

HSBC Savings Bank (Philippines), Inc. 2020 Annual Report



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HSBC
Savings Bank

HSBC Savings Bank at a glance

HSBC Savings Bank (Philippines) Inc. and HSBC Holdings plc

HSBC Savings Bank (Philippines), Inc. (“HBPH” or “the Bank”) is a locally incorporated thrift bank in the Philippines, and a wholly-owned subsidiary of The Hongkong and Shanghai Banking Corporation Limited (“HBAP”).

HSBC Holdings plc (the “Group” or “HSBC”) is the ultimate parent of HBPH. HSBC is one of the world’s largest banking and financial services organizations. HSBC serves more than 40 million customers through three Global Businesses: Wealth & Personal Banking, Commercial Banking and Global Banking and Markets through a network that covers 64 countries and territories in Europe, Asia, the Middle East and Africa, North America and Latin America.

Who We Are

In January 2001, the Philippine Branch of HBAP purchased PCI Savings Bank, Inc. and renamed it HSBC Savings Bank (Philippines), Inc. In line with its focus of serving the mass affluent market, HBPH has branches located in Ayala Alabang in Muntinlupa City, Greenhills Shopping Center in San Juan City and Rockwell Power Plant Mall in Makati City.

Despite its three-branch network, HBPH is ranked 12th among forty-eight thrift banks in the country in terms of Total Assets based on BSP’s Banking Statistics report on Thrift Banks in the Philippines for the year ended 2020. [Source: [https://www.bsp.gov.ph/Statistics/Financial Statements/Thrift/assets.aspx](https://www.bsp.gov.ph/Statistics/Financial%20Statements/Thrift/assets.aspx)]

Our Vision

To be the country’s savings bank of choice among mass-affluent Filipinos who seek wealth management solutions that would enable them to realize their family’s dreams and aspirations.

Our Purpose: Opening up a world of opportunity

Our purpose – *Opening up a world of opportunity* – explains why we exist. We’re here to use our unique expertise, capabilities, breadth and perspectives to open up new kinds of opportunities for our customers. We are bringing together the people, ideas and capital that nurture progress and growth, helping to create a better world – for our customers, our people, our investors, our communities and the planet we all share.

Our Business Model

As a thrift bank, our principal activities focus on building sensible and sustainable relationships with our HSBC Premier and HSBC Personal Banking customers. We do this by providing them a range of personal banking products and services including Philippine Peso, U.S. Dollar, and multi-currency savings, checking and term deposit accounts. We also offer consumer loans such as mortgage, personal and security-backed loans while maintaining the highest standards of managing financial crime risk.

To support our purpose, we empower our people through streamlining initiatives and developing their future skills while relying on HSBC’s investments in technology that places our customers at the center of everything we do.

Supplementing our three-branch network structure, we support clients through a variety of self-service channels including 13 Automated Teller and EasyPay Machines, online and mobile banking and our 24/7 Customer Contact Centre.

Our Financial Highlights

Profitability (in PHP 000)	For the year ended	
	2020	2019
Total Net Interest Income	363,477	463,062
Total Non-Interest Income	70,343	70,269
Total Non-interest Expenses	301,974	302,266
Pre-provision profit	131,846	231,065
Allowance for credit losses	30,203	6,119
Net Income Before Income Tax	101,643	224,946

Balance Sheet (in PHP 000)	2020	2019
Liquid Assets	13,444,182	13,675,530
Gross Loans	1,654,873	2,102,624
Total Assets	13,547,571	13,860,475

Other Information (in PHP 000)	2020	2019
Deposits	11,659,926	11,640,787
Total Equity	1,676,428	1,915,791

Selected Ratios	2020	2019
Return on average equity	2.49%	9.65%
Return on average assets	0.33%	1.24%
Capital Adequacy Ratio	49.45%	48.47%

Others (in PHP 000)	2020	2019
Cash dividends declared	283,000	57,900

Full Time Employees (FTE)	2020	2019
Officers	37	38
Rank & File	6	6
Total	43	44



President and CEO's Message to Shareholders

Revenue
PHP433.8m
 19% decrease YOY

Profit before tax
PHP101.6m
 55% decrease YOY

Expenses
PHP302.0m
 Flat to 2019

Loan Impairment Charges
PHP30.2m
 394% increase YOY

2020 Dividends Paid
PHP283m
 389% increase vs 2019

CAR
49.45%
 vs. 10% requirement

CET 1 ratio
48.82%
 vs. 2019's 47.80%

CER
70%
 vs. 2019's 57%

A Year Like No Other.

We entered the year 2020 with optimism in sustaining the growth momentum from the previous year. This, however, came to a halt with the realization that the COVID-19 pandemic had reached Philippine shores and drastic measures that needed to be put in place to safeguard the population despite its adverse impact to the economy. As a result, 2020 ended with arguably the country's worst economic performance since 1947. The country saw GDP shrink by 9.5% versus previous year – something last seen more than 20 years ago during the Asian Financial crisis.

While our strategic decision in 2019 to focus primarily on deepening and strengthening our relationship with our existing customers has helped us be better positioned to survive the impact of the pandemic, our financial performance was not spared.

HBPH saw 2020 end with PHP433.8m in revenue, a 19% drop vs. 2019 and a Net Profit Before Tax of PHP101.6 million, 55% lower than previous year's PHP224.9 million. This was primarily due to the decrease in interest rates after BSP's aggressive monetary easing in the second quarter as well as a decrease in loan balances, and a 394% increase in ECL provisions (up by PHP24.1 million) due to the impact of the portfolio's credit deterioration and distressed economic environment in the Bank's ECL calculation.

Total Loans and Receivables shrank by 22% year on year to PHP1.62 billion. One positive effect of the pandemic was our clients' continued infusion of fresh funds. Despite over PHP4 billion of insurance and investments outflows, our deposit balances remained flat to 2019 at PHP11.6 billion, indicating our client's view of the bank as a safe haven during times of crisis.

All liquidity and capital ratios remained above prescribed limits with Total Capital Adequacy Ratio (CAR) at 49.45%, 2pps better than previous year and significantly higher than regulatory minimum of 10%. Similarly, Common Equity Tier 1 (CET 1) Ratio ended 2% better than previous year at 48.82%. 2020 dividends paid totaled PHP283 million, a 389% increase from previous year.

Our People. Our Heroes.

Our 2020 results would not have been possible without the dedication and resilience of our team. All branches remained operational since the start of the second half of the year. They were also instrumental in adapting to new ways of working including remote processing of applications and requests as well as driving customers to adopt online banking with active users increasing by 142%. Thank you, my HBPH family!

Moving Forward

This 2021, we will continue to focus on relationship-led personal lending, and deepening our relationships with our HSBC Premier customers while improving activity management and re-working our end to end processes to better service our core customers.

Our Principles as a Bank

Throughout HBPH's 20-year history, we have maintained an evolving conservative approach to managing risk that is fundamental to delivering our strategic priorities. This helps HBPH protect its customers, lend responsibly and support the sustainable growth of the market we serve.

HBPH uses an enterprise-wide risk management framework at all levels of the organization and across all risk types and is underpinned by our risk culture. The framework fosters continuous monitoring, promotes risk awareness and encourages sound operational and strategic decision making. It also ensures a consistent approach to monitoring, managing and mitigating the risks we accept and incur in our activities. The following sections summarize key aspects of the framework, including governance and structure, our risk management tools and our risk culture, which together help align employee behavior with our risk appetite.

Our Corporate Culture

HBPH has long recognized that its culture must be one founded on integrity and the highest professional standards. It has clear, defined and enduring responsibilities to safeguard the interests of its depositors, customers, staff, shareholders and the wider communities in which it does business.

Our corporate culture is one that actively supports the purpose and strategy of the organization and reflects our values.

We seek to fulfil these responsibilities by demanding adherence to the highest professional and ethical standards. In consequence, fair treatment of customers and staff; full compliance with legal and regulatory obligations; adherence to best market practices and conduct; and recognition of our social and environmental responsibilities are embedded as core principles of our culture.

Our Values

Our values guide us in all our actions – from strategic decisions to day-to-day interactions with customers and each other.

We value difference <i>We actively take a broader perspective, and so are alert to more opportunities for our customers</i>	We succeed together <i>We make the connections that allow us to realize the full potential of those opportunities</i>	We take responsibility <i>We hold ourselves accountable and ensure we leverage opportunities with integrity</i>	We get it done <i>We commit to tenaciously follow through the actions that make those opportunities a reality</i>
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At HSBC, we believe that how we do business is as important as what we do. We want to achieve good results in a way that treats our customers fairly and helps to strengthen communities and ensure a properly functioning financial system. Our values are central to achieving these aims and define who we are as an organization and what makes us distinctive.

All employees are expected to act with courageous integrity. This means speaking up, escalating concerns, and doing right by our customers, communities and each other.

These values reflect the best aspects of our heritage, and remain key to our long-term success.

Our Behavioral Standards

Our behavioral standards supporting effective financial crime risk management and good conduct:

- **Good judgment** - Strong principles-based judgment and of decision making, which considers the broader picture in fighting financial crime and in maintaining good conduct is of utmost importance for the Bank. We ask the right questions when things do not add up.
- **Accountability** - We all understand the role we play in fighting financial crime and in maintaining good conduct. We make good decisions, stand behind them and acknowledge and learn from our mistakes. Accountability does not mean making decisions in isolation but proactively connecting with others to achieve the right outcome.
- **Speaking up** - We are comfortable in speaking up about concerns, even if they relate to our own mistakes, or highlighting things we feel are wrong. Views are sought and respected and when people do speak up appropriate action is taken.

These standards are also important in promoting prudent risk-taking and fair treatment of customers, which underpin our culture.

Treating Customers Fairly (TCF)

As a bank, we recognize that our success lies in putting the customer at the center of everything we do. By doing so, we ensure that we reinforce the importance of building and maintaining client relationships and the need to comply with financial consumer protection standards and practices across HBPH. In the end, HBPH's responsibility starts and ends with treating customers fairly.

HBPH's Board and Senior Management has oversight responsibilities in the development and effective implementation of HBPH's consumer protection program. The program aims to:

- demonstrate openness and accessibility in accepting customer feedback and complaints;
- have robust procedures to ensure the proper handling and, where appropriate, prompt rectification of customer complaints;
- demonstrate HSBC's commitment to service excellence, truth and fair dealing with its customers;
- ensure that customer complaints are dealt with effectively and within committed timelines, and;
- comply with the letter and spirit of regulatory requirements and voluntary codes of conduct, where applicable.

Notwithstanding the outsourcing of complaint resolution to the Global Servicing Center ("GSC"), the Head of Customer Relations and Experience ("CRX") is responsible for the implementation of the complaints strategy and policy of HBPH including processes administered by vendors who act on behalf of the Bank.

Complaints and feedback from customers (and the public at large) are captured in HBPH's Customer Feedback Management System or "CFMS" to ensure that each is logged and monitored for action and resolution in a timely manner.

