

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS


The management of **Legazpi Savings Bank, Inc.** (the Bank) is responsible for the preparation and fair presentation of the financial statements including the schedules attached therein, for the years ended December 31, 2021 and 2020, in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to error or fraud.

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

The Board of Directors is responsible for overseeing the Bank's financial reporting process.

The Board of Directors reviews and approves the financial statements including the schedules attached therein, and submits the same to the stockholders or members.

SyCip Gorres Velayo & Co., the independent auditor appointed by the shareholders, has audited the financial statements of the Bank in accordance with Philippine Standards on Auditing and in its report to the stockholders, has expressed its opinion on the fairness of presentation upon completion of such audit.




Omar Byron T. Mier
Chairman of the Board



Mykel D. Abad
President



Romel D. Meniado
Chief Operating Officer



Erlinda O. Del Villar
Head for Operations



Carmela Monica C. Borromeo
Controller

Legazpi Savings Bank, Inc.
*(A Wholly Owned Subsidiary of
Robinsons Bank Corporation)*

Financial Statements
December 31, 2021 and 2020

and

Independent Auditor's Report



INDEPENDENT AUDITOR'S REPORT

The Stockholders and the Board of Directors
Legazpi Savings Bank, Inc.

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Legazpi Savings Bank, Inc. (the Bank), which comprise the statements of financial position as at December 31, 2021 and 2020, and the statements of income, statements of comprehensive income, statements of changes in equity and statements of cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at December 31, 2021 and 2020, and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards (PFRSs).

Basis for Opinion

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

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

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

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

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



Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.


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



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

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

SYCIP GORRES VELAYO & CO.



Juan Carlo B. Maminta
Partner

CPA Certificate No. 115260

Tax Identification No. 210-320-399

BOA/PRC Reg. No. 0001, August 25, 2021, valid until April 15, 2024

SEC Partner Accreditation No. 115260-SEC (Group A)

Valid to cover audit of 2020 to 2024 financial statements of SEC covered institutions

SEC Firm Accreditation No. 0001-SEC (Group A)

Valid to cover audit of 2021 to 2025 financial statements of SEC covered institutions

BIR Accreditation No. 08-001998-132-2020, November 27, 2020, valid until November 26, 2023

PTR No. 8854326, January 3, 2022, Makati City

March 25, 2022



LEGAZPI SAVINGS BANK, INC.
STATEMENTS OF FINANCIAL POSITION

	December 31	
	2021	2020
ASSETS		
Cash and Other Cash Items	₱59,414,867	₱113,070,533
Due from Bangko Sentral ng Pilipinas (Note 13)	41,069,486	444,968,492
Due from Other Banks	55,861,699	98,109,462
Securities Purchased Under Resale Agreement (Note 6)	117,595,804	129,666,175
Investment Securities at Amortized Cost (Note 7)	19,998,100	19,998,100
Loans and Receivables (Notes 8 and 22)	1,572,899,226	1,624,488,820
Property and Equipment (Note 9)	83,080,056	138,431,131
Investment Properties (Note 10)	96,715,942	105,813,713
Deferred Tax Asset (Note 21)	142,691,999	128,598,596
Assets of Disposal Group Classified as Held for Sale (Note 24)	757,487,726	–
Other Assets (Note 11)	14,562,615	18,247,783
	₱2,961,377,520	₱2,821,392,805
LIABILITIES AND EQUITY		
LIABILITIES		
Deposit Liabilities (Notes 13 and 22)		
Demand	₱43,769,473	₱171,545,768
Savings	1,042,684,471	1,523,699,167
Time	282,528,914	362,276,750
	1,368,982,858	2,057,521,685
Accrued Expenses (Note 14)	20,183,690	20,651,593
Redeemable Preferred Shares (Note 15)	30,700,000	30,700,000
Liabilities of Disposal Group Classified as Held for Sale (Note 24)	837,900,202	–
Other Liabilities (Note 14)	87,389,371	97,037,615
	2,345,156,121	2,205,910,893
EQUITY		
Capital Stock (Note 17)	1,245,960,000	1,245,960,000
Deficit	(629,840,021)	(631,839,217)
Surplus Reserve (Note 17)	6,451,913	6,451,913
Remeasurement Loss on Retirement Liability (Note 19)	(6,350,493)	(5,090,784)
	616,221,399	615,481,912
	₱2,961,377,520	₱2,821,392,805

See accompanying Notes to Financial Statements.



LEGAZPI SAVINGS BANK, INC.
STATEMENTS OF INCOME

	Years Ended December 31	
	2021	2020
INTEREST INCOME		
Loans and receivables (Notes 8 and 22)	₱323,968,772	₱367,743,622
Due from Bangko Sentral ng Pilipinas and other banks	6,781,507	9,642,645
Securities Purchased Under Resale Agreement (Note 6)	2,158,829	4,014,132
Investment securities at amortized cost (Note 7)	894,834	3,594,339
	333,803,942	384,994,738
INTEREST EXPENSE		
Deposit liabilities (Notes 13 and 22)	30,330,447	31,717,668
Lease liability (Notes 14 and 20)	4,590,992	4,778,928
	34,921,439	36,496,596
NET INTEREST INCOME	298,882,503	348,498,142
Service fees and commission expense (Note 18)	9,184,494	4,568,001
Service fees and commission income (Note 18)	1,576,869	1,381,573
NET SERVICE FEES AND COMMISSION INCOME		
(EXPENSE) (Note 18)	(7,607,625)	(3,186,428)
Profit from assets sold (Notes 9, 10 and 11)	16,581,404	1,846,258
Gain on foreclosure - net (Notes 10 and 11)	5,995,991	358,177
Gain on sale of investment securities at amortized cost (Note 7)	—	2,931,859
Loss on modification of loans (Note 8)	—	(79,838,113)
Miscellaneous (Notes 18)	19,476,366	17,597,382
TOTAL OPERATING INCOME	333,328,639	288,207,277
OPERATING EXPENSES		
Compensation and fringe benefits (Notes 19 and 22)	124,315,483	126,080,121
Depreciation and amortization (Note 9)	47,306,487	42,713,948
Security, messengerial and janitorial	43,991,674	35,759,849
Provision for credit and impairment losses (Note 12)	28,711,752	51,435,707
Taxes and licenses	21,719,742	17,427,615
Information technology	17,140,232	14,988,225
Transportation and travel	13,476,872	11,355,413
Occupancy and equipment-related (Note 20)	10,372,655	10,734,384
Power, light and water	8,754,918	8,227,197
Insurance	7,880,300	7,846,365
Communication	2,891,905	3,483,680
Management and professional fees	2,679,931	1,991,845
Entertainment, amusement, and recreation (Note 21)	1,465,936	1,842,193
Miscellaneous (Note 18)	11,613,696	13,054,219
TOTAL OPERATING EXPENSES	342,321,583	346,940,761
LOSS BEFORE INCOME TAX	(8,992,944)	(58,733,484)
BENEFIT FROM INCOME TAX (Note 21)	(10,992,140)	(7,699,456)
NET INCOME (LOSS)	₱1,999,196	(₱51,034,028)

See accompanying Notes to Financial Statements.



LEGAZPI SAVINGS BANK, INC.**STATEMENTS OF COMPREHENSIVE INCOME**

	Years Ended December 31	
	2021	2020
NET INCOME (LOSS)	₱1,999,196	(₱51,034,028)
OTHER COMPREHENSIVE INCOME		
<i>Item that may not be reclassified to profit or loss:</i>		
Remeasurement losses on retirement liability, net of tax (Note 19)	(1,259,709)	(1,124,376)
TOTAL COMPREHENSIVE INCOME (LOSS)	₱739,487	(₱52,158,404)

See accompanying Notes to Financial Statements.



LEGAZPI SAVINGS BANK, INC.

STATEMENTS OF CHANGES IN EQUITY

	Capital stock (Note 17)	Deficit	Surplus reserve (Note 17)	Remeasurement losses on retirement liability (Note 19)	Total
Balance at January 1, 2021	₱1,245,960,000	(₱631,839,217)	₱6,451,913	(₱5,090,784)	₱615,481,912
Total comprehensive income	–	1,999,196	–	(1,259,709)	739,487
Balance at December 31, 2021	₱1,245,960,000	(₱629,840,021)	₱6,451,913	(₱6,350,493)	₱616,221,399
Balance at January 1, 2020	₱1,245,960,000	(₱580,805,189)	₱6,451,913	(₱3,966,408)	₱667,640,316
Total comprehensive income	–	(51,034,028)	–	(1,124,376)	(52,158,404)
Balance at December 31, 2020	₱1,245,960,000	(₱631,839,217)	₱6,451,913	(₱5,090,784)	₱615,481,912

See accompanying Notes to Financial Statements.



