

I. CORPORATE POLICY

Corporate Profile

Yuanta Savings Bank Philippines, Inc. (the Bank) was formerly known as TongYang Savings Bank, Inc. It was formally registered in the Securities and Exchange Commission (SEC) on 1 August 1997 and was granted its thrift bank license by the Bangko Sentral ng Pilipinas on 24 October 1997. The Bank started its commercial operations on 5 November 1997.

On 5 August 2015, the Bank became a wholly owned subsidiary of Yuanta Commercial Bank in Taiwan, a company under the umbrella of Yuanta Financial Holdings (a publicly listed in Taiwan) due to its acquisition of the 100% equity shares of the Bank from Yuanta Securities Korea Co., Ltd (formerly: TONGYANG Securities, Inc.).

On 18 July 2016, the SEC approved the change of its name from TongYang Savings Bank, Inc. to Yuanta Savings Bank Philippines, Inc.

The Bank was accredited by the Philippine Retirement Authority as one of its Partner Banks in its Special Resident Retiree Visa Program.

To further expand its banking operations, the Bangko Sentral ng Pilipinas granted the Bank its Foreign Currency Deposit Unit (FCDU) License on 14 June 2007 giving the Bank the authority to accept foreign currency deposits. On 9 May 2008, the Bank opened its first branch strategically located in Madrigal Business Park, Alabang, Muntinlupa City. Subsequently on 16 May 2011, the Bank opened its second branch located in Ortigas Center, Pasig City.

The Bank caters traditional products and services such as deposits, loans, remittance, and foreign exchange. Its existing business model focuses on both corporate and retail banking for its lending and deposit operation.

It offers banking services not only to Filipinos but as well as to foreigners such as Taiwanese and Koreans residing in Metro Manila and nearby provinces. Its existing parent Company is one of best managed bank in Taiwan. Subsequently, the expertise of its parent company in the marketing and risk management system can be relayed to the Bank with the objectives of providing value to its stakeholders and customers.

Vision

Being part of the Yuanta Financial Holdings group in Taiwan, Yuanta Savings Bank Philippines adopts the core values of the conglomerate and is aspired to become a mid-tiered thrift bank in the Philippines in terms of asset scale through sound risk management and operational efficiency, serving primarily Filipinos, Koreans, and Taiwanese customers, driven by good corporate governance, integrity, professionalism and excellent customer service.

Mission

To become a mid-tiered thrift bank in the Philippines and to create value for our clients, employees, and shareholders by:

1. Providing a broad range of excellent and value-added financial products and services to our customers;
2. Creating an environment of hardworking, competent, highly motivated and honest individuals by providing excellent career opportunities and professional development;
3. Maximizing shareholders value, taking advantages of its market niche to assist its stakeholders in creating wealth and achieving their financial dreams.

Corporate Values

1. Seize opportunities and build client wealth
2. Enhance performance and promote employee welfare
3. Create value and increase shareholders return
4. Encourage teamwork and discipline in achieving our goals

II. CORPORATE INFORMATION

a. Ownership Structure

The Bank has an authorized capital stock of PHP1,200,000,000.00 of which PHP1,000,000,000.00 is subscribed and paid up. Par value per share is PHP1.00.

As of 31 December 2020, the following is the distribution of the subscribed and paid up capital stocks:

Name	Nationality	Amt. Subscribed/ % of Stockholdings	Voting Status
Yuanta Commercial Bank Co., Ltd.	Taiwanese	P1,199,999,995.00 / 99.99%	Voting shares
Jin-Tang Wu	Taiwanese	1.00	Voting share
Regina V. Saga	Filipino	1.00	Voting share
Arturo E. Manuel Jr	Filipino	1.00	Voting share
Celia Mojica Escareal-Sandejas	Filipino	1.00	Voting share
Senen L. Matoto	Filipino	1.00	Voting share
TOTAL		P1,200,000,000.00	

On 29 August 2019 the Shareholders and Board of Directors of the Bank approved the increase in authorized capital stock from P1,200,000,000 divided into 1,200,000,000 shares with par value of P1.00 to P3,000,000,000 divided into 3,000,000,000 shares with par value of P1.00. The increase in authorized capital stock was already approved by the BSP but has not yet been filed with the SEC as of reporting date. Accordingly, deposit received in cash from its Parent Company amounting to P1,200,000,000 was recorded as deposit for stock subscription classified as liability account.

b. Organizational Structure

i. Board of Directors and Corporate Officers

Jin-Tang Wu	-	Chairman of the Board
Regina V. Saga	-	Executive Director / President and CEO
Arturo E. Manuel Jr.	-	Independent Director
Celia Mojica Escareal-Sandejas	-	Independent Director
Senen L. Matoto	-	Independent Director
Romel Barrera ^{1/}	-	Corporate Secretary
Belen E. Asuncion	-	Treasurer
Michael B. Samson ^{2/}	-	Compliance Officer
Ronald T. Verzosa ^{3/}	-	Internal Auditor

1/ - Elected as Corporate Secretary effective on 25 June 2021. The former Corporate Secretary, Mr. Francis Agorilla resigned from the position effective on 12 June 2021.

2/ - Elected as Compliance Officer effective on 12 May 2021.

3/ - Elected as Internal Auditor effective on 12 May 2021.

ii. Department Heads

Melissa M. Tria	-	Branch Banking Group Head
Belen E. Asuncion	-	Head, Treasury Dept.
Michael B. Samson ^{1/}	-	Acting Chief Compliance Officer
Nak Seung Back	-	Bank Security Officer
Edmond J. Mallari	-	OIC, Collection Dept.
Roslyn L. Agustin	-	Head, Loans and Credit Dept.
Ronald T. Verzosa ^{2/}	-	Internal Audit Head
Chona G. Boyles	-	Head, HR and Admin Dept.
Carla Jean L. Pinili	-	Head of Information Technology Dept.
Romel Barrera ^{3/}	-	Head, Legal Dept.
Mark Jason Tan ^{4/}	-	OIC, Accounting Department
Melody Delos Santos ^{5/}	-	OIC, Marketing Dept.
Frederick Labog ^{6/}	-	Acting Risk Management Head

1/- Appointed as Acting Chief Compliance Officer effective on 12 May 2021. Mr. Samson was appointed as Chief Compliance Officer from 23 January 2021 to 11 May 2021. The former Acting Chief Compliance Officer Ms. Sheena Dañas resigned from the position effective on

23 January 2021. Ms. Joelle Celline Reyes was the former Acting Chief Compliance Officer until 31 December 2020 prior to the appointment of Ms. Sheena Dañas.

2/ - Appointed as Internal Audit Head on 26 March 2021, effective on 16 April 2021. The former Acting Internal Audit Head Ms. Sheena Dañas resigned from the position effective on 23 January 2021.

3/ - Appointed as Head of Legal Department effective on 25 June 2021. The former Head of Legal Department Mr. Francis Agorilla resigned from the position effective on 12 June 2021.

4/ - Appointed as OIC of Accounting Department effective on 15 January 2021. Mr. Michael B. Samson, present Acting Chief Compliance Officer was the former Head of Accounting Department.

5/ - Appointed as OIC of Marketing Department effective on 25 June 2021. The Head of Marketing Department is previously vacant.

6/ - Appointed as Acting Risk Management Head effective on 25 June 2021 after the completion of the tenure of the former Chief Risk Officer Mr. Shyh-Chang Cheng as expatriates of the parent company, Yuanta Commercial Bank.