Complaint handling turnaround time is based on whether the complaint is determined to be simple or complex; however, the process followed by the Customer Relations Team ("CRT") in handling both complaint types remains the same: (1) Identification and Recording; (2) Investigation; (3) Communication; (4) Resolution; and (5) Remedial Action.

Management information generated from CFMS is utilized to determine the root cause of the major complaint areas of HBPH with the aim of revising policies and procedures to improve the customer journey as well as lead to impactful optimization initiatives.

Connecting customers & communities to opportunities

As a Group, HSBC aims to be where the growth is, enabling businesses to thrive and economies to prosper, and ultimately helping people to fulfill their hopes and realize their ambitions.



Supporting sustainable growth

As a major international business, HSBC has an impact on people all over the world including customers, employees, suppliers, investors, and the wider communities it serves.

As an organization, we understand the importance of our relationships with all these different groups while taking into account their needs and aspirations. We also recognize our duty to manage the impact of our business on our environment. Without doing this, we cannot thrive over the long term.

Under the broad theme of supporting sustainable economic growth, HSBC's sustainability strategy focuses on 3 strategic areas, defined as the Group's sustainability 'Global Pillars':

- **Future Skills:** We provide our customers, communities, and employees with the skills and knowledge needed to thrive in the global economy

- **Climate Program:** We are committed to the transition to a global net zero economy, not just by playing our part, but by helping to lead it. We're doing this across the bank – in our operations and supply chain – and by supporting our customers in their own transitions, and
- **Sustainable Finance:** While we do not offer sustainable finance to corporations, it is our aim to increase sustainable finance awareness across our customers through regular webinars and offer referral services to allow them to avail of ESG-related funds when requested.

HBPH works with Charity Rewards partners like ChildHope Asia Philippines, Inc. and WWF to address these issues through the support of our customers who use the rewards points they earn to donate.

In 2020, we have worked with ICM to officially register and formalize one of our sponsored communities, Ibao Savings Group from Kalibo, Aklan with the Department of Labor and Employment (DOLE). Our efforts have allowed the Ibao Savings Group to expand quickly – from initially producing and selling household cleaning products to venturing into retailing rice within their community.

Our Risk Management Structure

We seek to maintain a conservative and consistent approach to risk, helping to ensure we protect customers' funds, lend responsibly and support economies. By carefully aligning our risk appetite to our strategy, we aim to deliver sustainable long-term shareholder returns.

Active risk management helps us to achieve our strategy, serve our customers and communities, and grow our business safely. We identify risks to our business and assess their materiality by considering their likelihood and potential customer, financial, reputational and regulatory impacts, as well as market conduct and competition outcomes. We manage these risks through a combination of limits and controls to ensure risks are within our appetite. We then aggregate and report risk data to highlight material risks and support good decision making. Where necessary, these risks are escalated to senior management and risk governance committees to facilitate management decisions, challenge and remediation.

All employees are responsible for the management of risk, with the ultimate accountability residing with the Board. We have a strong risk culture, which is embedded through clear and consistent communication and appropriate training for all employees. A comprehensive risk management framework is applied throughout HBPH, with governance and corresponding risk management tools. This framework is underpinned by our risk culture and reinforced by our values and required conduct outcomes.

Our risk function oversees the framework and is independent from the line of businesses, including our sales and trading functions, to provide challenge, appropriate oversight and balance in risk/reward decisions. Our risk appetite defines our desired forward-looking risk profile, informs the strategic and financial planning process, shapes our requisite controls and dictates risk behaviors.

This is articulated in our Board-approved risk appetite statement including:

- risks that we accept as part of doing business, such as credit risk and market risk;
- risks that we incur as part of doing business, such as operational risk, which are actively managed to remain below an acceptable tolerance; and
- risks for which we have zero tolerance, such as knowingly engaging in activities where foreseeable reputational risk and misconduct has not been considered

Internal stress tests are important elements in our risk management and capital management frameworks. They include potential adverse macroeconomic, geopolitical and operational risk events, and other potential events that are specific to HBPH. The selection of scenarios reflects our top and emerging risks identification process and our risk appetite. Stress testing analysis helps management understand the nature and extent of vulnerabilities to which HBPH is exposed. We also perform regulatory stress testing to help ensure the strength and resilience of HBPH.

Our top and emerging risks framework enables us to identify current and forward-looking risks so that we may take action to either prevent them from materializing or limit their effect. Top risks are those that may have a material impact on the financial results, reputation or business model of HBPH in the year ahead. Emerging

risks are those that have large unknown components and may form beyond a one-year horizon. If these risks occurred, they could have a material effect to HBPH.

Unprecedented global economic events meant that banks like HBPH played an expanded role in supporting society and customers in 2020. Many of our customers' business models and income were impacted by the global economic downturn caused by the COVID-19 outbreak, requiring them to take significant levels of support from both the government and the Bank. As the balance sheet and liquidity of HBPH remained strong, the Bank has been able to support our customers both during periods of government imposed restrictions and when these restrictions were eased.

To meet the additional challenges, we supplemented our existing approach to risk management with additional tools and practices. We increased our focus on the quality and timeliness of data used to inform management decisions, through measures such as early warning indicators, prudent active risk management of our risk appetite, and ensuring regular communication with our Board and key stakeholders.

Our Risk Appetite

Our risk appetite defines our desired forward-looking risk profile, and informs the strategic and financial planning process. It provides an objective baseline to guide strategic decision making, helping to ensure that planned business activities provide an appropriate balance of return for the risk assumed, while remaining within acceptable risk levels.

Our risk appetite also provides an anchor between our Lines of Business and Risk and Finance functions, helping to enable our senior management to allocate capital, funding and liquidity optimally to finance growth, while monitoring exposure and the cost impacts of managing non-financial risks.

In 2020, against the backdrop of the COVID-19 outbreak, we placed a specific emphasis on capital and liquidity to ensure HBPH could withstand extreme but plausible stress, and had adequate capacity to provide increasing levels of financial support to customers. Associated non-financial risks were reviewed, and where applicable, processes and controls were enhanced to help our people manage processes from a home environment. Significant work is also underway to further develop our risk appetite framework, with forward-looking statements informed by stress testing.

Our risk appetite contributes significantly to a strong and integrated risk management framework and risk culture, helping direct and support sustainable growth against the backdrop of a heightened risk environment.

Further, we utilize the Risk Appetite Statement ("RAS"), which consists of a qualitative statement and quantitative metrics covering financial and non-financial risks with defined Risk Appetite and Tolerance thresholds. It provides a baseline for business decisions based on balancing risk and return, and making the best use of our capital.

Risk appetite metrics are reviewed semi-annually and are fundamental to the development of business line strategies, strategic and business planning and senior management balanced scorecards.

Our Areas of Risk

Financial Risks

Treasury Risk

Treasury risk is the risk of having insufficient capital, liquidity or funding resources to meet financial obligations and satisfy regulatory requirements, including the risk of adverse impact on earnings or capital due to structural foreign exchange exposures and changes in market interest rates, and including the financial risks arising from historical and current provision of pensions and other post-employment benefits to staff and their dependents.

Credit Risk

Credit risk is the risk of financial loss if a customer or counterparty fails to meet an obligation under a contract. To manage credit risk, we ensure it is:

- **measured** as the amount which could be lost if a customer or counterparty fails to make repayments. In the case of financial investments, the measurement of exposure takes into account the current mark-to-market

value to HBPH of the contract and the expected potential change in that value over time caused by movements in market rates;

- **monitored** within limits approved by individuals within a framework of delegated authorities. These limits represent the peak exposure or loss to which HBPH could be subjected should the customer or counterparty fail to perform its contractual obligations; and
- **managed** through a robust risk control framework which outlines clear and consistent policies, principles and guidance for risk managers.

Market Risk

Market risk is the risk that market rates and prices – interest rates, exchange rates, etc. – will move adversely relative to positions taken causing losses to our portfolios. **The Standardized Approach is used in the Bank’s market risk-weighted assets.**

Exposure to market risk is separated into two portfolios:

- trading portfolios comprise positions arising from market making and warehousing of customer-derived positions.
- non-trading portfolios comprise positions that primarily arise from the interest rate management of our retail and commercial banking assets and liabilities, financial investments designated as available for sale.

Market risk is:

- **measured** in terms of value at risk, which is used to estimate potential losses on risk positions as a result of movements in market rates and prices over a specified time horizon and to a given level of confidence, augmented with stress testing to evaluate the potential impact on portfolio values of more extreme, though plausible, events or movements in a set of financial variables;
- **monitored** using measures including the sensitivity of net interest income and the sensitivity of structural foreign exchange which are applied to the market risk positions within each risk type; and
- **managed** using risk limits approved by the Group Management Board (“GMB”) for the Ultimate Parent Company and various global businesses. These units are allocated across business lines and to the Group’s legal entities.

Value at Risk

Value-at-Risk (VaR) is a technique that estimates the potential losses that could occur on risk positions as a result of movements in market rates and prices over a specified time horizon and to a given level of confidence. It is based on historical simulation and calculated on a daily basis. This model derives plausible future scenarios from past series of recorded market rates and prices, taking account of inter-relationships between different markets and rates such as interest rates and foreign exchange rates.

The model also incorporates the effect of option features on the underlying exposures.

The historical simulation models incorporate the following features:

- potential market movements are calculated with reference to historical market rates and prices with reference to foreign exchange rates and interest rates, and the associated volatilities from the past 500 days; and
- VaR is calculated to a 99 percent confidence level, for a one-day holding period, and based on exposures outstanding at close of business.

HBPH routinely validates the accuracy of its models through back testing where the loss VaR and profit VaR must be compared to both hypothetical profit and loss and actual profit and loss on a daily basis, and any exceptions identified. Back testing is an important measure of the effectiveness of VaR models. This analysis may reveal potential mis-calibration in the VaR model, for example where profit and loss movements had frequently exceeded the value predicted by the model.

Although a valuable guide to risk, VaR should always be viewed in the context of its limitations. For example:

- use of historical data as a proxy for estimating future events may not encompass all potential events, particularly those which are extreme in nature;
- use of a one-day holding period assumes that all positions can be liquidated or hedged in one day. This may not fully reflect the market risk arising at times of severe illiquidity, when a one-day holding period may be insufficient to liquidate or hedge all positions fully;

- use of a 99 percent confidence level, by definition, does not take into account losses that might occur beyond this level of confidence;
- VaR is calculated on the basis of exposures outstanding at the close of business and therefore does not necessarily reflect intra-day exposures; and
- VaR is unlikely to reflect loss potential on exposures that only arise under significant market movements.

The Group and HBPH recognize these limitations by augmenting its VaR limits with other position and sensitivity limit structures.

The Group and HBPH also apply a wide range of stress testing, both on individual portfolios and on the HBPH's consolidated positions.