LEGAZPI SAVINGS BANK, INC.
STATEMENTS OF CASH FLOWS

	Years Ended December 31	
	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss before income tax	(₱8,992,944)	(₱58,733,484)
Adjustments for:		
Provision for credit and impairment losses (Note 12)	28,711,751	51,435,707
Depreciation and amortization (Note 9)	47,306,487	42,713,948
Interest on lease liability (Notes 14 and 20)	4,590,992	4,778,928
Retirement expense (Note 19)	5,243,787	4,472,827
Gain on sale of investment securities at amortized cost (Note 7)	–	(2,931,859)
Profit from assets sold (Notes 9, 10 and 11)	(16,581,404)	(1,846,258)
Gain on foreclosure (Notes 10 and 11)	(5,995,991)	(358,177)
Changes in operating assets and liabilities:		
Increase in:		
Loans and receivables	(266,400,034)	(99,871,780)
Other assets	(1,503,494)	(1,979,993)
Increase (decrease) in:		
Deposit liabilities	128,878,985	85,490,472
Accrued expenses	(467,903)	(6,298,821)
Other liabilities	4,087,977	(7,797,861)
Net cash generated from (used in) operations	(81,121,791)	9,073,649
Income taxes paid	(1,028,923)	(7,282,240)
Net cash provided by (used in) operating activities	(82,150,714)	1,791,409
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisitions of:		
Property and equipment (Note 9)	(14,441,882)	(20,595,895)
Software costs (Note 11)	(1,978,734)	(1,359,528)
Branch licenses (Note 11)	–	(310,000)
Proceeds from sale of:		
Investment securities at amortized cost (Note 7)	–	183,242,931
Investment properties (Notes 10 and 24)	35,522,799	10,299,419
Property and equipment (Note 9)	605,255	241,499
Reposessed chattels (Note 11)	3,024,337	14,500
Net cash provided by investing activities	22,731,775	171,532,926
CASH FLOWS FROM FINANCING ACTIVITY		
Payment of principal portion of lease liability (Note 20)	(16,819,337)	(10,492,660)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(76,238,276)	162,831,675

(Forward)



	Years Ended December 31	
	2021	2020
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		
Cash and other cash items	₱113,070,533	₱72,868,361
Due from Bangko Sentral ng Pilipinas	444,968,492	391,666,967
Due from other banks	98,109,462	91,869,631
Securities purchased under resale agreement	129,666,175	66,578,028
	₱785,814,662	₱622,982,987
CASH AND CASH EQUIVALENTS AT END OF YEAR		
Cash and other cash items	₱106,648,011	₱113,070,533
Due from Bangko Sentral ng Pilipinas	400,564,592	444,968,492
Due from other banks	84,767,979	98,109,462
Securities purchased under resale agreement	117,595,804	129,666,175
	₱709,576,386	₱785,814,662
OPERATIONAL CASH FLOWS FROM INTEREST		
Interest received	₱354,568,242	₱336,688,052
Interest paid	₱36,173,289	₱37,187,846

See accompanying Notes to Financial Statements.



LEGAZPI SAVINGS BANK, INC.

NOTES TO FINANCIAL STATEMENTS

1. Corporate Information

Legazpi Savings Bank, Inc. (the Bank) was incorporated and registered with the Philippine Securities and Exchange Commission (SEC) on May 8, 1976. The Bank offers a wide range of financial services that includes checking, savings, special savings, time, automated teller machine (ATM) accounts, market vendors loan, agricultural loan, salary loan for employees, real estate loan, consumption loan, commercial loan, credit line, bills purchased line, back-to-back loan, auto loan, housing loan, developmental loan, and other financial services.

The Bank operates and provides its services through a network of nineteen (19) banking units including its head office and a main branch in the area of Albay.

The Bank's principal place of business is at 738 Bldg. Rizal Street, Old Albay District, Legazpi City.

Robinsons Bank Corporation (the Parent Bank) acquired effective control and management of the Bank on December 26, 2012, in accordance with Philippine Financial Reporting Standards (PFRS) 3, *Business Combinations*.

The Parent Bank is 60.00% and 40.00% owned by JG Summit Capital Services Corporation and Robinsons Retail Holdings, Inc., respectively. The ultimate parent company of the Bank is JG Summit Holdings, Inc.

2. Summary of Significant Accounting Policies

Basis of Preparation

The accompanying financial statements of the Bank have been prepared on a historical cost basis. The financial statements are presented in Philippine Peso (PHP), the Bank's functional and presentation currency and all amounts are rounded to the nearest peso (₱), unless otherwise indicated.

Statement of Compliance

The Bank's financial statements have been prepared in compliance with PFRSs.

Presentation of Financial Statements

The Bank presents its statements of financial position broadly in the order of liquidity. An analysis regarding the recovery or settlement within twelve (12) months after the statement of financial position date (current) and more than twelve (12) months after the statement of financial position date (non-current) is presented in Note 16.

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously.

The Bank assessed that it has a currently enforceable legal right of offset if the right is not contingent on a future event, and is legally enforceable in the normal course of business, and in the event of solvency or bankruptcy of the Bank and all of the counterparties. Income and expense are not offset in the statement of income unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the accounting policies of the Bank.



Changes in Accounting Policies and Disclosures

The accounting policies adopted are consistent with those of the previous financial year except for the following new, amendments and improvements to PFRS, Philippine Accounting Standards (PAS) and Philippine Interpretation which became effective starting January 1, 2021. Except as otherwise indicated, these changes in the accounting policies did not have any significant impact on the financial position or performance of the Bank:

- Amendment to PFRS 16, *COVID-19-related Rent Concessions beyond 30 June 2021*

The amendment provides relief to lessees from applying the PFRS 16 requirement on lease modifications to rent concessions arising as a direct consequence of the COVID-19 pandemic. A lessee may elect not to assess whether a rent concession from a lessor is a lease modification if it meets all of the following criteria:

- The rent concession is a direct consequence of COVID-19;
- The change in lease payments results in a revised lease consideration that is substantially the same as, or less than, the lease consideration immediately preceding the change;
- Any reduction in lease payments affects only payments originally due on or before June 30, 2022; and
- There is no substantive change to other terms and conditions of the lease.

A lessee that applies this practical expedient will account for any change in lease payments resulting from the COVID-19 related rent concession in the same way it would account for a change that is not a lease modification, i.e., as a variable lease payment.

The amendment is effective for annual reporting periods beginning on or after April 1, 2021. Early adoption is permitted.

- Amendments to PFRS 9, PAS 39, PFRS 7, PFRS 4 and PFRS 16, *Interest Rate Benchmark Reform – Phase 2*

The amendments provide the following temporary reliefs which address the financial reporting effects when an interbank offered rate (IBOR) is replaced with an alternative nearly risk-free interest rate (RFR):

- Practical expedient for changes in the basis for determining the contractual cash flows as a result of IBOR reform
- Relief from discontinuing hedging relationships
- Relief from the separately identifiable requirement when an RFR instrument is designated as a hedge of a risk component

The Bank shall also disclose information about:

- The nature and extent of risks to which the entity is exposed arising from financial instruments subject to IBOR reform, and how the entity manages those risks; and
- Their progress in completing the transition to alternative benchmark rates, and how the entity is managing that transition



Significant Accounting Policies

Fair Value Measurement

For measurement and disclosure purposes, the Bank determines the fair value of an asset or a liability at initial measurement date or at each statement of financial position date. Fair value is the estimated price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability; or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible to by the Bank.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

If the asset or liability measure at fair value has a bid and ask price, the price within the bid-ask spread that is the most representative of fair value in the circumstances shall be used to measure fair value, regardless of where the input is categorized within the fair value hierarchy.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

Fair Value Hierarchy

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

- Level 1: Quoted (unadjusted) market prices in active markets for identical assets or liabilities;
Level 2: Valuation techniques for which the lowest level of input that is significant to the fair value measurement is directly or indirectly observable; and
Level 3: Valuation techniques for which the lowest level input that is significant to the measurement is unobservable.

The Bank uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

Cash and Cash Equivalents

Cash and cash equivalents include 'Cash and other cash items (COCI)', 'Due from Bangko Sentral ng Pilipinas (BSP)', 'Due from other banks' and 'Securities Purchased Under Resale Agreement (SPURA)' with original maturities of three (3) months or less from dates of placements and that are subject to insignificant risk of changes in value. Due from BSP includes statutory reserves required by the BSP which the Bank considers as cash equivalents wherein withdrawals can be made to meet the Bank's cash requirements as allowed by the BSP.



Financial Instruments - Initial Recognition and Subsequent Measurement

Date of recognition

Purchases or sales of financial instruments that require delivery of assets within the time frame established by regulation or convention in the marketplace are recognized on the settlement date. Settlement date accounting refers to (a) recognition of an asset on the day it is received by the Bank, and (b) the derecognition of an asset and recognition of any gain or loss on disposal on the day that it is delivered by the Bank. Deposits, amounts due from banks and customers and loans are recognized when cash is received by the Bank or advanced to the borrowers.

Initial recognition of financial instruments

All financial assets and financial liabilities are recognized initially at fair value plus any directly attributable cost of acquisition or issue, except in the case of financial assets and financial liabilities at financial assets at fair value through profit or loss.

'Day 1' difference

Where the transaction price in a non-active market is different from the fair value from other observable current market transactions in the same instrument or computed based on a valuation technique whose variables include only data from observable markets, the Bank recognizes the difference between the transaction price and the fair value (a 'Day 1' difference) in the statement of income, unless it qualifies for recognition as some other type of asset or liability. In cases where fair value is determined using data which are not observable from the market, the difference between the transaction price and the model value is only recognized in the statement of income when the inputs become observable or when the instrument is derecognized. For each transaction, the Bank determines the appropriate method of recognizing the amount of 'Day 1' difference.

Classification and Measurement of Financial Assets

Financial assets are classified in their entirety based on the contractual cash flows characteristics of the financial assets and the Bank's business model for managing financial assets. The Bank classifies its financial assets into the following categories: financial assets at fair value through profit or loss (FVTPL), financial assets at fair value through other comprehensive income (FVOCI) with recycling of cumulative gains and losses (debt instruments), financial assets designated at FVOCI with no recycling of cumulative gains and losses upon derecognition (equity instruments) and financial assets measured at amortized cost (AC). For purposes of classifying financial assets, an instrument is an 'equity instrument' if it is a non-derivative and meets the definition of 'equity' for the issuer (under PAS 32, *Financial Instruments: Presentation*), except for certain non-derivative puttable instruments presented as equity by the issuer. All other non-derivative financial assets are 'debt instruments'.

As of December 31, 2021 and 2020, the Bank do not have financial assets at FVTPL and FVOCI.

Contractual cash flows characteristics

If the financial asset is held within a business model whose objective is to hold assets to collect contractual cash flows or within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, the Bank assesses whether the cash flows from the financial asset represent solely payments of principal and interest (SPPI) on the principal amount outstanding. 'Principal' for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset (e.g. if there are repayments of principal or amortization of the premium or discount). Instruments that do not pass this test are automatically classified at FVTPL.



In making this assessment, the Bank determines whether the contractual cash flows are consistent with a basic lending arrangement, i.e., interest includes consideration only for the time value of money, credit risk and other basic lending risks and costs associated with holding the financial asset for a particular period of time.