Each Department Head is directly reporting to the Bank's President and CEO, except for Internal Audit Head, Chief Compliance Officer, and Chief Risk Officer who are functionally reporting to the Audit Committee/Board of Directors and administratively to the President and CEO.

iii. Manpower Composition

Total Number of Employees ^{1/-}	-	59
Officers	-	14
Rank and File	-	45

1/- As of 31 December 2020

c. Products and Services

Deposit Products

Demand Deposit

Savings Account (Peso and US Dollar)

Special Savings Account (SSA) – Regular SSA (Peso and US Dollar)

Special Savings Account under Philippine Retirement Authority (US Dollar)

Consumer Loans

Personal loan Secured

Condominium Loan

Commercial Loans

Corporate Loan

Credit Line

Back-to-Back Loan

SME Loan

Other Services

Payroll Services
Automated Teller Machine (ATM)
Overseas and Local Remittance
US Dollar-Peso Exchanges

d. Bank Directory and Website

Head Office

Ground Floor, Chatham House Building,
116 Valero corner Rufino Streets, Salcedo Village, Makati City
Tel. No. 8845 3838

Bank Website

<http://www.yuanta.com.ph/>

III. FINANCIAL HIGHLIGHTS

Amounts in Million PHP	Consolidated		Inc/(Dec)
	2020	2019	
Profitability			
Total Net Interest Income	86.4	79.7	6.7
Total Non-Interest Income	9.5	17.5	(8.0)
Total Non-Interest Expense	139.3	141.5	(2.2)
Pre-Provision Profit/(Loss)	(43.4)	(44.3)	0.9
Allowance for credit losses	11.1	8.2	2.9
Net Income/(Loss)	(65.5)	(67.7)	2.2
Selected Balance Sheet Data			
Liquid Assets	2,773	3,083	(310)
Gross Loans	489	675	(186)
Total Assets	3,420	3,964	(544)
Deposits	1,204	1,689	(485)
Total Equity	970	1,025	(55)
Selected Ratios			
Capital Adequacy Ratio	126.98%	73.84%	53.14%
Non-performing Loans Ratio	1.85%	0.28%	1.57%
Return on Equity	-6.75%	-6.61%	-0.14%
Return on Assets	-1.91%	-1.71%	-0.20%
Others			
Cash Dividend Declared	-	-	-
Total Headcount	59	78	(19)
Officers	14	17	(3)
Staff	45	61	(16)

The Bank's net loss for the year decreased by P2.2M mainly due to higher amount of net interest income as a result of P1.4M capital infusion made by its Parent Company on November 2019. Of the said amount, P200 million had been covered by 200 million shares at P1 par value resulting in the Bank's authorized capital stock to be fully subscribed. On August 29, 2019, the Bank's BOD and Stockholders concurred and approved the increase in authorized capital stock from P1.2 billion divided into 1.2 billion shares to P3.0 billion divided into 3.0 billion shares with a par value of P1 per share. The remaining consideration amounting to P1.2 billion was recognized as Deposit for future stock subscription which is classified as a liability. As at December 31, 2020, the Bank's application to increase its authorized capital stock was already approved by the BSP but has not yet been presented for filing with the SEC.

The Bank reported a lower amount of non-interest income and higher amount of allowance for credit losses in the year 2020 due to the recent COVID-19 pandemic.

For the year 2020, the Bank reported a total interest income of P100.4M, interest expense of P14.0M, and a net interest income of P86.4M. During the said period, the reported total other income was P9.5M, while the operating expenses & provision for impairment losses was P150.5M.

The Bank's liquid assets and total assets decreased by P310M and P544M, respectively, mainly due to decreased in deposit liabilities by P485M which were attributable to the closure of Ortigas and Alabang Branches in the year 2020 in order to have a more focused supervision from the management and to reduce the bank-wide operational risks and operating expenditures, the ongoing COVID-19 pandemic, and the implementation of a more stringent customer due diligence procedures to reduce the Bank's exposure to anti-money laundering risk. Due to the ongoing COVID-19 pandemic, the Bank is also more prudent in its lending activities resulting to decreased in its gross loan portfolio by P186M, although its non-performing loan ratio still went up to 1.85% in 2020 from 0.28% in 2019.

The Bank has maintained its strong capital position. Its solo basis capital adequacy ratio (CAR) and Tier 1 ratio were 126.98% and 126.78% as of 31 December 2020 respectively, which are significantly higher than the required 10%. Total qualifying capital was P2,155.171M. This comprised of P2,151.715M net tier 1 capital and P3.456M net tier 2 capital (pertains to general loan loss provision and reduced by the net unrealized gains on available for sale equity securities purchased, subject to a 55% discount)

Net tier 1 capital comprised of the following:

Tier 1 Capital	Amount (In Million PHP)
Paid up common stock	1,200.000
Deposit for common stock subscription	1,200.000
Additional paid-in capital	9.000
Retained earnings and undivided profits	(254.078)
Sub-total	2,154.922
Deductions from Core Tier 1 Capital	

Net unrealized losses on available for sale equity securities purchased	0.049
Total outstanding unsecured credit accommodations, both direct and indirect, to DOSRI, net of allowance for credit losses	0.478
Deferred tax asset, net of deferred tax liability	2.680
Total Deductions	3,207
Total Core Tier 1 Capital	2,151.715

The Bank's credit risk-weighted asset was P1,529.504M while its operational risk-weighted asset was P167.737M (computed using the Basic Indicator Approach), with minimum capital requirements of P152.950M and P16.774M, respectively (computed based on the required 10% of the total credit and operational risk-weighted assets). No market risk weighted assets and market risk capital requirements were computed as of December 31, 2020.

The year 2020 was quite tough due to the ongoing COVID-19 Pandemic but the Bank is still optimistic that it will be able to generate profits for the next two to three years. For the year 2021, the Bank will re-launch its condominium loan product in order to boost its consumer loan portfolio and will be more active in utilizing its existing idle funds for investment in government and private debt securities to increase the Bank's net interest income.

IV. CHAIRMAN’S MESSAGE

Standing Firm with Resilience

The year 2020 was a year significantly impacted by the COVID-19 pandemic. Yuanta Savings Bank (Philippines) nevertheless has stood firm with resilience in the storm. We have paid attention to the impact of COVID-19 on the society and customers, and given assistance and mitigation from all angles.

We have also been building up our resilience by basing our operations on ESG (Environmental, Social, and Corporate Governance) sustainability, which is extended from Yuanta Bank, headquartered in Taiwan. Yuanta Bank officially joined the Equator Principles Association and signed the Equator Principles in 2020.

We are moreover committed to impartiality and gender diversity in our governance. At present, three independent directors are serving on the board of Yuanta Savings Bank (Philippines) among five directors. And, of the five directors, two of them are women, which makes up 40% of the board composition.

Furthermore, despite of COVID-19 and year of lockdown and restrictions, we are still dedicated to enhancing our risk management and compliance system in order to continue our resilient operation for years to come.

In summary, 2020 was a year of great uncertainty. However, we have demonstrated we still have the right direction, the right culture, and the right actions to deliver consistent and sustained value for our shareholders and stakeholders. We enter 2021 standing firm with resilience as well as strong growth momentum.

Allen Wu
Chairman

V. PRESIDENT’S REPORT

Dear shareholders and other stakeholders,

The year 2020 was really an unexpected year due to the COVID-19 pandemic across the globe which affected everyone.

During the said year, the Bank’s total resources decreased by P544M, from P3.964B in 2019 to P3.420B in 2020, mainly due to decreased in deposit liabilities by P485M which were attributable to the ongoing COVID-19 pandemic and closure of Ortigas and Alabang Branches in order to have a more focused supervision from the management and to reduce the bank-wide operational risks and operating expenditures.