The VaR for HBPH are as follows:

In PHP '000	Total	Trading	Foreign Exchange	Interest Rate	Credit
December 31, 2020	8,059	768	768	6,860	-
Average daily	14,055	528	528	13,911	-
Highest	21,874	1,055	1,055	21,874	-
Lowest	7,435	144	144	6,764	-

In PHP '000	Total	Trading	Foreign Exchange	Interest Rate	Credit
December 31, 2019	18,978	355	355	19,029	-
Average daily	20,095	355	355	20,095	-
Highest	30,091	1,066	1,066	29,939	-
Lowest	8,525	152	152	8,576	-

Stress Value at Risk

Stressed VaR is a 99th percentile 10-day VaR calibrated to a one-year period of stress observed in history. Stressed VaR is calculated from a 250-day stressed market conditions which would amount to a worse-case scenario. Stressed VaR ("SvaR") must be calculated at least weekly. The SvaR measure must be based on inputs calibrated to historical data from a continuous twelve-month period of significant financial stress relevant to the portfolio and is reported at 1 day holding period. The SvaR for HBPH are as follows:

In PHP '000	YE 2020	YE 2019
December 31, 2020	528	507
Average	576	457
Highest	1,199	1,269
Lowest	240	203

Management of Interest Rate Risk in the Banking Book

Interest rate risk in the banking book (IRRBB) is the structural interest rate risk that arises due to the interest rate re-pricing mismatch between assets and liabilities in the regulatory banking book. The banking book includes assets and liabilities accounted for at amortized cost and/or at Fair Value Through Other Comprehensive Income (FVOCI).

IRRBB Risk is:

- **monitored** in line with the Group's IRRBB risk framework. Primary oversight is delegated to the Asset and Liability Committee (ALCO)
- **measured** using internal metrics such as Sensitivity of Net Interest Income and Economic Value Equity (EVE) Sensitivity, and is an integral risk assessed in the conduct of the annual Enterprise Wide Stress Testing (EWST) exercise.

Sensitivity of net interest income

A principal part of the Group's and the Parent Company's management of IRRBB is to monitor the sensitivity of projected net interest income under varying interest rate scenarios (simulation modelling). The Group and the Parent Company aim, to mitigate the effect of prospective interest rate movements which could reduce future net interest income, whilst balancing the cost of such hedging activities on the current net revenue stream.

For simulation modelling, businesses use a combination of scenarios relevant to local businesses and local markets and standard scenarios which are required throughout the HSBC Group.

Interest rate shocks applied are as follows: (a) a parallel movement of plus or minus 100 basis points (bps) in all yield curves; and (b) a parallel movement of plus or minus 200 basis points (bps) in all yield curves. Assuming no management actions, a series of such rises and declines would increase (decrease) planned net interest income of the Parent Company and HSBC Savings Bank. This exercise is being done monthly.

The interest rate sensitivities are based on simplified scenarios. It represents the effect of the pro-forma movements in net interest income based on the projected yield curve scenarios and the Group's and the Parent Company's current interest rate risk profile. This effect, however, does not incorporate actions that would be taken by Markets Treasury (MKTY) or the business units to mitigate the impact of this interest rate risk. In reality, MKTY proactively seeks to change the interest rate risk profile to minimize losses and optimize net revenues. The projections also assume that interest rates of all maturities move by the same amount and, therefore, do not reflect the potential impact on net interest income of some rates changing while others remain unchanged. The projections take account of the anticipated net interest income impact of rate change differences between interbank interest rates and interest rates linked to other bases (such as BSP rates or product rates over which the entity has discretion in terms of the timing and extent of rate changes). The projections make other simplifying assumptions too, including static balance sheet. The impact to net income and equity is equivalent to the impact to net interest income.

Strategic Risk

The risks to business plans and strategic objectives resulting from poor execution, inability to adapt to changes in external environment, or failure to meet stakeholder expectations. This failure to meet stakeholder expectations is also known as reputational risk, and it is a result of any event, behavior, action or inaction, either by HBPH, its employees or those with whom it is associated, that might cause stakeholders to form a negative view of the Bank. We have an unwavering commitment to operating at high standards. Any lapse in standards of integrity, compliance, customer service or operating efficiency represents a potential reputational risk.

Non-Financial Risks

In order to manage non-financial (operational) risks, the Group's **Risk Management Framework ("RMF")**, includes the adoption of the Three Lines of Defense model, which sets out roles and responsibilities for managing operational risks on a daily basis.

Audit and Risk Committee meetings for HBPH are in place to review existing operational risk profiles and make decisions on recommendations to ensure an effective non-financial risk program that meets regulatory requirements and Group standards is in place.

HBPH performs Risk and Control Assessments (RCA) to identify their key non-financial risks. This process also provides a platform for establishing a forward-looking risk awareness and highlights key risks and related controls for oversight and continuous monitoring. The Bank's risk taxonomy and control library is a set of standardized risk types, controls and definitions. It provides the common language across the Bank and promotes consistency in how the Bank identifies, assesses, monitors and reports risk across the businesses and functions.

Operational risk loss data is recorded and reported to senior management, where details of these events above a materiality threshold are reported in the Group Operational Risk Management System, in addition to RCA. Escalation thresholds are also in place to require escalation to Group.

Financial Crime Risk

The risk of knowingly or unknowingly helping parties to commit or to further illegal activity through HBPH, including money laundering, fraud, bribery and corruption, tax evasion, sanctions breaches, and terrorist and proliferation financing.

Financial Reporting and Tax Risk

The risk of reporting financial information incorrectly or untimely, or failure in managing tax exposures.

Resilience Risk

The inability of HSBC to provide critical services to our customers, affiliates, and counterparties, as a result of sustained and significant operational disruption. Our resilience strategy is focused on the establishment of robust business recovery plans including detailed response methods, alternative delivery channels and recovery options.

People Risk

The risk of adverse impact due to not having the right people with the right skills doing the right thing, including risks associated with employment practices and relations.

Regulatory Compliance Risk

The risks associated with breaching our duty to clients and other counterparties, inappropriate market conduct and breaching related financial services regulatory standards.

Legal Risk

The risk of financial loss, legal or regulatory action or reputational damage resulting from contractual risk, dispute adjudication risk, legislative risk, non-contractual obligations risk and non-contractual rights risk.

Model Risk

The potential for adverse consequences from business decisions informed by models, which can be exacerbated by errors in methodology, design or the way they are used.

The scope and nature of risk reporting and/or measurement systems

Risk reporting is based on the following key principles:

- Data is recorded timely and accurately in the appropriate system of record
- Data is aggregated into meaningful risk information and consistently reported through governance committees
- Risk information is used by the business to make better decisions

Risk reporting procedures include the identification of relevant data quality issues, limitations and issues identified through appropriate validation checks and resolved.

HBPH meets local regulatory risk reporting requirements and makes sufficient public disclosures of how it manages risk. All risk reporting disclosed to supervisory and regulatory authorities are subject to quality assurance.

There are numerous internal risk reports prepared for specific risk types, such as credit risk, market risk and non-financial risk first line reports. Credit and market risk reporting involve exposure, loss and limit utilization reporting while non-financial risk reporting involve risk and control assessments. For non-financial risks, the system of record is HSBC Helios, where Risk and Control Assessments (including identification of issues and actions) are documented.

Policies for mitigating risk, and processes for monitoring the continuing effectiveness of mitigants

HBPH is guided by policies set at the HSBC Global level, which establishes the requirements to ensure the effective and consistent management of a particular risk. Each risk type within the Bank's risk taxonomy must have a policy, and for each risk type it explains:

- The extent and kind of risk we are willing to take when carrying out our business and pursuing our objectives
- The minimum control requirements for activities that expose HBPH to that type of risk

Particularly for non-financial risks, the Risk Prioritization Matrix is a tool that enable risks to be assessed using a standardized methodology, through a combination of likelihood of a risk occurring in the next twelve months, with the impact of the risk were it to occur (financial, customer detriment, regulatory censure and reputational impacts). A risk's control environment is also assessed in terms of the overall control effectiveness and whether it delivers the intended risk mitigation.

Control monitoring plans are in place to evaluate control effectiveness and these include a variety of first line activities such as:

- design and operating quality checks
- authorizations and approvals
- governance and escalations
- management information and analytics
- supervision and management

Control monitoring can act as an early warning sign and highlight potential weaknesses in our control environment. Continuous monitoring is the primary way in which control owners evaluate the ongoing effectiveness of controls. Control assurance is a point in time exercise to confirm control effectiveness ratings and ensure continuous control monitoring is effective. Control Assurance functions in particular have been designated to specific populations of controls recorded in Helios in order to plan, coordinate and execute reviews such that all material controls are covered by one Assurance function agreed by the business. A variety of testing techniques are used to enable the Assurance function to form an independent opinion on the effectiveness of the controls and monitoring plans.

Lastly, Internal Audit coordinates the planning of audit reviews with the Assurance functions, aside from performing independent audits.

Our Anti-Money Laundering Governance & Culture

HBPH follows HSBC's established Global Anti-Money Laundering ("AML") Policy and supporting Program in order to meet applicable requirements, and mitigate potential compliance, regulatory, and reputational risks associated with violations of Anti-Money Laundering, Counter Terrorist Financing ("CTF"), and Proliferation Financing regulations.

Our AML Policies are monitored and updated on an ongoing basis (annually at the minimum), to ensure that it incorporates the best practices identified through industry and regulatory guidance. While Group Financial Crime Compliance is responsible for updating Global policies, the updates are cascaded down to business lines and country teams including HBPH for implementation into the local policies and Line of Business procedures. Local regulatory changes are captured at a regional and country level and require approval from Regional and Global functions via the Country Addenda Process. HBPH has mandated regular AML and Sanctions trainings of its employees. At a minimum an annual training (classroom training and/or e-learning) is provided to all relevant employees.

HBPH undertakes Enterprise Wide Risk Assessment (EWRA) across all business lines to identify and assess the Bank's exposure to AML, Sanctions and Anti-Bribery & Corruption ("AB&C") risks. Executed on an annual basis, covering the full calendar year prior to the year in which it is performed, the EWRA demonstrates a point-in-time view of financial crime risk exposure. This is achieved by the production of inherent risk ratings, derived using a covered methodology. This methodology is used to help Assessment Units (AUs), typically Lines of Business within each country, identify key risk drivers.

HBPH also follows HSBC's Financial Crime Risk and Control Taxonomy, which is a structured classification and definition of financial crime risk events and the controls required to mitigate these risks.

Risk events and associated control requirements are assessed by the Bank against the relevant policies, guidance, and procedures with the respective financial crime stewardship areas providing oversight and guidance (for example, Anti-Money Laundering, Sanctions, Anti-Bribery and Corruption, Internal Fraud, External Fraud, and Tax Transparency).

The Financial Crime Risk and Control Taxonomy has been embedded into HSBC Helios, as part of a global Control Library, to enable consistency in risk and control assessments (RCAs), event management and issues and actions management.

To support mitigation of AML and CTF Risks, the Bank uses an enterprise risk management framework which is underpinned by its risk culture and reinforced by its core values and the Global Standards program components of which include:

- (1) An activity-based three lines of defense model – This delineates management accountabilities and responsibilities for risk management and the control environment.

The First Line of Defense owns the risks and is responsible for identifying, recording, reporting and managing them and ensuring that the right controls and assessments are in place to mitigate them.