Business model

The Bank's business model is determined at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. The Bank's business model does not depend on management's intentions for an individual instrument, rather it refers to how it manages its financial assets in order to generate cash flows.

The Bank's business model determines whether cash flows will result from collecting contractual cash flows, selling financial assets or both. Relevant factors considered by the Bank in determining the business model for a group of financial assets include how the performance of the business model and the financial assets held within that business model are evaluated and reported to the Bank's key management personnel, the risks that affect the performance of the business model (and the financial assets held within that business model) and how these risks are managed and how managers of the business are compensated.

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realized in a way that is different from the Bank's original expectations, the Bank does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

Financial assets at amortized cost

A financial asset is measured at amortized cost if (i) it is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and (ii) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. These financial assets are initially recognized at fair value plus directly attributable transaction costs and subsequently measured at amortized cost using the EIR method, less any impairment in value. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the EIR. The amortization is included in 'Interest income' in the statement of income and is calculated by applying the EIR to the gross carrying amount of the financial asset, except for (i) purchased or originated credit-impaired financial assets and (ii) financial assets that have subsequently become credit-impaired, where, in both cases, the EIR is applied to the amortized cost of the financial asset.

The Bank classified 'Cash and other cash items', 'Due from BSP', 'Due from other banks', Securities purchased under resale agreements', 'Investment securities at amortized cost', 'Loans and receivables' and refundable security deposits (included under 'Other assets') as financial assets at amortized cost.

The Bank may irrevocably elect at initial recognition to classify a debt financial asset that meets the amortized cost criteria above as at FVTPL if that designation eliminates or significantly reduces an accounting mismatch had the debt financial asset been measured at amortized cost.

As of December 31, 2021 and 2020, the Bank has not made such designation.



Reclassifications of financial instruments

The Bank reclassifies its financial assets when, and only when, there is a change in the business model for managing the financial assets. Reclassifications shall be applied prospectively by the Bank and any previously recognized gains, losses or interest shall not be restated. The Bank does not reclassify its financial liabilities.

The Bank is required to reclassify the following financial assets:

- from amortized cost to FVTPL if the objective of the business model changes so that the amortized cost criteria are no longer met;
- from FVTPL to amortized cost if the objective of the business model changes so that the amortized cost criteria start to be met and the instrument's contractual cash flows meet the amortized cost criteria.; and
- from FVOCI to amortized cost if the objective of the business model changes so that the fair value criteria are no longer met but the amortized cost criteria is still met and the instrument's contractual cash flows meet the amortized cost criteria.

Impairment of Financial Assets

The Bank records expected credit loss (ECL) for all loans and other debt financial assets not classified as FVTPL, together with loan commitments and financial guarantee contracts.

ECL represents credit losses that reflect an unbiased and probability-weighted amount which is determined by evaluating a range of possible outcomes, the time value of money and reasonable and supportable information about past events, current conditions and forecasts of future economic conditions. ECL allowances are measured at amounts equal to either (i) 12-month ECL or (ii) lifetime ECL for those financial instruments which have experienced a significant increase in credit risk (SICR) since initial recognition (General Approach). The 12-month ECL is the portion of lifetime ECL that results from default events on a financial instrument that are possible within the 12 months after the reporting date. Lifetime ECL are credit losses that results from all possible default events over the expected life of a financial instrument.

Staging assessment

For non-credit-impaired financial instruments:

- Stage 1 is comprised of all financial instruments which have not experienced a SICR since initial recognition or is considered of low credit risk as of the reporting date. In determining whether an account should be assessed under Stage 1, the Bank considers the number of days past due as its criteria. Loans past due up to 30 days except for microfinance loans wherein days past due for Stage 1 accounts is 0 - 6 days are considered Stage 1. The Bank recognizes a 12-month ECL for Stage 1 financial instruments.
- Stage 2 is comprised of all financial instruments which have experienced a SICR since initial recognition. A SICR is generally deemed present in accounts with more than 30 days up to 90 days past due, except for microfinance loans. The Bank recognizes a lifetime ECL for Stage 2 financial instruments.

For credit-impaired financial instruments:

- Stage 3 is comprised of all financial assets that have objective evidence of impairment as a result of one or more loss events that have occurred after initial recognition with a negative impact on the estimated future cash flows of a loan or a portfolio of loans. The Bank recognizes a lifetime ECL for Stage 3 financial instruments.



Definition of “default”

The Bank classifies a financial instrument as in default when it is credit impaired, or becomes past due on its contractual payments for more than 90 days except for microfinance loans wherein days past due is more than 10 days. As part of a qualitative assessment of whether a customer is in default, the Bank considers a variety of instances that may indicate unlikeliness to pay. When such events occur, the Bank carefully considers whether the event should result in treating the customer as defaulted. An instrument is considered to be no longer in default (i.e. restored) if there is sufficient evidence to support that full collection is probable and payments are received for at least six months.

Credit risk at initial recognition

The Bank uses internal credit assessment and approvals at various levels to determine the credit risk of exposures at initial recognition. Assessment can be quantitative or qualitative and depends on the materiality of the facility or the complexity of the portfolio to be assessed.

Significant increase in credit risk

The assessment of whether there has been a significant increase in credit risk is based on an increase in the probability of a default occurring since initial recognition. The SICR criteria vary by portfolio and include quantitative changes in probabilities of default and qualitative factors, including a backstop based on delinquency. The credit risk of a particular exposure is deemed to have increased significantly since initial recognition if, based on the Bank’s internal credit assessment, the borrower or counterparty is determined to require close monitoring or with well-defined credit weaknesses.

For exposures without internal credit grades, if contractual payments are more than 30 days (except for microfinance loans wherein the threshold for SICR is 7 - 10 days), the credit risk is deemed to have increased significantly since initial recognition. Days past due are determined by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received. Due dates are determined without considering any grace period that might be available to the borrower. In subsequent reporting periods, if the credit risk of the financial instrument improves such that there is no longer a SICR since initial recognition, the Bank shall revert to recognizing a 12-month ECL.

ECL parameters and methodologies

ECL is a function of the probability of default (PD), loss given default (LGD) and exposure at default (EAD), with the timing of the loss also considered, and is estimated by incorporating forward-looking economic information and through the use of experienced credit judgment.

The PD is an estimate of the likelihood of default over a 12-month horizon for Stage 1 or lifetime horizon for Stage 2. The PD for each individual instrument is modelled based on historic data and is estimated based on current market conditions and reasonable and supportable information about future economic conditions. The Bank segmented its credit exposures based on homogenous risk characteristics and developed a corresponding PD methodology for each portfolio. The PD methodology for each relevant portfolio is determined based on the underlying nature or characteristic of the portfolio, behavior of the accounts and materiality of the segment as compared to the total portfolio.

LGD is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, including from any collateral.

EAD is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal and interest, and expected drawdowns on committed facilities.



Forward-looking information

The Bank incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL. A broad range of forward-looking information are considered as economic inputs, such as GDP growth, exchange rate, interest rate, inflation rate and other economic indicators. The inputs and models used for calculating ECL may not always capture all characteristics of the market at the date of the financial statements. To reflect this, qualitative adjustments or overlays are occasionally made as temporary adjustments when such differences are significantly material.

Write-offs

Financial assets are written off either partially or in their entirety only when the Bank has stopped pursuing the recovery.

Restructured loans

Where possible, the Bank seeks to restructure past due loans rather than take possession of the related collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, any impairment is measured using the original EIR as calculated before the modification of terms and the loan is no longer considered past due. Management continually reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original EIR. The difference between the recorded value of the original loan and the present value of the restructured cash flows, discounted at the original EIR, is recognized as part of interest income in the statement of income.

Financial Liabilities

Financial liabilities are classified as financial liabilities at FVTPL and other financial liabilities. The classification of financial liabilities at initial recognition depends on the purpose for which the financial liabilities are incurred and their characteristics.

As of December 31, 2021 and 2020, the Bank has no financial liabilities at FVTPL.

Other financial liabilities

This pertains to financial liabilities that are not held for trading or not designated as at FVTPL at the inception of the liability. Other financial liabilities are recognized initially at fair value and are subsequently carried at amortized cost, taking into account the impact of applying the effective interest method of amortization (or accretion) for any related premium, discount and any directly attributable transaction costs.

This category includes 'Deposit liabilities', 'Redeemable preferred shares', and certain items under 'Accrued expenses' and 'Other liabilities'.

Financial liabilities are measured at amortized cost, except for the following:

- financial liabilities measured at fair value through profit or loss;
- financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the Bank retains continuing involvement;
- financial guarantee contracts;
- commitments to provide a loan at a below-market interest rate; and
- contingent consideration recognized by an acquirer in accordance with PFRS 3.



A financial liability may be designated at fair value through profit or loss if it eliminates or significantly reduces a measurement or recognition inconsistency (an accounting mismatch) or:

- if a host contract contains one or more embedded derivatives; or
- if a group of financial liabilities or financial assets and liabilities is managed and its performance evaluated on a fair value basis in accordance with a documented risk management or investment strategy.

Where a financial liability is designated at fair value through profit or loss, the movement in fair value attributable to changes in the Bank's own credit quality is calculated by determining the changes in credit spreads above observable market interest rates and is presented separately in other comprehensive income.

Offsetting Financial Instruments

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. The Bank assess that they have currently enforceable right of offset if the right is not contingent on a future event, and is legally enforceable in the normal course of business, event of default, and event of insolvency or bankruptcy of the Bank and all of the counterparties.

Income and expenses are not offset in the statement of income unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the accounting policies of the Bank.

Derecognition of Financial Assets and Liabilities

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized when:

- the rights to receive cash flows from the asset have expired; or
- the Bank has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; or
- the Bank has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control over the asset.

Where the Bank has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control over the asset, the Bank continues to recognize the transferred asset to the extent of the Bank's continuing involvement. In that case, the Bank also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Bank has retained.

