better working environment that renders productivity and credibility to employees. • Ensure to maintain proper safeguarding of employees' and customers' data, sensitive private/personal information and financial data in observance of data privacy act and protection policies and practices. • Establish good customer and bank relationship by providing efficient quality services for high level of satisfaction.	***Low*** The Bank has no history of negative publicity, fraud incidence and adverse information.
Strategic Risk Is the risk that may arise from the adverse business decisions or the improper implementation of the decisions of the Board of Directors relative to the objective of the bank.	*Low*	• The Board and Senior Management are knowledgeable, experienced, independent, with clear understanding of the market, economic, and competitive conditions. There are board members who are independent, who check and balance the activities of management to meet the targeted goal. • Management remains to be conservative in terms of lending, as part of the strategy. • The Bank continues to offer consumer financing particularly auto loans with high yielding receivables. • Ensure to continue to be very prudent in granting loans to applicants.	***Low*** The Bank is operating based on the adopted business plan and objective.

Compliance Risk Is the risk to earnings or capital arising from violations of laws, rules and regulations, prescribed practices or ethical standards. The risk of legal or regulatory sanctions, financial loss, and loss of reputation that Bank may suffer as a result of its failure to comply with applicable laws, regulations, Codes of Conduct and standards of good practice.	*Low*	• The Compliance Unit is responsible in guiding every business unit on the proper implementation of laws, rules and regulations, and directives. • Conduct a risk assessment based on the customers, products and services, and transactions, to monitor and evaluate any threats. • Provide seminars to the Board, officers and employees to keep them abreast of the latest updates, developments and new issuances on compliance measures, policies, and procedures to better understand the risks and its consequences	***Low*** The Bank's compliance risk management is satisfactory. The Bank has no major violation for non-compliance with the applicable laws, regulations, Codes of Conduct and standards of good practice.
Legal Risk Is the risk to earnings or capital that may arise because of unenforceable contracts, lawsuits or adverse judgements.	*Low*	• Services of an external legal counsel are engaged on a retainer basis to review documents and contracts, among others, and to ensure that these are complete and enforceable. • Monitoring of legal matters is conducted through regular discussion with the legal counsel. There is no pending or impending litigation by or against the Bank or any of its directors and officers which could adversely affect financial condition. • Performance of the legal counsel is monitored and annually reviewed by the Corporate Governance Committee.	***Low*** There are no pending cases files by or against the Bank or any of its directors and officers which could adversely affect the Bank's financial condition as well as its reputation.

Report of Independent Auditors

The Board of Directors
Isla Bank (A Thrift Bank), Inc.
Ground and Second Floors, Glass Tower
115 Carlos Palanca Jr. Street
Legaspi Village, Makati City

Report on the Audit of the Financial Statements

Opinion

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

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

Basis for Opinion

We conducted our audits in accordance with Philippine Standards on Auditing (PSA). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Bank in accordance with the Code of Ethics for Professional Accountants in the Philippines (Code of Ethics) together with the ethical requirements that are relevant to our audits 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.

Emphasis of Matter

We draw attention to Note 23 to the financial statements, which describes management's assessment of the continuing impact on the Bank's financial statements of the business disruption brought by the COVID-19 pandemic. Our opinion is not modified in respect of this matter.

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

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Bank to cease to continue as a going concern.

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

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

Report on Other Legal and Regulatory Requirements

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information for the year ended December 31, 2020 required by the Bureau of Internal Revenue as disclosed in Note 25 to the financial statements is presented for purposes of additional analysis and is not a required part of the basic financial statements prepared in accordance with PFRS. The supplementary information for the years ended December 31, 2020 and 2019 required by the BSP as disclosed in Note 24 to the financial statements is presented for purposes of additional analysis. Such supplementary information is the responsibility of management. The supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

PUNONGBAYAN & ARAULLO

By: Renan A. Piamonte
Partner

CPA Reg. No. 0107805
TIN 221-843-037
PTR No. 8533237, January 4, 2021, Makati City
SEC Group A Accreditation
Partner - No. 107805-SEC (until Dec. 31, 2023)
Firm - No. 0002 (until Dec. 31, 2024)
BIR AN 08-002511-037-2019 (until Sept. 4, 2022)
Firm's BOA/PRC Cert. of Reg. No. 0002 (until Jul. 24, 2021)

February 24, 2021

ISLA BANK (A THRIFT BANK), INC.
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2020 AND 2019
(Amounts in Philippine Pesos)

	Notes	2020	2019
R E S O U R C E S			
CASH AND OTHER CASH ITEMS	8	**P 10,098,635**	P 7,450,310
DUE FROM BANGKO SENTRAL NG PILIPINAS	8	**458,456,863**	250,160,226
DUE FROM OTHER BANKS	8	**18,927,807**	16,798,544
LOANS AND RECEIVABLES ARISING FROM REPURCHASE AGREEMENT	8, 9	**154,069,090**	340,342,172
INVESTMENT SECURITIES AT AMORTIZED COST – Net	10	**447,443,560**	416,473,181
LOANS AND RECEIVABLES – Net	11	**269,346,081**	338,202,940
BANK PREMISES, FURNITURE, FIXTURES AND EQUIPMENT – Net	12	**3,871,133**	4,027,776
RIGHT-OF-USE ASSETS – Net	13	**997,307**	1,922,840
OTHER RESOURCES – Net	14	**14,549,028**	15,520,191
TOTAL RESOURCES		**P 1,377,759,504**	P 1,390,898,180
LIABILITIES AND CAPITAL FUNDS			
DEPOSIT LIABILITIES	15	**P 565,707,288**	P 586,961,078
OTHER LIABILITIES	16	**29,081,437**	28,078,745
Total Liabilities		**594,788,725**	615,039,823
CAPITAL FUNDS			
Common stock	17	**566,727,900**	566,727,900
Surplus		**206,575,811**	199,962,215
Remeasurements of retirement benefit plan		**9,667,068**	9,168,242
Total Capital Funds		**782,970,779**	775,858,357
TOTAL LIABILITIES AND CAPITAL FUNDS		**P 1,377,759,504**	P 1,390,898,180

See Notes to Financial Statements.

ISLA BANK (A THRIFT BANK), INC.
STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019
(Amounts in Philippine Pesos)

	Notes	2020	2019
INTEREST INCOME			
Loans and receivables	11	**P 32,798,633**	P 40,258,054
Investments at amortized cost	10	**20,348,633**	16,629,257
Due from Bangko Sentral ng Pilipinas and other banks	8	**6,489,926**	1,873,076
Loan and receivables arising from repurchase agreement	8,9	**5,252,485**	21,963,484
		64,889,677	80,723,871
INTEREST EXPENSE			
Deposit liabilities	15	**5,184,004**	7,127,313
Others	13, 20	**1,136,609**	1,733,064
		6,320,613	8,860,377
NET INTEREST INCOME		**58,569,064**	71,863,494
OTHER INCOME			
Service charges		**6,970,193**	8,713,640
Others		**357,186**	100,914
		7,327,379	8,814,554
OTHER OPERATING EXPENSES			
Employee benefits	20	**24,367,179**	25,913,606
Taxes and licenses	25	**6,304,739**	8,826,174
Information technology		**4,026,641**	3,966,976
Security, messengerial and janitorial services		**4,002,110**	3,824,872
Insurance		**2,470,099**	2,443,969
Depreciation and amortization	12, 13	**2,325,460**	1,894,916
Power, light and water		**1,089,374**	1,296,461
Management fees		**1,049,379**	1,032,446
Occupancy	13	**792,673**	1,073,590
Others	18	**5,790,954**	5,968,262
		52,218,608	56,241,272
PROFIT BEFORE TAX		**13,677,835**	24,436,776
TAX EXPENSE	21	**7,064,239**	8,940,201
NET PROFIT		**6,613,596**	15,496,575
OTHER COMPREHENSIVE INCOME			
Remeasurements of retirement benefit plan	20	**498,826**	770,071
TOTAL COMPREHENSIVE INCOME		**P 7,112,422**	P 16,266,646

See Notes to Financial Statements.

ISLA BANK (A THRIFT BANK), INC.
STATEMENTS OF CHANGES IN CAPITAL FUNDS
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019
(Amounts in Philippine Pesos, Except Number of Share)

	Common Stock (See Note 17)		Remeasurements of Retirement Benefit Plan		Total
	No. of Shares	**Amount**	(See Note 20)	**Surplus**	**Capital Funds**
Balance at January 1, 2020	**5,667,279**	**P 566,727,900**	**P 9,168,242**	**P 199,962,215**	**P 775,858,357**
Total comprehensive income for the year	**-**	**-**	**498,826**	**6,613,596**	**7,112,422**
Balance at December 31, 2020	**5,667,279**	**P 566,727,900**	**P 9,667,068**	**P 206,575,811**	**P 782,970,779**
Balance at January 1, 2019	5,017,279	P 501,727,900	P 8,398,171	P 184,465,640	P 694,591,711
Issuance of shares during the year	650,000	65,000,00	-	-	65,000,000
Total comprehensive income for the year	-	-	770,071	15,496,575	16,266,646
Balance at December 31, 2019	5,667,279	P 566,727,900	P 9,168,242	P 199,962,215	P 775,858,357

See Notes to Financial Statements.

ISLA BANK (A THRIFT BANK), INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019
(Amounts in Philippine Pesos)

	Notes	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		P 13,677,835	P 24,436,776
Adjustments for:			
Interest received		44,541,044	64,094,614
Interest income on loans and receivables	11	(32,798,633)	(40,258,054)
Interest income on investment securities at amortized cost	10	(20,348,633)	(16,629,257)
Interest income on due from Bangko Sentral ng Pilipinas and other banks	8	(6,489,926)	(1,873,076)
Interest paid		(5,470,092)	(7,377,288)
Interest income on loan and receivables from repurchase agreement	8, 9	(5,252,485)	(21,963,484)
Interest expense on deposit liabilities	15	5,184,004	7,127,313
Depreciation and amortization	12, 13	2,325,460	1,894,916
Amortization of computer software	14, 18	1,066,739	925,636
Interest expense on lease liabilities	13	189,129	202,663
Operating profit (loss) before changes in operating resources and liabilities		(3,375,558)	10,580,759
Decrease in loans and receivables		67,916,858	27,301,430
Increase in other resources		(70,593)	(157,308)
Decrease in deposit liabilities		(21,156,831)	(134,788,668)
Increase in other liabilities		1,343,267	626,566
Cash generated from (used in) operations		44,657,143	(96,437,221)
Cash paid for income taxes		(6,930,971)	(8,755,646)
Net Cash From (Used in) Operating Activities		37,726,172	(105,192,867)
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of investments securities at amortized cost	10	(100,00,000)	-
Proceeds from maturities of investment securities at amortized cost	10	70,000,000	-
Interest received from investment securities at amortized cost	10	20,318,255	17,037,852
Acquisitions of bank premises, furniture, fixtures and equipment	12, 13	(1,243,284)	(2,319,082)
Acquisition of intangible assets	14	-	(1,902,785)
Net Cash From Investing Activities		(10,925,029)	12,815,985
CASH FLOWS FROM A FINANCING ACTIVITY			
Proceeds from issuance of shares of stock	17	-	65,000,000
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		26,801,143	(27,376,882)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR			
Cash and other cash items	8	7,450,310	10,461,698
Due from BSP	8	250,160,226	60,544,094
Due from other banks	8	16,798,544	15,829,425
Loans and receivables arising from repurchase agreement	8, 9	340,342,172	555,292,917
		614,751,252	642,128,134
CASH AND CASH EQUIVALENTS AT END OF YEAR			
Cash and other cash items	8	10,098,635	7,450,310
Due from BSP	8	458,456,863	250,160,226
Due from other banks	8	18,927,807	16,798,544
Loans and receivables arising from repurchase agreement	8, 9	154,069,090	340,342,172
		P 641,552,395	P 614,751,252

See Notes to Financial Statements.

ISLA BANK (A THRIFT BANK), INC.
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2020 AND 2019
(Amounts in Philippine Pesos)

1. CORPORATE INFORMATION

1.1 Incorporation and Operations

Isla Bank (A Thrift Bank), Inc. (the Bank) is a savings and mortgage bank in the Philippines and was established on August 10, 1977. The Bank is engaged in the accumulation of savings from depositors and investing the fund, together with the Bank's capital, in readily marketable government debt securities, in loans and receivables under repurchase agreement, mortgages on real estate and insured improvements thereon, and other forms of security or in loans of personal or household finance, whether secured or unsecured, and financing for home building and home development.

As a banking institution, the Bank's operations are regulated and supervised by the Bangko Sentral ng Pilipinas (BSP). As such, the Bank is required to comply with banking rules and regulations such as those relating to maintenance of reserve requirements on deposit liabilities and deposit substitutes and those relating to the adoption and use of safe and sound banking practices, among others, as promulgated by the BSP. The Bank's activities are subject to the provisions of Republic Act (R.A.) No. 8791, *General Banking Law of 2000*, and other related banking laws.

The Bank's registered office, which is also its principal place of business, is located at Ground and Second Floors, Glass Tower, 115 Carlos Palanca Jr. Street, Legaspi Village, Makati City. At the end of 2020 and 2019, the Bank has two branches strategically located in key cities outside Metro Manila.

1.2 Approval of Financial Statements

The financial statements of the Bank as of and for the year ended December 31, 2020 (including the comparative financial statements as of and for the year ended December 31, 2019) were authorized for issue by the Bank's Board of Directors (BOD) on February 24, 2021.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies that have been used in the preparation of these financial statements are summarized in the succeeding pages. The policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of Preparation of Financial Statements

(a) *Statement of Compliance with Philippine Financial Reporting Standards*

The financial statements of the Bank have been prepared in accordance with Philippine Financial Reporting Standards (PFRS). PFRS are adopted by the Financial Reporting Standards Council (FRSC) from the pronouncements issued by the International Accounting Standards Board, and approved by the Philippine Board of Accountancy.

The financial statements have been prepared using the measurement bases specified by PFRS for each type of asset, liability, income and expense. The measurement bases are more fully described in the accounting policies that follow.

(b) *Presentation of Financial Statements*

The financial statements are presented in accordance with Philippine Accounting Standard (PAS) 1, *Presentation of Financial Statements*. The Bank presents all items of income and expenses and other comprehensive income in a single statement of comprehensive income.

The Bank presents a third statement of financial position as at the beginning of the preceding period when it applies an accounting policy retrospectively, or makes a retrospective restatement or reclassification of items that has a material effect on the information in the statement of financial position at the beginning of the preceding period. The related notes to the third statement of financial position are not required to be disclosed.

(c) *Functional and Presentation Currency*

These financial statements are presented in Philippine pesos, the Bank's functional and presentation currency, and all values represent absolute amounts except when otherwise indicated.

Items included in the financial statements of the Bank are measured using its functional currency. Functional currency is the currency of the primary economic environment in which the Bank operates.

2.2 Adoption of New and Amended PFRS and Conceptual Framework

(a) Effective in 2020 that are Relevant to the Bank

The Bank adopted for the first time the following PFRS and amendments to Conceptual Framework and PFRS, which are mandatorily effective for annual periods beginning on or after January 1, 2020:

Conceptual Framework	:	Revised Conceptual Framework for Financial Reporting
PAS 1 and PAS 8 (Amendments)	:	Presentation of Financial Statements and Accounting Policies, Changes in Accounting Estimates and Errors – Definition of Material
PFRS 7 and PFRS 9 (Amendments)	:	Financial Instruments: Disclosures and Financial Instruments – Interest Rate Benchmark Reform

Discussed below and in the succeeding page are the relevant information about these pronouncements.

(i) *Revised Conceptual Framework for Financial Reporting*. The revised conceptual framework will be used in standard-setting decisions with immediate effect. Key changes include (a) increasing the prominence of stewardship in the objective of financial reporting, (b) reinstating prudence as a component of neutrality, (c) defining a reporting entity, which may be a legal entity, or a portion of an entity, (d) revising the definitions of an asset and a liability, (e) removing the probability threshold for recognition and adding guidance on derecognition, (f) adding guidance on different measurement basis, and, (g) stating that profit or loss is the primary performance indicator and that, in principle, income and expenses in other comprehensive income should be recycled where this enhances the relevance or faithful representation of the financial statements. The application of the revised conceptual framework had no significant impact on the Bank's financial statements.