The Second Line of Defense sets the policy and guidelines for managing specific risk areas, provides advice and guidance in relation to the risk, and challenges the first line of defense on effective risk management.

The Third Line of Defense is the internal audit function, which provides independent and objective assurance of the adequacy of the design and operational effectiveness of HSBC's risk management framework and control governance process. Additionally, within the first line is the Business Risk and Control Manager (BRCM) who is responsible for testing the AML/CTF controls undertaken by the business. The second line of defense would be the FCC function responsible for assisting business in carrying out the first line responsibilities and to act as the governance function. The third line of defense is the internal audit, primarily responsible in testing whether the first and second line are performing in accordance with the requirements to mitigate the risks.

- (2) Customer due diligence (CDD) and Know Your Customer (KYC) policies and procedures are in place and the required secondary checking being performed.
- (3) Screening of Transactions and Customers – This includes screening during staff recruitment, client onboarding and reverse client screening; and screening of transactions and payments against HBPH's Global mandatory sanctions screening and internal lists.
- (4) Transaction Monitoring Systems – HBPH utilizes automated transaction monitoring systems to identify potential account activity. Likewise, a manual process is also in place for HBPH's employees to report unusual activities or events observed in the course of their daily work via Unusual Activity Reports (UARs).
- (5) Reporting of Covered and Suspicious Transaction Reports – HBPH has a facility in place enabling it to submit covered and suspicious transactions.
- (6) Customer Selection and Exit Management (CSEM) Policy and Procedures are in place to ensure that all customer relationships and transactions meet HBPH's risk appetite. Where warranted, CSEM process would be triggered in cases where the business or FCC would recommend exiting a relationship due to financial crime risk or risk mitigation.
- (7) Cooperation with authorities – HBPH's policy and management supports cooperation with authorities to the extent permitted by the applicable laws.
- (8) Records Maintenance – HBPH has a retention program / policy to adhere to local, Hong Kong Monetary Authority (HKMA) and HSBC's standards of retention of relevant documents.
- (9) Training – All newly-hired staff are required to take the prescribed AML and sanctions training program within a prescribed deadline and annually as part of the refresher course.
- (10) Consequence Management – A process is in place for investigating personal conduct breaches or negligently breaching bank's policies, procedures, standards or values. A Disciplinary and Performance and Reward Sanctions matrix is utilized for each level of misconduct.
- (11) Reporting and Escalation – A procedure on key risk identification and escalation is in place to report to FCC any AML/CTF issues. Material items are reported to the FCRMC/RMM. Additionally, management information reports are submitted to the said Committee.

Our Corporate Governance

We at HSBC Savings Bank are committed to high standards of corporate governance. We have a comprehensive range of policies and systems in place to ensure that HBPH is well-managed, with effective oversight and control.

As a member of HSBC, HBPH is required to operate at the highest possible standard, regardless of whether this standard is applied as a globally consistent approach adopted by HSBC or as a result of local regulatory expectations. Acknowledging that the Global Company Secretary Function maintains a fully developed Functional Instruction Manual, which sets out a globally consistent approach to the application of corporate governance policy, process, procedure and practice, this applies only insofar if there is no conflict with any local legislative or regulatory requirements.

The Board of Directors

The Board is responsible to promote HBPH’s long-term success, deliver sustainable value to shareholders and other stakeholders in a manner consistent with its corporate objectives and promote a culture of openness and debate.

Led by the non-executive Chairman, the HBPH Board sets HBPH’s strategy and risk appetite. It also approves capital and operating plans for achieving strategic objectives recommended by management. The Board delegates specified non-executive matters to its committees. Additionally, an Executive Committee is authorized to act in behalf of the Board to facilitate ad hoc and other matters that need Board approval.

Our Governance Structure

Senior Management is responsible for the day to day operations of HBPH in compliance with Board-approved policies and procedures and all applicable regulations. To ensure efficiency, we have created management committees to look after key aspects of the business.



The Bank’s Board-Level Committees

To aid the Board in its various tasks to ensure efficiency and provide greater oversight, the following Board-level committees were created.

The Audit & Risk Committee (ARC)

In 2019, the Risk Management Committee and Audit Committee were consolidated into what we now refer to as the Audit & Risk Committee (ARC). This transformation was a result of the Bank’s governance streamlining initiatives to align its structure with the requirements for the Bank (as classified by the BSP as a simple bank) and the relative size and scale of its retail banking business.

The ARC consolidates oversight on all risk and audit matters of running the Bank. The committee established to provide recommendations and advice to the Chairman on the following:

Enterprise-wide management of all risks

This includes key policies and frameworks for the management of risk, within HBPH as set out in HSBC's Enterprise Risk Management ("ERM") Framework including the Bank's risk culture, risk appetite, risk profile, stress testing and integration of risk management into HBPH's strategic objectives. The Committee is also charged with the following responsibilities: (1) to review HBPH enterprise risk reports (including risk map and top and emerging risk reports); (2) processes for managing Regulatory Compliance Risk arising from the activity of HBPH; (3) to review sub-committee reports and matters for escalation; and (4) to promote and cascade a supportive culture in relation to risk management and controls and to ensure our risk management practices support our conduct outcomes.

Financial reporting and internal financial controls

This includes reviewing: (a) the integrity of the financial statements, Pillar 3 disclosures (where relevant), formal announcements and disclosures relating to financial performance; (b) the effectiveness of Internal Audit and the external audit process; and (c) the effectiveness of internal financial control systems.

The Committee shall be composed of at least three (3) members of the Board of Directors, majority of whom shall be independent directors, including the chairperson. The Chairman of the ARC shall be appointed by the Board and shall not be the chairperson of the Board of Directors, or any other board-level committee. It shall have also access to independent experts to assist it in discharging its responsibilities.

Given HBPH's size and scale of operations, all other functions such as IT Oversight, Nominations and Corporate Governance have been incorporated into the responsibilities of the Board. HBPH has also created non-Board Level internal committees to oversee its day to day operations.

The Bank's Other Committees

Executive Committee (EXCO)

The EXCO's aim is to assist the Board in fulfilling the day to day operation of the business by acting upon such matters as the Board may entrust to it for action including the authority to create such committees or delegate any power that it has or might have as may be deemed necessary for the best interest of HBPH, subject to the limitations as provided under internal and regulatory governance requirements.

Asset & Liability Committee (ALCO)

ALCO's purpose is to ensure that Asset, Liability and Capital Management (ALCM) issues are acknowledged, monitored and controlled by management. It looks after capital and liquidity adequacy, transfer pricing policies, interest rate risk and dividend payouts among others. ALCO focuses on both backward and forward looking view of the business including capital plans.

Staff Loans Credit Committee

The committee serves as the main venue for approvals of staff loan applications under the Financial Assistance Program of HBPH, as approved by the BSP. The Committee also serves as a venue for its members to raise concerns and make recommendations as to the efficiency of the staff loan approval process, or the effectiveness of the existing policies.

Other Risk Stewards

Internal Audit & Compliance

HBPH's internal audit function is handled by HSBC's Regional Internal Audit. Its role is to help the Board and Senior Management protect the assets, reputation and sustainability of HBPH by providing independent and objective assurance as to whether the design and operational effectiveness of HSBC's framework of risk management, control and governance processes, as designed and represented by management, is adequate.

The Internal Audit is part of HBPH's Third Line of Defense and sits as a regular attendee in the quarterly Audit & Risk Committee meeting where they share their audit plan and most recent audit findings.

Regulatory Compliance

Regulatory Compliance, on the other hand, is part of HBPH's Second Line of Defense is a key partner of management in managing risk and oversight. The team directly reports to HBPH's Compliance Officer and is a regular guest of Board meetings as well as the Audit & Risk Committee meetings.

Our Governance Structure and Processes

Under the leadership of the Board Chairman, the Directors are responsible for the orderly succession of its own constituent members. In this regard, the Board shall:

- i. consider the size and composition of the Board and recommend any necessary changes;
- ii. recommend individuals for nomination as potential new non-executive directors; and
- iii. recommend candidates to board committees.

Appointment of Directors

The Board's collective membership should comprise of persons with an appropriate mix of skills, experience and personal attributes that allow them both individually and collectively to:

- i. discharge their responsibilities and duties under the law effectively and efficiently;
- ii. understand the business of HBPH and the environment in which it operates so as to allow them to set management objectives, goals and strategic direction; and
- iii. assess the performance of management in meeting those objectives and goals.

Not every non-executive director will necessarily fulfil all criteria, but the following core attributes are important to consider during the selection process. Directors should:

- have relevant and extensive business experience
- fit culturally with the existing Board and be empathic to HBPH's culture
- maintain a high level of personal integrity
- have the ability to work in a collegial manner
- bring an independent state of mind to Board decisions
- be free of material conflicts
- be available to meet the time commitment required

In addition, the desirability of having diversity of skills and experience is also considered. That said, the Board believes first and foremost that appointments should be made based on merit and that candidates should be considered against objective criteria.

Recommendations for new board appointments will be raised to the full Board for consideration and approval. All Board appointments are subject to the endorsement by the Regional CEO, The Hongkong and Shanghai Banking Corporation Limited (HBPH's regional holding company) and local regulatory approval.

The Board's Overall Responsibilities

The Board aims to promote HBPH's long-term success, deliver sustainable value to shareholders and promote a culture of openness and debate. Led by the non-executive Chairman, it sets HBPH's strategy and risk appetite, which is consistent with HSBC standards. It also approves capital and operating plans for achieving strategic objectives on the recommendation of management.

The role of our independent non-executive directors is to challenge and scrutinize the performance of management including executive directors and to help develop proposals on strategy. They also review the performance of management in meeting agreed goals and objectives and monitor HSBC's risk profile.

Overall, the Board's responsibilities include:

1. the review and approval of HBPH's business strategies and significant policies, and oversee their implementation, having regard to any of HSBC's strategies that may be in place from time to time.
2. oversight of the risk management framework (including a view of the risk culture) that is consistent with HBPH's strategic objectives and business plan while ensuring an effective system of risk management and internal control is established and maintained.
3. ensuring that there is an effective process in place to ensure that senior management of HBPH collectively have the full range of skills needed for the effective and prudent operation of HBPH, and for assessing their performance.

4. ensuring that procedures are in place for assessing the performance of the collective Board and individual directors.
5. ratifying the appointment or re-appointment of HBPH's President and Chief Executive Officer, or the equivalent position.
6. oversight of subsidiary entities and other entities of HSBC for which HBPH has management responsibility, as well as any material dealings with HSBC entities.
7. ensuring that the external auditor is independent, and has no conflicts of interest.

Managing Related Party Transactions

The Board is responsible for reviewing HBPH's transactions with its related parties to ensure these have been conducted in a sound and prudent manner, with integrity and in compliance with applicable laws and regulations. To this end, the Board has set out procedures for the effective oversight of related party transactions.