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



The Bank derecognizes a financial asset when the terms and conditions have been renegotiated to the extent that, substantially, it becomes a new asset, with the difference between its carrying amount and the fair value of the new asset recognized as a derecognition gain or loss in profit or loss, to the extent that an impairment loss has not already been recorded.

The Bank considers both qualitative and quantitative factors in assessing whether a modification of financial asset is substantial or not. When assessing whether a modification is substantial, the Bank considers the following factors, among others:

- Change in currency
- Introduction of an equity feature
- Change in counterparty
- If the modification results in the asset no longer considered “solely payment for principal and interest”

The Bank also performs a quantitative assessment similar to that being performed for modification of financial liabilities. In performing the quantitative assessment, the Bank considers the new terms of a financial asset to be substantially different if the present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10.00% different from the present value of the remaining cash flows of the original financial asset.

When the contractual cash flows of a financial asset are renegotiated or otherwise modified and the renegotiation or modification does not result in the derecognition of that financial asset, the Bank recalculates the gross carrying amount of the financial asset as the present value of the renegotiated or modified contractual cash flows discounted at the original EIR (or credit-adjusted EIR for purchased or originated credit-impaired financial assets) and recognizes a modification gain or loss in the statement of income.

When the modification of a financial asset results in the derecognition of the existing financial asset and the subsequent recognition of a new financial asset, the modified asset is considered a 'new' financial asset. Accordingly, the date of the modification shall be treated as the date of initial recognition of that financial asset when applying the impairment requirements to the modified financial asset. The newly recognized financial asset is classified as Stage 1 for ECL measurement purposes, unless the new financial asset is deemed to be originated as credit impaired (POCI).

Financial liability

A financial liability is derecognized when the obligation under the liability is discharged or cancelled or has expired. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in statement of income.

Property and Equipment

Land is stated at cost less any impairment in value. Depreciable property and equipment are carried at cost less accumulated depreciation and amortization, and any impairment in value.

The initial cost of property and equipment consists of its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditures incurred after the property and equipment have been put into operation, such as repairs and maintenance, are normally charged against operations in the year the costs are incurred. In situations



where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of property and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as an additional cost of property and equipment.

Depreciation and amortization are calculated using the straight-line method over the estimated useful life of the depreciable assets. Leasehold improvements are amortized over the shorter of the terms of the covering leases and the estimated useful lives of the improvements.

The estimated useful lives of property and equipment follow:

Building	25 years
Furniture and fixtures	1 to 3 years
Information technology (IT) and other office equipment	1 to 3 years
Transportation equipment	1 to 5 years
Leasehold improvements	10 years

The useful lives and the depreciation and amortization method are reviewed periodically to ensure that the period and the method of depreciation and amortization are consistent with the expected pattern of economic benefits from the items of property and equipment and adjusted prospectively, if appropriate.

The carrying values of the property and equipment and any significant part initially recognized are reviewed for impairment when events or changes in circumstances indicate the carrying values may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, an impairment loss is recognized in the statement of income (see accounting policy on Impairment of Non-financial Assets).

An item of property and equipment and any significant part initially recognized is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising from derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of income in the year the asset is derecognized.

The Bank classifies right-of-use assets as part of property and equipment. The Bank recognizes right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are initially measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The initial cost of right-of-use assets includes the amount of lease liabilities recognized, initial direct costs incurred, lease payments made at or before the commencement date less any less any lease incentives received and estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories. Unless the Bank is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognized right-of-use assets are depreciated on a straight-line basis over the shorter of their estimated useful life and lease term. Right-of-use assets are subject to impairment.

Investment Properties

Investment properties are measured initially at cost, including transaction costs. Transaction costs represent nonrefundable taxes such as capital gains tax and documentary stamp tax that are for the account of the Bank. An investment property acquired through an exchange transaction is measured at fair value of the asset acquired unless the fair value of such an asset cannot be measured in which



case the investment property acquired is measured at the carrying amount of asset given up. Foreclosed properties are classified as investment properties upon: a) entry of judgment in case of judicial foreclosure; b) execution of the Sheriff's Certificate of Sale in case of extra-judicial foreclosure; or c) notarization of the Deed of Dacion in case of dation in payment (dacion en pago). The difference between the fair value of the asset acquired and the carrying amount of the asset given up is recognized as 'Gain on foreclosure - net' in the statement of income.

Subsequent to initial recognition, depreciable investment properties are carried at cost less accumulated depreciation and impairment in value, if any.

Investment properties are derecognized when they have either been disposed of or when they are permanently withdrawn from use and no future benefit is expected from their disposal. Any gains or losses on the retirement or disposal of an investment property are recognized in the statement of income under 'Profit from assets sold' in the year of retirement or disposal.

Expenditures incurred after the investment properties have been put into operations, such as repairs and maintenance costs, are normally charged against income in the year in which the costs are incurred.

Depreciation is calculated on a straight-line basis using the remaining useful lives from the time of acquisition of the investment properties but not to exceed ten (10) years for buildings.

Transfers are made to investment properties when, and only when, there is a change in use evidenced by ending of owner occupation, commencement of an operating lease to another party or ending of construction or development. Transfers are made from investment properties when, and only when, there is a change in use evidenced by commencement of owner occupation or commencement of development with a view to sale.

For a transfer from investment property to owner-occupied property, the deemed cost of property for subsequent accounting is its carrying value at the date of change in use. If the property occupied by the Bank as an owner-occupied property becomes an investment property, the Bank accounts for such property in compliance with the policy stated under property and equipment up to the date of change in use.

Disposal Group Classified as Held for Sale

The Bank classifies disposal group as held for sale if their carrying amounts will be recovered principally through a sale transaction. Such disposal groups are measured at the lower of their carrying amount and fair value less costs to sell. Costs to sell are the incremental costs directly attributable to the sale, excluding the finance costs and income tax expense.

The criteria for held for sale classification is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. Actions required to complete the sale should indicate that it is unlikely that significant changes to the sale will be made or that the decision to sell will be withdrawn. Management must be committed to the sale expected within one year from the date of the classification.

Assets and liabilities of disposal group classified as held for sale are presented separately in the statements of financial position.

Other assets - Repossessed chattels

Repossessed chattels comprise repossessed vehicles and jewelries. Repossessed chattels are stated at cost less accumulated depreciation and impairment in value, if any. Depreciation is calculated on a



straight-line basis using the remaining useful lives of the vehicles from the time of acquisition. The useful lives of repossessed chattels are estimated to be three (3) years.

Intangible Assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is its fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and expenditure is reflected in the statement of income in the year in which the expenditure is incurred.

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible assets may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life is reviewed at least at each statement of financial position date. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortization period or method, as appropriate, and treated as change in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the statement of income consistent with the function of the intangible asset.

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash generating unit (CGU) level. Such intangibles are not amortized. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is made on a prospective basis.

Gains or losses arising from the derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the statement of income when the asset is derecognized.

Branch licenses

Branch licenses arise from the acquisition of licenses to operate new branches from the BSP. Branch licenses have indefinite useful lives and are tested for impairment on an annual basis.

Software costs

Software costs are carried at cost less accumulated amortization and any accumulated impairment loss. Software costs are amortized on a straight-line basis over the estimated useful life which is three (3) years.

Impairment of Non-financial Assets

Property and equipment, investment properties and repossessed chattels

At each statement of financial position date, the Bank assesses whether there is any indication that its non-financial assets may be impaired. When an indicator of impairment exists or when an annual impairment testing for an asset is required, the Bank makes a formal estimate of recoverable amount.

Recoverable amount is the higher of an asset's (or CGU's) fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is assessed as part of the CGU to which it belongs.



Where the carrying amount of an asset (or CGU) exceeds its recoverable amount, the asset (or CGU) is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset (or CGU).

An impairment loss is charged to operations in the year in which it arises. An assessment is made at each statement of financial position date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset (or CGU) is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation and amortization, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the statement of income unless the asset (or CGU) is carried at a revalued amount, in which case the reversal is treated as a revaluation increase. After such a reversal, the depreciation and amortization expense is adjusted in future years to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining life.

Intangible assets

Intangible assets with indefinite useful lives are tested for impairment annually at the statement of financial position date either individually or at the CGU level, as appropriate. Intangible assets with finite lives are assessed for impairment whenever there is an indication that the intangible asset may be impaired.

Revenue Recognition

Revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The Bank follows a five-step model to account for revenue arising from contracts with customers. The five-step model is as follows:

- a. Identify the contract(s) with a customer
- b. Identify the performance obligations in the contract
- c. Determine the transaction price
- d. Allocate the transaction price to the performance obligation in the contract
- e. Recognize revenue when (or as) the entity satisfies a performance obligation

The Bank exercises judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The Bank has concluded that it is acting as a principal in all of its revenue arrangements.

The following specific recognition criteria must also be met before revenue is recognized:

Revenues within the scope of PFRS 15

Service fees and commission income

These fees include service fees on deposit-related accounts and management fees. Fees on deposit-related accounts are recognized only upon collection or accrued when there is reasonable degree of certainty as to its collection.



Income from sale of property and equipment, investment property and repossessed chattels

Income from sale of property and equipment, investment property and repossessed chattels are recognized upon completion of the earning process and the collectability of the sales price is reasonably assured.

Other income

Other income is recognized when earned at a point in time and is recorded under 'Miscellaneous income' in the statement of income.

Revenues outside the scope of PFRS 15

Interest income

For all financial instruments measured at amortized cost and interest-bearing financial instruments, interest income is recorded at the EIR, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options), includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the EIR, but not future credit losses.

The carrying amount of the financial asset or financial liability is adjusted if the Bank revises its estimation of payment or receipts. The adjusted carrying amount is calculated based on the original EIR and the change in carrying amount is recorded as 'Interest income'.

Once the recorded value of a financial asset or group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognized using the original EIR applied to the new carrying amount.

Interest income - finance lease

The excess of aggregate lease rentals plus the estimated residual value over the cost of the leased investment property constitutes the unearned lease income. Residual values represent estimated proceeds from the disposal of investment property at the time lease is estimated. The unearned lease income is amortized over the term of the lease, commencing on the month the lease is executed using the EIR method.