(ii) PAS 1 (Amendments), *Presentation of Financial Statements,* and PAS 8 (Amendments), *Accounting Policies, Changes in Accounting Estimates and Errors – Definition of Material* (effective from January 1, 2020). The amendments provide a clearer definition of 'material' in PAS 1 by including the concept of 'obscuring' material information with immaterial information as part of the new definition, and clarifying the assessment threshold (i.e., misstatement of information is material if it could reasonably be expected to influence decisions made by primary users, which consider the characteristic of those users as well as the entity's own circumstances). The definition of material in PAS 8 has been accordingly replaced by reference to the new definition in PAS 1. In addition, amendment has also been made in other standards that contain definition of material or refer to the term 'material' to ensure consistency. The application of these amendments had no significant impact on the Bank's financial statements.

(iii) PFRS 7 (Amendments), *Financial Instruments: Disclosures,* and PFRS 9 (Amendments), *Financial Instruments – Interest Rate Benchmark Reform*. The amendments clarify that an entity would continue to apply certain hedge accounting requirements assuming that the interest rate benchmark on which the hedged cash flows and cash flows from the hedging instrument are based will not be altered as a result of interest rate benchmark reform. The application of these amendments had no significant impact on the Bank's financial statements.

(b) Effective in 2020 but not Relevant to the Bank

The amendments to PFRS 3, *Business Combinations – Definition of a Business*, are mandatorily effective for annual periods beginning on or after January 1, 2020 but are not relevant to the Bank's financial statements.

(c) Effective Subsequent to 2020 but not Adopted Early

There are pronouncements effective for annual periods subsequent to 2020, which are adopted by the FRSC. Management will adopt the relevant pronouncements below and in the succeeding page in accordance with their transitional provisions; and, unless otherwise stated, none of these are expected to have significant impact on the Bank's financial statements.

(i) PFRS 16 (Amendments), *Leases – COVID-19-Related Rent Concessions* (effective from June 30, 2020). The amendments permit lessees, as a practical expedient, not to assess whether particular rent concessions occurring as a direct consequence of the COVID-19 pandemic are lease modifications and instead to account for those rent concessions as if they are not lease modifications.

(ii) PAS 16 (Amendments), *Property, Plant and Equipment – Proceeds Before Intended Use* (effective from January 1, 2022). The amendments prohibit deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognizes the proceeds from selling such items, and the cost of producing those items, in profit or loss.

(iii) PAS 37 (Amendments), *Provisions, Contingent Liabilities and Contingent Assets – Onerous Contracts – Cost of Fulfilling a Contract* (effective January 1, 2022). The amendments specify that the 'cost of fulfilling' a contract comprises the 'costs that relate directly to the contract'. Costs that relate directly to a contract can either be incremental costs of fulfilling that contract (examples would be direct labor, materials) or an allocation of other costs that relate directly to fulfilling contracts (an example would be the allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract).

(iv) Annual Improvements to PFRS 2018-2020 Cycle. Among the improvements, the following amendments, which are effective from January 1, 2022, are relevant to the Bank:

- PFRS 9 (Amendments), *Financial Instruments – Fees in the '10 per cent' Test for Derecognition of Liabilities.* The improvements clarify the fees that a Bank includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability.

- Illustrative Examples Accompanying PFRS 16, *Leases – Lease Incentives*. The improvement merely removes potential for confusion regarding lease incentives.

(v) PAS 1 (Amendments), *Presentation of Financial Statements – Classification of Liabilities as Current or Non-current* (effective January 1, 2023). The amendments aim to promote consistency in applying the requirements by helping companies determine whether, in the statement of financial position, debt and other liabilities with an uncertain settlement date should be classified as current (due or potentially due to be settled within one year) or non-current.

2.3 Financial Instruments

Financial assets and financial liabilities are recognized when the entity becomes a party to the contractual provisions of the financial instrument.

(a) Financial Assets

For purposes of classifying financial assets, an instrument is considered as an equity instrument if it is non-derivative and meets the definition of equity for the issuer in accordance with the criteria of PAS 32, *Financial Instruments: Presentation*. All other non-derivative financial instruments are treated as debt instruments.

Regular purchases and sales of financial assets are recognized on their trade date (i.e., the date that the Bank commits to purchase or sell the asset).

(i) Classification, Measurement and Reclassification of Financial Assets

The classification and measurement of financial assets is driven by the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. The classification and measurement of financial assets are described in the succeeding pages.

Financial Assets at Amortized Cost

Financial assets are measured at amortized cost if both of the following conditions are met:

- the asset is held within the Bank's business model whose objective is to hold financial assets in order to collect contractual cash flows ("hold to collect"); and,

- the contractual terms of the instrument give rise, on specified dates, to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

All financial assets meeting these criteria are measured initially at fair value plus, transaction costs. These are subsequently measured at amortized cost using the effective interest method, less any impairment in value.

Where the business model is to hold assets to collect contractual cash flows, the Bank assesses whether the financial instruments' cash flows represent SPPI. In making this assessment, the Bank considers whether the contractual cash flows are consistent with a basic lending arrangement, i.e., interest includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement.

The Bank's financial assets at amortized cost are presented in the statements of financial position as Cash and Other Cash Items, Due from BSP, Due from Other Banks, Loans and Receivables Arising from Repurchase Agreement, Loans and Receivables, Refundable deposits (presented as part of Other Resources in the statements of financial position) and Investment Securities at Amortized Cost.

For purposes of cash flows reporting and presentation, cash and cash equivalents comprise accounts with original maturities of three months or less, including cash. These generally include cash on hand, demand deposits and short-term, highly liquid investments readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value.

(ii) Effective Interest Rate Method and Interest Income

Interest income on financial assets measured at amortized cost is recognized using the effective interest rate method. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument or, when appropriate, a shorter period, to the net carrying amount of the financial asset.

The effective interest rate is calculated by taking into account any discount or premium on acquisition, fees and costs that are an integral part of effective interest rate. The Bank recognizes interest income using a rate of return that represents the best estimate of a constant rate of return over the expected life of the instrument; hence, it recognizes the effect of potentially different interest rates charged at various stages, and other characteristics of the product life cycle.

The Bank calculates interest income by applying the effective interest rate to the gross carrying amount of the financial assets, except for those that are subsequently identified as credit-impaired and or are purchased or originated credit-impaired assets. The interest earned is recognized in the profit or loss section in the statement of comprehensive income.

For financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the net carrying amount of the financial assets (after deduction of the loss allowance). If the asset is no longer credit-impaired, the calculation of interest income reverts to gross basis. For financial assets that were credit-impaired on initial recognition, interest income is calculated by applying a credit-adjusted effective interest rate to the amortized cost of the asset. The calculation of interest income does not revert to a gross basis even if the credit risk of the asset subsequently improves.

(iii) Impairment of Financial Assets

The Bank assesses its expected credit loss (ECL) on a forward-looking basis associated with its financial assets carried at amortized cost. Recognition of credit losses is no longer dependent on the Bank's identification of a credit loss event.

Instead, the Bank considers a broader range of information in assessing credit risk and measuring expected credit losses, including past events, current conditions, reasonable and supportable forecasts that affect collectability of the future cash flows of the financial assets.

Measurement of ECL

The measurement of the ECL reflects: (i) an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes; (ii) the time value of money; and, (iii) reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

The key elements used in the calculation of ECL are as follows:

- *Probability of default (PD)* – This is a quantitative measure of default risk based on the general credit worthiness of the borrower or issuer. It is the likelihood of a borrower defaulting on its obligation over a given time horizon, either over the next 12 months (12-month PD) or over the remaining lifetime (lifetime PD) of the obligation. A related measurement of default is the survival rate, which is the chance that the loan will be repaid.

Loss given default (LGD) – The fraction of loan value or exposure that is likely to be lost in the event of borrower default. The loss statistic is specific to the facility structure and thus, associated with the facility risk rating. A related measure is the recovery rate, which is the percentage of the defaulted principal that can be recovered if default occurs.

- *Exposure at default (EAD)* – It represents the gross carrying amount of the financial instruments subject to the impairment calculation. The EAD is measured at book value of facilities granted with an assumption that most short-term lines and credit commitments are fully drawn at default. In case of a loan commitment, the Bank shall include the potential availment (up to the current contractual limit) at the time of default should it occur.

The Bank applies the simplified approach in measuring ECL, which uses a lifetime expected loss allowance on its loans and receivables. These are the expected shortfalls in contractual cash flows, considering the potential for default at any point during the life of the financial assets. To calculate the ECL, the Bank uses its historical experience to calculate the ECL using a provision matrix. The Bank also assesses impairment of loans and receivables on a collective basis as they possess shared credit risk characteristics and have been grouped based on the days past due.

For financial assets carried at amortized cost, the allowance for credit losses is based on the ECL associated with the probability of default of a financial instrument in the next 12 months, unless there has been a significant increase in credit risk on a financial asset since initial recognition. Lifetime ECL represents the expected credit loss that will result from all possible default events over the expected life of a financial asset, irrespective of the timing of the default. However, if the credit risk on a financial asset has not increased significantly since initial recognition, the Bank measures and provides for credit losses that are expected to result from default events that are possible within 12-months after the end of the reporting period.

(iv) Reclassification of Financial Assets

The Bank can only reclassify financial assets if the objective of its business model for managing those financial assets changes. Accordingly, the Bank is required to reclassify financial assets: (i) from amortized cost to fair value through profit or loss (FVPL), if the objective of the business model changes so that the amortized cost criteria are no longer met; and, from FVPL to amortized cost, if the objective of the business model changes so that the amortized cost criteria start to be met and the characteristic of the instrument's contractual cash flows meet the amortized cost criteria.

A change in the objective of the Bank's business model will be effected only at the beginning of the next reporting period following the change in the business model.

(v) Derecognition of Financial Assets

The financial assets are derecognized when the contractual rights to receive cash flows from the financial instruments expire, or when the financial assets and all substantial risks and rewards of ownership have been transferred to another party. If the Bank neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Bank recognizes its retained interest in the asset and an associated liability for amounts it may have to pay.

If the Bank retains substantially all the risks and rewards of ownership of a transferred financial asset, the Bank continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

(i) Modification of Loans

When the Bank renegotiates or otherwise modifies the contractual cash flows of loans to customers, the Bank assesses whether or not the new terms are substantially different to the original terms. The Bank considers, among others:

- If the borrower is in financial difficulty, whether the modification merely reduces the contractual cash flows to amounts the borrower is expected to be able to pay;
- Whether any substantial new terms are introduced that will affect the risk profile of the loan;
- Significant extension of the loan term when the borrower is not in financial difficulty;
- Significant change in the interest rate;
- Change in the currency the loan is denominated in; and/or,
- Insertion of collateral, other security or credit enhancements that will significantly affect the credit risk associated with the loan.

If the terms are substantially different, the Bank derecognizes the financial asset and recognizes a "new" asset at fair value, and recalculates a new effective interest rate for the asset. The date of renegotiation is consequently considered to be the date of initial recognition for impairment calculation, including for the purpose of determining whether a significant increase in credit risk has occurred.

However, the Bank also assesses whether the new financial asset recognized is deemed to be credit-impaired at initial recognition, especially in circumstances where the renegotiation was driven by the debtor being unable to make the originally agreed payments. Differences in the carrying amount are recognized in profit or loss as either gain or loss on derecognition of financial assets.

As to the impact on ECL measurement, the expected fair value of the "new" asset is treated as the final cash flow from the existing financial asset at the date of derecognition. Such amount is included in the calculation of cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

If the terms are not substantially different, the renegotiation or modification does not result in derecognition, and the Bank recalculates the gross carrying amount based on the revised cash flows of the financial asset and recognizes a modification gain or loss in profit or loss.

The new gross carrying amount is recalculated by discounting the modified cash flows of the original effective interest rate (or credit-adjusted effective interest rate for purchased or originated credit-impaired financial assets).

As to the impact on ECL measurement, the derecognition of the existing financial asset will result in the expected cash flows arising from the modified financial asset to be included in the calculation of cash shortfalls from the existing financial asset.

(ii) Derecognition of Financial Assets Other than Through Modification

The financial assets (or where applicable, a part of a financial asset or part of a group of financial assets) are derecognized when the contractual rights to receive cash flows from the financial instruments expire, or when the financial assets and all substantial risks and rewards of ownership have been transferred to another party. If the Bank neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Bank recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Bank retains substantially all the risks and rewards of ownership of a transferred financial asset, the Bank continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

(b) Financial Liabilities

Financial liabilities, which include deposit liabilities and other liabilities (except for retirement benefit obligation and taxes payable), are recognized by the Bank when it becomes a party to the contractual agreements of the instrument. All interest-related charges incurred on these financial liabilities are recognized as expense in profit or loss.

Financial liabilities are recognized initially at fair value and subsequently measured at amortized cost, using effective interest method for maturities beyond one year, less settlement payments.

Financial liabilities are derecognized from the statement of financial position only when the obligations are extinguished either through discharge, cancellation or expiration. The difference between the carrying amount of the financial liability derecognized and the consideration paid or payable is recognized in profit or loss.

(c) *Offsetting Financial Instruments*

Financial assets and financial liabilities are offset and the resulting net amount, considered as a single financial asset or financial liability, is reported in the statement of financial position when the Bank has a legally enforceable right to set off the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously. The right of set-off must be available at the end of the reporting period, that is, it is not contingent on future event. It must also be enforceable in the normal course of business, in the event of default, and in the event of insolvency or bankruptcy; and must be legally enforceable for both entity and all counterparties to the financial instruments.

2.4 Bank Premises, Furniture, Fixtures and Equipment

Bank premises, furniture, fixtures and equipment are carried at acquisition cost less accumulated depreciation and amortization and any impairment in value.

The cost of an asset comprises its purchase price and directly attributable costs of bringing the asset to working condition for its intended use. Expenditures for additions, major improvements and renewals are capitalized while expenditures for repairs and maintenance are charged to expense as incurred.

Depreciation is computed on the straight-line basis over the estimated useful lives of the furniture, fixtures and equipment of five years. Leasehold improvements are amortized over the terms of the related leases or five years, whichever is shorter.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (see Note 2.12).

The residual values, estimated useful lives and method of depreciation of bank premises, furniture, fixtures and equipment are reviewed, and adjusted if appropriate, at the end of each reporting period.

An item of bank premises, furniture, fixtures and equipment, including the related accumulated depreciation and impairment loss, is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in profit or loss in the year the item is derecognized.

2.5 Computer Software

Acquired computer software licenses (presented under Other Resources) are accounted for under the cost model. The cost of the asset is the amount of cash or cash equivalents paid or the fair value of the other considerations given up to acquire an asset at the time of its acquisition or production. Capitalized costs are amortized on a straight-line basis over the estimated useful lives of five years as the lives of this intangible asset is considered finite. In addition, computer software licenses are subject to impairment testing as described in Note 2.12.

Computer software licenses are capitalized based on the costs incurred to acquire and install the specific software. Costs associated with maintaining computer software and those costs associated with research activities are recognized as expense in profit or loss as incurred.

When the computer software license is disposed of, the gain or loss on disposal is determined as the difference between the proceeds and the carrying amount of the asset and is recognized in profit or loss.

2.6 Prepaid Expenses and Other Assets

Prepaid expenses and other assets (presented under Other Resources) pertain to other resources controlled by the Bank as a result of past events. These are recognized in the financial statements when it is probable that the future economic benefits will flow to the Bank and the asset has a cost or value that can be measured reliably.

2.7 Provisions and Contingencies

Provisions are recognized when present obligations will probably lead to an outflow of economic resources and they can be estimated reliably even if the timing or amount of the outflow may still be uncertain. A present obligation arises from the presence of a legal or constructive commitment that has resulted from past events, for example, legal disputes or onerous contracts.

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the end of the reporting period, including the risks and uncertainties associated with the present obligation. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole.

When time value of money is material, long-term provisions are discounted to their present values using a pre-tax rate that reflects market assessments and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense. Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate.

In those cases where the possible outflow of economic resource as a result of present obligations is considered improbable or remote, or the amount to be provided for cannot be measured reliably, no liability is recognized in the financial statements. Similarly, possible inflows of economic benefits to the Bank that do not yet meet the recognition criteria of an asset are considered contingent assets, hence, are not recognized in the financial statements.