It is the policy of HBPH that all Lines of Business and Functions have in place procedures and controls such that they take all appropriate steps to identify, and prevent or manage Conflicts of Interest (defined as a situation or arrangement where HBPH and/or any of its workers is subject to multiple influences, the competition of which might adversely affect decision-making or outcomes in the course of conducting business). In support of this Policy and to comply with local regulatory requirements on related party transactions, HBPH issued its Guidelines on Related Party Transactions. All employees are expected to assist in the identification of related party transactions, and in the prevention or management thereof, and to act with integrity and exercise good judgment with the requisite degree of independence and objectivity. They should raise any related party transactions or conflicts of interest in a prompt and appropriate manner, using available escalation channels. Loans entered into with a director, stockholder, officer, related interests or related parties, as well as exceptional transactions (other than loans) as defined in the guidelines, need to be reviewed and approved by the Board of Directors to ensure that these transactions are conducted on an arms' length basis and that the terms and conditions thereof remain fair and equitable to HBPH.

HBPH had no related party transactions in 2020, which exceeded the Bank's set materiality threshold.

The Chairman, on the other hand, shall be responsible for ensuring that the Board is effective in its oversight of setting HBPH's direction and strategy and for its implementation by management.

Our Approach to the Board's Onboarding & Ongoing Education

All members of the Board of Directors are furnished a copy of their duties and responsibilities and provided with a comprehensive training program including a Corporate Governance Orientation for all new members of the Board. HSBC also provides in-house training (similar to the training provided to all bank employees) to the Board covering topics on Anti-Money Laundering, Sanctions, Data Privacy and Cyber Security, Embedding Good Conduct and Bribery and Corruption.

Our Board of Directors for 2020

Share Holder	Type of Directorship	Age	Nationality	Tenure as Director ³	Shares Held	Voting %	Effective Date
Patrick Henry A Carlos	Executive	50	Filipino	4.8 years	1		24-Jun-19
Horace Kwan Hor Chau ¹	Non-Executive	59	Australian	6.5 years	1		24-Jun-19
Colin A Drummond	Non- Executive	49	British	4.4 years	1		24-Jun-19
Graham David FitzGerald ²	Non- Executive	47	British	2.7 years	1		24-Jun-19
Peter G Faulhaber	Non-Executive	39	American	2.0 years	1		24-Jun-19
Rolando C Santos	Independent	56	Filipino	2.0 years	1		24-Jun-19
Ma Anna Annette A Estacion	Independent	49	Filipino	1.8 years	1		27-Sep-19
The Hongkong and Shanghai Banking Corporation Limited					149,199,993	99.99	05-Apr-01

¹ Vice Chairman of the Board

² Chairman of the Board. Also the Nominee of The Hongkong and Shanghai Banking Corporation Limited in the Board

³ As at 30 June 2021 (from date first appointed to the Board)

Board and Committee Membership & Meeting Attendance

Name of Director	Board of Directors		Audit & Risk Committee	
	Attended	%	Attended	%
Graham David FitzGerald <i>Chairman, Non-Executive Director</i>	10 of 10	100%		
Horace Kwan Hor Chau <i>Vice Chair, Non-Executive Director</i>	10 of 10	100%		
Patrick Henry A Carlos <i>Executive Director</i>	10 of 10	100%		
Colin A Drummond <i>Non-Executive Director</i>	10 of 10	100%	4 of 4	100%
Peter G Faulhaber <i>Non-Executive Director</i>	10 of 10	100%		
Rolando C Santos <i>Independent Director</i>	10 of 10	100%	4 of 4	100%
Ma Anna Annette A Estacion <i>Independent Director</i>	10 of 10	100%	4 of 4	100%
Total Meetings Held in 2020	10		4	

Our Dividend Policy

In general, HSBC Savings Bank aims to pay out as dividends at least 60% to 70% of its prior year's net income, subject to local regulatory requirements. In 2020, a total of PHP283,000,000 in dividends was paid out.

Our Inclusive Hiring Principles

At HSBC, diversity & inclusion is an important pillar of our People Strategy at all levels of the organization including the recruitment of staff, officers and senior management.

In an effort to ensure that we attract and retain high-performing diverse talent, the Bank has adopted the Group's Inclusive Hiring Principles. These principles are used in combination with recruitment best practices to cover the end-to-end activity involved in securing the right talent for the Bank's needs.

Diversity and inclusion (D&I) plays a key part in every step of the recruitment and onboarding process. This begins from the point a need is identified, right through the recruitment process (internal and external), to a colleague starting and becoming productive in their new role in the Bank.

Our hiring principles cover:

- **Required Training** – Hiring managers must complete e-learning courses on HSBC University prior to commencing recruitment
- **All roles should be advertised**, as a general rule. Permitted exceptions will be roles where formal succession plans are in place or highly sensitive new roles. Recruitment adverts are thoroughly reviewed to ensure the **use of neutral and inclusive language** and reflect **our openness around flexible working**.
- **Interview panels** should be **balanced and diverse**
- **Be accountable for driving the correct values** throughout the hiring process. Our values influence our behaviors. Our conduct serves as a commitment to teammates and new or potential hires about the behaviors we expect at HSBC
- **Finally, challenge** where you do not see the principles being adhered to

Our Performance & Assessment Approach

At HBPB, we believe that good performance conversations, are about quality one-to-one conversations and a lot of specific feedback on skills and strengths, not just outputs and challenges.

As a bank, we have adopted **Everyday Performance and Development** to assess and provide feedback to our personnel. Our Everyday Performance and Development approach is about having frequent and meaningful conversations throughout the year to enhance performance and support development. Frequent conversations allow employees to get 'just in time' feedback to address any performance and development concerns, reinforce strengths and confirm what needs to be achieved. Where appropriate, these conversations are recorded in

HBPH's My Performance system including the use of a Development Plan template to evidence achievements or areas for improvement or development throughout the year.

Board, Committee and Individual Director Performance

Directors are expected to perform their duties diligently, with integrity and in a manner which continues to create sustainable value for the shareholder, and in compliance with the duties and obligations imposed upon them by HBPH's By-Laws and the general law. The approach used to review the performance of the Board as a whole and of individual directors is set out below.

On an annual basis, the Corporate Secretary will circulate an annual effectiveness survey, which addresses various performance criteria, including but not limited to:

- The effectiveness of the collective Board/Committee and its oversight and contribution to HBPH.
- Its relationship with management.
- The quality of information provided to and by the Board.
- The effectiveness of its engagement with and involvement in the formulation of HBPH's strategy and policies.

Following collation of individual responses to the questionnaire, the Chairman will lead a Board discussion of these findings and any proposed remedial actions and, as appropriate, will discuss the findings with individual directors.

In addition, the Chairman may conduct annual one-on-one meetings with individual directors to discuss their individual performance and contribution to identify any ways of making individual directors more effective, should the need arise.

Our Remuneration Policy

Employee reward is designed to support rather than be the overriding focus of employment at HSBC.

At HSBC, our reward strategy helps to attract, retain and motivate the very best people, regardless of gender, ethnicity, age, disability or any other factor unrelated to performance or experience within the Group. This strategy recognizes people who are committed to the sustainable long-term performance of HSBC in the interests of our shareholders and other stakeholders.

HSBC's Reward's strategy includes:

- A competitive total reward package that includes a mix of fixed pay, variable pay and employee benefits
- An appropriate balance between fixed pay, variable pay and employee benefits
- Fixed pay and variable pay will vary according to an employee's seniority, role, individual performance and the market
- Fixed pay levels that are market competitive and allow our employees to meet their basic day-to-day living expenses
- Variable pay that is awarded on a discretionary basis and dependent upon Group, business and individual performance
- Employee benefits that are valued by a diverse workforce, appropriate at the local market level and which support HSBC's commitment to employee well-being.
- Promoting employee share ownership through mandatory variable pay deferral or voluntary enrolment in an all employee share plan
- Reward packages linked to performance and behavior with no bias towards an individual's ethnicity, gender, age, or any other characteristic

The strategy is based on the following principles:

- An alignment to performance at all levels (individual, business and Group) taking into account both 'what' has been achieved and 'how' it has been achieved. The 'how' helps ensure that performance is sustainable in the longer term against HSBC's values and risk / compliance standards
- Being informed, but not driven by, market position and practice. Market benchmarks, are sourced through independent specialists and provide an indication of the range of pay levels and employee benefits provided by our competitors

- Targeting pay for employees across the full market range depending upon their individual performance and that of the Group. An individual's position in this market range will also vary depending upon their performance in any given year
- Compliance with relevant regulation and ensuring this applies at a high standard across all of our countries and territories

In-line with this framework, the Bank's independent directors are remunerated on an annualized basis (rather than the local industry practice of paying on a per diem/per meeting basis) for the dispensation of their duties and responsibilities including their attendance to Board and Committee meetings. Further, HBPH periodically reviews the remuneration of the independent directors, and if appropriate, proposes changes for endorsement by the Group's Corporate Governance and Secretariat.

Our Retirement Policy

HBPH is covered by a funded defined (non-contributory) benefit plan and a defined contribution plan:

- **HSBC Multi-Employer Defined Benefit Retirement Plan ("DB Plan")** – For employees who were hired prior to July 1, 2007, and have not voluntarily enrolled into the HSBC Multi-Employer Defined Contribution Retirement Plan
- **HSBC Multi-Employer Defined Contribution Retirement Plan ("DC Plan")** – For employees who were hired from July 1, 2007 and employees who were hired prior to July 1, 2007, and have voluntarily enrolled into the DC Plan

The applicable Retirement Plan determines what benefits the employee and/or beneficiaries may receive, if any, in the following situations:

- Normal Retirement, upon reaching age sixty (60) or upon completion of thirty-five (35) years of continuous service, whichever happens first
- Early Retirement, which is by application and subject to approval of HBPH after reaching age fifty (50) and rendering at least ten (10) years of continuous service
- Late Retirement which is the defined end of the period where an employee remains in active service after his normal retirement date only by mutual agreement with HBPH specified in writing
- Voluntary Separation, which is when an employee voluntarily resigns from HBPH after at least 5 years of continuous service
- Involuntary Separation, which is when an employee, prior to eligibility from retirement, is separated from service from HBPH not due to his own fault, misconduct, material neglect
- Death of the employee, where the benefits will be given to his designated beneficiaries
- Total and Permanent Disability, where an employee is separated from service due to Total and Permanent Disability, as certified by a licensed physician appointed by the Board of Trustees of the Retirement Plan
- Separation for Cause, pursuant to the applicable provisions of the Philippine Labor Code

Our Policy on Succession Planning

We use "Everyday Succession Management (ESM)". This is the practice of identifying critical positions within the bank, identifying the capabilities and experience required to be successful in those positions and then identifying and developing potential successors.