Unearned lease income ceases to be amortized when the lease contract receivables become past due for more than three months.

Rental income

Rental income arising from operating leased properties is accounted for on a straight-line basis over the lease terms on ongoing leases and is recorded in the statement of income under 'Miscellaneous income'.

Expense Recognition

Expenses are recognized when it is probable that decrease in future economic benefits related to the decrease in asset or an increase in liability has occurred and that the decrease in economic benefits can be measured reliably. Expenses that may arise in the course of ordinary regular activities of the Bank include, among others, the operating expenses on the Bank's operation. Expenses are recognized as incurred.



Borrowing Cost

Borrowing costs are capitalized if they are directly attributable to the acquisition of a qualifying asset. Capitalization of borrowing costs commences when the activities to prepare the qualifying assets are in progress and expenditures and borrowing costs are incurred. Borrowing costs are capitalized until the qualifying assets are substantially ready for their intended use. All other borrowing costs are expensed as incurred.

Leases

The Bank determines at contract inception whether a contract is, or contains, a lease by assessing whether the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Bank as a lessor

Finance leases, where the Bank transfers substantially all the risks and benefits incidental to ownership of the leased item to the lessee, are included in the statement of financial position under 'Loans and receivables' account. A lease receivable is recognized at an amount equal to the net investment in the lease. All income resulting from the receivables is included in 'Interest income on loans and receivables' in the statement of income.

Leases where the Bank does not transfer substantially all the risks and benefits of ownership of the assets are classified as operating leases. Initial direct costs incurred in negotiating operating leases are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as the rental income. Contingent rents are recognized as revenue in the year in which they are earned.

Bank as a lessee

The Bank applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Bank recognizes right-of-use assets representing the right to use the underlying assets and lease liabilities to make lease payments.

Lease liabilities

At the commencement date of the lease, the Bank recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Bank and payments of penalties for terminating a lease, if the lease term reflects the Bank exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognized as expense in the period on which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Bank uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset. Lease liabilities are presented under 'Other liabilities' in the statement of financial position.

Short-term leases and leases of low-value assets

The Bank applies the short-term lease recognition exemption to its leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option, and low-value assets



recognition exemption to its leases of kiosk spaces on offsite locations and other equipment that are considered of low value (i.e., below ₱250,000). Lease payments on short-term leases and leases of low-value assets are recognized as expense under 'Occupancy and equipment-related' on a straight-line basis over the lease term.

Retirement Cost

The Bank has noncontributory defined benefit plan covering substantially all its officers and regular employees. Under this retirement plan, all covered officers and regular employees are entitled to cash benefits after satisfying certain age and service requirements.

The net defined benefit liability or asset is the aggregate of the present value of the defined benefit obligation at the end of the reporting period reduced by the fair value of plan assets (if any), adjusted for any effect of limiting a net defined benefit asset to the asset ceiling. The asset ceiling is the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

The cost of providing benefits under the defined benefit plans is actuarially determined using the projected unit credit method.

Defined benefit costs comprise the following:

- Service cost
- Net interest on the net defined benefit liability or asset
- Remeasurements of net defined benefit liability or asset

Service costs which include current service costs, past service costs and gains or losses on non-routine settlements are recognized as expense in the statement of income. Past service costs are recognized when plan amendment or curtailment occurs. These amounts are calculated periodically by independent qualified actuaries.

Net interest on the net defined benefit liability or asset is the change during the period in the net defined benefit liability or asset that arises from the passage of time which is determined by applying the discount rate based on government bonds to the net defined benefit liability or asset.

Net interest on the net defined benefit liability or asset is recognized as expense or income in the statement of income.

Remeasurements comprising actuarial gains and losses, return on plan assets and any change in the effect of the asset ceiling (excluding net interest on defined benefit liability) are recognized immediately in statement of other comprehensive income (OCI) in the period in which they arise. Remeasurements are not reclassified to the statement of income in subsequent periods.

The Bank's right to be reimbursed of some or all of the expenditure required to settle a defined benefit obligation is recognized as a separate asset at fair value when and only when reimbursement is virtually certain.

Termination benefit

Termination benefits are employee benefits provided in exchange for the termination of an employee's employment as a result of either an entity's decision to terminate an employee's employment before the normal retirement date or an employee's decision to accept an offer of benefits in exchange for the termination of employment.



A liability and expense for a termination benefit is recognized at the earlier of when the entity can no longer withdraw the offer of those benefits and when the entity recognizes related restructuring costs. Initial recognition and subsequent changes to termination benefits are measured in accordance with the nature of the employee benefit, as either post-employment benefits, short-term employee benefits, or other long-term employee benefits.

Provisions

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

Contingent Liabilities and Contingent Assets

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

Income Taxes

Current tax

Current tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the statement of financial position date. Effective January 1, 2019, management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretations and establishes provisions where appropriate.

Deferred tax

Deferred tax is provided, using the statement of financial position method, on temporary differences at the statement of financial position date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognized for all taxable temporary differences, except:

- When the deferred tax liability arises from the initial recognition or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses.



Deferred tax assets are recognized to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry forward of unused tax credits and unused tax losses can be utilized, except:

- When the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.
- In respect of deductible temporary differences associated with investment in subsidiaries, associates and interest in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on the tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognized outside profit or loss is recognized outside profit or loss. Deferred tax items are recognized in correlation to the underlying transactions either in OCI or directly in equity.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and same taxation authority. Tax benefits acquired as part of a business combination, but not satisfying criteria for separate recognition at that date, are recognized subsequently if new information about facts and circumstances change. The adjustment is either treated as a reduction in goodwill (as long as it does not exceed goodwill) if it was incurred during the measurement period or recognized in profit or loss.

Events After the Reporting Period

Post year-end events that provide additional information about the Bank's position at the statement of financial position date (adjusting events) are reflected in the financial statements. Post year-end events that are not adjusting events are disclosed in the notes to the financial statements when material.

Standards Issued but Not Yet Effective

Standards issued but not yet effective up to the date of issuance of the Bank's financial statements are listed below. The listing consists of standards and interpretations issued, which the Bank reasonably expects to be applicable at a future date. The Bank intends to adopt these standards when they become effective. Except as otherwise indicated, the Bank does not expect the adoption of these new and amended PAS, PFRS and Philippine Interpretations to have significant impact on the financial statements.



Effective beginning on or after January 1, 2022

- Amendments to PFRS 3, *Reference to the Conceptual Framework*
The amendments are intended to replace a reference to the Framework for the Preparation and Presentation of Financial Statements, issued in 1989, with a reference to the Conceptual Framework for Financial Reporting issued in March 2018 without significantly changing its requirements. The amendments added an exception to the recognition principle of PFRS 3, *Business Combinations* to avoid the issue of potential ‘day 2’ gains or losses arising for liabilities and contingent liabilities that would be within the scope of PAS 37, *Provisions, Contingent Liabilities and Contingent Assets* or Philippine-IFRIC 21, *Levies*, if incurred separately.

At the same time, the amendments add a new paragraph to PFRS 3 to clarify that contingent assets do not qualify for recognition at the acquisition date.

- Amendments to PAS 16, *Plant and Equipment: Proceeds before Intended Use*
The amendments prohibit entities deducting from the cost of an item of property, plant and equipment, any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognizes the proceeds from selling such items, and the costs of producing those items, in profit or loss.
- Amendments to PAS 37, *Onerous Contracts – Costs of Fulfilling a Contract*
The amendments specify which costs an entity needs to include when assessing whether a contract is onerous or loss-making. The amendments apply a “directly related cost approach”. The costs that relate directly to a contract to provide goods or services include both incremental costs and an allocation of costs directly related to contract activities. General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract.
- *Annual Improvements to PFRSs 2018-2020 Cycle*
 - Amendments to PFRS 1, *First-time Adoption of Philippines Financial Reporting Standards, Subsidiary as a first-time adopter*
The amendment permits a subsidiary that elects to apply paragraph D16(a) of PFRS 1 to measure cumulative translation differences using the amounts reported by the parent, based on the parent’s date of transition to PFRS. This amendment is also applied to an associate or joint venture that elects to apply paragraph D16(a) of PFRS 1.
 - Amendments to PFRS 9, *Financial Instruments, Fees in the ‘10 per cent’ test for derecognition of financial liabilities*
The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other’s behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment.



- Amendments to PAS 41, *Agriculture, Taxation in fair value measurements*
The amendment removes the requirement in paragraph 22 of PAS 41 that entities exclude cash flows for taxation when measuring the fair value of assets within the scope of PAS 41.

Effective beginning on or after January 1, 2023

- Amendments to PAS 12, *Deferred Tax related to Assets and Liabilities arising from a Single Transaction*
The amendments narrow the scope of the initial recognition exception under PAS 12, so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences.

The amendments also clarify that where payments that settle a liability are deductible for tax purposes, it is a matter of judgement (having considered the applicable tax law) whether such deductions are attributable for tax purposes to the liability recognized in the financial statements (and interest expense) or to the related asset component (and interest expense).

An entity applies the amendments to transactions that occur on or after the beginning of the earliest comparative period presented for annual reporting periods on or after January 1, 2023.

- Amendments to PAS 8, *Definition of Accounting Estimates*
The amendments introduce a new definition of accounting estimates and clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors. Also, the amendments clarify that the effects on an accounting estimate of a change in an input or a change in a measurement technique are changes in accounting estimates if they do not result from the correction of prior period errors.
- Amendments to PAS 1 and PFRS Practice Statement 2, *Disclosure of Accounting Policies*
The amendments provide guidance and examples to help entities apply materiality judgements to accounting policy disclosures. The amendments aim to help entities provide accounting policy disclosures that are more useful by:
 - Replacing the requirement for entities to disclose their ‘significant’ accounting policies with a requirement to disclose their ‘material’ accounting policies, and
 - Adding guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures

Effective beginning on or after January 1, 2024

- Amendments to PAS 1, *Classification of Liabilities as Current or Non-current*
The amendments clarify paragraphs 69 to 76 of PAS 1, *Presentation of Financial Statements*, to specify the requirements for classifying liabilities as current or non-current. The amendments clarify:
 - What is meant by a right to defer settlement
 - That a right to defer must exist at the end of the reporting period
 - That classification is unaffected by the likelihood that an entity will exercise its deferral right
 - That only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification



Effective beginning on or after January 1, 2025

- **PFRS 17, *Insurance Contracts***
PFRS 17 is a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, PFRS 17 will replace PFRS 4, *Insurance Contracts*. This new standard on insurance contracts applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply.