On the other hand, any reimbursement that the Bank is virtually certain to collect from a third party with respect to the obligation is recognized as a separate asset not exceeding the amount of the related provision.

2.8 Capital Funds

Common stock represents the nominal value of shares that have been issued.

Surplus represents all current and prior period results of operations as reported in the statement of comprehensive income, net of dividend declaration to stockholders, if any.

Remeasurements of retirement benefit plan arise from the changes in financial and demographic assumptions and experience adjustments in measuring the present value of the defined benefit obligation.

2.9 Related Party Transactions and Relationships

Related party transactions are transfers of resources, services or obligations between the Bank and its related parties, regardless whether a price or fee is charged.

Parties are considered to be related if one party has the ability to control the other party or exercises 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 Bank; (b) associates; and, (c) individuals owning, directly or indirectly, an interest in the voting power of the Bank that gives them significant influence over the Bank and close members of the family of any such individual.

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

2.10 Revenue and Expense Recognition

Revenue is recognized only when (or as) the Bank satisfies a performance obligation by transferring control of the promised services to a customer.

Expenses are recognized in profit or loss upon utilization of the assets or services or at the date these are incurred.

In addition, the specific recognition criteria presented below and in the succeeding page must also be met before revenue or expense is recognized.

(a) *Interest income and expense* are recognized in profit or loss for all instruments measured at amortized cost using the effective interest method.

Direct acquisition cost pertains to commissions paid to dealers in relation to the Bank's auto loans and is recorded as part of the carrying amount of the loans in the statement of financial position, which is considered in applying the effective interest method.

The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

(b) *Service charges* (included as part of Other Income in the statement of comprehensive income) are generally recognized when the service has been provided.

2.11 Leases – Bank as Lessee

For any new contracts entered into, the Bank considers whether a contract is, or contains, a lease. A lease is defined as a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration. To apply this definition, the Bank assesses whether the contract meets three key evaluations which are whether:

- the contract contains an identified asset, which is either explicitly identified in the contract or implicitly specified by being identified at the time the asset is made available to the Bank;

- the Bank has the right to obtain substantially all of the economic benefits from use of the identified asset throughout the period of use, considering its rights within the defined scope of the contract; and,

- the Bank has the right to direct the use of the identified asset throughout the period of use. The Bank assess whether it has the right to direct 'how and for what purpose' the asset is used throughout the period of use.

At lease commencement date, the Bank recognizes a right-of-use asset and a lease liability in the statement of financial position. The right-of-use asset is measured at cost, which is made up of the initial measurement of the lease liability, any initial direct costs incurred by the Bank, an estimate of any costs to dismantle and remove the asset at the end of the lease, and any lease payments made in advance of the lease commencement date (net of any incentives received). Subsequently, the Bank depreciates the right-of-use asset on a straight-line basis from the lease 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 Bank also assesses the right-of-use asset for impairment when such indicators exist (see Note 2.12).

On the other hand, the Bank measures the lease liability at the present value of the lease payments unpaid at the commencement date, discounted using the interest rate implicit in the lease if that rate is readily available or the Bank's incremental borrowing rate. Lease payments include fixed payments (including in-substance fixed) less lease incentives receivable, if any, variable lease payments based on an index or rate, amounts expected to be payable under a residual value guarantee, and payments arising from options (either renewal or termination) reasonably certain to be exercised. Subsequent to initial measurement, the liability will be reduced for payments made and increased for interest. It is remeasured to reflect any reassessment or modification, or if there are changes in in-substance fixed payments. When the lease liability is remeasured, the corresponding adjustment is reflected in the right-of-use asset, or profit and loss if the right-of-use asset is already reduced to zero.

The Bank has elected to account for short-term leases and leases of low-value assets using the practical expedients. Instead of recognizing a right-of-use asset and lease liability, the payments in relation to these are recognized as an expense in profit or loss on a straight-line basis over the lease term.

On the statement of financial position, Right-of-use Assets are presented separately while, lease liabilities are presented as part of Other Liabilities.

2.12 Impairment of Non-financial Assets

Bank premises, furniture, fixtures and equipment, right-of-use assets, and computer software (presented under Other Resources in the statement of financial position) and other non-financial assets are subject to impairment testing. All other individual assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

For purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). As a result, assets are tested for impairment either individually or at the cash-generating unit level.

An impairment loss is recognized for the amount by which the asset or cash-generating unit's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of fair value, reflecting market conditions less costs to sell and value in use, based on an internal discounted cash flow evaluation. In determining value in use, management estimates the expected future cash flows from each cash-generating unit and determines the suitable interest rate to calculate the present value of those cash flows. Discount factors are determined individually for each cash-generating unit and reflect management's assessment of respective risk profiles, such as market and asset-specific risk factors. Impairment loss is charged pro rata to the other assets in the cash generating unit.

All assets are subsequently reassessed for indications that an impairment loss previously recognized may no longer exist. An impairment loss is reversed, except goodwill and branch license, if the cash generating units' recoverable amount exceeds its carrying amount.

2.13 Employee Benefits

The Bank provides post-employment benefits to employees through a defined benefit plan and defined contribution plan, and other employee benefits which are recognized as follows:

(a) Post-employment Defined Benefit Plans

A defined benefit plan is a post-employment plan that defines an amount of post-employment benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and salary. The legal obligation for any benefits from this kind of post-employment plan remains with the Bank, even if plan assets for funding the defined benefit plan have been acquired. Plan assets may include assets specifically designated to a long-term benefit fund, as well as qualifying insurance policies. The Bank's defined benefit post-employment plan covers all regular full-time employees. The post-employment plan is tax-qualified, non-contributory, and administered by a trustee bank.

The liability recognized in the statement of financial position for defined benefit post-employment plan is the present value of the defined benefit obligation at the end of the reporting period. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates based on zero coupon government bonds as published by Bloomberg Valuation (BVAL), that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related post-employment liability. BVAL provides evaluated prices that are based on market observations from contributed sources.

Remeasurements, comprising of actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions and the return on plan assets (excluding amount included in net interest) are reflected immediately in the statement of financial position with a charge or credit recognized in other comprehensive income in the period in which they arise.

Net interest is calculated by applying the discount rate at the beginning of the period, taking account of any changes in the net defined benefit liability or asset during the period as a result of contributions and benefit payments. Net interest is reported as part of Interest Income or Interest Expense account in the statement of comprehensive income.

Past-service costs are recognized immediately in profit or loss in the period of a plan amendment or curtailment.

(b) Post-employment Defined Contribution Plan

A defined contribution plan is a post-employment plan under which the Bank pays fixed contributions into an independent entity. The Bank has no legal or constructive obligations to pay further contributions after payment of the fixed contribution.

The contributions recognized in respect of defined contribution plans are expensed as they fall due. Liabilities and assets may be recognized if underpayment or prepayment has occurred and are normally of a short-term nature.

(c) *Compensated Absences*

Compensated absences are recognized for the number of paid leave days (including holiday entitlement) remaining at the end of the reporting period. They are included in the Other Liabilities account in the statement of financial position at the undiscounted amount that the Bank expects to pay as a result of the unused entitlement.

2.14 Income Taxes

Tax expense recognized in profit or loss comprises the sum of current tax and deferred tax not recognized in other comprehensive income or directly in equity, if any.

Current tax assets or liabilities comprise those claims from, or obligations to, fiscal authorities relating to the current or prior reporting period, that are uncollected or unpaid at the reporting period. They are calculated according to the tax rates and tax laws applicable to the fiscal periods to which they relate, based on the taxable profit for the year. All changes to current tax assets or liabilities are recognized as a component of tax expense in profit or loss.

Deferred tax is accounted for, using the liability method, on temporary differences at the end of each reporting period between the tax base of assets and liabilities and their carrying amounts for financial reporting purposes. Under the liability method, with certain exceptions, deferred tax liabilities are recognized for all taxable temporary differences and deferred tax assets are recognized for all deductible temporary differences and the carryforward of unused tax losses and unused tax credits to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized. Unrecognized deferred tax assets are reassessed at the end of each reporting period and are recognized to the extent that it has become probable that future taxable profit will be available to allow such deferred tax assets to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the asset is realized or the liability is settled provided such tax rates have been enacted or substantively enacted at the end of the reporting period.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Bank expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Most changes in deferred tax assets or liabilities are recognized as a component of tax expense in profit or loss, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively.

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

2.15 Events After the End of the Reporting Period

Any post-year-end event that provides additional information about the Bank's financial position at the end of the reporting period (adjusting event) is reflected in the financial statements. Post-year-end events that are not adjusting events, if any, are disclosed when material to the financial statements.

3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

The preparation of the Bank's financial statements in accordance with PFRS requires management to make judgments and estimates that affect the amounts reported in the financial statements and related notes. 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. Actual results may ultimately differ from these estimates. Unless specifically indicated to apply to either year, the policies that follow apply to both years.

3.1 Critical Management Judgments in Applying Accounting Policies

In the process of applying the Bank's accounting policies, management has made the following judgments, apart from those involving estimation, which have the most significant effect on the amounts recognized in the financial statements:

(a) *Evaluation of Business Model Applied and Testing the Cash Flow Characteristics of Financial Assets in Managing Financial Instruments*

The Bank manages its financial assets based on business models that maintain adequate level of financial assets to match its expected cash outflows, largely its core deposit funding arising from customers' withdrawals and continuing loan disbursements to borrowers, while maintaining a strategic portfolio of financial assets for trading activities consistent with its risk appetite.

The Bank developed business models which reflect how it manages its portfolio of financial instruments. These business models need not be assessed at entity level or as a whole but shall be applied at the level of a portfolio of financial instruments (i.e., group of financial instruments that are managed together by the Bank) and not on an instrument-by-instrument basis (i.e., not based on intention or specific characteristics of individual financial instrument).

In determining the classification of a financial instrument, the Bank evaluates in which business model a financial instrument or a portfolio of financial instruments belong to taking into consideration the objectives of each business model established by the Bank (e.g., held-for-trading, generating accrual income, direct matching to a specific liability) as those relates to the Bank's investment, trading and lending strategies.

Furthermore, the Bank assesses whether the contractual terms of the financial assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding, with interest representing time value of money and credit risk associated with the principal amount outstanding. The assessment as to whether the cash flows meet the test is made in the currency in which the financial asset is denominated. Any other contractual term that changes the timing or amount of cash flows (unless it is a variable interest rate that represents time value of money and credit risk) does not meet the amortized cost criteria. In cases where the relationship between the passage of time and the interest rate of the financial instrument may be imperfect, known as modified time value of money, the Bank assesses the modified time value of money feature to determine whether the financial instrument still meets the SPPI criterion.

The objective of the assessment is to determine how different the undiscounted contractual cash flows could be from the undiscounted cash flows that would arise if the time value of money element was not modified (the benchmark cash flows). If the resulting difference is significant, the SPPI criterion is not met. In view of this, the Bank considers the effect of the modified time value of money element in each reporting period and cumulatively over the life of the financial instrument. If more than an infrequent sale is made from a portfolio of financial assets carried at amortized cost, the Bank assesses whether and how such sales are consistent with the objective of collecting contractual cash flows.

In making this judgment, it considers certain circumstances documented in its business model manual to assess that an increase in the frequency or value of sales of financial instruments in a particular period is not necessarily inconsistent with a held-to-collect business model if the Bank can explain the reasons for those sales and why those sales do not reflect a change in the Bank's investment objective for the business model.

(b) Determination of Lease Term of Contracts with Renewal and Termination Options

In determining the lease term, management considers all relevant factors and circumstances that create an economic incentive to exercise a renewal option or not exercise a termination option. Renewal options and/or periods after termination options are only included in the lease term if the lease is reasonably certain to be extended or not terminated.

The factors that are normally the most relevant are: (i) if there are significant penalties should the Bank pre-terminate the contract, and (ii) if any leasehold improvements are expected to have a significant remaining value, the Bank is reasonably certain to extend and not to terminate the lease contract. Otherwise, the Bank considers other factors including historical lease durations and the costs and business disruption required to replace the leased asset.

The lease term is reassessed if an option is exercised or not exercised or the Bank becomes obliged to exercise or not exercise it. The assessment of reasonable certainty is only revised if a significant event or a significant change in circumstances occurs, which affects this assessment, and that is within the control of the Bank.

(c) *Recognition of Provisions and Contingencies*

Judgment is exercised by management to distinguish between provisions and contingencies. Policies on recognition and disclosures of provisions and contingencies are discussed in Note 2.7, and relevant disclosures are presented in Note 22.

3.2 Key Sources of Estimation Uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next reporting period:

(a) *Estimation of Allowance for ECL*

The measurement of the allowance for ECL on debt financial assets at amortized cost is an area that requires the use of significant assumptions about the future economic conditions and credit behavior (e.g., likelihood of customers defaulting and the resulting losses). Explanation of the inputs, assumptions and estimation used in measuring ECL is further detailed in Note 4.2.

The Bank provides ECL for financial instruments that have passed the SPPI test (see Note 2.3). The Bank's ECL calculations are outputs of models with a number of underlying assumptions which include: (1) the Bank's criteria for assessing if there has been a significant increase in credit risk; and, (2) development of expected credit loss models, including the choice of inputs relating to macroeconomic variables. The calculation of credit-impairment provisions also involves expert credit judgement to be applied based upon counterparty information received from various sources including relationship managers and on external market information. The analysis of the allowance for impairment and the ECL assessed on financial assets are shown in Note 4.2.

The carrying value of loans and receivables and allowance for impairment on such financial assets are shown in Note 11, while the information about debt securities classified as investments securities at amortized cost is disclosed in Note 10.

(b) *Determination of Appropriate Discount Rate in Measuring Lease Liabilities*

The Bank measures its lease liabilities at present value of the lease payments that are not paid at the commencement date of the lease contract. The lease payments were discounted using a reasonable rate deemed by management equal to the Bank's incremental borrowing rate.

In determining a reasonable discount rate, management considers the term of the leases, the underlying asset and the economic environment. Actual results, however, may vary due to changes in estimates brought about by changes in such factors.

(c) Estimation of Useful Lives of Bank Premises, Furniture, Fixtures and Equipment, Right-of-use Assets and Computer Software

The Bank estimates the useful lives of its bank premises, furniture, fixtures and equipment, right-of-use assets and computer software based on the period over which the assets are expected to be available for use.

The estimated useful lives of bank premises, furniture, fixtures and equipment, right-of-use assets and computer software are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets.

The carrying amounts of bank premises, furniture, fixtures and equipment, right-of-use assets and computer software are presented in Notes 12, 13 and 14, respectively. Based on management's assessment as of December 31, 2020 and 2019, there is no change in estimated useful lives of those assets during those years. Actual results, however, may vary due to changes in estimates brought about by changes in factors mentioned in the preceding page.

(d) Determination of Realizable Amount of Deferred Tax Assets

The Bank reviews its deferred tax assets at the end of each reporting period and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilized. The carrying value of deferred tax assets as at December 31, 2020 and 2019 is disclosed in Note 21.

(e) Impairment of Non-financial Assets

The Bank's policy on estimating the impairment of non-financial assets is discussed in Note 2.12. Though management believes that the assumptions used in the estimation of fair values reflected in the financial statements are appropriate and reasonable, significant changes in these assumptions may materially affect the assessment of recoverable values and any resulting impairment loss could have a material adverse effect on the results of operations.

Based on management assessment, no impairment losses were required to be recognized on non-financial assets in 2020 and 2019.

(f) Valuation of Post-employment Benefits

The determination of the Bank's obligation and cost of post-employment defined benefit is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions include, among others, discount rates and salary rate increase. A significant change in any of these actuarial assumptions may generally affect the recognized expense, other comprehensive income or losses and the carrying amount of the post-employment benefit obligation in the next reporting period.

The amounts of post-employment benefit obligation and expense and an analysis of the movements in the estimated present value of retirement benefit obligation, as well as the significant assumptions used in estimating such obligation, are presented in Note 20.2.

4. RISK MANAGEMENT OBJECTIVES AND POLICIES

The Bank, as a financial institution, is in the business of risk taking. Its activities expose the Bank to credit, market and liquidity and operational risks. Credit risk emanates from exposures to borrowing customers, counterparty risk in trading activities, and contingent credit risks arising from trade finance exposures. Market risk covers price, liquidity and interest rate risks in the Bank's investment portfolio.

Liquidity risk may arise from shortage in funding and/or lack of market for sale of its assets. Operational risk covers potential losses other than market and credit risk arising from failures of people, process, systems and information technology and external events.