Critical positions are those that:

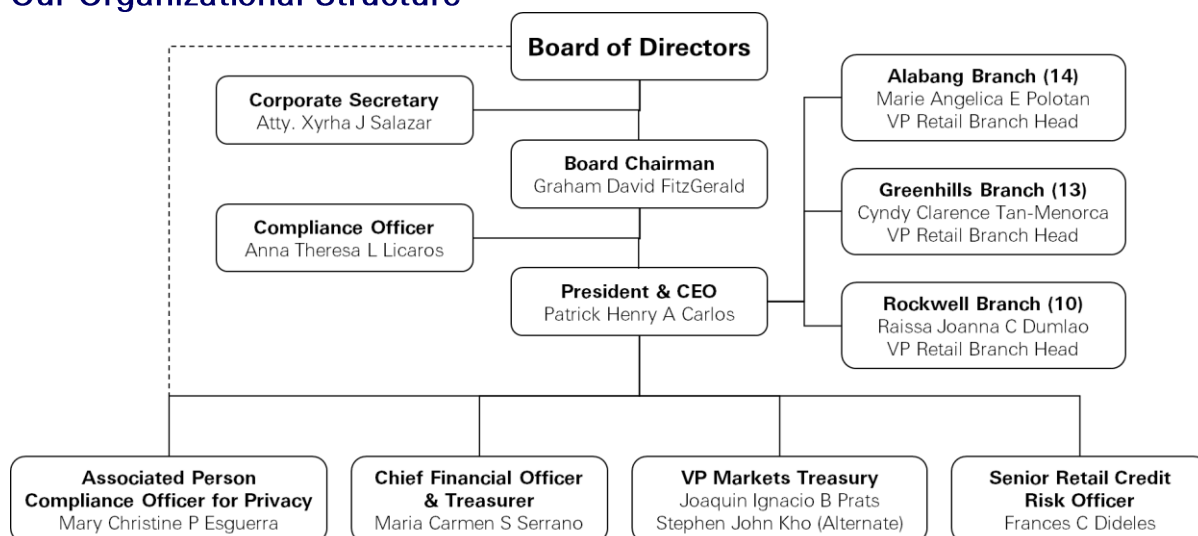
- Compared to other positions at the same level, are strategically important and/or high risk. This could include positions which are expected to grow in scope and importance in the future; or
- Are required by the regulator; or
- Require a critical capability or skill for which there is a limited market supply internally or externally.

To ensure the robustness and validity of succession plans, leaders are asked to apply the following principles in the creation of succession plans:

- Potential successors are identified and categorized based on their readiness in assuming the target role:
 - a. Emergency Cover – temporarily hold the role while the process to identify and appoint a more permanent role holder is ongoing
 - b. Ready Now – may take on the role once it becomes vacant
 - c. Develop in Role – a few key development areas need to be addressed while in their current role
 - d. 1 to 2 Roles Away – would benefit from broader or deeper experience gained through taking on other roles in preparation for the target role

- Diversity – Potential successors should be drawn from the widest pool of talents in order to meet HSBC’s diversity and inclusion aspirations
- Transparency – Open conversations with all successors and their line managers should be held throughout the process
- Future-focused – The way in which the role is likely to change in the future should be taken into account in identifying relevant successors
- Enterprise view – Plan owners should engage in cross-business/function/region dialogue to ensure they nominate successors with an enterprise view in mind. They should also agree on any amendments made to previously agreed plans
- Development plans – identified successors should be supported to create robust individual development plans.

Our Organizational Structure



Our Board of Directors

GRAHAM DAVID FITZGERALD

Chairman, Non-Executive Director since 2018

British, 47 years old

- President & CEO, HSBC Philippines since October 2018
- Director, European Chamber of Commerce of the Philippines since Jun3 2021
- Chairman of the Board & Director, HSBC Insurance Brokers (Philippines), Inc. since June 2021
- Director, HSBC Electronic Data Processing (Philippines), Inc. since June 2020
- Director, Bankers Association of the Philippines since March 2021
- Chairman & Director, HSBC Finance (Brunei) Berhad until July 2019
- Senior Executive, HSBC International until October 2018
- CEO, HSBC Brunei until July 2018
- Regional Head of Corporate Banking, HSBC Middle East until July 2016
- Regional Chief Operating Officer, Commercial Banking, HSBC Middle East until March 2014
- Senior Manager Corporate, HSBC Hong Kong until December 2012
- Global Relationship Manager, HSBC New Zealand until July 2010
- Senior Commercial Manager, HSBC UK until December 2007
- Regional Manager, Northrop Grumman until January 2004
- Lieutenant – Warfare Officer, Royal Navy until April 2002
- Education: BS Physics University of Waikato

HORACE KWAM HOR CHAU

Vice Chairman and Non-Executive Director since 2014

Australian, 59 years old

Director, HSBC Provident Fund Trustee (Hong Kong) Limited

Honorary Treasurer, Hong Kong Red Cross

Senior Executive International Asia Pacific, HSBC Hong Kong

Honorary Treasurer, HSBC Wayfoong Sports Club

Director, HSBC Bank (Taiwan) Limited

Honorary Treasurer, Outward Bound Hong Kong until September 2014

- Senior Executive, CEO Office, HSBC Hong Kong until October 2011
- Head of Asset & Liability Management, Finance, HSBC Hong Kong until January 2010
- Senior Manager Corporate Strategy, HSBC Hong Kong until November 2007
- Senior Manager Asset & Liability Management, HSBC Hong Kong until September 2006
- Senior Asset & Liability Manager, HSBC Hong Kong until March 2005
- Manager Finance Planning, HSBC Hong Kong until November 2011
- Manager Management & Cost Accounting, HSBC Hong Kong until October 2000
- Finance Manager Area Office China, HSBC Hong Kong until March 1997
- Manager Management Information Services, Dah Sing Bank until April 1996
- Licensed Certified Public Accountant, CPA Australia and Hong Kong Institute CPAs
- Education: Bachelor of Commerce, University of Queensland;
Master of Commerce, University of New South Wales

PATRICK HENRY A. CARLOS

Executive Director since 2016

Filipino, 50 years old

- President & CEO, HSBC Savings Bank since September 2016
- SVP, Head of Customer Experience, HSBC Philippines until September 2016
- SVP, Head of RBWM Marketing, HSBC Philippines until February 2015
- SVP, Retail & Commercial Bank Marketing, HSBC Philippines until July 2012
- SVP, Bank & Assets Marketing, HSBC Philippines until August 2011
- VP Cards Marketing, HSBC Philippines until September 2009
- AVP Cards Marketing, HSBC Philippines until March 2006
- AVP Diners Club Brand Manager & Business Team Head, Diners Club International until April 2002
- AVP, Portfolio Management, AIG Card Center until September 2000
- Co-branded Card Portfolio Manager, Standard Chartered Bank until February 1999
- Manager Non-Sales Channels, Standard Chartered Bank until May 1998
- AM Telemarketing Channel, Citibank until April 1998
- Education: BA Management Economics, Ateneo De Manila University

PETER GEORGE FAULHABER

Non-Executive Director since 2019

American, 39 years old

- Head, Wealth & Personal Banking, Philippines since February 2019
- Head – Retail Distribution Branch Network, Jersey Channel Islands until December 2018
- Regional Head – Retail Banking & Wealth Management Internal Audit, Asia Pacific, Hong Kong until August 2015
- Regional Head – Business Risk & Control Management, RBWM Middle East, Dubai, UAE until August 2013
- Premier Centre Manager, Premier Direct, RBWM Middle East, Dubai, UAE until November 2011
- Premier Team Leader, RBWM Middle East, Dubai, UAE until May 2010
- Associate, MarketBridge, Washington D.C., USA until June 2008
- Education: BA Middle East History, Georgetown University
MBA – International Business, INSEAD

COLIN ANDREW DRUMMOND

Non-Executive Director since 2017

British, 49 years old

- Chief Control Officer, Wealth & Personal Banking Asia Pacific, HSBC Hong Kong since May 2017
- Head of Business Oversight, Retail Banking & Wealth Management Asia Pacific, HSBC Hong Kong until April 2017
- Head of Private Banking, Standard Chartered Bank, Singapore until May 2012
- Head of Operational Risk, The Royal Bank of Scotland Group plc, Hong Kong until September 2010
- Acting Head of Wealth Management Operational Risk, The Royal Bank of Scotland Group plc, Hong Kong until November 2008
- Head of Operational Risk, Coutts UK, The Royal Bank of Scotland Group plc, Hong Kong until April 2008
- Manager, Wealth Management Operational Risk Review, The Royal Bank of Scotland Group plc until January 2006
- Education: Higher Level Education, Beath High School

ROLANDO C. SANTOS

Independent Director since 2019

Filipino, 56 years old

- SVP Asset Liability and Capital Management, HSBC until April 2016
- SVP, Deputy Financial Controller, HSBC until December 2008
- VP Finance, Treasury Administration, HSBC until February 2003
- VP Tax, HSBC until June 2000
- AVP Tax, HSBC until October 1999
- AVP Securities Customer Services, HSBC until May 1998
- AVP Securities Settlements, HSBC until September 1997
- Manager Treasury Controls, HSBC until May 1997
- Manager Tax, HSBC until January 1997
- Manager Financial Control, HSBC until April 1996
- AM GIMIS (Group Integrated Management Information System), HSBC until April 1994
- GIMIS Clerk, HSBC until November 1992
- Reconciliation Clerk, HSBC until September 1991
- Central Bank Reports Clerk, HSBC until November 1990
- Financial Analyst, San Miguel Corporation until September 1988
- Staff Auditor, Sycip, Gorres, Velayo and Co until February 1988
- Education: Bachelor of Science in Commerce Major in Accountancy, De LaSalle University
Certified Public Accountant since May 1985

MA. ANNA ANNETTE A. ESTACION

Independent Director since 2019

Filipino, 49 years old

- VP & Head of Investor Relations, Customers Value Management and Business Development, Rosehills Memorial and Management Philippines, Inc. since January 2021
- VP Alternative Sales Strategic Alliances, PhilPlans until June 2020
- VP Retail Branch Head BGC, HSBC and Sales Coach of the Premier Central Team until June 2013
- VP Retail Branch Head, HSBC until March 2013
- VP Retail Branch Head, HSBC Savings Bank until September 2010
- VP Premier Business, HSBC until March 2010
- VP Directed Trust (Invested Sales), HSBC until April 2008
- AVP Premier, HSBC until July 2007
- Premier Manager, HSBC until March 2006
- Personal Banker, HSBC until January 2003
- Customer Service Representative, HSBC until February 2000
- Outward Remittances and Reconciliation Clerk, HSBC until June 1997
- Customer Service Assistant, HSBC until September 1996
- Account Officer – Banquet Sales, Holiday Inn-Manila Pavilion until September 1995
- Education: Bachelor of Science in Hotel & Restaurant Administration, University of the Philippines
Bachelor of Science in Business Administration Major in Accounting, Maryknoll College

Our Senior Management

PATRICK HENRY A. CARLOS

President & Chief Executive Officer

Filipino, 50 years old

- Executive Director and President & CEO, HSBC Savings Bank since September 2016
- SVP, Head of Customer Experience, HSBC Philippines until September 2016
- SVP, Head of RBWM Marketing, HSBC Philippines until February 2015
- SVP, Retail & Commercial Bank Marketing, HSBC Philippines until July 2012
- SVP, Bank & Assets Marketing, HSBC Philippines until August 2011
- VP, Cards Marketing, HSBC Philippines until September 2009
- AVP, Cards Marketing, HSBC Philippines until March 2006
- AVP, Diners Club Brand Manager & Business Team Head, Diners Club International until April 2002
- AVP, Portfolio Management, AIG Card Center until September 2000
- Co-branded Card Portfolio Manager, Standard Chartered Bank until February 1999
- Manager Non-Sales Channels, Standard Chartered Bank until May 1998
- AM Telemarketing Channel, Citibank until April 1998
- Education: BA Management Economics, Ateneo De Manila University