The overall objective of PFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in PFRS 4, which are largely based on grandfathering previous local accounting policies, PFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of PFRS 17 is the general model, supplemented by:

- A specific adaptation for contracts with direct participation features (the variable fee approach)
- A simplified approach (the premium allocation approach) mainly for short-duration contracts

On December 15, 2021, the Financial Reporting Standards Council amended the mandatory effective date of PFRS 17 from January 1, 2023 to January 1, 2025. This is consistent with Circular Letter No. 2020-62 issued by the Insurance Commission which deferred the implementation of IFRS 17 by two years after its effective date as decided by the International Accounting Standards Board

PFRS 17 is effective for reporting periods beginning on or after January 1, 2025, with comparative figures required. Early application is permitted.

Deferred effectivity

- **Amendments to PFRS 10, *Consolidated Financial Statements*, and PAS 28, *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture***
The amendments address the conflict between PFRS 10 and PAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that a full gain or loss is recognized when a transfer to an associate or joint venture involves a business as defined in PFRS 3. Any gain or loss resulting from the sale or contribution of assets that does not constitute a business, however, is recognized only to the extent of unrelated investors' interests in the associate or joint venture.

On January 13, 2016, the Financial Reporting Standards Council deferred the original effective date of January 1, 2016 of the said amendments until the IASB completes its broader review of the research project on equity accounting that may result in the simplification of accounting for such transactions and of other aspects of accounting for associates and joint ventures.



3. Significant Accounting Judgments and Estimates

The preparation of the Bank's financial statements requires the management to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses and the disclosures of contingent assets and contingent liabilities. Future events may occur which can cause the assumptions used in arriving at the estimates to change. The effects of any change in estimates are reflected in the financial statements as they become reasonably determinable.

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

The following are the critical judgments and key assumptions that have a significant risk of material adjustment to the carrying amounts of assets and liabilities within the next financial year:

Judgments

a) Evaluation of business model in managing financial instruments

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

In determining the classification of a financial instrument under PFRS 9, the Bank developed business models which reflect how it manages its portfolio of financial instruments. The Bank's business models need not be assessed at entity level or as a whole but applied at the level of a portfolio of financial instruments (i.e., group of financial instruments that are managed together by the Bank) and not on an instrument-by-instrument basis (i.e., not based on intention or specific characteristics of individual financial instrument). The Bank evaluates in which business model a financial instrument or a portfolio of financial instruments belong to taking into consideration the objectives of each business model established by the Bank.

In addition, PFRS 9 emphasizes that if more than an infrequent and more than an insignificant sale is made out of a portfolio of financial assets carried at amortized cost, an entity should assess whether and how such sales are consistent with the objective of collecting contractual cash flows. In making this judgment, the Bank considers certain circumstances documented in its business model manual to assess that an increase in the frequency or value of sales of financial instruments in a particular period is not necessarily inconsistent with a held-to-collect business model if the bank can explain the reasons for those sales and why those sales do not reflect a change in the Bank's objective for the business model.

In 2020, the Bank disposed government securities classified as HTC securities with carrying amount of ₱180.98 million which resulted in a gain of ₱2.93 million recorded in the statement of income under 'Profit from assets sold'. The sale was due to a change in management's intention from holding the instrument to collect principal and interest to realizing the gain from the disposal of the securities in view of the impact of the COVID-19 pandemic. The remaining HTC securities of the Bank will remain to be under HTC business model (see Note 7).



b) Contingencies

The Bank is currently involved in various legal proceedings. The estimate of the probable cost for the resolution of claims has been developed in consultation with the outside legal counsel handling the Bank's defense in this matter and is based upon an analysis of potential results. Management does not believe that the outcome of this matter will affect the results of operations. It is probable, however, that future results of operations could be materially affected by changes in the estimates or in the effectiveness of the strategies relating to these proceedings (see Note 23).

c) Classification of disposal group as held for sale

In determining the classification of disposal group as held for sale, the Bank assesses whether the held for sale criteria were met. In making this judgment, the Bank considers the following:

- availability of the disposal group for immediate sale in its present condition subject only to terms that are usual and customary for sales; and
- the sale must be highly probable

For the sale to be highly probable, management must be committed to the sale, and an active program to locate a buyer and complete the plan must have been initiated. Further, the disposal group must be actively marketed for sale at a price that is reasonable in relation to its current fair value. In addition, the sale should be expected to qualify for recognition as a completed sale within one year from the date of classification and actions required to complete the plan should indicate that it is unlikely that significant changes to the sale will be made or that the decision to sell will be withdrawn.

The management of the Bank is committed to its plan to sell and has taken sufficient steps necessary for the disposal of the assets and liabilities as of December 31, 2021. The Board approved the sale of selected assets and liabilities to the Parent Bank in its meeting held on October 21, 2021. The necessary applications and documents were submitted to the regulators in November 2021.

Management has determined that the disposal group met the criteria to be classified as held for sale as of December 31, 2021. The details of the assets and liabilities of disposal group classified as held for sale are disclosed in Note 24.

Estimates

a) Impairment of financial assets

The measurement of impairment losses under PFRS 9 across all categories of financial assets requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances.

Elements of the ECL models that are considered accounting judgements and estimates include:

- Internal credit grading model, which assigns PDs to the individual grades
- Criteria for assessing if there has been a significant increase in credit risk and so allowances for financial assets should be measured on a lifetime CL basis and the qualitative assessment
- The segmentation of financial assets when their ECL is assessed on a collective basis
- Development of ECL models, including the various formulas and the choice of inputs



- Determination of associations between macroeconomic scenarios and, economic inputs, such as unemployment levels and collateral values, and the effect on PDs, EADs and LGDs
- Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models

The ECL models and all ECL-related policies are approved by the Risk Management Committee and the Board of Directors. The Risk Management Unit calculates the ECL for all credit risk exposures. The total ECL that will be booked by the General Accounting Division is approved by both the Chief Operating Officer and the Chief Risk Officer.

The carrying value of and the allowance for credit losses on loans and receivables of the Bank as of December 31, 2021 and 2020 are disclosed in Notes 8 and 12, respectively.

b) Impairment of non-financial assets

The Bank assesses impairment on property and equipment, investment properties and repossessed chattels whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The factors that the Bank considers important which could trigger an impairment review include the following:

- significant underperformance relative to expected historical or projected future operating results;
- significant changes in the manner of use of the acquired assets or the strategy for overall business; and
- significant negative industry or economic trends.

An impairment loss is recognized whenever the carrying amount of an asset exceeds its recoverable amount. The recoverable amount is computed using the value in use approach for property and equipment and fair value less costs to sell for investment properties and repossessed chattels. Recoverable amounts are estimated for individual assets or, if it is not possible, for the CGU to which the asset belongs.

The Bank's reversal for allowance for impairment losses pertains to increase in recoverable amount of its investment properties which has been determined based on its fair value less cost to sell, using the valuation techniques as discussed in Note 5.

The details of the carrying values of and the allowance for impairment losses, if any, on property and equipment, investment properties and repossessed chattels are discussed in Notes 9, 10, 11 and 12.

Branch licenses

Branch license is considered an intangible asset with an indefinite useful life and it is required to be tested for impairment annually by comparing its carrying amount with its recoverable amount, irrespective of whether there is any indication that it may be impaired. The recoverable amount of the CGU has been determined based on a value in use calculations using cash flow projections from financial budgets approved by senior management covering a five-year period. The Bank used the cost of equity as discount rate. Key assumptions used in the value in use calculation are pre-tax discount rate and growth rate, which are at 10.54% and 5.00%, respectively in 2021. Management believes that no reasonably possible change in any of the key assumptions used would cause the carrying value of the CGUs to exceed their recoverable amount. As of December 31, 2021 and 2020, the licensing fee for establishment of a branch and a branch-lite unit of a thrift bank is ₱0.20 million and ₱0.01 million, respectively. The carrying values of and



the allowance for impairment losses on branch licenses of the Bank are disclosed in Notes 11 and 12, respectively. In 2021 and 2020, the Bank has not recognized provision for impairment losses on branch licenses (see Note 12).

c) Present value of retirement liability

The cost of pension and other employee benefits as well as the present value of the pension obligation are determined using actuarial valuations. The actuarial valuation involves making various assumptions. These include the determination of the discount rates, future salary increases, mortality rates and future pension increases. Due to the complexity of the valuation, the underlying assumptions and its long-term nature, defined benefit obligations are highly sensitive to changes in these assumptions. All assumptions are reviewed at each statement of financial position date.

As of December 31, 2021 and 2020, the present value of retirement obligation of the Bank amounted to ₱28.96 million and ₱22.64 million, respectively (see Note 19).

In determining the appropriate discount rate, management considers the interest rates of government bonds that are denominated in the currency in which the benefits will be paid, with extrapolated maturities corresponding to the expected duration of the defined benefit obligation.

The mortality rate is based on publicly available mortality tables for the specific country and is modified accordingly with estimates of mortality improvements. Future salary increases and pension increases are based on expected future inflation rates for the specific country.

d) Recognition of deferred tax assets

Deferred tax assets are recognized for temporary differences, unused tax losses and excess of MCIT over RCIT to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profits available which is primarily derived from interest income on loans and receivables and affected by expected future market or economic conditions and the expected performance of the Bank together with future tax planning strategies.