The ability to manage risks effectively is vital for the Bank to sustain its growth and continue to create value for its shareholders.

4.1 Risk Management

To manage the financial risk for holding financial assets and financial liabilities, the Bank operates an integrated risk management system to address the risks it faces in its banking activities, including liquidity, interest rate, credit and market risks. The Bank's risk management objective is to adequately and consistently evaluate, manage, control, and monitor the risk profile of the Bank's statement of financial position to optimize the risk-reward balance and maximize return on the Bank's capital. The Bank's Risk Management Committee (RMC) has the overall responsibility for the Bank's risk management systems and sets risks management policies across the full range of risks to which the Bank is exposed.

Within the Bank's overall risk management system, RMC is responsible for managing the Bank's statement of financial position, including the Bank's liquidity and interest rate related risks. In addition, RMC formulates investment and financial policies by determining the asset allocation and funding mix strategies that are likely to yield the targeted statement of financial position results.

4.2 Credit Risk

Credit risk pertains to the risk to income or capital due to failure by borrowers or counterparties to pay their obligations, either in full or partially as they fall due, deterioration in the credit quality of a borrower, issuer or counterparty, and the reduced recovery from a credit facility in the event of default.

This is inherent in the Bank's lending and investing activities and is managed in accordance with the Bank's credit risk framework of risk identification, measurement, control and monitoring. The Bank manages its credit risk and loan portfolio through the Credit Committee (CC), which undertakes several functions with respect to credit risk management.

The CC undertakes credit analysis and review to ensure consistency in the Bank's risk assessment process. The CC performs risk ratings for corporate accounts and risk scoring for consumer accounts. It also ensures that the Bank's credit policies and procedures are adequate to meet the demands of the business. The CC is also responsible for developing procedures to streamline and expedite the processing of credit applications.

The CC also undertakes portfolio management by reviewing the Bank's loan portfolio, including the portfolio risks associated with particular industry sectors, regions, loan size and maturity, and development of a strategy for the Bank to achieve its desired portfolio mix and risk profile.

The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or group of borrowers, and to geographical and industry segments. Such risks are monitored on a revolving basis and subject to an annual or more frequent review. Limits on the level of credit risk by product, industry sector are approved by the RMC.

Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits when appropriate. Exposure to credit risk is also managed in part by obtaining collateral and corporate and personal guarantees. Furthermore, the registration of chattel held as collateral is under the name of the Bank and it will only be transferred upon full payment.

The CC reviews the Bank's loan portfolio in line with the Bank's policy of not having significant unwarranted concentrations of exposure to individual counterparties, in accordance with the BSP's prohibitions on maintaining a financial exposure to any single person or group of connected persons in excess of 25% of its net worth.

4.2.1 Concentration of Credit Risk

The Bank monitors concentrations of credit risk by sector. An analysis of concentrations of credit risk (gross of allowance for impairment) as of December 31, 2020 and 2019 are shown below.

	Cash, Due from BSP and Other Banks*	Loans and Other Receivables	Investment Securities at Amortized Cost	Other Resources	Total
2020:					
Financial intermediaries	P 29,026,441	P 702,921	P -	P -	P 29,729,362
Government agencies	612,525,954	-	323,245,436	-	935,771,390
Whole and retail trade, repair of motor vehicles and motorcycles	-	23,763,156	-	-	23,763,156
Transportation and storage	-	41,789,596	-	-	41,789,596
Professional, scientific and technical activities	-	51,347,747	-	-	51,347,747
Agriculture, forestry and fishing	-	21,253,883	-	-	21,253,883
Real estate activities	-	3,585,834	-	-	3,585,834
Information and communication	-	-	50,391,875	-	50,391,875
Other service activities	-	132,226,485	73,806,249	5,399,994	211,432,728
	P 641,552,395	**P274,669,622**	**P 447,443,560**	**P 5,399,994**	**P1,369,065,571**
2019:					
Financial intermediaries	P 364,591,026	P 335,653	P -	P -	P 364,926,679
Government agencies	250,160,226	-	222,920,272	-	473,080,498
Whole and retail trade, repair of motor vehicles and motorcycles	-	161,870,341	-	-	161,870,341
Electricity, gas, steam and air-conditioning supply	-	-	50,147,645	-	50,147,645
Transportation and storage	-	42,132,164	-	-	42,132,164
Professional, scientific and technical activities	-	49,950,176	-	-	49,950,176
Agriculture, forestry and fishing	-	16,070,352	-	-	16,070,352
Real estate activities	-	-	73,453,093	-	73,453,093
Information and communication	-	-	69,952,171	-	69,952,171
Other service activities	-	72,227,795	-	5,367,456	77,595,251
	P 614,751,252	P 342,586,481	P 416,473,181	P 5,367,456	P1,379,178,370

** Includes loans and receivables arising from repurchase agreements*

4.2.2 Measurement of Expected Credit Losses

Loans and receivables, regardless if the accounts have been fully paid, extended or renewed in subsequent year or period, are subjected to evaluation for possible losses. The Bank's estimation of credit exposure for risk management purposes is complex and requires the use of models, as the exposure varies with changes in market conditions, expected cash flows, and the passage of time. The assessment of credit risk of a portfolio of assets requires further estimations as to the PDs occurring, of the associated loss ratios, and of default correlations between counterparties; accordingly, such credit risk is measured using PD, EAD, and LGD, for purposes of measuring ECL.

For the Bank's debt securities, credit ratings published by reputable external rating agency (such as Standard & Poor's) are used. These ratings are continuously monitored and updated. The PD associated with each rating is determined based on realized default rates over the previous 12 months, as published by the rating agency.

(a) *Significant Increase in Credit Risk*

As outlined in PFRS 9, a '3-stage' impairment model shall be adopted by an entity based on changes in credit quality since initial recognition of the financial asset. As discussed in Note 2.3(a), a financial asset that is not credit-impaired on initial recognition is classified as 'Stage 1', with credit risk continuously monitored by the Bank as its ECL is measured at an amount equal to the portion of lifetime ECL that results from possible default events within the next 12 months.

The Bank also considers the quantitative criteria based on the BSP Manual of Regulations for Banks (MORB) Section 143 (Appendix 15), as amended by BSP Circular 1011, *Guidelines on the Adoption of PFRS 9*, in classifying the status of loan.

A grouping of exposures for collective assessment is performed on the basis of shared credit risk characteristics, such that risk exposures within a group are homogeneous.

Certain qualitative criteria are also being considered by the Bank in assessing significant increase in credit risk (SICR). These are but not limited to: actual or expected short-term delays in payments which is normally not later than 30 days, extension to the terms granted, previous arrears within the last 12 months and significant adverse changes in business, financial and/or economic conditions in which the borrowers operate (e.g., calamities requiring BSP relief program).

The assessment of SICR incorporates forward-looking information and is performed on an annual basis at a portfolio level. The criteria used to identify SIRC are monitored and reviewed periodically for appropriateness by the Bank's Management Committee guided by its Credit Risk Policy Manual.

As of December 31, 2020, and 2019, all of the Bank's financial assets are assessed as Stage 1 and there are no financial assets that are considered as classified (underperforming and non-performing) accounts.

(b) *Definition of Default and Credit-impaired Assets*

The Bank defines a financial asset as in default, which is aligned with the definition of credit-impaired asset, when it meets one or more of the following criteria:

- *Quantitative* – in this criterion, the borrower is more than 30 days past due on its contractual payments.

- *Qualitative* – this includes instances where the borrower is unlikely to pay its obligations and is deemed to be in significant financial difficulty, which include cases of long-term forbearance, borrower's death, insolvency, breach of financial covenant/s, disappearance of active market for that financial instrument because of financial difficulties, and bankruptcy.

These criteria have been applied to all financial instruments held by the Bank and are consistent with the definition of default used for internal credit risk management purposes. Such definition has been consistently applied in determining PD, EAD, and LGD throughout the ECL calculations of the Bank.

(c) *Key Inputs, Assumptions and Estimation Techniques Used in Measurement of ECL*

The ECL is measured on either a 12-month or lifetime basis depending on whether a SICR has occurred since initial recognition or whether an asset is considered to be credit-impaired. ECL are the discounted product of PD, EAD and LGD, which are defined in Note 2.3(a).

The ECL is determined by projecting the PD, LGD, and EAD for each future period and for each collective segment. These three components are multiplied together and adjusted for the likelihood of survival (i.e., the exposure has not prepaid or defaulted in an earlier month). This effectively calculates an ECL for each future month, which is then discounted back to and summed at the reporting date. The discount rate used in the ECL calculation is the original effective interest rate or an approximation thereof.

The lifetime PD is developed by applying a maturity profile to the current 12-month PD. The maturity profile looks at how defaults develop on a portfolio from the point of initial recognition throughout the lifetime of the loans. The maturity profile is based on historical observed data and is assumed to be the same across all assets within a portfolio and credit grade band. Such profile is supported by a historical analysis (usually, an observation period of three to five years).

The 12-month and lifetime EADs are determined based on the expected payment profile, which varies by product type. For loans with periodic amortization and one-time full payment at end of the term, EAD is based on the contractual repayments owed by the borrower over a 12-month or lifetime basis. This will also be adjusted for any expected overpayments made by a borrower. Early repayment or refinancing assumptions are also incorporated into the calculation.

The 12-month and lifetime LGDs are determined based on the factors which impact the recoveries made post default and may vary by product type. For secured products, this is primarily based on collateral type and projected collateral values. For unsecured products, LGD is typically set at product level due to the limited differentiation in recoveries achieved across different borrowers. The LGD is influenced by collection strategies.

The determination of the 12-month and lifetime PD, LGD, and EAD includes the overlay of forward-looking economic information [see Note 4.2.2 (d)]. Further, the assumptions underlying the calculation of the ECL – such as how the maturity profile of the PDs and how collateral values change – are monitored and reviewed by the Bank on a quarterly basis.

There have been no significant changes in estimation techniques or significant assumptions made by the Bank in 2020.

(d) Forward-looking Information Incorporated in the ECL Measurement

The Bank incorporates forward-looking information (FLI) into both the assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and the measurement of ECL. The Bank has performed historical analysis and has identified the key macroeconomic variables (MEVs) impacting credit risk associated with its borrowers and/or counterparties and the ECL for each portfolio of debt instruments.

The relevant MEVs for selection generally include, but are not limited to, Gross Domestic Product (GDP) growth, unemployment rate, foreign exchange, stock market index, consumer price indexes and interest rates. The impact of these economic variables has been determined by performing statistical regression analysis to understand the impact changes in these variables have had historically on default rates.

Predicted relationships between the key macro-economic indicators and default and loss rates on various portfolios of financial assets have been developed based on analyzing historical data.

The significance of the selected MEVs as predictors of default may change over time as historical information is added. As such, the generated macro-economic models are updated at least on an annual basis.

Other FLI considerations not otherwise incorporated, such as the impact of any regulatory, legislative, natural disasters, or political changes, have also been considered, but are not deemed to have a material impact and therefore no adjustment has been made to the ECL for such factors. This is reviewed and monitored for appropriateness on an annual basis.

(e) Collective Basis of Measurement of ECL

For modelling ECL parameters which were carried out on a collective basis, the financial instruments are grouped on the basis of shared credit risk characteristics, such as instrument type, credit risk rating, collateral type, product type (credit cards, corporate loans, etc.), repayment scheme, industry type, remaining life to maturity, and geographical locations of the borrowers and/or counterparties.

The groupings are subject to the regular review by the Bank's RMC in order to ensure that credit exposures within a particular group remain appropriately homogenous.

4.2.3 Modifications of Financial Assets

In certain cases, the Bank modifies the terms of the loans provided to the borrowers due to commercial renegotiations, or for distressed loans, with a view of maximizing recovery of the contractual amount of obligation that the Bank is owed to. Restructuring policies and practices are based on indicators or criteria which, in the management's judgment, indicate that payment will most likely continue. Such policies are continuously reviewed and updated as necessary. Restructuring is commonly applied to term or corporate loans.

The risk of default of such assets after modification is assessed at the reporting date and compared with the risk under the original terms at initial recognition, when the modification is not substantial and so does not result in derecognition of the original asset [see Note 2.3(a)]. The Bank monitors the performance of the financial asset subsequent to its modification.

The Bank may determine that the credit risk has significantly improved after restructuring, so that the assets are moved from Stage 3 or Stage 2 (wherein lifetime ECL is recognized) to Stage 1 (12-month ECL). As of December 31, 2020, and 2019, there were no modified assets held by the Bank.

The Bank continues to monitor if there is a subsequent SICR in relation to such modified assets through the use of specific models for modified assets.

The Bank has no modified financial assets with lifetime ECL for 2020 and 2019.

4.2.4 Credit Risk Exposures

Generally, the maximum credit risk exposure of financial assets is the carrying amount of the financial assets as shown on the statements of financial position (or in the detailed analysis provided in the notes to the financial statements) as summarized below.

	Notes	**2020**	2019
Due from BSP	8	**P 458,456,863**	P 250,160,226
Due from other banks	8	**18,927,807**	16,798,544
Loans and receivables arising from repurchase agreement	8, 9	**154,069,090**	340,342,172
Investment securities at amortized cost – net	10	**447,443,560**	416,473,181
Loans and receivables – net	11	**269,346,081**	338,202,940
Refundable deposits	14	**5,399,994**	5,367,456
		P1,353,643,395	P1,367,344,519

All of the above financial assets are assessed as Stage 1 based on the ECL staging.

The Due from BSP account consists of deposits with the BSP for mandatory reserves and other than mandatory reserves. Mandatory reserves represent the balance of the deposit accounts maintained with the BSP primarily to meet reserve requirements and to serve as a clearing account for any interbank claims. Other than mandatory reserves include Overnight Deposit Facility (ODF) in 2020 and 2019 with the BSP which are maintained to maximize earnings from excess funds. Hence, no significant credit risk is anticipated for these accounts.

The Bank is able to manage the credit risk arising from due from other banks by ensuring that the banks where these financial assets are invested are of high reputation and good credit standing. Portion of due from other banks are secured by the lower of the aggregate maximum insurance coverage of P500,000 and the balance of the deposit account, as provided for under R.A. No. 9576, *Amendment to Charter of Philippine Depository Insurance Corporation*.

For investments in debt securities, credit risk is addressed by setting limits as to the maximum amount of investment that can be made on certain type of security with consideration of the credit quality of the counterparty.

The Bank is able to manage the credit risk arising from loans and receivables to individuals through adherence to a set of policies, the most notable features of which, in this context, are: (a) credit approving authority is not exercised by a single individual but rather, through a hierarchy of limits, is effectively exercised collectively; (b) an independent credit risk assessment by the CC, summarized into a borrower risk rating, is provided as input to the credit decision-making process; and (c) borrower credit analysis is performed at origination and at least annually thereafter.

As of December 31, 2020 and 2019, all of the Bank's financial assets were classified as neither past due nor impaired, except for those loans and receivables which were provided with allowance for impairment in current and prior years (see Note 11).

The carrying amount of financial assets recognized in the financial statements represents the Bank's maximum exposure to credit risk without taking into account the value of any collateral obtained.

4.2.5 Allowance for Expected Credit Loss

The ECL allowance on the Bank's loans and receivables does not significantly vary from that of the regulatory allowance as required by the BSP in accordance with MORB Section 143 (Appendix 15), as amended by BSP Circular 1011.

4.2.6 Collateral Held as Security and Other Credit Enhancements

The Bank holds collateral against loans and receivables in the form of mortgage interests over property, other registered securities over assets, hold-out agreements and guarantees. Estimates of fair value (for determining loanable amount) are based on the value of collateral assessed at the time of borrowing, and generally not updated except when a loan is individually assessed as impaired.

An estimate of the fair value of collateral and other security enhancements held against financial assets as of December 31, 2020 and 2019 is presented below.

	2020	2019
Against neither past due nor impaired		
Chattel	**P 270,715,745**	P 270,965,745
Hold-out deposits	**113,500,000**	117,026,524
Property	**68,278,680**	70,358,680
	P 452,494,425	P 458,350,949

The Bank does not hold property against past due but not impaired financial assets as of December 31, 2020 and 2019.