Despite of pandemic and year of lockdowns and restrictions, the Bank was still committed to provide continuous services to its customers, focusing on the welfare and safety of its customers and employees and ensuring financial soundness in times of crisis.

We are still optimistic that the Bank will be able to generate profits in the next two to three years. For the year 2021, the Bank will re-launch its condominium loan product in order to boost its consumer loan portfolio and will be more active in utilizing its existing idle funds for investment in government and private debt securities in order to increase its net interest income.

Meanwhile, the Bank is highly committed in enhancing its operational efficiency, risk management and compliance systems in order to have a resilient operation in the coming years. The automation of various BSP reports to ensure the accuracy and timeliness of the submission of reports to regulators is currently on-going.

In 2020, the BSP already approved the Bank’s application for the increase in authorized capital stock from P1.2B to P3.0B, and the process of filing with the SEC is currently underway. Upon submission of the said application to the SEC, the Bank’s capital will further increase by P1.2B.

A better economic outlook is expected with the vaccine rollout in several countries, allowing further economic reopening. The ongoing government spending and “Build, Build, Build” projects are expected to drive the country’s economic recovery.

Given the improvements in the Bank’s capitalization, operational efficiency, and gradual economic recovery, the Bank is highly optimistic that it will be more ready to embrace business opportunities and face uncertainties so as to improve its financial performance for the succeeding years.

Regina V. Saga
President and CEO

VI. CORPORATE GOVERNANCE

a. Overall Governance Framework

The business and operations of the Bank shall be conducted in accordance with the principles and best practices of good corporate governance, and exercising accountability, fairness and transparency across all operations and dealings. The Board of Directors, Management and staff members of the Bank commit themselves to these principles and policies, and acknowledge that the same will guide the Bank in attaining its corporate objectives.

The objectives of the Bank's corporate governance are as follows:

- Promoting appropriate ethics and values within the organization;
- Ensuring effective organizational performance management and accountability;
- Communicating risk and control information to appropriate areas of the organization; and
- Coordinating the activities of and communicating information among the board, external and internal auditors, and management.

The Board of Directors and shareholders, management and employees believe that corporate governance is a necessary component of sound strategic business management and for long-term shareholder value. The Board of Directors believes that compliance with the principles of good governance emanates at the Board level. The Board considers it as their primary responsibility to foster the long-term success of the Bank and secure its sustained competitiveness in a manner consistent with the fiduciary responsibility, which it shall exercise in the best interest of the Bank and its shareholders. The Bank has formulated the following policies and procedures to ensure observance of good corporate governance: (a) corporate governance manual (b) policy on related party transactions (c) guidelines on the prevention of conflict of interest and unsafe and unsound business practices, (d) financial consumer protection manual, (e) whistle blowing policy, and (f) Sustainable Finance Framework.

b. Selection Process for the Board of Directors and Senior Management

Cognizant that a Director and Senior Management is a position of trust and confidence, the Bank adheres to a selection process that ensures a mix of competent individuals at the controls of the Bank. The Director and Senior Management must be fit and proper for the said position with consideration on the following matters: integrity/probity, physical/mental fitness, competence, relevant education/financial literacy/training, possession of competencies relevant to the job, such as knowledge and experience, skills, diligence and independence of mind, and sufficiency of time to fully carry out responsibilities. The screening process is being conducted by the Bank's Board of Directors, Senior Management, and its parent company.

c. Board of Directors Responsibility

The Board of Directors leads in establishing the tone of good governance from the top and in setting corporate values, codes of conduct and other standards of appropriate behavior for

itself, the Senior Management and Bank employees. It is primarily responsible for approving and overseeing the implementation of the Bank's strategic objectives, risk strategy, corporate governance and corporate values. The Board ensures expeditious resolution of compliance issues and consistent adoption of corporate governance policies and procedures. The Board is also responsible for monitoring and overseeing the performance of Senior Management.

The Board of Directors is responsible for approving the Bank's objectives and strategies, including long-term financial interests, its level of risk tolerance, and ability to manage risks effectively, and in overseeing management's implementation through a system for measuring performance against plans which includes the conduct of monthly business performance review and board meeting.

The Board also defines the Bank's corporate culture and values and establish a code of conduct and ethical standards in the Bank, and institutionalizes a system that will allow reporting of concerns or violations to an appropriate body through its present whistle blowing policy. The Board conducts the affairs of the Bank with a high degree of integrity and plays a leading role in establishing the Bank's corporate culture and values. It establishes, actively promotes, and communicates a culture of strong governance in the Bank, through adopted policies and displayed practices, ensuring that the Senior Management champion the desired values and conducts, and actively supports the Bank's Senior Management in its initiatives to enhance its corporate governance, risk management, and control processes through providing adequate resources and necessary trainings to its employees, and ensuring that the internal and external issues noted have been immediately acted upon.

The Chairperson of the Board of Directors provides leadership in the Board and ensure its effective functioning as a body, including maintaining a relationship of trust with members of the Board. He ensures that the meeting agenda focuses on strategic matters including discussion on risk appetites, and key governance concerns and ensures a sound decision making process.

d. Composition of the Board of Directors

The Bank has five (5) Board of Directors as follows:

Name	Type of Directorship	No. of Years Served as Director	No. of Direct Shares Held	% of Direct Shares Held
Jin-Tang Wu	Non-Executive /Chairman	4	1	0.0000001%
Regina V. Saga	Executive Director	4	1	0.0000001%
Arturo E. Manuel Jr.	Ind. Director	2	1	0.0000001%
Senen L. Matoto	Ind. Director	2	1	0.0000001%
Celia Mojica	Ind. Director	1	1	0.0000001%

Escareal-Sandejas				
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e. Profile of Directors and Executives:

Name	Age	Nationality	Summary of Qualification
Jin-Tang Wu, Chairman	60	Taiwanese	Educational Background: Bachelor of Science in Chemistry (Soochow University, Taiwan), Master in Business Administration (University of Mississippi, USA)
			Work Experience: With more than 20 years of experience in banking and securities businesses. Present Executive Vice President of Yuanta Commercial Bank, Senior Vice President of Yuanta Financial Holdings Co., Ltd.
Regina V. Saga, Director/President and CEO	46	Filipino	Educational Background: LLB and LLM (University of Buckingham – UK), Master of Studies in Legal Research and obtained units in Doctor of Philosophy in law (University of Oxford - UK)
			Work Experience: With more than 15 years of experience in legal fields, banking, and financial services. Current President of Yuanta Savings Bank Philippines, Inc.
Arturo E. Manuel Jr. Independent Director	63	Filipino	Educational Background: AB-BSC Major in Management of Financial Institutions (De La Salle University), Strategic Business Economics (University of Asia and Pacific)
			Work Experience: With more than 30 years of experience in banking and management consultancy and a Fellow of Institute of Corporate Directors
Celia Mojica Escareal- Sandejas Independent Director	69	Filipino	Educational Background: BS Hotel & Restaurant Administration (University of the Philippines), Bachelor of Laws (Doctor of Jurisprudence) - University of the Philippines. Member of Integrated Bar of the Philippines
			Work Experience: With more than 30 years of experience in legal fields with specialization on Anti-Money Laundering Laws and Regulations
Senen L. Matoto Independent Director	73	Filipino	Educational Background: Bachelor of Science in Business Administration (University of the Philippines), Master in Business Administration (Asian Institute of Management)
			Work Experience: With more than 30 years of experience in banking, finance and investment management and a Fellow of Institute of Corporate Directors

f. Board Level Committees

Since the Bank is currently categorized as simple or non-complex banks, only audit committee and related party transaction committee are the constituted board level committees.