The estimates of future taxable income indicate that certain temporary differences will be realized in the future. The primary source of the income of the Bank is coming from interest income from loans and receivables. The Bank is in tax income position and tax loss position in 2021 and 2020, respectively. Management uses historical information and forecast of future economic conditions and overall strategies of the Bank as basis of growth in projecting future taxable income. The details of the temporary differences with unrecognized deferred tax assets and recognized deferred tax assets and liabilities are disclosed in Note 21.

4. Financial Risk Management Objectives and Policies

The main risks arising from the Bank's financial instruments are credit, market and liquidity risks. In general, the Bank's risk management objective is to ensure that risks taken are within the Bank's risk appetite, which is assessed based on the Bank's capital adequacy framework. The risk management process involves risk identification, measurement, monitoring and control.

The Bank recognizes that risk management is the responsibility of the entire organization. Accordingly, all employees are expected to manage risks relating to their own responsibilities. Still, there are specialized entities within the Bank that perform certain risk management functions.



The Board of Directors (BOD) ultimately oversees and approves significant matters related to risk management throughout the Bank. The BOD directly carries out its primary responsibilities as required by law and through committees and subcommittees for specific areas of focus. The Management Committee approves all major risk taking activities of the Bank, and functions as the BOD's operating committee for approval of all major credit risks.

Among the Bank's committees are:

- the Risk Management Committee (RMC), which formulates policies and strategies to identify, measure, manage and limit the Bank's risks;
- the Audit Committee (AC), which examines the Bank's framework of risk management, control and governance process to ensure that these are adequate and functional; and
- the Corporate Governance Committee (CGC), which ensures the BOD's effectiveness and due observance of the corporate governance principles and guidelines.

The following units within the Bank jointly perform risk management functions on a daily basis:

- Compliance for regulatory risk;
- Treasury for funding and liquidity risk;
- Credit Cycle and Operations for credit risk;
- Risk Management for various risks, including market, credit and operational risks; and
- Internal Audit for the evaluation of the adequacy of internal control systems, covering operational risk.

These units submit various risk reports to the Management Committee, the RMC, the AC, the CGC and the BOD, among others.

Further specific risk management disclosures, including mitigation, measurement and control, are in the succeeding sections.

Credit Risk

Credit risk may be defined as the possibility of loss due to the failure of a customer/borrower or counterparty to perform its obligation to the Bank.

The Bank has several credit risk mitigation practices:

- The Bank offers a variety of loan products with substantial collateral values. The latter part of this credit risk section discusses collateral and other credit enhancements.
- Limits are set on the amount of credit risk that the Bank is willing to take for customers and counterparties, and exposures are monitored against such credit limits.
- The Bank also observes related regulatory limits such as the single borrower's limit (SBL) and directors, officers, stockholders and related interests (DOSRI) ceiling.
- The Bank assesses the probability of default by its borrowers using an internal loan classification system.
- Past due and non-performing loan (NPL) ratios are also used to measure and monitor the quality of the loan portfolio.



Maximum exposure to credit risk after collateral held or other credit enhancements

The table below shows the Bank's net credit risk exposure for some items in loans and receivables after considering the financial effect of collateral and other credit enhancements:

	2021			
	Carrying Amount	Fair Value of Collateral	Financial Effect of Collateral	Maximum Exposure to Credit Risk
SPURA	₱117,595,804	₱117,611,483	₱117,595,804	₱—
Loans and receivables*				
Receivables from customers				
Consumption	1,598,612,021	224,063,874	99,527,698	1,499,084,323
Real estate	141,488,213	303,071,552	140,639,679	848,534
Commercial	57,452,154	237,734,565	55,754,389	1,697,765
Other receivables				
Accrued interest receivable	29,651,392	—	—	29,651,392
Sales contract receivable	18,431,334	93,836,481	18,431,334	—
Accounts receivable	8,652,994	—	—	8,652,994
Total	₱1,971,883,912	₱976,317,955	₱431,948,904	₱1,539,935,008

*Include assets of disposal group classified as held for sale

	2020			
	Carrying Amount	Fair Value of Collateral	Financial Effect of Collateral	Maximum Exposure to Credit Risk
SPURA	₱129,666,175	₱129,689,227	₱129,666,175	₱—
Loans and receivables				
Receivables from customers				
Consumption	1,332,142,721	205,513,546	141,170,687	1,190,972,034
Commercial	97,398,209	280,578,397	57,114,321	40,283,888
Real estate	83,486,396	197,692,525	83,486,396	—
Other receivables				
Accrued interest receivable	52,725,905	—	—	52,725,905
Accounts receivable	38,227,277	—	—	38,227,277
Sales contract receivable	20,508,312	112,880,782	20,508,312	—
Total	₱1,754,154,995	₱926,354,477	₱431,945,891	₱1,322,209,104

Offsetting of financial assets and financial liabilities

The Bank has also entered into a reverse sale and repurchase agreements with various counterparties that are accounted for as a collateralized lending. These transactions are subject to a global master repurchase agreement with a right of set-off only against the collateral securities upon default and insolvency or bankruptcy and therefore do not meet the offsetting criteria under PAS 32.

Consequently, the related SPURA is presented separately from the collateral securities in the Bank's statements of financial position.

The table below presents the recognized financial instruments of the Bank that are offset, or subject to enforceable master netting agreements or other similar arrangements but not offset, as at December 31, 2021 and 2020, taking into account the effects of over-collateralization.

	Gross amounts of recognized financial instruments	Gross amounts set-off in accordance with the PAS 32 offsetting criteria	Net amount presented in statements of financial position	Effect of remaining rights of set-off that do not meet PAS 32 offsetting criteria		Net exposure
				Financial instruments	Financial collateral	
2021						
Financial Assets						
SPURA	₱117,595,804	₱—	₱117,595,804	₱—	₱117,595,804	₱—



	Gross amounts of recognized financial instruments	Gross amounts set-off in accordance with the PAS 32 offsetting criteria	Net amount presented in statements of financial position	Effect of remaining rights of set-off that do not meet PAS 32 offsetting criteria		Net exposure
				Financial instruments	Financial collateral	
2020						
Financial Assets						
SPURA	₱129,666,175	₱—	₱129,666,175	₱—	₱129,666,175	₱—

Collateral and other credit enhancement

The amount and type of collateral required depends on an assessment of credit risk. Guidelines are implemented regarding the acceptability of types of collateral and valuation parameters.

The main types of collateral obtained are as follows:

- Real Estate Mortgages (REM) over real estate for housing loan, consumption, and SME loans; and
- Chattels Mortgages (CM) over vehicle and inventory for auto loans, consumption loan, SME loans, and small business loans.
- Securities for securities lending and reverse repurchase transactions

It is the Bank's policy to dispose of repossessed properties in an orderly fashion. In general, the proceeds are used to reduce or repay the outstanding claim, and are not occupied for business use.

Concentration of credit

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Bank's performance to developments affecting a particular industry.

The tables below show the distribution of maximum credit exposure to credit risk by industry sector of the Bank before taking into account collateral held and other credit enhancements:

	2021				
	Loans and Receivables*	Advances to Banks**	Investment securities at amortized cost	Refundable deposits	Total
Other service activities	₱1,667,824,926	₱—	₱—	₱—	₱1,667,824,926
Financial and insurance Activities	20,533	602,928,375	—	—	602,948,908
Wholesale and retail trade, repair of motor vehicles and motorcycles	189,252,170	—	20,000,000	—	209,252,170
Real estate activities	178,630,414	—	—	2,427,107	181,057,521
Agriculture, forestry and fishing	36,667,920	—	—	—	36,667,920
Construction	15,351,477	—	—	—	15,351,477
Education	11,896,965	—	—	—	11,896,965
Manufacturing	5,609,977	—	—	—	5,609,977
Accommodation & food services activities	5,137,336	—	—	—	5,137,336
Professional, scientific and technical activities	4,723,939	—	—	—	4,723,939
Transportation and storage	2,227,519	—	—	—	2,227,519
Mining and quarrying	295,624	—	—	—	295,624

(Forward)



	2021				
	Loans and Receivables*	Advances to Banks**	Investment securities at amortized cost	Refundable deposits	Total
Water supply, sewerage, waste management and remediation activities	₱256,867	₱—	₱—	₱—	₱256,867
Arts, entertainment and recreation	163,535	—	—	—	163,535
Activities of households as employers and undifferentiated goods- and-services-producing activities of households for own use	157,067	—	—	—	157,067
Human health and social work activities	105,656	—	—	—	105,656
Information and communication	105,403	—	—	—	105,403
Electricity, gas, steam and air, conditioning supply	96,074	—	—	—	96,074
Administrative and support service activities	8,278	—	—	—	8,278
	2,118,531,680	602,928,375	20,000,000	2,427,107	2,743,887,162
Less allowance for credit losses	264,243,572	—	1,900	—	264,245,472
	₱1,854,288,108	₱602,928,375	₱19,998,100	₱2,427,107	₱2,479,641,690

*Include assets of disposal group classified as held for sale

**Comprised of Due from BSP, Due from other banks and SPURA

	2020				
	Loans and Receivables	Advances to Banks*	Investment securities at amortized cost	Refundable deposits	Total
Other services activities	₱1,419,896,978	₱—	₱—	₱—	₱1,419,896,978
Financial and insurance activities	441,046	672,744,129	—	—	673,185,175
Wholesale & retail trade, repair of motor vehicles, motorcycles	209,277,029	—	20,000,000	—	229,277,029
Real estate activities	121,197,876	—	—	1,968,719	123,166,595
Agriculture, forestry and fishing	50,588,425	—	—	—	50,588,425
Construction	18,129,467	—	—	—	18,129,467
Education	14,335,454	—	—	—	14,335,454
Manufacturing	8,678,163	—	—	—	8,678,163
Accommodation and food service activities	6,821,863	—	—	—	6,821,863
Professional, scientific and technical activities	6,461,810	—	—	—	6,461,810
Transportation and storage	2,503,627	—	—	—	2,503,627
Arts, entertainment and recreation	518,186	—	—	—	518,186
Water supply, sewerage, waste management and remediation activities	489,865	—	—	—	489,865
Information and communication	196,985	—	—	—	196,985
Mining and quarrying	186,574	—	—	—	186,574
Electricity, gas, steam and air, conditioning supply	167,894	—	—	—	167,894
Human health and social work activities	124,450	—	—	—	124,450

(Forward)



	2020				
	Loans and Receivables	Advances to Banks*	Investment securities at amortized cost	Refundable deposits	Total
Activities of households as employers and undifferentiated goods- and-services-producing activities of households for own use	₱11,170	₱—	₱—	₱—	₱11,170
	1,860,026,862	672,744,129	20,000,000	1,968,719	2,554,739,710
Less allowance for credit losses	235,538,042	—	1,900	—	235,539,942
	₱1,624,488,820	₱672,744,129	₱19,998,100	₱1,968,719	₱2,319,199,768

*Comprised of Due from BSP, Due from other banks and SPURA

Credit quality

In ensuring a quality investment portfolio, the Bank monitors credit risk from investment securities using credit ratings based on Standard and Poor (S&P).