4.2.7 Write-offs

The Bank writes off financial assets, in whole or in part, when it has exhausted all practical recovery efforts and has concluded that there is no reasonable expectation of recovery of the financial asset. Indicators that there is no reasonable expectation of recovery include: cessation of enforcement activity; and, where the Bank's recovery method is through foreclosure of collateral and the value of the collateral is less than the outstanding contractual amounts of the financial assets to be written-off.

4.3 Market Risk

The Bank's market risk exposure arises from adverse movements in interest rates and prices of assets. Market risk related to the Bank's financial instruments includes foreign currency and interest rate risks.

(a) *Foreign Currency Risk*

The Bank has no exposure to foreign currency risk as transactions are denominated in Philippine peso, its functional currency.

(b) *Interest Rate Risk*

Interest rate risk is the probability of decline in net interest earnings as a result of an adverse movement of interest rates.

The Bank prepares gap analysis to measure the sensitivity of its resources, liabilities and off-books positions to interest rate fluctuations. The focus of analysis is the impact of changes in interest rates on accrual or reported earnings. This analysis would provide management an overview of maturity and re-pricing profile of its interest sensitive resources and liabilities. An interest rate gap report is prepared by classifying all assets and liabilities into various time buckets according to contracted maturities or anticipated repricing dates, and other applicable behavioral assumptions. The difference in the amount of resources and liabilities maturing or being repriced in any time period category would then give the Bank an indication of the extent to which it is exposed to the risk of potential changes in net interest income.

The analyses of the Bank's financial assets and financial liabilities as of December 31, 2020 and 2019 based on the expected interest realization or recognition are presented in the succeeding page.

	One to Three Months	More than Three Months to One Year	More than One to Five Years	More than Five Years	Total
2020:					
Financial assets					
Due from BSP	**P 458,456,863**	**P -**	**P -**	**P -**	**P 458,456,863**
Due from other banks	**18,927,807**	**-**	**-**	**-**	**18,927,807**
Loans and receivables arising from repurchase agreement	**154,069,090**	**-**	**-**	**-**	**154,069,090**
Loans and receivables – net	**31,746,141**	**80,141,487**	**157,458,453**	**-**	**269,346,081**
Investment securities at amortized cost – net	**-**	**50,391,875**	**397,051,685**		**447,443,560**
Total financial assets	**663,199,901**	**130,533,362**	**554,510,138**	**-**	**1,348,243,401**
Financial liabilities					
Deposit liabilities	**565,707,288**	**-**	**-**	**-**	**565,707,288**
Net Position	**97,492,613**	**130,533,362**	**554,510,138**	**-**	**782,536,113**
Cumulative Net Position	**P 97,492,613**	**P 228,025,975**	**P 782,536,113**	**P 782,536,113**	**P -**
2019:					
Financial assets					
Due from BSP	P 250,160,226	P -	P -	P -	P 250,160,226
Due from other banks	16,798,544	-	-	-	16,798,544
Loans and receivables arising from repurchase agreement	340,342,172	-	-	-	340,342,172
Loans and receivables – net	32,359,743	75,439,544	230,403,653	-	338,202,940
Investment securities at amortized cost – net	-	70,135,275	222,269,548	121,068,358	413,473,181
Total financial assets	639,660,685	145,574,819	452,673,201	121,068,358	1,358,977,063
Financial liabilities					
Deposit liabilities	586,961,078	-	-	-	586,961,078
Net Position	52,699,607	145,574,819	452,673,201	121,068,358	772,015,985
Cumulative Net Position	P 52,699,607	P 198,274,426	P 650,947,627	P 772,015,985	P -

The Bank's exposure to interest rate risk pertains to the fluctuations in interest rates of its financial instruments. To minimize the possible adverse effects of these fluctuations on the Bank's profit or loss, only placements with interest rates that are within the prevailing market rates are pursued. Placements with interest rates, which are significantly higher or lower than the prevailing market rates, are not prioritized by the Bank following the concept of risk and return trade-off.

The table below illustrates the sensitivity of profit to a reasonably possible change in interest rates of +/-0.50% and +/-0. 71% in 2020 and 2019, respectively. These changes are considered to be reasonably possible based on observation of current market conditions. The calculations are based on the change in the average market interest rate for each period, and the financial instruments held at the end of each reporting period that are sensitive to change in interest rates. All other variables are held constant.

	2020		2019	
	+50 bp	**-50 bp**	+71 bp	-71 bp
Profit before tax	**P 3,912,681**	**(P 3,912,681)**	P 5,502,613	(P 5,502,613)
Capital funds	**2,738,876**	**(2,738,876)**	3,851,829	(3,851,829)

In addition, the Bank has no significant long-term borrowings with variable or fixed interest rates as of December 31, 2020 and 2019.

(c) *Liquidity Risk*

Liquidity risk is the risk that there are insufficient funds available to adequately meet the credit demands of the Bank's customers and repay deposits on maturity. The Bank manages liquidity risk by holding sufficient liquid assets of appropriate quality to ensure short-term funding requirements are met and by maintaining a balanced loan portfolio which is repriced on a regular basis. In addition, the Bank seeks to maintain sufficient liquidity to take advantage of interest rate opportunities when they arise.

The tables below present an analysis of the maturity groupings of financial assets and financial liabilities (except lease liabilities – see Note 13.4) as of December 31, 2020 and 2019 in accordance with BSP account classifications.

	One to Three Months	Three Months to One Year	One to Five Years	More than Five Years	Total
2020:					
Financial assets					
Cash and other cash items	**P 10,098,635**	**P -**	**P -**	**P -**	**P 10,098,635**
Due from BSP	**458,456,863**	**-**	**-**	**-**	**458,456,863**
Due from other banks	**18,927,807**	**-**	**-**	**-**	**18,927,807**
Loans and receivables arising from repurchase agreement	**154,069,090**	**-**	**-**	**-**	**154,069,090**
Loans and receivables - net	**31,746,141**	**80,141,487**	**157,458,453**	**-**	**269,346,081**
Investment securities at amortized cost - net	**-**	**50,391,875**	**397,051,685**	**-**	**447,443,560**
Refundable deposits	**20,300**	**2,344,559**	**19,200**	**3,015,935**	**5,399,994**
Total financial assets	**673,318,836**	**132,877,921**	**554,529,338**	**3,015,935**	**1,363,742,030**
Financial liabilities					
Deposit liabilities	**565,707,288**	**-**	**-**	**-**	**565,707,288**
Other liabilities	**6,747,126**	**-**	**-**	**-**	**6,747,126**
Total financial liabilities	**572,454,414**	**-**	**-**	**-**	**572,454,414**
Net Position	**100,864,422**	**132,877,921**	**554,529,338**	**3,015,935**	**791,287,616**
Cumulative Net Position	**P 100,864,422**	**P 233,742,343**	**P 788,271,681**	**P 791,287,616**	**P -**
2019:					
Financial assets					
Cash and other cash items	P 7,450,310	P -	P -	P -	P 7,450,310
Due from BSP	250,160,226	-	-	-	250,160,226
Due from other banks	16,798,544	-	-	-	16,798,544
Loans and receivables arising from repurchase agreement	340,342,172	-	-	-	340,342,172
Loans and receivables - net	32,359,743	75,439,544	230,403,653	-	338,202,940
Investment securities at amortized cost - net	-	70,135,275	225,269,548	121,068,358	416,473,181
Refundable deposits	84,800	2,247,522	19,200	3,015,934	5,367,456
Total financial assets	647,195,795	147,822,341	455,692,401	124,084,292	1,374,794,829
Financial liabilities					
Deposit liabilities	586,961,078	-	-	-	586,961,078
Other liabilities	5,954,898	-	-	-	5,954,898
Total financial liabilities	592,915,976	-	-	-	592,915,976
Net Position	54,279,819	147,822,341	455,692,401	124,084,292	781,878,853
Cumulative Net Position	P 54,279,819	P 202,102,160	P 657,794,561	P 781,878,853	P -

5. CAPITAL MANAGEMENT POLICIES AND PROCEDURES

5.1 Capital Management and Regulatory Capital

The Bank's lead regulator, the BSP, sets and monitors capital requirements for the Bank. In implementing current capital requirements, the BSP requires the Bank to maintain a prescribed ratio of qualifying capital to risk-weighted assets.

Under current banking regulations, the combined capital accounts of each bank should not be less than an amount equal to 10% percent of its risk assets.

The qualifying capital of the Bank for purposes of determining the capital-to-risk assets ratio consists of Tier 1 capital plus Tier 2 capital elements net of the required deductions from capital such as:

(a) unbooked valuation reserves and other capital adjustments as may be required by the BSP;
(b) total outstanding unsecured credit accommodations to directors, officers, stockholders and related interests (DOSRI);
(c) deferred tax asset or liability;
(d) goodwill, if any;
(e) sinking fund for redemption of redeemable preferred shares; and,
(f) other regulatory deductions.

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

The amount of surplus funds available for dividend declaration is determined also on the basis of regulatory net worth after considering certain adjustments.

The Bank's policy is to maintain a strong capital base as to maintain investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholder's return is also recognized and the Bank recognizes the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position.

The Bank's regulatory capital is analyzed into two tiers which are Tier 1 Capital plus Tier 2 Capital less deductions from the total of Tier 1 and Tier 2 capital for the following:

(a) investments in equity of unconsolidated subsidiary banks and other financial allied undertakings, but excluding insurance companies;
(b) investments in debt capital instruments of unconsolidated subsidiary banks;
(c) investments in equity of subsidiary insurance companies and non-financial allied undertakings;
(d) reciprocal investments in equity of other banks/enterprises; and,
(e) reciprocal investments in unsecured subordinated term debt instruments of other banks/quasi-banks qualifying as Hybrid Tier 1, Upper Tier 2 and Lower Tier 2, in excess of the lower of (i) an aggregate ceiling of 5% of total Tier 1 capital of the bank excluding Hybrid Tier 1; or (ii) 10% of the total outstanding unsecured subordinated term debt issuance of the other bank/quasi-banks.

Any asset deducted from the qualifying capital in computing the numerator of the risk-based capital ratio shall not be included in the risk-weighted assets in computing the denominator of the ratio.

The Bank's regulatory capital position as of December 31 follows:

	2020	2019
Tier 1 Capital		
Common stock	**P 566,727,900**	P 566,727,900
Surplus and reserves	**209,629,283**	193,633,882
Undivided profits for the year	**6,613,596**	15,496,575
	782,970,779	775,858,357
Less deduction from Tier 1 capital		
Total outstanding unsecured DOSRI loans	**(31,665)**	(35,946)
Deferred tax assets	**(5,181,137)**	(5,156,154)
	777,757,977	770,666,257
Tier 2 Capital		
General loan loss provision	**1,400,000**	2,884,512
Total Qualifying Capital	**P 779,157,977**	P 773,550,769
Total Risk Weighted Assets		
Credit risk	**P 327,170,175**	P 454,407,681
Operational risk	**130,554,370**	113,380,315
Market risk	**-**	-
	P 457,724,545	P 567,787,996

The Bank's credit risk weighted assets as of December 31 are computed as follows:

(a) 0% Risk Weight

	2020	2019
Cash on hand	**P 10,098,635**	P 7,450,310
Due from BSP	**458,456,863**	250,160,226
Investment securities at amortized cost	**320,637,866**	220,908,189
Loans and receivables arising from repurchase agreement/participation with recourse, and securities lending and borrowing transactions	**154,043,416**	340,153,198
Loans to the extent covered by hold-out on, or assignment of, deposit substitutes maintained with the lending bank	**111,558,769**	115,510,988
	1,054,795,549	934,182,911
	0%	0%
	P -	P -

(b) 100% Risk Weight

	2020	2019
Other assets, gross of general loan loss provision	**P 308,325,903**	P 459,599,781
Less:		
Total outstanding unsecured credit accommodations, both direct and indirect to DOSRI, net of allowance for credit losses	**31,665**	35,946
Deferred tax assets	**5,181,137**	5,156,154
	5,212,802	5,192,100
	303,113,101	454,407,681
	100%	100%
	P 303,113,101	P 454,407,681

(c) 150% Risk Weight

	2020	2019
Non-performing loans	**P 16,038,049**	P -
	150%	150%
	P 24,057,074	P -

There were no on-balance sheet accounts classified under 20%, 50% and 75% risk weights as of December 31, 2020 and 2019.

The Bank's operational risk weighted assets as of December 31 are computed as follows:

	2020	2019
Net Interest Income		
Interest income	**P 85,612,054**	P 72,926,463
Interest expense	**(8,377,117)**	(8,263,687)
	77,234,937	64,662,776
Other Non-interest Income		
Fees and commissions income	**9,712,662**	10,854,014
Other income	**88,648**	70,087
	9,801,310	10,924,101
Gross Income	**87,036,247**	75,586,877
Capital Charge (12%)	**10,444,350**	9,070,425
Adjusted Capital Charge (125%)	**13,055,437**	11,338,032
Multiplied by factor 10	**10**	10
Total Operational Risk-Weighted Assets	**P 130,554,370**	P 113,380,320

The Bank is not engaged in trading and has no foreign currency denominated assets subject to market risk.

	2020	2019
Capital Ratios		
Total regulatory capital expressed as percentage of total risk weighted assets	**170.23%**	136.7%
Total Tier 1 capital expressed as percentage of total risk weighted assets	**169.92%**	136.21%

As of December 31, 2020 and 2019, based on the above capital ratios, the Bank has complied with the BSP requirement on the ratio of combined capital accounts against the risk assets.

Prior to October 9, 2014, a thrift bank whose head office is located in Metro Manila is required to have a minimum capital of P400.0 million. Subsequently, the BSP issued Circular No. 854, *Minimum Capitalization of Banks,* and increased the minimum capitalization requirement to P750.0 million which must be satisfied within five years from the date of effectivity. Banks which comply with the amended capital levels must submit to the BSP a certification within 30 calendar days from the date of effectivity of this circular. Banks not meeting the minimum required capital must submit to the BSP within one year from the date of effectivity of this circular an acceptable capital build-up program. In 2019, the BOD of the Bank has approved the increase its common stock by P65.0 million (see Note 17). As a result, the aforesaid increase has made the Bank compliant with the minimum capitalization requirement.

5.2 Capital Allocation

The allocation of capital between specific operations and activities is, to a large extent, driven by optimization of the return achieved on the capital allocated. The amount of capital allocated to each operation or activity is based primarily upon the regulatory capital. The process of allocating capital to specific operations and activities is undertaken independently of those responsible of the operation and is subject to review by the Bank's Executive Committee.

Although maximization of the return on risk-adjusted capital is the principal basis used in determining how capital is allocated within the Bank to particular operations or activities, it is not the sole basis used for decision making. The Bank's policies in respect of capital management and allocation are reviewed regularly by the BOD.

5.3 Minimum Liquidity Ratio

On February 8, 2018, the BSP issued Circular No. 996, *Amendments to the Liquidity Coverage Ratio Framework for Stand-Alone Thrift Banks, Rural Banks, Cooperative Banks and Quasi-Banks*, which provide guidance on and prescribes the prudential requirement for covered institutions to maintain eligible stock of liquid assets proportionate to the level of total qualifying liabilities (i.e., both on and off-balance sheet liabilities). Eligible liquid assets shall include cash and other liquid assets that are immediately liquefiable and free from encumbrances.

The minimum liquidity ratio (MLR) of 20% shall be complied with on an ongoing basis absent a period of financial stress effective January 1, 2019.

The Bank's MLR as of December 31, 2020 and 2019 are analyzed below:

	2020	2019
Eligible stock of liquid assets	**P 962,109,587**	P 835,362,550
Total qualifying liabilities	**576,423,874**	594,606,268
MLR	**166.91%**	140.49%

6. CATEGORIES AND OFFSETTING OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

6.1 Carrying Amounts and Fair Values by Category

The carrying amounts and fair values of the categories of financial assets and financial liabilities presented in the statements of financial position are shown below.