MARIA CARMEN S. SERRANO

Chief Financial Officer & Treasurer

Filipino, 50 years old

- Chief Financial Officer & Treasurer, HSBC Savings Bank since June 2018
- Chief Financial Officer, HSBC Savings Bank until June 2018
- VP Retail Banking & Wealth Management, Management Information, Planning & Analysis, HSBC Philippines until August 2013
- VP Retail Marketing Services, HSBC Philippines until August 2010
- AVP Card Operations, HSBC Philippines until June 2007
- AM Finance & Accounting, Card Products Dept., HSBC Philippines until November 2005
- Education: BSC Major in Accountancy, Assumption College
Licensed Certified Public Accountant

ANNA THERESA L. LICAROS

Compliance Officer

Filipino, 36 years old

- SVP and Head of Regulatory Compliance since May 2017
- VP Financial Crime Compliance Advisory Commercial Banking, HSBC Philippines until May 2017
- VP and Board Secretary, Philippine Veterans Bank until May 2016
- Legal Counsel, Business Contracts and Consulting, Manila Electric Company until July 2015
- Junior Associate, Poblador Bautista and Reyes Law Offices until June 2012
- Licensed Lawyer
- Education: Juris Doctor, University of the Philippines Diliman
BA Broadcast Communication, University of the Philippines Diliman

FRANCES CARANDANG DIDELES

Senior Retail Credit Risk Officer

Filipino, 46 years old

- Senior Retail Credit Risk Officer, HSBC Savings Bank since January 2021
- VP, WPB Risk Quality Assurance, HSBC Philippines from February 2014 up to present
- AVP, WPB Risk Quality Assurance, HSBC Philippines from July 2010 until January 2014
- Assistant Manager, Cards Risk Management, HSBC Philippines from September 2006 until June 2010
- Credit Policy Analyst I-IV, HSBC Philippines from April 2001 until August 2006
- Investment Assistant, State Investment Incorporated from November 2000 until March 2001
- Marketing Assistant, Auto Loans, BPI Family Bank from May 1995 to June 2000
- Education: BS Commerce, Major in Economics, University of Santo Tomas, graduated March 1995

JOAQUIN IGNACIO B. PRATS

VP, Markets Treasury

Filipino, 29 years old

- VP, Markets Treasury, HSBC Savings Bank since March 2021
- AVP, Balance Sheet Management, HSBC Savings Bank since March 2018
- Manager, Balance Sheet Management, HSBC Savings Bank until February 2018
- Analyst, Debt Capital Markets, HSBC Philippines until May 2017
- Analyst, Global Banking & Markets, HSBC Philippines until June 2015
- Licensed Certified Treasury Professional, Ateneo BAP Institute of Banking
- Fixed Income Certification Program, Securities & Exchange Commission
- Education: BS Applied Economics, De La Salle University
BS Management of Financial Institutions, De La Salle University

Our Products & Services

Deposit Accounts

HBPH services its mass affluent target segments under two global propositions. Through our global network, HSBC Premier addresses the banking needs of our top tier customers here and abroad, through one's own dedicated Relationship Manager who will assist them in making informed choices that reflect their individual needs, circumstances and life goals. HSBC Personal Banking, on the other hand, is an all-in-one integrated account that offers exclusive product privileges and preferential pricing. As HSBC Savings Bank clients, they both have access to Peso and Foreign Currency Savings, Checking and Time Deposit Accounts. Client also have access to HBPH's convenient banking services including ATMs, EasyPay Machines, Online Banking, Mobile Banking and 24/7 Customer Contact Center.

Loans and Other Banking Services

HSBC Savings Bank provides a number of lending facilities to its customers including personal loans, mortgage and security backed loans. Client also have access to HBPH's convenient banking services including ATMs, EasyPay Machines, Online Banking, Mobile Banking and 24/7 Customer Contact Center.

Our Website

www.hsbc.com.ph

HSBC Savings Bank Branch Directory

HSBC SAVINGS BANK, ALABANG BRANCH (Head Office)

Unit 1, The Commercial Complex
Madrigal Avenue, Ayala Alabang
Muntinlupa City
+63 (2) 8581-8196

HSBC SAVINGS BANK, GREENHILLS BRANCH

G/F Greenhills Shopping Center
Ortigas Avenue, San Juan City
+63 (2) 8581-7230

HSBC SAVINGS BANK, ROCKWELL BRANCH

R1 Level, Space 142
Lopez Drive, Power Plant Mall
Rockwell Center, Makati City
+63 (2) 8581-8455

HSBC SAVINGS BANK (Branch Lite)

4/F HSBC Centre
3058 Fifth Avenue West
Bonifacio Global City, Taguig City
+63 (2) 8581-8401

2020 Audited Financial Statement Disclosure Notes

Capital Structure and Capital Adequacy

Risk-based capital components, including deductions for Year End 2020 and 2019 are shown below:

	2020	2019
Common Equity Tier (CET) 1 Capital:		
Paid-up common stock	1,492,000,000	1,492,000,000
Additional paid-in capital	-	-
Retained earnings	95,710,476	143,518,707
Undivided profits	33,527,460	237,815,433
Other comprehensive income	(26,659,076)	(21,923,140)
Unsecured DOSRI	(8,919,377)	(8,856,306)
Unsecured loans, other credit accommodations and guarantees granted to subsidiaries	(169,644,538)	(217,636,433)
Deferred tax assets	-	(30,762,118)
Goodwill	-	-
Other intangible assets	-	-
Other equity investment	-	-
Other capital adjustments	-	-
Defined benefit pension fund liabilities	-	-
Total CET 1 Capital	1,416,014,945	1,416,014,945
Additional Tier 1 Capital	-	-
Total Tier 1 Capital	1,416,014,945	1,416,014,945
Tier 2 Capital:		
-	-	-
18,193,580	18,193,580	22,346,792
Total Tier 2 Capital	18,193,580	18,193,580
Total Qualifying Capital	1,434,208,525	1,434,208,525

Risk-based capital ratios:	2020	2019
CET 1 Capital	1,594,578,860	1,851,411,001
Less regulatory adjustments	(178,563,915)	(257,254,857)
Total CET 1 Capital	1,416,014,945	1,594,156,144
Additional Tier 1 Capital	-	-
Total Tier 1 Capital	1,416,014,945	1,594,156,144
Tier 2 Capital	18,193,580	22,346,792
Total Qualifying Capital	1,434,208,525	1,616,502,937
Risk Weighted Assets		
CET 1 Capital Ratio	48.82%	47.80%
Capital Conservation Buffer	42.82%	41.80%
Tier 1 Capital Ratio	48.82%	47.80%
Total Capital Adequacy Ratio	49.45%	48.47%

The capital requirements for Credit, Market and Operational Risk are listed below:		
	2020	2019
Credit Risk	1,773,192,147	2,189,606,149
Market Risk	118,863,076	69,090,892
Operational Risk	1,008,469,497	1,076,047,777
Total Capital Requirements	2,900,524,720	3,334,744,818

HSBC Savings Bank (Philippines), Inc.
December 2020 AFS vs FRP Reconciliation
Balance Sheet

FRP			AFS			FRP vs AFS	RECONCILING ITEMS	BALANCE	UNACCOUNTED
Description	Code	Balance	Code	Description	Balance				
(1) Cash on Hand	105050000000000000	156,258,784.08		Cash on Hand	156,026,141.62	232,642.46	Exchange Rate Difference (BSP Rate vs Internal Rate)	232,642.46	(0.00)
(2) Checks and Other Cash Items	105100000000000000	-				-			
(3) Due from Bangko Sentral ng Pilipinas	105150000000000000	670,597,107.57		Due from BSP	670,596,920.04	187.53	Interbank loans in AFS Loand and receivabled (GLLP) in FRP	187.53 (261.91) 449.44	(0.00)
(4) Due from Other Banks	105200000000000000	1,652,461,060.94		Due from other banks	1,648,843,124.98	3,617,935.96	Bills Payable in FRP Due from Bangko Sentral ng Pilipinas in FRP AFS Adjustments Exchange Rate Difference (BSP Rate vs Internal Rate)	3,617,935.96 11,898,752.41 (19,039,911.00) 10,759,094.55	(0.00)
(5) Financial Assets Held for Trading (HFT)	110000000000000000	-		Financial assets held at FVPL	-	-	Other Assets in FRP	-	
(6) Financial Assets Designated at Fair Value through Profit or Loss	115000000000000000	-				-			
(7) Available-for-Sale (AFS) Financial Assets,net	195200000000000000	8,557,530,163.13		Financial Assets at Fair Value Through Other Comprehensive Income (FVOCI)	8,557,530,163.14	(0.01)	Rounding off difference	(0.01)	-
(8) HTM Financial Assets - Net	195250000000000000	-							
(9) Unquoted Debt Securities Classified as Loans - Net	195300000000000000	-				-			
(10) Investments in Non-Marketable Equity Securities (INMES),net	195350000000000000	-				-		-	

FRP			AFS		FRP vs AFS	RECONCILING ITEMS	BALANCE	UNACCOUNTED
(11)	Loans and Receivables portfolio, net (excluding RRP)	1954000000000000	2,092,427,520.22	Loans and receivables, net	1,622,243,567.52	470,183,952.70	470,183,952.70	-
							Interbank loans receivable and Securities Purchased under Resale Agreements in AFS	557,199,885.00
							Due from Bangko Sentral ng Pilipinas in AFS	(449.44)
							Due from Other Banks in AFS	0.96
							Off balance sheet in AFS (provision for GLLP)	(45,000,000.00)
							Other Assets in FRP	(1,221,440.94)
							Accrued Interest Income from Financial Assets in FRP	(29,631,225.78)
							Allowance - Other Assets in FRP	2,030.89
							CAJE	(11,164,847.99)
(12)	Loans and Receivables Arising from RA/CA/PR/SLB - Net of Specific Allowance for Credit Losses	1954020000000000	234,695,777.00	Interbank loans receivable and Securities Purchased under Resale Agreements	788,942,434.86	(554,246,657.86)	(554,246,657.86)	-
							Loans and Receivables in FRP	(554,246,919.77)
							Due from Central Bank (allowance) in FRP	261.91
(13)	Derivatives with Positive Fair Value Held for Hedging	1450500000000000	-			-		
(14)	Revaluation of Hedged Assets in Portfolio Hedge of Interest Rate Risk	1451000000000000	-			-		
(15)	Sales Contract Receivable - Net	1954515000000000	-			-		
(16)	Accrued Interest Income from Financial Assets - Net	1954520000000000	46,514,758.82			46,514,758.82	46,514,758.82	-
							Loans and receivables in AFS	39,788,039.51
							Accrued Expenses in AFS	6,726,719.31
(17)	Equity Investment in Subsidiaries, Associates and Joint Ventures - Net	1954525000000000	-					
(18)	Bank Premises, Furniture, Fixture and Equipment - Net	1955005000000000	17,220,192.62	Property and Equipment - net	41,750,731.90	(24,530,539.28)	(24,530,539.28)	-
				Right-Of-Use Assets	5,750,957.87			
					35,999,774.03			