Mr. Senen L. Matoto, Mr. Arturo E. Manuel Jr. and Atty. Celia Mojica Escareal-Sandeja are the members of the audit committee and related party transaction committee.

The audit committee is chaired by Mr. Senen L. Matoto. The audit committee oversees the Bank's financial reporting framework, monitors and evaluates the adequacy and effectiveness of the internal control system, oversee the internal and external audit function, oversees the implementation of corrective actions, investigates significant issues/concerns raised, and establishes a whistleblowing mechanism.

The related party transaction (RPT) committee is chaired by Mr. Arturo E. Manuel Jr. The RPT committee is in charge of the evaluation on an ongoing basis existing relation between and among businesses and counterparties to ensure that all related parties are continuously identified, related party transactions (RPTs) are monitored, and subsequent changes in relationships with counterparties are captured. This committee is also in charge of evaluating all material RPTs under the approving authority of the board of directors to ensure that these are not undertaken on more favourable economic terms.

g. Board and Board Level Committee Meetings

In 2020, a total of 12 Board meetings, 10 Audit Committee meetings, and 1 Related Party Transaction (RPT) Committee meeting were held. The attendance of the Board and Board level committee meetings were shown below:

Name of Directors	Board	% of Attendance	Audit Committee	% of Attendance	RPT Committee	%
	Number of Meetings Attended		Number of Meetings Attended		Number of Meetings Attended	
Jin-Tang Wu	11	91.67%				
Regina V. Saga ¹	12	100%	2	100%		
Arturo E. Manuel Jr.	12	100%	10	100%	1	100%
Senen L. Matoto	12	100%	10	100%	1	100%
Celia Mojica Escareal-Sandejas	12	100%	10	100%	1	100%

1/ - Member of the Audit Committee and RPT Committee until 29 February 2020

h. Performance Assessment Program

The Bank conducts a semi-annual and annual performance appraisal for its Senior

Management. The results of the established key performance indicators (KPI) for each department formed part of the Bank's performance appraisal system.

Likewise, the Board of Directors, Board level Committees, and various Management Committees conducts an annual self-assessment to ensure the effectiveness in carrying out of their respective functions. The results are reported to the Board of Directors as the basis for improvement moving forward.

i. Orientation and Education Program

The duties and responsibilities of the Board of Directors have been discussed and duly acknowledged by the concerned directors prior to his/her appointment. All directors are required to undergo a one-day training on corporate governance conducted by an institution duly accredited by the BSP.

The Bank ensures to conduct employee orientation program within 15 days upon boarding of the employees which includes discussion of the following matters: institutional overview, responsibilities of all employees, employment requirements, senior management, process of employee regularization, work-related tips, fringe benefit program, employees code of conduct and the corresponding sanction for its violation, code of conduct for consumer protection, bank products and services, anti-money laundering, information security awareness, business continuity awareness, and secrecy on bank deposit.

The Board of Directors approved the Bank's annual training program. This includes in-house seminar on topics such as anti-money laundering, sound credit risk management, fraud risk and control awareness, information security, business continuity management, bank security, financial consumer protection, data privacy, signature verification, customer service, cash operation training, fair debt collection practices, problem solving and conflict resolution, and pandemic awareness and wellness seminar.

Specific external training program to enhance the knowledge of the concerned employee in their respective field is also in place.

j. Retirement and Succession Policy

An employee may be retired upon reaching the retirement age of 60 years old or unless sooner offered by the Bank. The Bank offers retirement pay for its employees who have worked for at least five (5) consecutive years.

There is no retirement age set for the Bank's Board of Directors for as long as he/she is still fit and proper for the said position.

The Board of Directors shall be elected during annual meeting of stockholders and shall hold office for one (1) year and until their qualified successors are elected. There is no limit set for the term of the members of the Board, except in the case of Independent Directors who may only serve as such for a maximum cumulative term of nine (9) years. After which, the

Independent Director shall be perpetually barred from serving as Independent Director in the Bank, but may continue to serve as regular Director. The nine (9) year maximum cumulative term for independent directors shall be reckoned from year 2012.

The Bank maintains a succession management plan for each department which is being updated at least every year or as needed, with primary consideration on the qualification, knowledge, skills, and experience of the employee.

k. Remuneration Policy

The Bank pays salaries commensurate to the individual's qualifications and experience, nature of the job, employee performance, role, and level of responsibilities and activities with reference to an approved salary scale.

The Bank ensures that its compensation package for non-officers or rank and file employees are linked to both performance and the Bank's obligation under the law.

The remuneration of the Executive Director, President and CEO, and its highly compensated management officers has been determined and approved by the Bank's parent company.

The independent directors shall receive a reasonable per diem allowance for his/her attendance at each regular meeting actually attended in such reasonable amount as may from time to time be fixed and approved by at least a majority of the Board of Directors during its regular or special meeting. The Directors may also receive compensation other than per diems by the vote of the stockholders representing at least a majority of the outstanding capital stock at a regular or special stockholders' meeting. In no case shall the total yearly compensation of Directors, as such Directors, exceed ten (10%) percent of the net income before income tax of the Corporation during the preceding year.

l. Related Party Transaction

The Bank has a Board approved Related Party Transactions (RPT) Policy. Under the said Policy, the Bank may enter into related party transactions provided, that these are done on an arm's length basis. The Bank shall exercise appropriate oversight and implement effective control systems for managing said exposures as these may potentially lead to abuses that are disadvantageous to the Bank and its depositors, creditors, fiduciary clients, and other stakeholders.

The Bank has a board-level Related Party Transactions Committee whose main function includes evaluation on an ongoing basis, existing relations between and among businesses and counterparties to ensure that all related parties are continuously identified, RPTs are monitored, and subsequent changes in relationships with counterparties (from non-related to related and vice versa) are captured; and evaluation of all material RPTs under the approving authority of the Board of Directors to ensure that these are not undertaken on more favorable economic terms and that no corporate or business resources of the bank are misappropriated or misapplied, and to determine any potential reputational risk issues that may arise as a

result of or in connection with the transactions. The Committee is composed of three (3) members of the Board of Directors, all are Independent Directors.

The Bank's RPT Policy captures a broader spectrum of transactions, covering not only those that give rise to credit and/or counterparty risks but also those that could pose material/special risk or potential abuse to the Bank and its stakeholders. Transactions that were entered into with an unrelated party that subsequently becomes a related party may be excluded from the limits and approval process required in Bank's RPT Policy, but still subject for evaluation to ensure that said transactions are still in an arm's length terms. However, any alteration to the terms and conditions, or increase in exposure level, related to these transactions after the non-related party becomes a related party shall subject the RPT to the requirements of the Bank's RPT policy.

The Management and Board of Directors shall ensure that RPTs are conducted in the regular course of business and not undertaken on more favourable economic terms (e.g., price, commissions, interest rates, fees, tenor, collateral requirement) to such related parties than similar transactions with non-related parties under similar circumstances. In this regard, an effective price discovery mechanism to ensure that transactions are engaged into at terms that promote the best interest of the Bank and its stakeholders shall be observed. The price discovery mechanism may include, but not limited to the following:

- Acquiring the services of an external expert;
- Opening the transaction to a bidding process. The minimum bid price shall be based on its market value;
- Publication of available property for sale;
- Determining the market value of the securities based on its market price;
- Conducting independent or internal appraisal as basis for the value of the personal and real properties. If the RPT transaction involves at least PHP3 Million pesos or if the property involved is not usual or a technical one such as machineries and equipment, independent appraisal is a must.

The Management and the Board shall also ensure the proper identification, prevention or management of potential or actual conflicts of interest which may arise. The members of the board, stockholders, and management shall disclose to the board whether they directly, indirectly or on behalf of third parties, have a financial interest in any transaction or matter affecting the Bank. Directors and officers with personal interest in the transaction shall abstain from the discussion, approval and management of such transaction or matter affecting the Bank.