		2020		2019	
	Notes	**Carrying Amounts**	**Fair Values**	Carrying Amounts	Fair Values
Financial assets:					
Loans and receivables:					
Cash and other cash items	8	**P 10,098,635**	**P 10,098,635**	P 7,450,310	P 7,450,310
Due from BSP	8	**458,456,863**	**458,456,863**	250,160,226	250,160,226
Due from other banks	8	**18,927,807**	**18,927,807**	16,798,544	16,798,544
Loans and receivables arising from repurchase agreement	8, 9	**154,069,090**	**154,069,090**	340,342,172	340,342,172
Loans and receivables – net	11	**269,346,081**	**295,064,848**	338,202,940	346,134,439
Refundable deposits	14	**5,399,994**	**5,301,388**	5,367,456	5,323,894
		916,298,470	**941,918,631**	958,321,648	966,209,585
Investment securities at amortized cost – net	10	**447,443,560**	**466,076,591**	416,473,181	419,123,120
		P1,363,742,030	**P1,407,995,222**	P1,374,794,829	P1,385,332,705
Financial Liabilities –					
At amortized cost:					
Deposit liabilities	15	**P 565,707,288**	**P 565,707,288**	P 586,961,078	P 586,961,078
Other liabilities	16	**6,747,126**	**6,747,126**	5,954,898	5,954,898
		P 572,454,414	**P 572,454,414**	P 592,915,976	P 592,915,976

See Note 2.3 for a description of the accounting policies for each category of financial instruments including the determination of fair values.

A description of the Bank's risk management objectives and policies for financial instruments is provided in Notes 4.1 and 4.2.

6.2 Offsetting Financial Assets and Financial Liabilities

The Bank's loans and receivables secured through hold-out on deposits are the only financial assets subject to offsetting, enforceable master netting arrangements and similar agreements. However, the Bank does not present such loans and receivables net of the deposit liabilities in the statements of financial position.

The following are the gross amounts of loans and receivables and the related hold-out deposits:

	Loans and Receivables	Hold-out on Deposits	Net Amount
December 31, 2020	**P 111,981,105**	**(P113,500,000)**	**(P 1,518,895)**
December 31, 2019	P 116,431,105	(P117,026,524)	(P 595,419)

7. FAIR VALUE MEASUREMENT AND DISCLOSURES

7.1 Fair Value Hierarchy

In accordance with PFRS 13, *Fair Value Measurement*, the fair value of financial assets and financial liabilities and non-financial assets which are measured at fair value on a recurring or non-recurring basis and those assets and liabilities not measured at fair value but for which fair value is disclosed in accordance with other relevant PFRS, are categorized into three levels based on the significance of inputs used to measure the fair value.

The fair value hierarchy has the following levels:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities that an entity can access at the measurement date;

- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and,

- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The level within which the asset or liability is classified is determined based on the lowest level of significant input to the fair value measurement.

For purposes of determining the market value at Level 1, a market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

For investments which does not have quoted market price, the fair value is determined by using generally acceptable pricing models and valuation techniques or by reference to the current market value of another instrument which is substantially the same after taking into account the related credit risk of counterparties, or is calculated based on the expected cash flows of the underlying net asset base of the instrument.

7.2 Financial Instruments Measured at Fair Value

The Bank does not have financial instruments measured at fair value as of December 31, 2020 and 2019.

7.3 *Financial Instruments Measured at Amortized Cost for which Fair Value is Disclosed*

The Bank has certain financial assets and financial liabilities measured at amortized cost as of the end of the reporting period whose related fair value are disclosed [see Note 6.1]. As those financial instruments are mostly short-term in nature, management considers the carrying amounts of those instruments to approximate their fair values.

The table below summarizes the fair value hierarchy of the Bank's financial assets and financial liabilities which are not measured at fair value in the statements of financial position but for which fair value is disclosed.

	Notes	Level 1	Level 2	Level 3	Total
2020:					
Financial assets –					
At amortized cost:					
Cash and other cash items	8	P 10,098,635	P -	P -	P 10,098,635
Due from BSP	8	458,456,863	-	-	458,456,863
Due from other banks	8	18,927,807	-	-	18,927,807
Loans and receivables arising from repurchase agreement	8, 9	154,069,090	-	-	154,069,090
Loans and receivables – net	11	-	-	295,064,848	295,064,848
Investment securities	10	339,033,614	127,042,977	-	466,076,591
Refundable deposits	14	-	-	5,301,388	5,301,388
		P 980,586,009	**P 127,042,977**	**P 300,366,236**	**P1,407,995,222**
Financial Liabilities –					
At amortized cost:					
Deposit liabilities	15	P -	P -	P 565,707,288	P 565,707,288
Other liabilities	16	-	-	6,247,126	6,247,126
		P -	**P -**	**P 571,954,414**	**P 571,954,414**
2019:					
Financial assets –					
At amortized cost:					
Cash and other cash items	8	P 7,450,310	P -	P -	P 7,450,310
Due from BSP	8	250,160,226	-	-	250,160,226
Due from other banks	8	16,798,544	-	-	16,798,544
Loans and receivables arising from repurchase agreement	8, 9	340,342,172	-	-	340,342,172
Loans and receivables – net	11	-	-	346,134,439	346,134,439
Investment securities	10	222,923,431	196,199,689	-	419,123,120
Refundable deposits	14	-	-	5,323,894	5,323,894
		P 837,674,683	P 196,199,689	P 351,458,333	P1,385,332,705
Financial Liabilities –					
At amortized cost:					
Deposit liabilities	15	P -	P -	P 586,961,078	P 586,961,078
Other liabilities	16	-	-	5,954,898	5,954,898
		P -	P -	P 592,915,976	P 592,915,976

For financial assets and financial liabilities, other than Investment securities at amortized cost, with fair values included in Level 1, management considers that the carrying amounts of those short-term financial instruments approximate their fair values. Investment securities at amortized cost consist of government securities issued by various Philippine agencies and corporate debt securities with fair value determined based on prices published in BVAL, which represent the net clean close prices at the end of the reporting period.

The fair values of the financial assets and financial liabilities included in Level 2 and Level 3 above which are not traded in an active market is determined by using generally acceptable pricing models and valuation techniques or by reference to the current market value of another instrument which is substantially the same after taking into account the related credit risk of counterparties, or is calculated based on the expected cash flows of the underlying net asset base of the instrument.

When the Bank uses valuation techniques, it maximizes the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to determine the fair value of an instrument are observable, the instrument is included in Level 2. Otherwise, it is included in Level 3.

There has been no change to the valuation techniques used by the Bank during the year for its non-financial assets. Also, there were no transfers into or out of Level 3 fair value hierarchy in both years.

8. CASH AND CASH EQUIVALENTS

Cash and cash equivalents as of December 31 follow:

	Note	**2020**	2019
Cash and other cash items		**P 10,098,635**	P 7,450,310
Due from BSP		**458,456,863**	250,160,226
Due from other banks		**18,927,807**	16,798,544
Loans and receivables arising from repurchase agreement	9	**154,069,090**	340,342,172
		P 641,552,395	P 614,751,252

Cash and other cash items include total amount of cash in the Bank's vault and checks and other cash items.

Due from BSP account consists of deposits with the BSP for mandatory reserves and other than mandatory reserves. Mandatory reserves represent the balance of the deposit accounts maintained with the BSP primarily to meet reserve requirements and to serve as a clearing account for any interbank claims. Other than mandatory reserves, this account includes ODF in both 2020 and 2019 with the BSP which are maintained to maximize earnings from excess funds earning effective interest of 1.5% to 3.5% in 2020 and 3.5% to 4.3% in 2019. Interest income earned from due from BSP is presented under Interest Income from Due from BSP and Other Banks in the statements of comprehensive income.

Due from other banks consist of demand, savings and short-term time deposits. Savings deposits earn effective interest ranging from 0.1% to 0.125% in 2020 from 0.1% to 0.4% in 2019.

9. LOANS AND RECEIVABLES ARISING FROM REPURCHASE AGREEMENT

These represent loans and receivables from BSP as of December 31, 2020 and 2019 arising from overnight lending from excess liquidity which earn effective interest of 2.0% to 4.0% in 2020 and 4.0% to 4.8% in 2019. These loans have a term of five days in 2020 and 2019 and are included as cash and cash equivalents for cash flow reporting purposes (see Note 2.3). Interest income earned from these financial assets is presented under Interest Income in the statements of comprehensive income.

10. INVESTMENT SECURITIES AT AMORTIZED COST

The maturity profile of the Bank's investment securities at amortized cost is presented below.

	2020	2019
Within five years	**P 447,443,560**	P 295,404,823
Beyond five years	**-**	121,068,358
	P 447,443,560	P 416,473,181

The Bank's investment securities at amortized cost are acquired from the following groups of issuers:

	2020	2019
Government agencies	**P 323,245,436**	P 222,920,272
Corporate	**124,198,124**	193,552,909
	P 447,443,560	P 416,473,181

Effective interest rates on these assets range from 3.5% to 5.2% per annum in 2020 and 2019. The Bank's interest income from investments securities at amortized cost amounted to P20,348,633 and P16,629,257 in 2020 and 2019, respectively, as presented in the statements of comprehensive income.

Changes in the Bank's investment securities at amortized cost are summarized below.

	2020	2019
Balance at beginning of year	**P 413,349,848**	P 413,758,443
Additions	**100,000,000**	-
Maturities	**(70,000,000)**	-
Premium amortization	**(411,982)**	(408,595)
	442,937,866	413,349,848
Accrued interest income	**4,505,694**	4,063,333
	447,443,560	417,413,181
Allowance for impairment	**-**	(940,000)
Balance at end of year	**P 447,443,560**	P 416,473,181

In 2020, the Bank reversed the previously noted allowance for impairment on its investment securities at amortized cost which amounted to P940,000. The recovery on allowance for impairment was charged against the Impairment losses account on loans and receivables recognized during the year (see Note 11). There was no similar transaction in 2019.

As of December 31, 2020 and 2019, the fair value of the Bank's investments securities at amortized cost is P466,076,591 and P419,123,120, respectively (see Note 6.1).

11. LOANS AND RECEIVABLES

This account is composed of the following:

	Note	2020	2019
Receivables from customers	19	**P 263,309,328**	P 325,142,039
Accrued interest income		**3,777,221**	2,325,702
		267,086,549	327,467,741
Unamortized direct acquisition cost		**8,041,724**	15,651,025
Allowance for impairment		**(5,323,541)**	(4,383,541)
Unearned discount		**(458,651)**	(532,285)
		P 269,346,081	P 338,202,940

The maturity profile of the Bank's loans and receivables follows:

	2020	2019
Within one year	**P 111,887,628**	P 107,799,287
Within two to five years	**157,458,453**	230,403,653
	P 269,346,081	P 338,202,940

The Bank has past due loans amounting to P16,038,049 and nil as of December 31, 2020 and 2019, respectively. There were no restructured loans in both years.

The breakdown of gross receivables from customers as to type of security follows:

	2020	2019
Secured:		
Chattel mortgage	**P 118,727,075**	P 176,925,392
Hold-out on deposit	**111,981,105**	116,431,105
Real estate mortgage	**25,963,203**	20,808,157
	256,671,383	314,164,654
Unsecured loans	**6,637,944**	10,977,385
	P 263,309,327	P 325,142,039

The reconciliation of the beginning and ending balance of allowance for impairment in 2020 is shown in the succeeding page. There were no movements in this account during 2019.

	2020
Balance at beginning of the year	P 4,383,541
Impairment losses	940,000
Balance at end of the year	P 5,323,541

Loans and receivables earn annual effective interest at rates ranging from 5.0% to 27.0% in 2020 from 3.1% to 28.2% in 2019. Interest income earned from these financial assets is presented under Interest Income in the statements of comprehensive income.

Unamortized direct acquisition cost pertains to directly attributable cost incurred by the Bank relating to the origination of their auto loans. These costs are amortized using the effective interest method. In 2020 and 2019, amortization of direct acquisition of P8,951,760 and P12,111,575, respectively, are presented as reduction to Interest Income on Loans and Receivables in the statements of comprehensive income.

The total outstanding DOSRI loans granted by the Bank amounted to P31,665 and P1,034,648 as of December 31, 2020 and 2019, respectively, of which both amounts are secured by hold-out on deposit except for P31,665 and P35,946 outstanding amounts as of December 31, 2020 and 2019, respectively. The Bank is in compliance with the BSP requirement on DOSRI accounts (see Note 19.1).

12. BANK PREMISES, FURNITURE, FIXTURES AND EQUIPMENT

The gross carrying amounts and accumulated depreciation and amortization of bank premises, furniture, fixtures and equipment at the beginning and end of 2020 and 2019 are shown below.

	Leasehold Improvements	Furniture, Fixtures and Equipment	Total
December 31, 2020			
Cost	P 10,795,674	P 26,929,503	P 37,725,177
Accumulated depreciation and amortization	(10,795,674)	(23,058,370)	(33,854,044)
Net carrying amount	**P -**	**P 3,871,133**	**P 3,871,133**
December 31, 2019			
Cost	P 10,795,674	P 25,821,977	P 36,617,651
Accumulated depreciation and amortization	(10,795,674)	(21,794,201)	(32,589,875)
Net carrying amount	P -	P 4,027,776	P 4,027,776
January 1, 2019			
Cost	P 10,795,674	P 23,502,895	P 34,298,569
Accumulated depreciation and amortization	(10,795,674)	(20,884,804)	(31,680,478)
Net carrying amount	P -	P 2,618,091	P 2,618,091

A reconciliation of the carrying amounts at the beginning and end of 2020 and 2019 of bank premises, furniture, fixtures and equipment is shown in the succeeding page.

	Leasehold Improvements	Furniture, Fixtures and Equipment	Total
Balance at January 1, 2020, net of accumulated depreciation and amortization	P -	P 4,027,776	P 4,027,776
Additions	-	1,107,526	1,107,526
Depreciation and amortization charges for the year	-	(1,264,169)	(1,264,169)
Balance at December 31, 2020, net of accumulated depreciation and amortization	**P -**	**P 3,871,133**	**P 3,871,133**
Balance at January 1, 2019, net of accumulated depreciation and amortization	P -	P 2,618,091	P 2,618,091
Additions	-	2,319,082	2,319,082
Depreciation and amortization charges for the year	-	(909,397)	(909,397)
Balance at December 31, 2019, net of accumulated depreciation and amortization	P -	P 4,027,776	P 4,027,776

The BSP requires that investments in fixed assets do not exceed 50% of the Bank's unimpaired capital. As of December 31, 2020 and 2019, the Bank has satisfactorily complied with this BSP requirement.

Certain fully depreciated furniture and fixtures, and equipment with original cost amounting to P19,572,685 and P19,892,668 are still being used in operations as of December 31, 2020 and 2019, respectively.

13. LEASES

The Bank has leases for certain offices. With the exception of short-term leases and leases of low-value underlying assets, each lease is reflected on the statements of financial position as a right-of-use asset and a lease liability. Variable lease payments which do not depend on an index or a rate are excluded from the initial measurement of the lease liability and asset.

Each lease generally imposes a restriction that, unless there is a contractual right for the Bank to sublet the asset to another party, the right-of-use asset can only be used by the Bank. Leases are either non-cancellable or may only be cancelled by incurring a substantive termination fee. Some leases contain an option to purchase the underlying lease asset outright at the end of the lease, or to extend the lease for a further term. The Bank is prohibited from selling or pledging the underlying leased assets as security. For leases over offices, the Bank must keep those properties in a good state of repair and return the properties in their original condition at the end of the lease. Further, the Bank must ensure the leased assets and incur maintenance fees on such items in accordance with the lease contracts.

The Bank has two right-of-use assets leased with remaining lease term ranging from two months to two years; thus, having an average remaining lease term of ten months. These leased assets do not have any enforceable extension options, options to purchase and termination options.

13.1 Right-of-use Assets

The carrying amounts of the Bank's right-of-use assets for its offices are presented in the statements of financial position and the movement during the year is shown below.

		2020		2019
Balance at beginning of year	**P**	**1,922,840**	P	2,908,359
Additions		**135,758**		-
Depreciation and amortization		**(1,061,291)**		(985,519)
Balance at end of year	**P**	**997,307**	P	1,922,840

13.2 Lease Liabilities

Lease liabilities are presented in the statements of financial position are as follows (see Note 16):

		2020		2019
Current	**P**	**734,364**	**P**	961,581
Non-current		**455,627**		1,070,668
	P	**1,189,991**	P	2,032,249

As at December 31, 2020 and 2019, the Bank has no lease commitments which had not commenced.

The lease liabilities are secured by the related underlying assets. The undiscounted maturity analysis of lease liabilities are as follows:

		2020		2019
Within one year	**P**	**1,176,987**	P	1,078,772
Within one year but not more than five years		**1,303,693**		2,276,078
	P	**2,480,680**	P	3,354,850

13.3 Lease Payments Not Recognized as Liabilities

The Bank has elected not to recognize a lease liability for short-term leases or for leases of low value assets. Payments made under such leases are expensed on a straight-line basis. In addition, certain variable lease payments are not permitted to be recognized as lease liabilities and are expensed as incurred.