FRP		AFS		FRP vs AFS	RECONCILING ITEMS	BALANCE	UNACCOUNTED
(19)	Real and Other Properties Acquired - Net	1955010000000000000	3,520,420.98			3,520,420.98	-
				3,520,420.98	Other Assets (tagged as Assets Held for Resale) in AFS	5,145,060.65	
					FRP Adjustment - record ROPA depreciation	(1,624,639.67)	
(20)	Non-Current Assets Held for Sale - Net	1501500000000000000	-				
(21)	Goodwill - Net	1955020000000000000	-				
(22)	Intangible Assets - Net	1955025000000000000	-				
(23)	Deferred Tax Asset	1550500000000000000	-	Deferred Tax Assets	-	-	-
(24)	Other Assets - Net	1955510000000000000	65,621,241.21	Other Assets	61,638,268.47	3,982,972.73	0.00
					Loans and receivables in AFS	1,219,410.05	
					Real and Other Properties Acquired in FRP	(5,145,060.65)	
					Accrued Expenses and Other Liabilities in AFS	0.03	
					Exchange Rate Difference (BSP Rate vs Internal Rate)	10.81	
					FRP Adj - manual adjustment of unposted CAJE	1,518,997.08	
						6,389,615.41	
(25)	Due from Head Office/Branches/Agencies (Philippine branch of a foreign bank)	1552500000000000000	-				
(26)	Due from FCDU/RBU	1553000000000000000	-				
TOTAL ASSETS			13,496,847,026.56	TOTAL ASSETS		13,547,571,352.53	

FRP			AFS		FRP vs AFS	RECONCILING ITEMS	BALANCE	UNACCOUNTED
(1)	Financial Liabilities Held for Trading	205000000000000000	-	Financial liabilities at FVPL	-	-	Other liabilities in FRP	-
(2)	Financial Liabilities Designated at Fair Value through Profit or Loss	210000000000000000	-			-		
(3)	Deposit Liabilities	215000000000000000	11,673,317,066.67	Deposits	11,659,926,152.55	13,390,914.12	Exchange Rate Difference (BSP Rate vs Internal Rate)	13,390,914.12 (0.00)
(4)	Due to Other Banks	220050000000000000	-			-		
(5)	Bills Payable	220100000000000000	18,457,462.41	Bills Payable	6,460,534.19	11,996,928.22	Due from other banks in AFS Exchange Rate Difference (BSP Rate vs Internal Rate)	11,996,928.22 11,898,752.41 98,175.81
(6)	Bonds Payable - Net	295201500000000000	-			-		
(7)	Unsecured Subordinated Debt - Net	295202000000000000	-			-		
(8)	Redeemable Preferred Shares	220250000000000000	-			-		
(9)	Financial Liabilities Associated with Transferred Assets	225050000000000000	-			-		
(10)	Derivatives with Negative Fair Value Held for Hedging	225100000000000000	-			-		
(11)	Revaluation of Hedged Liabilities in Portfolio Hedge of Interest Rate Risk	225150000000000000	-			-		
(12)	Accrued Interest Expense on Financial Liabilities	225200000000000000	212,162.90			212,162.90	Accrued expenses & other liabilities in AFS Exchange Rate Difference (BSP Rate vs Internal Rate)	212,162.90 - 212,162.90
(13)	Finance Lease Payment Payable	225250000000000000	7,759,313.70	Lease Liabilities	19,787,034.90	(12,027,721.20)	AFS adjustment (IFRS 16)	(12,027,721.20)
(14)	Special Time Deposit	220300000000000000	-			-		
(15)	Due to Treasurer of the Philippines	230050000000000000	13,125,095.51			13,125,095.51	Accrued Expenses and Other Liabilities	13,125,095.51
(16)	Treasurer/Cashier/Manager's Checks	230100000000000000	13,357,581.14	Cashier's order	16,172,040.46	(2,814,459.32)	Other Liabilities in FRP	(2,814,459.32)

FRP		AFS		FRP vs AFS	RECONCILING ITEMS	BALANCE	UNACCOUNTED
(17) Payment Orders Payable	230150000000000000	-		-			
(18) Margin Deposits on LCs and Customers' Liability on Bills/Drafts under LCs and/or TRs	230200000000000000	-		-			
(19) Cash Letters of Credit	230250000000000000	-		-			
(20) Outstanding Acceptances Executed by or for Account of this Bank	230300000000000000	-		-			
(21) Due to Bangko Sentral ng Pilipinas	230350000000000000	-		-			
(22) Due to Philippine Deposit Insurance Corporation	230400000000000000	11,456,000.00		11,456,000.00	Accrued expenses & other liabilities in AFS	11,456,000.00	-
(23) Due to Philippine Crop Insurance Corporation	230450000000000000	-		-			
(24) Income Tax Payable	230500000000000000	78,541.28	Income Tax Payable 382,451.28	(303,910.00)	AFS tax adjustment	(303,910.00)	-
(25) Other Taxes and Licenses Payable	230550000000000000	143,754,942.86	Accrued Expenses and Other Liabilities 133,349,526.97	(24,660,252.75)	Cashier's order in AFS	2,814,459.32	-
(26) Accrued Expenses	230600000000000000	8,995,249.41	Deferred Tax Liabilities 35,065,668.64		Exchange Rate Difference (BSP Rate vs Internal Rate)	20.97	
(27) Unearned Income	230650000000000000	12,617,897.87			Due to Treasurer of the Philippines in FRP	(13,115,572.25)	
(28) Deferred Tax Liabilities	230700000000000000	16,883,480.97			Due to Philippine Deposit Insurance Corporation in FRP	(11,456,000.00)	
(29) Provisions	230750000000000000	27,373,185.02			Tax adjustment in AFS	(7,692,483.62)	
	230751000000000000	11,371,000.00			Other Assets in FRP	0.03	
	230759000000000000				Accrued Interest Expense on Financial Liabilities in FRP	(211,989.62)	
(30) Broker Customer Accounts for Settlement of Customer Trades	230780000000000000	-			FRP Adjustment - Loans and receivables in AFS - pertains to interest of NPA	16,883,467.57	
(31) Other Liabilities	230800000000000000	66,514,129.59			AFS Adjustments	(11,882,155.15)	
(32) Due to Head Office/Branches/Agencies (Philippine branch of a foreign)	230850000000000000	-					
(33) Due to FCDU/RBU	230900000000000000	-					
TOTAL LIABILITIES		11,881,518,166.47	TOTAL LIABILITIES	11,871,143,408.99			

FRP		AFS		FRP vs AFS	RECONCILING ITEMS	BALANCE	UNACCOUNTED
(1) Paid in Capital Stock	305000000000000000	1,492,000,000.00	Capital Stock	1,492,000,000.00	-		
(2) Additional Paid-in Capital	305200000000000000	-			-		
(3) Other Equity Instruments	310000000000000000	-			-		
(4) Deposits for Stock Subscription	305250000000000000	-			-		
		149,987,936.32				(62,040,444.39)	-
(5) Retained Earnings	315000000000000000	116,460,476.25	Retained Earnings - unappropriated	180,363,188.23		(16,668,861.32)	
(7) Undivided Profits	315150000000000000	33,527,460.06	Other Reserves	10,915,192.48		(45,000,000.00)	
			Retained Earnings - appropriated	20,750,000.00		(371,583.07)	
(8) Other Comprehensive Income	320000000000000000	(26,659,076.23)			2,643,890.55	2,643,890.54	0.01
			Net actuarial gain (loss) on retirement assets and liabilities	(94,354,033.74)		(807,097.97)	
			Net unrealized gain (loss) on financial assets at FVOCI	65,051,066.96		3,450,988.51	
			Cumulative Translation Adjustment	1,702,532.01	(1,702,532.01)	(1,702,532.01)	-
						(807,097.97)	
						(895,434.04)	
(9) Appraisal Increment Reserve	325050000000000000	-			-		
(10) Treasury Stock	325100000000000000	-			-		
(11) Minority Interest in Subsidiaries (for consolidated report only)	325150000000000000	-			-		
(12) Assigned Capital	325200000000000000	-			-		
TOTAL EQUITY		1,615,328,860.09	TOTAL EQUITY	1,676,427,945.94			

Regulatory Adjustments to CET1 Capital

	2020	2019
Unsecured DOSRI	8,919,377	8,856,306
Unsecured loans, other credit accommodations and guarantees granted to subsidiaries	169,644,538	217,636,433
Deferred tax assets	-	30,762,118
Goodwill	-	-
Other intangible assets	-	-
Other equity investment	-	-
Other capital adjustments	-	-
Defined benefit pension fund liabilities	-	-
TOTAL	178,563,915	257,254,857

Total credit exposure after risk mitigation broken down by type of exposures & by risk bucket

As of December 31, 2020

	On Balance Sheet	Off-Balance Sheet	Total
Below 100%	12,600,962,052	-	12,600,962,052
100% & Above	700,012,156	4,328,119	704,340,275
TOTAL	13,300,974,208	4,328,119	13,305,302,327

As of December 31, 2019

	On Balance Sheet	Off-Balance Sheet	Total
Below 100%	12,638,460,235	-	12,638,460,235
100% & Above	959,664,319	5,231,823	964,896,142
TOTAL	13,598,124,554	5,231,823	13,603,356,377

Total credit risk-weighted assets broken down by type of exposures

As of December 31, 2020

	On Balance Sheet	Off-Balance Sheet	Total
Below 100%	1,075,566,741	-	1,075,566,741
100% and Above	733,438,349	4,328,119	737,766,468
Covered by CRM	6,024,764	-	6,024,764
Excess GLLP	(46,165,826)	-	(46,165,826)
TOTAL	1,768,864,029	4,328,119	1,773,192,147

As of December 31, 2019

	On Balance Sheet	Off-Balance Sheet	Total
Below 100%	1,224,387,855	-	1,224,387,855
100% and Above	997,638,525	5,231,823	1,002,870,348
Covered by CRM	7,421,034	-	7,421,034
Excess GLLP	(45,073,089)	-	(45,073,089)
TOTAL	2,184,374,327	5,231,823	2,189,606,149

Total market risk-weighted assets broken down by type of exposures

Nature of Item	2020	2019
Using Standardized Approach		
Interest Rate Exposures	0	0
Equity Exposures	0	0
Foreign Exchange Exposures	118,863,076	69,090,892
Options	0	0
Sub-total (Sum of A.1 to A.4)	118,863,076	69,090,892
Using Internal Models Approach	0	0
TOTAL MARKET RISK-WEIGHTED ASSETS ^{1/} (Sum of A.5 and B)	118,863,076	69,090,892

Operational Risk-Weighted Assets

in PHP	2020	2019
Operational Risk	1,008,469,497	1,076,047,777