All Bank officers and directors shall execute an Oath of Office to ensure proper identification, prevention or management of conflict of interest. All members of the Credit Committee shall also execute an Oath of Office to avoid conflict of interest in any loan transactions which they approved. The Bank's employee code of conduct also includes provisions for conflict of interest which incorporates the corresponding employee disciplinary action in case of violation.

The Bank did not enter into related party transactions from January 2020 to December 2020. There were no outstanding balances, including off-balance sheet commitments to related parties as of 31 December 2020.

m. Self-Assessment Functions

The Bank has an independent audit and compliance functions, through which the Bank's Board of Directors, Senior Management, and Stockholders may be provided with reasonable assurance that its risk management, control, governance, and compliance processes are effective, appropriate, and in compliance with the prescribed internal and external regulations.

The Board of Directors and Senior Management are responsible for promoting high ethical and integrity standards; establishing the appropriate culture that emphasizes, demonstrates and promotes the importance of internal control; and designing and implementing processes for the prevention and detection of fraud.

The internal audit function is being headed by the Internal Audit Head who is currently reporting to the Audit Committee and the Board, and has unrestricted access to all functions, records, property, and personnel, and have full and free access to the Audit Committee. Its main function is to provide independent, objective assurance and consulting services designed to add value and improve the Bank's operations. It helps the organization accomplish its objectives by bringing systematic and disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

The Bank's Board of Directors is ultimately responsible for ensuring that Senior Management establishes and maintains an adequate, effective, and efficient internal control framework commensurate with the size, risk profile and complexity of operations of the Bank. The Board of Director ensures that the Bank's independent audit function has an appropriate stature and authority within the Bank and is provided with adequate resources to enable it to effectively carryout its assignments with objectivity.

Based on the results of the risk assessment, the internal audit function conducts periodic review of the effectiveness of the Bank's system and internal controls to assess consistency with the board-approved policies and procedures. The resulting audit reports, including exceptions or breaches in limits, are communicated directly to the Audit Committee on a monthly basis to ensure the timeliness, accuracy, and relevance of reporting systems and internal controls in general. The regular report includes: (a) Exception reporting; (b) The target date, action plan and the root cause of the exception noted; (c) The status and/or effectiveness of actions taken; (d) The critical operational risks facing, or potentially facing, the bank (e.g., as shown in KRIs and their trend data, changes in risk and control self-assessments, comments in audit/compliance review reports, etc.); and (e) Major risk events/loss experience, issues identified and intended remedial actions.

In addition to the traditional reliance on internal and third-party audit functions, the Board performs self-assessments on an annual basis to gauge performance which often lead to early identification of emerging or changing risks requiring policy changes and updates."

The Bank also has its compliance function headed by the Chief Compliance Officer who is directly reporting to the Audit Committee and the Board. Its main task is to oversee and coordinate the implementation of the Bank's compliance system, which includes the identification, monitoring and controlling of the Bank's business and compliance risk. It also has unrestricted access to all functions, records, property, and personnel and have full and free access to the Board.

The Bank has a robust compliance system focused on the enforcement of the Anti-Money Laundering Act (AMLA), Money Laundering and Terrorist Financing Prevention Program (MTPP), Compliance Manual, Corporate Governance Manual, Code of Conduct, and other regulatory requirements. The Bank has articulated in its MTPP the regulatory issuances such as guidelines and circulars on anti-money laundering (AML) and combating the financing of terrorism (CFT).

The Bank adheres to, among others, the KYC rules and customer due diligence requirements of the law and regulations from the start of customer relationship until its termination. Furthermore, the Bank takes note of bulletins and watch lists of individuals and entities engaged in illegal activities or terrorist-related activities. The watchlist files of Anti-Money Laundering Council (AMLC), and other international entities or organizations such as the Financial Action Task Force (FATF), Office of Foreign Assets Control (OFAC) of the U.S. Department of Treasury, and other agencies or organizations duly competent and recognized to create public watch lists are all incorporated in the Bank's AML system (Integral 360).

The Bank's Compliance Department is responsible for overseeing, coordinating, monitoring and ensuring compliance with existing laws, rules and regulations through the implementation of its compliance system in accordance with the requirements of the Bangko Sentral ng Pilipinas (BSP) and other regulatory agencies which include, among others, the identification and control of compliance risks, prudential reporting as well as compliance training.

The Bank's Audit Committee exercises oversight functions on the Bank's adherence to rules and regulations especially those issued by the Bangko Sentral ng Pilipinas (BSP), Securities and Exchange Commission (SEC), Philippine Deposit Insurance Corporation (PDIC), Anti-Money Laundering Council (AMLC), and other regulatory bodies and agencies. The Audit Committee also conducts oversight functions over the Bank's Anti-Money Laundering Committee (AMLCOM) through regular reporting of matters taken during its meetings. The AMLCOM review and decide on the disposition of AML/CFT issues referred by branches/business units (BUs).

The Compliance Department coordinates with regulators on their examinations and reports significant compliance issues and regulatory findings to Senior Management, Audit Committee, and the Board. The department is headed by a Chief Compliance Officer (CCO)

who was appointed by the Board. The CCO reports directly to the Audit Committee and Board of Directors.

n. Dividend Policy

Dividends shall be declared and paid out of the unrestricted retained earnings which shall be payable in cash, property, or stock to all stockholders on the basis of outstanding stock held by them, as often and at such times as the Board of Directors may determine and in accordance with law and applicable rules and regulations, and results of the Bank's operation. Since the Bank incurred a loss for the year 2020, there was no dividend declared for the said year.

o. Corporate Social Responsibility

The Bank continuously provide banking services to its customers during the recent COVID-19 pandemic, at the same time put a high priority on COVID-19 prevention and safety of its customers and employees. It provides hazard pay to its employees during the enhance community quarantine period for the year 2020 and also provides a shuttle service to its employees.

On October 2020, the Board approved the Bank's Sustainable Finance Framework with a view to implement the spirit of Corporate Social Responsibility into business planning and corporate operation, actively managing environmental and social risks and incorporating them into consideration for transaction decision-making through the framework and guidance of principles, and to promote values of Environment, Social and Governance in line with the international sustainable development trend, and to support the UN Sustainable Development Goals and fulfill the responsibilities of citizens of the world.

p. Consumer Protection Practices

The Bank value the right of its customer as a consumer of financial products and services. For this reason, the Bank aims to provide them with the highest level of satisfaction.

The Board and Senior Management are responsible for developing the Bank's consumer protection strategy and establishing an effective oversight over the Bank's consumer protection program.

The Board of Directors are responsible for approving and overseeing the implementation of the Bank's consumer protection policies as well as mechanism to ensure compliance with said policies, and for monitoring and overseeing the performance of Senior Management in managing the day-to-day consumer protection activities of the Bank. Likewise, Senior Management are responsible for the implementation of the consumer protection policies approved by the Board, overseeing the implementation of the Bank's consumer protection policies, as well as mechanism to ensure compliance with said policies.

The Bank's consumer protection risk management system form part of the corporate-wide risk management system which includes the following process.

a. Risk Identification

Each consumer assistance officer identifies the consumer protection risk inherent in its operations. These include both risks to the financial consumer and to the Bank. This procedure form part of the Bank's annual Risk and Control Self-Assessment (RCSA). There is also a separate RCSA for consumer protection.

b. Risk Measurement

The consumer protection risk identified is being measured in terms of its likelihood and impact based on the Bank's existing RCSA Guidelines.

c. Risk Monitoring and Control

The Bank records and monitors the disposition of complaints received from its customer for reporting to Senior Management and Board of Directors, which includes the necessary actions to resolve the case and to prevent its recurrence.