The expenses relating to short-term leases amounted to P0.8 million and P1.1 million in 2020 and 2019, respectively, and are presented as Occupancy under Other Operating Expenses in the statements of comprehensive income.

At December 31, 2020 and 2019, the Bank is not committed to any short-term leases.

13.4 Additional Profit or Loss and Cash Flow Information

The total cash outflow in respect of leases amounted to P1.1 million both in 2020 and 2019. Interest expense in relation to lease liabilities amounted to P0.2 million in both years and is presented as part of Others under Interest Expense in the statements of comprehensive income.

14. OTHER RESOURCES

Other resources include the following:

	Note	**2020**	2019
Refundable deposits		**P 5,399,994**	P 5,367,456
Deferred tax assets - net	21	**5,181,137**	5,156,155
Computer software - net		**1,561,839**	2,628,578
Prepaid expenses		**876,336**	813,500
Stationery and unused supplies		**792,592**	849,284
Others		**737,130**	705,218
		P 14,549,028	P 15,520,191

Refundable deposits are remeasured at amortized cost using the effective interest rates at the inception of the lease contracts. The fair values on initial recognition of the refundable deposits were determined by calculating the present value of the future cash flows anticipated until the end of the lease term using discount rates determined by reference to market interest rate of comparable financial instrument.

Computer software represents computer software and licenses purchased by the Bank and amortized over five years. The Bank acquired computer software amounting to P1,902,785 in 2019. No acquisition was made in 2020. Amortization charges related to software costs amounted to P1,066,739 and P925,636 in 2020 and 2019, respectively, and is presented as part of Others under Other Operating Expenses in the statements of comprehensive income (see Note 18).

The maturity profile of the Bank's other resources are as follows:

	2020	2019
Within one year	**P 2,364,859**	P 2,368,003
More than one year	**12,184,169**	13,152,188
	P 14,549,028	P 15,520,191

15. DEPOSIT LIABILITIES

This account consists of the following:

	2020	2019
Demand	**P 30,674,287**	P 50,089,776
Savings	**529,862,085**	530,106,381
Time	**5,170,916**	6,764,921
	P 565,707,288	P 586,961,078

As of December 31, 2020 and 2019, all of the Bank's deposit liabilities have maturity of one year or less.

Certain special savings accounts and time deposits have maturity of 1 to 30 days, with interest rates ranging from 1.0% to 3.0% per annum in 2020 and 2019.

In 2014, required reserves against deposit and deposit substitute liabilities shall be 8% for demand, savings and time deposits under BSP issued Circular No. 832, *Increase in Reserve Requirements*. Further, in 2018, BSP Circular No. 1004, *Reduction in Reserve Requirements* was released and it retained the reserve requirements for thrift banks. In 2019, BSP released BSP Circular No. 1063, *Reduction in Reserve Requirements*, reducing the required reserves to 4% for thrift banks. In 2020, BSP Circular No. 1092, *Reduction in Reserve Requirements* was released further reducing the required reserves to 3%. The Bank is in compliance with these BSP regulations as of the end of each reporting period.

16. OTHER LIABILITIES

The breakdown of this account is shown below.

	Notes	2020	2019
Retirement benefit obligation	20.2	**P 19,895,159**	P 18,651,183
Accrued expenses		**3,091,336**	2,403,442
Lease liabilities	13.2	**1,189,991**	2,032,249
Income tax payable		**1,075,525**	1,104,268
Manager's checks		**751,431**	1,611,295
Dormant credits		**722,982**	633,152
Withholding tax payable		**173,634**	336,149
Others		**2,181,379**	1,307,007
		P 29,081,437	P 28,078,745

The Bank has no secured liabilities and assets pledged as securities as of December 31, 2020 and 2019.

17. CAPITAL FUNDS

The Bank's authorized common stock is P1,000,000,000, divided into 10,000,000 shares with a par value of P100 per share.

On March 27, 2019, the BOD of the Bank approved the additional subscription of common stock amounting to P65.0 million for 650,000 common shares, which was also fully paid in 2019. Accordingly, the Bank's issued and outstanding shares as of December 31, 2020 and 2019 totaled to 5,667,279 shares amounting to P566,727,900.

The Bank has 29 stockholders owning 100 or more shares each of the Bank's common stock, as of December 31, 2020 and 2019.

18. OTHER OPERATING EXPENSES

This account is composed of the following:

	Note	2020	2019
Membership fees and dues		**P 1,288,518**	P 1,318,802
Amortization of computer software	14	**1,066,739**	925,636
Repairs and maintenance		**787,474**	647,437
Postage, telephone and cables		**604,005**	711,884
Stationery and supplies		**549,194**	621,805
Supervision and examination fees		**453,867**	463,292
Travel		**83,180**	222,804
Advertising		**81,936**	81,936
Representation and entertainment		**3,769**	35,076
Miscellaneous		**872,272**	939,590
		P 5,790,954	P 5,968,262

19. RELATED PARTY TRANSACTIONS

The summary of the Bank's significant transactions with its related parties as of and for the years ended December 31, 2020 and 2019 is as follows:

		2020		2019	
Related Party Category	Note	Amount of Transaction	Outstanding Balance	Amount of Transaction	Outstanding Balance
Key Management Personnel:					
Loans	19.1	**(P 1,034,648)**	**P -**	P 1,081,000	P 1,034,648
Deposits	19.1	**(113,292,439)**	**89,944,527**	(69,471,985)	203,236,966
Compensation	19.3	**8,837,946**	**-**	9,809,639	-
Related Party Under Common Ownership:					
Loans	19.2	**(16,590)**	**58,419,731**	-	58,436,321
Deposits	19.2	**123,785,893**	**259,796,640**	(41,148,950)	136,010,747

19.1 DOSRI Loans and Deposits

In the ordinary course of business, the Bank has loan and deposit transactions with certain DOSRI. Under existing policies of the Bank, these loans and deposits are made substantially on the same terms as with other individuals and businesses of comparable risks. Based on management's assessment as at December 31, 2020 and 2019, no impairment is required to be recognized on the Bank's loans to DOSRI.

Loans to DOSRI, which are shown as part of Receivables from customers under Loans and Receivables account in the statements of financial position (see Note 9), will mature within one to two years, and earn 3.1% to 12.0% interest in both 2020 and 2019. As of December 31, 2020 and 2019, the Bank does not have any past due or non-performing DOSRI loans.

Deposits from DOSRI, which are shown as part of Deposit Liabilities account in the statements of financial position (see Note 15), have maturity of up to 30 days, with interest rates ranging from 0.5% to 1.6% per annum in 2020 and 2019.

Other information relating to the loans and guarantees granted to DOSRI and other related parties are presented in Note 24(f).

19.2 Other Related Party Transactions

The Bank has related party transactions in accordance with the existing policies and procedures, which are entered into the best interest of the Bank and consistent with the policy of transparency, fairness and integrity. Significant or material transactions that exceeded the defined materiality threshold limit were duly approved by the BOD.

Related party transactions on loans with original principal amount of P58,500,000, has an outstanding balance of P58,419,731 and P58,436,321 as of December 31, 2020 and 2019, respectively, which are shown as part of Receivables from customers under Loans and Receivables account in the statements of financial position (see Note 11), will mature within one to two years, and earn 3.1% to 12.0% interest in both 2020 and 2019. These loans are fully secured with deposits amounting to P58,419,731 and P58,521,203 in 2020 and 2019, respectively, with 12.3% interest in both years.

Deposits from other related parties amounting to P259,796,640 and P136,010,747 as of December 31, 2020 and 2019, respectively, are shown as part of Deposit Liabilities account in the statements of financial position (see Note 15), and have maturity of up to 30 days, with interest rates ranging from 0.5% to 1.6% per annum in 2020 and 2019.

On July 1, 2007, the Bank entered into a five-year contract of lease with LHI Real Estate Corporation, a related entity under common ownership, and renewed on July 1, 2012 for another five years. On June 30, 2017, the same contract was renewed until June 30, 2022. In 2019, the Bank received written notice from the lessor waiving the rent until further notice.

19.3 Key Management Personnel

The compensation of key management personnel pertains to short-term benefits only. The total expense is shown as part of Employee Benefits account in the statements of comprehensive income (see Note 20).

20. EMPLOYEE BENEFITS

20.1 Employee Benefits

Expenses recognized for salaries and employee benefits are presented below.

	Note	2020	2019
Short-term employee benefits		**P 23,571,857**	P 25,046,124
Post-employment defined benefits	20.2(b)	**795,322**	867,482
		P 24,367,179	P 25,913,606

20.2 Post-employment Benefits

(a) Characteristics of the Defined Benefit Plan

The Bank does not have an established retirement plan and only conforms to the minimum regulatory benefit under R.A. No. 7641, *The Retirement Pay Law*, which is of the defined benefit type and provides a retirement benefit in lump sum equal to 22.5-day pay for every year of credited service. The regulatory benefit is paid in a lump sum upon retirement. The normal retirement age is 60 with a minimum of five years of credited service.

The retirement plan is unfunded as of the end of the reporting period.

(b) Explanation of Amounts Presented in the Financial Statements

Actuarial valuations are made every year to update the retirement benefit costs and the amount of contributions. All amounts presented below are based on the actuarial valuation report obtained from an independent actuary in 2020 and 2019.

The movements in present value of the retirement benefit obligation recognized in the books are as follows [presented as part of Other Liabilities (see Note 16)]:

	2020	2019
Balance at beginning of year	**P 18,651,183**	P 17,023,371
Interest cost	**947,480**	1,530,401
Current service cost	**795,322**	867,482
Remeasurements –		
Actuarial losses (gains) arising from:		
Experience adjustments	**(999,758)**	(1,835,477)
Changes in financial assumptions	**431,404**	1,119,953
Changes in demographic assumptions	**69,528**	(54,547)
Balance at end of year	**P 19,895,159**	P 18,651,183

The components of amounts recognized in profit or loss and in other comprehensive income in respect of the defined benefit obligation are as follows:

	2020	2019
Recognized in profit or loss:		
Current service cost	**P 795,322**	P 867,482
Interest expense	**947,480**	1,530,401
	P 1,742,802	P 2,397,883
Recognized in other comprehensive income:		
Actuarial gains (losses) from:		
Experience adjustments	**P 999,758**	P 1,835,477
Changes in financial assumptions	**(431,404)**	(1,119,953)
Changes in demographic assumptions	**(69,528)**	54,547
	P 498,826	P 770,071

Current service cost is presented as part of Employee Benefits account (see Note 20.1) under Other Operating Expenses while interest expense is presented as Others under Interest Expense in the statements of comprehensive income.

Amounts recognized in other comprehensive income were included within the item that will not be reclassified subsequently to profit or loss.

In determining the amounts of post-employment benefit obligation, the following significant actuarial assumptions were used:

	2020	2019
Discount rates	**3.89%**	5.08%
Expected rate of salary increases	**2.00%**	2.00%

Assumptions regarding future mortality experience are based on published statistics and mortality tables. The average remaining working lives of an individual retiring at the age of 60 is 19.7 years. These assumptions were developed by management with the assistance of an independent actuary. Discount factors are determined close to the end of each reporting period by reference to the interest rates of zero-coupon government bonds determined using BVAL with terms of maturity approximating to the terms of the retirement obligation. Other assumptions are based on current actuarial benchmarks and management's historical experience.

(c) *Risks Associated with the Retirement Plan*

The plan exposes the Bank to actuarial risks such as interest rate risk, longevity risk, and salary risk.

(i) Interest Rate Risk

The present value of the defined benefit obligation (DBO) is calculated using a discount rate determined by reference to market yields of government bonds. Generally, a decrease in the interest rate of a reference government bond will increase the plan obligation.

(ii) Longevity and Salary Risks

The present value of the DBO is calculated by reference to the best estimate of the mortality of the plan participants during their employment and to their future salaries. Consequently, increases in the life expectancy and salary of the plan participants will result in an increase in the plan obligation.

(d) Other Information

The information on the sensitivity analysis for certain significant actuarial assumptions, asset-liability matching strategy, and the timing and uncertainty of future cash flows related to the retirement plan are described below and in the succeeding page.

(i) Sensitivity Analysis

Each sensitivity analysis on the significant actuarial assumptions was prepared by remeasuring the DBO at the actuarial valuation report date after first adjusting one of the current assumptions according to the applicable sensitivity increment or decrement, based on changes in the relevant assumption that were reasonably possible at the valuation date, while all other assumptions remained unchanged. The sensitivities were expressed as the corresponding change in the DBO.

The table below summarizes the effects of changes in the significant actuarial assumptions used in the determination of the retirement benefit obligation as of December 31, 2020 and 2019.

	Impact on retirement benefit obligation		
	Change in assumption	**Increase in assumption**	**Decrease in assumption**
December 31, 2020			
Discount rate	**+/-0.50%**	**(P 188,060)**	**P 198,860**
Salary increase rate	**+/-1.00%**	**413,218**	**(376,076)**
December 31, 2019			
Discount rate	+/-0.50%	(P 166,294)	P 174,639
Salary increase rate	+/-1.00%	365,902	(337,354)

The above sensitivity analysis is based on a change in an assumption while holding all other assumptions constant. When calculating the sensitivity of the DBO to significant actuarial assumptions, the same method (present value of the DBO calculated with the projected unit credit method at end of the reporting period) has been applied as when calculating the pension liability recognized within the statements of financial position.

(ii) Funding Arrangements and Expected Contributions

The Bank does not have a formal retirement plan and does not maintain any funded plan assets. Moreover, the Bank's management does not plan to establish funded plan assets for its DBO as at the end of the year. As such, no contribution is expected in the succeeding year.

The maturity profile of undiscounted expected benefit payments is as follows:

	2020	2019
Within one year	**P 15,507,075**	P 15,185,730
More than one year to five years	**1,870,409**	1,734,896
More than five years	**5,120,057**	4,902,063
	P 22,497,541	P 21,822,689

The weighted average duration of the DBO at the end of the reporting period is 1.9 years.

21. TAXES

The components of tax expense as reported in profit or loss follow:

	2020	2019
Current tax expense:		
Final tax at 20%	**P 6,418,209**	P 8,093,163
Minimum corporate income tax (MCIT) at 2%	**671,012**	879,861
	7,089,221	8,973,024
Deferred tax income relating to origination and reversal of temporary differences	**(24,982)**	(32,823)
	P 7,064,239	P 8,940,201

The reconciliation of tax on pretax profit computed at the applicable statutory rates to tax expense attributable to continuing operations follows:

	2020	2019
Tax on pretax profit at 30%	**P 4,103,351**	P 7,331,033
Adjustment for income subjected to lower tax rates	**(3,209,104)**	(4,046,582)
Tax effects of:		
Non-deductible expenses	**1,555,201**	2,138,194
Unrecognized deferred tax arising from:		
Net operating loss carryover (NOLCO)	**3,420,938**	1,918,331
MCIT	**671,012**	879,861
Other temporary differences	**522,841**	719,364
	P 7,064,239	P 8,940,201

The net deferred tax assets [shown as part of Other Resources (see Note 14)] as of December 31, 2020 and 2019 pertain to the following:

	Statements of Financial Position		Statements of Income	
	2020	2019	**2020**	2019
Deferred tax assets–				
Retirement benefit obligation	**P 3,901,570**	P 3,901,570	**P -**	P -
Allowance for impairment	**1,221,762**	1,221,762	**-**	-
Lease liabilities	**356,997**	609,675	**252,678**	262,833
	5,480,329	5,733,007	**252,678**	262,833
Deferred tax liability–				
Right-of-use assets	**(299,192)**	(576,852)	**(277,660)**	(295,656)
Net Deferred Tax Asset	**P 5,181,137**	P 5,156,155		
Deferred Tax Income			**(P 24,982)**	(P 32,823)

The Bank is subject to MCIT, which is computed at 2% of gross income as defined under the tax regulations. MCIT can be claimed as deductions against regular corporate income tax within three years.

The Bank's remaining MCIT are as follows:

Year	MCIT	End of Availment
2020	P 671,012	2025
2019	879,861	2022
2018	893,409	2021
	P 2,444,282	

The Bank's MCIT of P642,484 in 2017 and P273,985 in 2016 expired in 2020 and 2019, respectively.