The Bank ensures to provide accessible, affordable, independent, fair, accountable, timely and efficient means of resolving customer complaints. The Bank has appointed consumer assistance officer for various units headed by the Head Consumer Assistance Officer. It has a Consumer Assistance Mechanism which is posted on the Bank's website and at its premises to guide customers on how they can file their respective complaints and how cases are resolved. The Bank classifies the customer complaints received as either simple or complex. In case of a simple complaint, immediate explanation or action will be rendered. A resolution must be achieved within a 7-day period. However, for complex complaint that needs assessment, verification, or investigation with third party intervention, the resolution thereof is targeted to be achieved within a 45-day period.

VII. RISK MANAGEMENT FRAMEWORK

a. Overall Risk Management Culture and Philosophy

The underlying philosophy of the Bank's risk management system is that the Bank exists to provide value for its stakeholders. The Bank faces uncertainty, and the challenge for management is to determine how much uncertainty to accept as it strives to grow stakeholder value. Uncertainty presents both risk and opportunity, with the potential to erode or enhance value. The Bank's overall risk management objective is to effectively deal with uncertainty and associated risk and opportunities, with the ultimate objective of enhancing the capacity to build value.

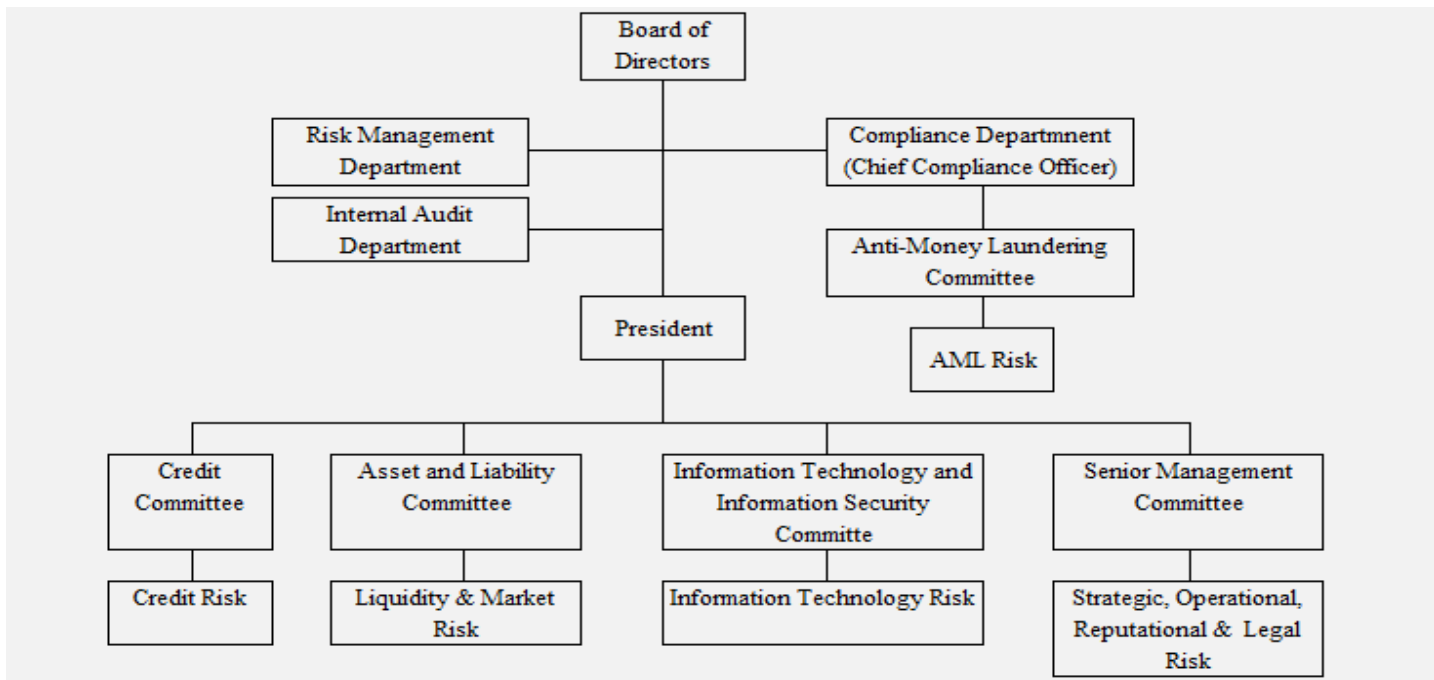
The Bank's risk management system helps management to achieve its performance and profitability targets and prevent loss of resources. It helps to ensure effective reporting and

compliance with laws and regulations, and helps avoid damage to the Bank's reputation and associated consequences. In essence, risk management system helps the Bank to get to achieve its goals while avoiding pitfalls and surprises along the way.

The Bank has established various risk management policies, limits, manual, and guidelines that lays down sound risk management practices and to guide the Bank's management and Board of Directors to understand, measure, monitor and control the risk assumed, adopt risk management practices whose sophistication and effectiveness are commensurate to the risk being monitored and controlled, and maintains capital commensurate with the risk exposure assumed.

b. Risk Governance Structure and Risk Management Process

The Bank's risk management structure is shown below:



The Board is responsible for setting and monitoring the risk appetite for the Bank when pursuing its strategic objectives.

The Board and Senior Management of the Bank are ultimately responsible for the oversight of the Bank's risk management process. Effective Board and Senior Management oversight of the Bank's risk activities is critical to a sound risk management process. The Board is responsible for understanding the nature and the level of risks taken by the Bank and directly in-charge of the implementation of the risk management process which includes, among others, the development of various risk strategies and principles, control guidelines policies and procedures, implementation of risk measurement tools, monitoring of key risk indicators, and the imposition and monitoring of risk limits. Likewise, the Senior Management is responsible for ensuring that risks are adequately managed both on a long-term and day-to-day basis.

The Compliance Department manages and monitors the implementation of the Bank's compliance risk management system designed to specifically identify and mitigate risks that may erode the franchise value of the Bank such as risks of legal or regulatory sanctions, material financial loss, or loss to reputation. Compliance risk management is also the responsibility and shared accountability of all personnel, officers, and the Board of Directors.

The Risk Management Department is responsible for overseeing the risk-taking activities across the Bank, as well as in evaluating whether these remain consistent with the Bank's risk-appetite and strategic direction. It ensures that the risk governance framework remain appropriate relative to the complexity of risk-taking activities of the Bank. It is also responsible for identifying, measuring, monitoring, and reporting risk on an enterprise-wide basis as part of the second line of defense.

Internal Audit Department provides independent objective assurance and consulting function established to examine, evaluate and improve the effectiveness of internal control, risk management and governance systems and processes of the Bank, which helps management and the Board of Directors in protecting the Bank and its reputation. It both assess and complement the Bank's operational management, risk management, compliance and other control function.

The Credit Committee is a management-level committee established to implement the Bank's credit risk management policies and systems. It is responsible for establishing an appropriate credit risk environment, ensuring that the Bank is operating under a sound credit granting process, and maintaining appropriate credit administration, measurement, monitoring process and control over credit risk.

The Asset and Liability Committee is a management-level committee created to ensure the proper implementation of the Bank's liquidity and market risk management practices. These includes ensuring that the Bank is able to maintain a level of liquidity sufficient to meet its financial obligations in a timely manner and fulfil its legitimate funding needs, and understands, measures, monitors and controls the Bank's liquidity and market risk exposure.

The Anti-Money Laundering Committee, a management-level committee that reports directly to the Board of Directors, is created to ensure that the Bank is protected against money launderers. It ensures effective implementation of the Bank's Money Laundering and Terrorist Financing Prevention Program approved by the Board, timely reporting of covered and suspicious transactions to the AMLC, and providing adequate oversight function on the Bank's AML compliance.

The Information Technology and Information Security Committee (ITCOM), together with the Board of Directors set the overall tone and strategic direction for the Bank's information technology and information security by providing leadership, effective information security governance and oversight. It leads in establishing an information security culture that regards security as an intrinsic part of the Bank's core business and operations. It oversees the Bank's

information technology projects and development of an information security strategic plan to clearly articulate security strategies and objectives aligned with business plans.

The Senior Management Committee is an avenue in which the Department Heads interact with each other whereby their plans, issues, matters, status or activities are discussed on a regular basis, in order that the day-to-day functions of the different departments are monitored and reported to the Board as part of the latter's governance over the operations of the Bank.

c. Risk Appetite, Strategies and Exposure

The Bank's risk appetite, strategies and exposures are summarized below:

Strategic Risk

The Bank recognizes the importance of embedding risk into strategy setting. Better understanding of risks and uncertainties provides a strong foundation in setting key assumptions for strategic planning and during the development of new products and services. The Board and Senior Management of the Bank are ultimately responsible for setting the Bank's strategies after evaluation of its threats and vulnerabilities, costs vs. potential benefits, its economic, political, social, and technological dimensions, complemented by an assessment of the Bank's core competencies, strengths, and business opportunities in order to provide sound basis for the Bank's strategic and business plans.

Operational Risk

Operational risk is the current and prospective risk to earnings or capital arising from fraud, error, and the inability to deliver products or services, maintain a competitive position, and manage information. Risk is inherent in efforts to gain strategic advantage, and in the failure to keep pace with changes in the financial services marketplace.

Operational risk is being managed for each product and service offered by the Bank. It is being observed during product development and delivery, operational processing, systems development, computing systems, complexity of products and services, and the internal control environment.

Bank's exposure to operational risk is controlled by having an adequate and effective internal control to manage risk and to increase the likelihood that established objectives and goals will be achieved. Management regularly monitors its compliance with control policies and procedures and exposure to operational risk through ongoing management activities, separate evaluations (i.e. independent examination by Internal Auditor and/or Compliance Officer) or both. The Bank has created a Risk Management Department who will monitor and report the Bank's operational risk exposure to Senior Management and the Board. The Bank also maintains an operational loss and customer complaints database in order to immediately address control lapses and weaknesses which resulted to losses or customer complaints.

An Annual Risk and Control Self Assessment (RCSA) is conducted by each department, in order to identify, assess and manage the Bank's risk exposure. The Internal Audit Department validates the RCSA conducted by each department. The result of the RCSA is being discussed to the Senior Management and Board of Directors as part of their oversight function. Each department head is in charge in disseminating the results of the assessment with their employees. The Bank is also conducting risk and control seminar for all employees.

As of 31 December 2020, the Bank's operational risk-weighted asset was P167.737M (computed using the Basic Indicator Approach).

Credit Risk

The Bank has maintained credit risk management system. Its credit risk strategy is aligned with the Bank's profitability, deposits and loan portfolio growth targets, target customer, credit risk tolerance, and overall business goals. The Bank also considers its existing liquidity profile while granting loans to customer.

The following were performed by the Bank in order to manage credit risk:

- The Bank offers loan products to qualified individuals or business entities based on sound and prudent bank practices and in accordance with its existing policies.
- Extending loan facilities to qualified individuals or business entities, by taking into consideration the cash flow, character, capacity, collateral and financial condition of each borrower.
- For loans that are secured by collaterals, the Bank ensures that it can annotate its mortgage and therefore, protect its legal interest thereto.
- The Bank ensures compliance with internal single borrower's limit of (PHP500 million or 24% of the Bank's net worth whichever is lower, including group exposure).
- The Bank ensures that loans are approved by the Credit Committee (CRECOM) or Board of Directors based on set limits.

The Bank has a credit risk management structure that clearly delineates lines of authority, and establishes the accountabilities and responsibilities of individuals involved in the different phases of the credit risk management process.

The Bank has a Credit Department, independent of the Marketing Department who is in charge of the credit underwriting procedures. This includes the analysis and verification of the applicant's background, integrity, cash flow/financial capacity, character and collateral offered for the loan. The evaluation and approval of the loan is being made by the Credit Committee (CRECOM), provided it is within the CRECOM's approving authority. The CRECOM also serves as the oversight function for the Bank's credit underwriting procedures, reviews the Bank's Credit Policies and Procedures, and informs the Board of Directors on accounts approved by CRECOM despite deviation from credit policies and procedures. The Board of Directors is the final approver of credit policy, credit limits, credit risk management policy and loan beyond the approving authority of the CRECOM.

The Risk Management Departments is in charge of preparing monthly credit risk management report in order to inform the Bank's Senior Management and Board of Directors on its present credit risk exposure and results of stress testing. This also serves as a tool in monitoring the effectiveness of the Bank's existing credit policies and procedures.

The Bank adopted its internal credit scoring model for individual and corporate borrowers. The following factors are considered in the internal credit rating for individual borrowers: credit history, capacity to pay, loan exposures, adverse findings, and demography such as employment status, employment industry, home ownership, marital status, age, and gender. The scoring model is subject for periodic validation by the internal auditor. Likewise, the following factors are considered in the internal credit rating for corporate borrowers: cash flow and profitability, financial leverage, guarantor, management/character, and collection history.

In order to reduce the Bank's non-performing loan (NPL) levels, past due loans are regularly monitored by the Bank's Collection and Legal Department. Collection activities are reported to the Credit Committee and Board of Directors on a monthly basis, including progress report for borrowers with substantial loan balance. The Bank has implemented a more stringent credit policies and procedures, with the objectives of improving the level of its current/good quality loan portfolio.

Internal NPL ratio limit has also been set for each type of loan and any breach has been monitored and reported to Senior Management and the Board.

The Bank also conducted a quarterly credit stress testing to determine the impact on the Bank's capital upon the occurrence of certain scenarios which was developed based on the Bank's present loan portfolio level and past experiences.

Independent credit review function is being done by the Compliance and Internal Audit Departments in order to assess the quality of individual credits and compliance with regulatory and internal policies and procedures.

As of 31 December 2020 the Bank's balance sheet credit risk exposure and credit risk weighted assets are shown as follows:

Nature of Item (Amounts in Million PHP)	Credit Risk Exposure (Net Carrying Amount)	Credit Risk Weighted Assets
a. Loans to individuals for housing purpose, fully secured by first mortgage on residential property that is or will be occupied by the borrower, which are not classified as non-performing – 50% risk weight	26.778	13.389
b. Foreign currency denominated claims on or portions of claims guaranteed by or collateralized by foreign currency denominated securities issued by the Philippine National Government & the BSP - 50% risk weight	46.906	23.453
c. All non-performing loans (except non-performing loans to individuals for housing purpose, fully secured by first mortgage on residential property that is or will be occupied by the borrower), all non-performing sales contract receivables, and all non-performing debt securities – 150%	9.060	13.590
d. Real and other properties acquired and Non-current assets held for sale, net of allowance for losses – 150%	0.494	0.741
e. Net Other Assets - 100% risk weight	1,478.331	1,478.331
Total	1,561.569	1,529.504

Market Risk

The Bank's exposure to market risk is relatively low since it does not engage in any trading activities and derivatives operations. Interest rate movements and the level of foreign exchange risk have minimal impact on the Bank's earnings and capital. It follows a prudent policy in managing its assets and liabilities in order to ensure that its exposure to fluctuations in interest rates and foreign exchange fluctuations is kept within reasonable limits.