Pursuant to the issuance of Revenue Regulations No. 25-2020 to implement Section 4 (bbbb) of Republic Act No. 11494, the net operating loss incurred for the taxable year 2020 can be carried over as a deduction from gross income for the next five (5) consecutive taxable years following the year of such loss.

The Bank's NOLCO during the year is as follows:

Year	NOLCO	End of Availment
2020	P 11,403,128	2025

The Bank's NOLCO from other taxable years which can be claimed against any taxable income within three years are as follows:

Year	NOLCO	End of Availment
2019	P 6,394,435	2022
2018	4,520,701	2021
	P 10,915,136	

The Bank's NOLCO of P6,543,235 in 2017 and P18,743,911 in 2016 expired in 2020 and 2019, respectively.

The Bank has taken a conservative position of not recognizing the deferred tax assets arising from the MCIT, NOLCO and other temporary differences since the management assessed that these will not be realized in the succeeding years.
The details of unrecognized deferred tax assets are as follows:

	2020		2019	
	Amount	**Tax Effect**	Amount	Tax Effect
NOLCO	**P 22,318,262**	**P 6,695,479**	P 17,458,371	P 5,237,511
Retirement benefit obligation	**6,889,925**	**2,066,978**	5,645,950	1,693,785
MCIT	**2,444,282**	**2,444,282**	2,415,754	2,415,754
Allowance for impairment	**1,251,000**	**375,300**	1,251,000	375,300
	P 32,903,469	**P 11,582,039**	P 26,771,075	P 9,722,350

In 2020 and 2019, the Bank opted to claim itemized deductions in computing for its income tax due.

As of the date of the issuance of the 2020 financial statements of the Bank, the Corporate Recovery and Tax Incentives for Enterprises (CREATE) Bill is yet to be enacted into a law. The CREATE Bill aims to lower certain corporate taxes and rationalize tax incentives given to certain taxpayers. When enacted, based on the Bicameral Committee's approved version, the effective regular corporate income tax rate applicable to the Bank from January 1, 2020 to June 30, 2020 and July 1, 2020 to December 31, 2020 will be 30% and 25% , respectively. Minimum corporate income tax rate applicable to the Bank from January 1, 2020 to June 30, 2020 and July 1, 2020 to December 31, 2020 will be 2% and 1%, respectively. Pending the enactment of the CREATE Bill, the Bank used the prevailing regular corporate income tax rate of 30% and minimum corporate income tax rate of 2% as of December 31, 2020 in determining its current and deferred taxes in its 2020 financial statements.

22. COMMITMENTS AND CONTINGENCIES

In the normal course of business, the Bank makes various commitments and incurs certain contingent liabilities that are not given recognition in the Bank's financial statements. As of December 31, 2020, management believes that losses, if any, that may arise from these commitments and contingencies will not have a material effect on the financial statements. The Bank is not involved in any litigation as of December 31, 2020 and 2019. Moreover, the Bank does not have liabilities that are secured by any of its assets as of those dates.

23. IMPACT OF COVID-19

The unprecedented impact of the COVID-19 pandemic and the government's stringent mobility/quarantine measures to contain the virus have affected economic conditions and consequently, the Bank's business operations in terms of the following:

- Scaled-down branch operations due to mobility/quarantine restrictions;

- Business units operating at less than full capacity as employees were unable to report for work;

- Limited activities requiring face-to-face interaction due to social distancing;

- Additional costs to keep a safe and virus-free environment for both clients and employees;

- Asset quality deterioration due to business disruption and reduced incomes;

- Overall net impact is a decline in total net profit in 2020 by 57% compared to that of 2019.

The following were the actions undertaken by the Bank's business to mitigate such impact:

- Operated branches as allowed by the government (consistent with quarantine guidelines) to provide continuing banking service to clients amid mobility restrictions during the Enhanced Community Quarantine (ECQ) from mid-March 2020 to end-May 2020. With the shift to General Community Quarantine (GCQ) by June 2020, 100% of the Bank's branches had resumed operations;

- Ensured cash availability in branches and cash handling facilities working continuously to mobilize cash;

- Activated Business Continuity to enable dual-site processing capabilities or team redundancies in the event one site becomes contaminated. By June 2020, all units had returned to normal operations;

- Implemented new occupational safety and health standards to provide a safe and sanitized environment for both customers and employees through the strict observance of health and safety protocols, retrofitting of workspaces, and periodic testing for employees to minimize infection within the workplace;

- Performed comprehensive review of loan accounts to assess vulnerable sectors, and continuously assessed the adequacy of allowance for impairment on loans and other receivables;

- Ensured continued access to credit facilities for clients with resilient and sustainable businesses amid the pandemic. Proactively worked with clients for the restructuring of loan terms to address temporary tightness/liquidity problems;

- Complied with *Bayanihan I* and *Bayanihan II* by granting loan moratoria to qualified customers under the said Laws;

Based on the above actions and measures taken by management to mitigate the adverse effect of the pandemic, the Bank believes that it would continue to report positive results of operations and would remain liquid to meet current obligation as it falls due. Accordingly, management has not determined material uncertainty that may cast significant doubt on the Bank.

24. SUPPLEMENTARY INFORMATION REQUIRED BY THE BSP

Presented below are the supplementary information required by the BSP under Section 174 (Appendix 55) of the BSP Manual of Regulations for Banks (MORB) to be disclosed as part of the notes to financial statements based on BSP Circular 1074, *Amendments to Regulations on Financial Audit of Banks*.

(a) Selected Financial Performance Indicators

The following are some measures of the Bank's financial performance indicators:

	2020	2019
a. Return on equity		
Net profit / Average total capital accounts	**0.85%**	2.1%
b. Return on average resources		
Net profit / Average total resources	**0.48%**	1.1%
c. Net interest margin		
Net interest income / Average interest earning resources	**4.5%**	5.5%
d. Capital-to-risk assets ratio		
Total capital / Risk assets	**170.23%**	136.7%

(b) Capital Instruments Issued

As of December 31, 2020 and 2019, the Bank has only class of common stock, which are common shares.

As of December 31, 2020 and 2019, the Bank has no capital instruments considered in the computation of the Bank's regulatory and qualifying capital in accordance with Circular 781, *Basel III Implementing Guidelines on Minimum Capital Requirements, which may include*, instruments recorded as part of equity or a financial liability qualifying as Tier 2 capital.

(c) *Significant Credit Exposures for Loans*

The Bank's concentration of credit as to industry for its receivables from customers gross of allowance for ECL is presented below.

	2020		2019	
	Amount	**Percentage**	Amount	Percentage
Professional, scientific and technical activities	**P 51,347,747**	**18.7%**	P 49,950,176	14.6%
Transportation and storage	**41,789,596**	**15.2%**	42,132,164	12.3%
Whole and retail trade, repair of motor vehicles and motorcycle	**23,763,156**	**8.7%**	161,870,341	47.2%
Agriculture, forestry and fishing	**21,253,883**	**7.7%**	16,070,352	4.7%
Accommodation and food service activities	**9,585,824**	**3.5%**	-	-
Construction	**4,293,033**	**1.6%**	-	-
Real estate activities	**3,585,834**	**1.3%**	-	-
Manufacturing	**3,059,277**	**1.1%**	-	-
Financial intermediaries	**702,921**	**0.2%**	335,653	0.1%
Other service activities	**115,288,351**	**42.0%**	P 72,227,795	21.1%
	P 274,669,622	**100%**	P 342,586,481	100%

The BSP considers that loan concentration exists when the total loan exposure to a particular industry exceeds 30% of the total loan portfolio plus the outstanding interbank loans receivable or 10% of Tier 1 capital.

(d) *Credit Status of Loans*

The breakdown of receivable from customers as to status is shown below.

	Performing	**Non-performing**	**Total Loan Portfolio**
2020:			
Gross carrying amount	P 247,271,279	P 16,038,049	P 263,309,328
Allowance for ECL	(2,061,861)	(3,261,680)	(5,323,541)
Net carrying amount	**P 245,209,418**	**P 12,776,369**	**P 257,985,787**
2019:			
Gross carrying amount:	P 325,142,039	P -	P 325,142,039
Allowance for ECL	(4,383,541)	-	(4,383,541)
Net carrying amount	P 320,758,498	P -	P 320,758,498

Under banking regulations, loan accounts shall be considered non-performing, even without any missed contractual payments, when they are considered impaired under existing accounting standards, classified as doubtful or loss, in litigation, and/or there is evidence that full repayment of principal or 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 90 days from contractual due date, or accrued interests for more than 90 days have been capitalized, refinanced, or delayed by agreement.

(e) *Analysis of Loan Portfolio as to Type of Security*

The breakdown of receivable from customers, gross of allowance as to security are disclosed in Note 11.

(f) *Information on Related Party Loans*

In the ordinary course of business, the Bank has loan transactions with each other, their other affiliates, and with certain DOSRI. Under existing policies of the Bank, these loans are made substantially on the same terms as loans to other individuals and businesses of comparable risks.

Under the current BSP regulations, the amount of individual loans to a DOSRI, 70% of which must be secured, should not exceed the amount of the encumbered deposit and book value of the investment in the Bank and/or any of its lending and nonbank financial subsidiaries. In the aggregate, loans to DOSRIs, generally, should not exceed the total equity or 15% of the total loan portfolio of the Bank. However, non-risk loans are excluded in both individual and aggregate ceiling computation. As of December 31, 2020 and 2019, the Bank has satisfactorily complied with this requirement.

The following table shows the information relating to the loans, other credit accommodations and guarantees granted to DOSRI as of December 31 in accordance with BSP reporting guidelines:

	DOSRI Loans		Related Party Loans (inclusive of DOSRI)	
	2020	2019	**2020**	2019
Total outstanding loans	**P 31,665**	P 1,034,648	**P 58,451,396**	P 59,470,969
% of loans to total loan portfolio	**0.01%**	0.30%	**21.23%**	17.03%
% of unsecured loans to total DOSRI/related party loans	**0.05%**	0.06%	**0.00%**	0.00%
% of past due loans to total DOSRI/related party loans	**0.00%**	0.00%	**0.00%**	0.00%
% of non-performing loans to total DOSRI/ related party loans	**0.00%**	0.00%	**0.00%**	0.00%

(g) *Secured Liabilities and Assets Pledged as Security*

The Bank does not have secured liabilities and assets pledged as securities as of December 31, 2020 and 2019.

(h) *Contingencies and Commitments Arising from Off-balance Sheet Items*

The Bank has no commitments and contingent accounts arising from transactions not given recognition in the statements of financial position, expressed at their equivalent peso contractual amounts as of the end of the reporting periods.

25. SUPPLEMENTARY INFORMATION REQUIRED BY THE BUREAU OF INTERNAL REVENUE

Following is the supplementary information on taxes, duties and license fees paid or accrued during the taxable year which is required by the BIR under Revenue Regulations (RR) No. 15-2010 and RR No. 34-2020 to be disclosed as part of the notes to financial statements. This supplementary information is not a required disclosure under PFRS.

25.1 Requirements Under RR No. 15-2010

The information on taxes, duties and license fees paid or accrued during the taxable year required under RR No. 15-2010 are presented below.

(a) Gross Receipts Tax

In lieu of the value-added tax, the Bank is subject to the Gross Receipts Tax (GRT), pursuant to Sections 121 and 122 of the Tax Code which is imposed on banks, non-banks financial intermediaries and finance companies.

For the year ended December 31, 2020, the Bank paid gross receipts tax (GRT) as follows:

	Tax Base	GRT
Receipts subject to 7%	P 7,392,749	P 517,492
Receipts subject to 5%	69,849,804	3,492,490
Receipts subject to 1%	2,175,000	21,751
	P 79,417,553	**P 4,031,733**

The tax is levied on the Bank's lending income which includes interest, commission and discounts arising from instruments with maturities of more than five years and five years or less. The amount of GRT paid is presented as part of the Taxes and Licenses account in the 2020 statement of comprehensive income [see Note 25.1].

(b) Documentary Stamp Tax

The composition of the documentary stamp tax (DST) paid and accrued by the Bank for the year ended December 31, 2020 follows:

Deposit accounts	P 1,986,726
Loan instruments	946,009
Manager's checks	3,761
	P 2,936,496

The DST on deposit accounts and manager's checks are presented as part of the Taxes and Licenses account in the 2020 statement of comprehensive income [see Note 25.1]. On the other hand, the DST on loan instruments is passed on to the Bank's borrowers, thus, enabling the Bank to recover the prepayment made for these taxes.

(c) Taxes and Licenses

The details of the Taxes and Licenses account paid and accrued for the year ended December 31, 2020 follow:

	Note		
GRT	25(a)	P	4,031,733
DST	25(b)		1,990,486
Fringe benefit tax			10,769
Miscellaneous			271,751
		P	**6,304,739**

Taxes and licenses are presented under the Other Operating Expenses account in the 2020 statement of comprehensive income.

b) Withholding Tax

The details of the total withholding taxes for the year ended December 31, 2020 are shown below.

Compensation and benefits	P	2,693,358
Final		1,035,966
Expanded		615,071
	P	**4,344,395**

c) Value-added Tax, Excise Tax and Customs' Duties and Tariff Fees Paid

The Bank is not subject to value-added tax (input and output) and excise tax due to the nature of its business. Moreover, the Bank did not pay any customs' duties and tariff fees as it did not import any goods or services for the year ended December 31, 2020.

d) Deficiency Tax Assessment and Tax Cases

As of December 31, 2020, the Bank does not have any final deficiency tax assessments with the BIR or tax cases outstanding or pending in courts or bodies outside of the BIR in any of the open taxable years.

25.2 Requirements Under RR No. 34-2020

RR 34-2020 prescribes the guidelines and procedures on the submission of BIR Form No. 1709, transfer pricing documentation and other supporting documents for related party transactions. The Bank is not covered by these requirements as the Bank did not fall in any of the categories identified under Section 2 of RR No. 34-2020.

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of **Isla Bank (A Thrift Bank), Inc.,** is responsible for the preparation and fair presentation of the financial statements, including the schedules attached therein, for the years ended December 31, 2020 and 2019, in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. In preparing the financial statements, management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank or to cease operations, or has no realistic alternative to do so.

The Board of Directors is responsible for overseeing the Bank's financial reporting process. The Board of Directors reviews and approves the financial statements, including the schedules attached therein, and submits the same to the stockholders.

Punongbayan & Araullo, the independent auditors appointed by the stockholders, has audited the financial statements of **Isla Bank (A Thrift Bank), Inc.** in accordance with Philippine Standards on Auditing, and in their report to the Board of Directors and stockholders, have expressed their opinion on the fairness of presentation upon completion of such audit.

JOSE MA. J. LOPEZ-VITO III
Chairman

EDUARDO V. LIM
President

VIOLETA G. ANGELES
Comptroller

PRODUCTS AND SERVICES

Deposit Products

Current Accounts - a non-interest-bearing deposit subject to withdrawal by checks.

Savings Accounts - An interest-bearing deposit evidenced by a passbook.

Special Savings Accounts - Saving Deposit with specific maturity date earning interest at a rate higher than regular savings deposits based on the minimum deposit set by the bank, evidenced by a passbook.

Time Deposit - An interest-bearing deposit with specific maturity date earning interest higher that regular savings deposits, evidenced by a certificate of time deposits (CTD.)

Automated Savings Account (ATM) - a savings deposit earning an interest with electronic banking services as follows:

Balance Inquiry

Cash Withdrawal

Bills Payment

Fund Transfer

Prepaid Load

Credit Card Cash Advance

Statement Request

Checkbook Reorder

Point of Sale (POS)

InstaPay - is an electronic fund transfer (EFT) service that allows customers to transfer PHP funds almost instantly between accounts of participating banks and non-bank e-money issuers in the Philippines.

Loan Products

Personal Loans
Are multipurpose loans to individuals that can be used for one's personal needs.

Corporate Loans
Are loans for the business or for the company's use such as but not limited to working capital requirements or purchase of capital assets.

Consumer Loans
Are loans for the purpose of purchasing a car or a home.

Agricultural Loans
Are loans extended to the agricultural sector, like corporate loan which can be used for working capital requirements or purchase of equipment for agricultural use.

Others

Safe Deposit Box
Rental of boxes exclusively for the Bank's accountholders to safekeep important documents and other valuables

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