The Bank has a Board-approved Market Risk Management Policy and market risk limits for the effective discharge of market risk management function. The Bank measures its market risk exposure through monthly monitoring of various limits and re-pricing gap analysis, and quarterly stress testing on changes in interest and foreign exchange rate which is being done and monitored by the Treasury and Risk Management Department. A monthly report on the Bank's market risk exposure and limit breaches, if any, are being discussed during the Asset and Liability Committee (ALCO) and Board of Directors meeting.

The Bank's Market Risk Limits include Exposure Limit (Greeks Limit), VaR Limit, and Loss Ratio Limits including individual and overall unrealized loss ratio of related product

including bonds. For Trading Book portfolios, Management Action Trigger (MAT) Limit is applied.

(a) VaR limit :

VaR is measured by one-day holding horizon using historical simulation method at 99% confidence level.

(b) Exposure Limit:

Exposure Limit for Market Risk could be Delta limit and set as Long and short position limits that each of them should be measured by aggregating long and short position on overall and net base separately. Delta is defined as the amount of change in market value of an asset due to specific amount change in market price, in case of interest rate delta, the change is 100 bps in interest rate and in case of equity or FX delta, the change is 1% of price.

Independent market risk review function is being done by the Internal Audit Department in order to assess the level of compliance with prescribed regulatory and internal policies and procedures.

Interest Rate Risk in the Banking Book (IRRBB)

IRRBB refers to the current or prospective risk to the bank's capital and earnings arising from adverse movements in interest rates that affect the bank's banking book positions, the future Net Interest Income (NII), or the Economic Value of Equity (EVE). With reference to the guidance of BCBS papers and the management practice across banks, the management framework and the governance structure are formulated and listed below.

The Board of Directors is responsible for reviewing IRRBB policy, framework and execution regularly. Asset and Liability Management Committee (ALCO) is authorized by the Board to formulate and execute the IRRBB management strategies, policies and practices.

Management Process of IRRBB:

- a. Risk Identification: IRRBB risk factors, including repricing risk, yield curve risk, basis risk and option risk are identified and captured through daily operations of all business units.
- b. Risk measurement: The methodology of the measurement includes but not limited to the impact analysis of economic value and earnings perspective under the stress scenario of interest rate shock. The methodology should be reviewed regularly for the reasonableness.
- c. Risk monitoring and control: The Bank should evaluate and adopt the risk tolerance, transfer, mitigation and avoidance. The interest rate shock scenarios, as well as the modelling and parametric assumptions used in IRRBB measurement are formulated based on BCBS standards and the rules of the regulator.
- d. Risk Reporting: Risk reporting should include the analysis on interest rate sensitivities, stress test results and the root cause of over-limit. Risk management department should monitor the impact of change in interest rate on earning and capital and report to the BOD and ALCO quarterly.

The above framework may be enhanced or revised once there is any new release of IRRBB related rule or guidance from the regulator.

Liquidity Risk

The Bank manages liquidity risk by holding sufficient liquid assets of appropriate quality to ensure that short-term statutory and liquidity funding requirements are met and by maintaining a balanced loan portfolio which is repriced on a regular basis. The Bank's level of liquidity is aligned on its present deposits and loans volume. The Bank has enough liquidity level and ensures that the required deposit reserve has been met.

There is a Board approved Liquidity Risk Management Manual for the effective discharge of liquidity risk management function. The Bank's Treasury and Risk Management Department measures its liquidity risk exposure through the preparation of monthly maturity matching report, quarterly projected volume and sources of liquidity needs, quarterly stress testing, and computation of various liquidity ratios. The Bank sets a liquid asset to deposit ratio limits of at least 30%.

Periodic reports on the Bank's liquidity risk exposure are being discussed during the monthly Asset and Liability Committee (ALCO) and Board of Directors meeting.

Independent review of the liquidity risk management function is being done by the Internal Audit Department in order to assess the level of compliance with prescribed regulatory and internal policies and procedures.

As of 31 December 2020, the Bank's liquid assets stand at P2,773M. This comprises mainly of cash and due from other banks – P733M, due from BSP – P1,119M, and investment securities – 921M. During the same period, the Bank's minimum liquidity ratio of 208.245% is significantly higher than the required 20%.

The Bank's has an existing liquidity contingency plan and regularly conducts stress testing exercise. On the Bank's liquidity stress testing as 31 December 2020 with an assumption of 50% decrease in its deposit liabilities, the Bank will be able to satisfy its liquidity needs at a minimal amount of projected cost of financing/amount of loss revenue amounting to P1.87M.

Legal Risk

The Management believes that, liabilities or losses, if any, arising from the Bank's currently identified legal risk, would not have a material effect on the financial position and results of operations of the Bank. The Bank's risk management system covers policies and procedures in handling legal risk which are strictly implemented. The Bank has a Legal Department who is in charge of the management and prevention of legal risk and has retainer services agreement with a law firm to provide legal services.

Compliance Risk

The Bank's exposures to compliance risk are properly addressed. The Bank adopted a compliance risk management system and its Board of Directors generally addresses key aspects of compliance risk. Appropriate actions have been undertaken to comply with banking laws, BSP rules and regulations, and other regulatory requirements. The Board of Directors appointed Chief Compliance Officer to oversee the implementation of compliance function. Likewise, the Bank's Compliance Program was formulated and it adequately and generally covers compliance issues and concerns.

The Chief Compliance Officer is responsible in cascading compliance matters to the concerned personnel. Each department also has their respective compliance coordinator to disseminate/circulate all relevant regulations in a timely and efficient manner. Reporting of compliance matters is being reported by the Chief Compliance Officer to Senior Management and Board of Directors on a monthly basis.

The Senior Management and Board of Directors are responsible in setting the tone at the top focusing on ethical climate and compliance culture among all personnel.

Reputational Risk

Reputational risk is the current and prospective impact on earnings or capital arising from negative public opinion. This affects the Bank's ability to establish new relationships or services or continue servicing existing relationships.

In the banking sector where business relationships are based on trust and confidence, the management of reputational risk is crucial. Given that reputational risk issues generally are an outcome of operational lapses and concerns, reputational risk management is largely centered on strengthening banking service delivery. It is the Bank objective to always provide reliable, professional, efficient and customer-oriented services. The Bank also has a Consumer Assistance Mechanism to address client concerns and customer complaints, and has a proactive solicitation of customer feedback. Significant issues are required to be immediately reported to Senior Management, Board of Directors, and parent company for timely and proper management of the issues.

d. AML Governance and Culture

The Bank has its Money Laundering and Terrorist Financing Prevention Program (MTPP) approved by the Board which needs to be observed by all concerned personnel. The Board and Senior Management exercise its oversight function in the effective implementation of the Bank's MTPP which is being managed by the Bank's Compliance Department. It also provides for appropriate monitoring, management information system, and effective implementation to ensure that the Bank is not being use as a medium to legitimize proceeds of unlawful activity or to facilitate or finance terrorism. AML internal controls and audit is also in place to ensure adequate and effective implementation of the Bank's MTPP. The Bank also conducted an annual AML training program for its employees as well as AML orientation program to all newly hired employees. The Bank recently acquired a new AML

system to enhance the implementation and monitoring of all AML-related concerns especially to analyze customer data and detect suspicious transactions.

Independent Auditors' Report and
Audited Financial Statements
As at December 31, 2020 and December 31, 2019 and for period
ended December 31, 2020 and December 31, 2019