Credit quality of due from BSP and other banks and interbank loans receivable are based on available accredited international and local credit raters using Fitch as standard of rating.

The Bank assigns the following credit quality groupings based on ratings:

Credit Quality	Fitch	Moody's	S&P	Stage
High Grade	AAA to A-	Aaa to A3	AAA to A-	1
Standard Grade	BBB+ to BB-	Baa1 to Ba3	BBB+ to BB-	1
Substandard Grade	B+ to C-	B1 to Ca	B+ to C	2
Past due and impaired	D	C	D	3

For consumer loans (i.e., auto and housing) that are covered by application scorecards which provide either a pass/fail score, the basis for credit quality rating is the BSP classification and/or the status of the account.

Neither past due nor individually impaired

The Bank classifies those accounts under current status having the following loan grades:

- **High grade**
This pertains to accounts with a very low probability of default as demonstrated by the borrower's long history of stability, profitability and diversity. The borrower has the ability to raise substantial amounts of funds through the public markets. The borrower has a strong debt service record and a moderate use of leverage.
- **Standard grade**
The borrower has no history of default. The borrower has sufficient liquidity to fully service its debt over the medium term. The borrower has adequate capital to readily absorb any potential losses from its operations and any reasonably foreseeable contingencies. The borrower reported profitable operations for at least the past three (3) years.
- **Substandard grade**
The borrower is expected to be able to adjust to the cyclical downturns in its operations. Any prolonged adverse economic conditions would however ostensibly create profitability and liquidity issues.



- Unrated grade
Other credit assets which cannot be classified as High, Standard or Sub-standard are tagged as Unrated.

Impaired

Accounts which show evidence of impairment as of statement of financial position date.

Below are the staging parameters adopted by the Bank effective January 1, 2018 in relation to its PFRS 9 adoption.

Staging Parameter	Stage	Description
Staging by Days Past Due		<i>Applicable to all loan products.</i>
	1	Accounts with 0 – 30 days past due (applicable for all loan products except for microfinance loans wherein days past due for Stage 1 accounts is 0 - 6 days).
	2	Accounts with 31- 90 days past due (applicable for all loan products except for microfinance loans wherein days past due for Stage 2 accounts is 7 - 10 days).
	3	Accounts with days past due of 91 days and above (applicable for all loan products except for microfinance loans wherein days past due for Stage 3 accounts more than 10 days).
Staging by Status		<i>Applicable to all loan products except for Microfinance.</i>
	1	Accounts tagged as Current in its Status are classified under Stage 1.
	3	Accounts tagged as ITL in its Status are classified under Stage 3
Staging by Maturity Date vs Cut-off date		<i>Applicable to all loan products.</i>
	1	If Maturity Date of the account is after the cut-off date of the ECL Calculation, and if the days leading up to the cut-off date from the maturity date is less than 30 days, the account is tagged under Stage 1 (For Microfinance loans, if Maturity Date of the account is after the cut-off date of the ECL Calculation, and if the days leading up to the cut-off date from the maturity date is less than 10 days, the account is tagged under Stage 1).
	3	If Maturity Date of the account is prior to the cut-off date of the ECL Calculation, and if the days leading up to the cut-off date from the maturity date is more than 30 days, the account is tagged under Stage 3 (For Microfinance loans, if Maturity Date of the account is prior the cut-off date of the ECL Calculation, and if the days leading up to the cut-off date from the maturity date is more than 10 days, the account is tagged under Stage 3).



The following tables show the credit quality per class of investments and other financial assets of the Bank:

	December 31, 2021			
	Stage 1	Stage 2	Stage 3	Total
Due from BSP*				
Standard	₱400,564,592	₱—	₱—	₱400,564,592
Due from other banks*				
Standard	84,767,979	—	—	84,767,979
Securities purchased under resale agreement				
Standard	117,595,804	—	—	117,595,804
Investment securities at amortized cost				
Government securities				
Standard	—	—	—	—
Corporate bonds				
Standard	19,998,100	—	—	19,998,100
Refundable deposits				
Unrated	2,427,107	—	—	2,427,107
	₱625,353,582	₱—	₱—	₱625,353,582

*Include assets of disposal group classified as held for sale

	December 31, 2020			
	Stage 1	Stage 2	Stage 3	Total
Due from BSP				
Standard	₱444,968,492	₱—	₱—	₱444,968,492
Due from other banks				
Standard	98,109,462	—	—	98,109,462
Securities purchased under resale agreement				
Standard	129,666,175	—	—	129,666,175
Investment securities at amortized cost				
Government securities				
Standard	—	—	—	—
Corporate bonds				
Standard	19,998,100	—	—	19,998,100
Refundable deposits				
Unrated	1,968,719	—	—	1,968,719
	₱694,710,948	₱—	₱—	₱694,710,948

The following tables show the credit quality per class of loans and receivables, gross of allowance for credit losses and unearned interest and discount of the Bank:

	December 31, 2021			
	Stage 1	Stage 2	Stage 3	Total
Receivable from customers*				
Consumption				
Neither Past Due nor Individually Impaired				
High grade	₱—	₱—	₱—	₱—
Standard/Medium grade	1,573,601,920	—	—	1,573,601,920
Substandard/Low grade	48,485,887	—	—	48,485,887
Past due but not impaired	—	26,825,152	—	26,825,152
Past due and impaired	—	—	212,295,158	212,295,158
	1,622,087,807	26,825,152	212,295,158	1,861,208,117
Commercial				
Neither Past Due nor Individually Impaired				
High grade	—	—	—	—
Standard/Medium grade	45,828,228	—	—	45,828,228
Substandard/Low grade	2,074,915	—	—	2,074,915
Past due but not impaired	—	960,935	—	960,935
Past due and impaired	—	—	53,122,981	53,122,981
	47,903,143	960,935	53,122,981	101,987,059
Real estate				
Neither Past Due nor Individually Impaired				
High grade	—	—	—	—
Standard/Medium grade	122,799,314	—	—	122,799,314
Substandard/Low grade	13,003,454	—	—	13,003,454
Past due but not impaired	—	4,317,157	—	4,317,157
Past due and impaired	—	—	2,384,645	2,384,645
	135,802,768	4,317,157	2,384,645	142,504,570

(Forward)



	December 31, 2021			
	Stage 1	Stage 2	Stage 3	Total
Other receivables				
Neither Past Due nor Individually Impaired				
High grade	₱151,165	₱—	₱—	₱151,165
Standard/Medium grade	42,289,428	—	—	42,289,428
Substandard/Low grade	8,674,657	—	—	8,674,657
Past due but not impaired	—	2,344,043	—	2,344,043
Past due and impaired	—	—	37,914,307	37,914,307
	51,115,250	2,344,043	37,914,307	91,373,600
	₱1,856,908,968	₱34,447,287	₱305,717,091	₱2,197,073,346

*Include assets of disposal group classified as held for sale

	December 31, 2020			
	Stage 1	Stage 2	Stage 3	Total
Receivable from customers:				
Consumption				
Neither Past Due nor Individually Impaired				
High grade	₱—	₱—	₱—	₱—
Standard/Medium grade	1,220,035,479	—	—	1,220,035,479
Substandard/Low grade	116,043,164	—	—	116,043,164
Past due but not impaired	—	21,663,103	—	21,663,103
Past due and impaired	—	—	195,347,903	195,347,903
	1,336,078,643	21,663,103	195,347,903	1,553,089,649
Commercial				
Neither Past Due nor Individually Impaired				
High grade	—	—	—	—
Standard/Medium grade	76,232,407	—	—	76,232,407
Substandard/Low grade	2,297,180	—	—	2,297,180
Past due but not impaired	—	6,488,228	—	6,488,228
Past due and impaired	—	—	66,818,532	66,818,532
	78,529,587	6,488,228	66,818,532	151,836,347
Real estate				
Neither Past Due nor Individually Impaired				
High grade	—	—	—	—
Standard/Medium grade	70,477,528	—	—	70,477,528
Substandard/Low grade	12,192,582	—	—	12,192,582
Past due but not impaired	—	—	—	—
Past due and impaired	—	—	2,052,748	2,052,748
	82,670,110	—	2,052,748	84,722,858
Other receivables				
Neither Past Due nor Individually Impaired				
High grade	₱171,460	₱—	₱—	₱171,460
Standard/Medium grade	50,285,467	—	—	50,285,467
Substandard/Low grade	42,733,535	—	—	42,733,535
Past due but not impaired	—	2,774,469	—	2,774,469
Past due and impaired	—	—	49,004,148	49,004,148
	93,190,462	2,774,469	49,004,148	144,969,079
	₱1,590,468,802	₱30,925,800	₱313,223,331	₱1,934,617,933

Liquidity Risk

Liquidity risk may be defined as the possibility of loss due to the Bank's inability to meet its financial obligations when they become due. Liquidity risk is considered in the Bank's assets and liabilities management. The Bank seeks to lengthen liability maturities, diversify existing fund sources, and continuously develop new instruments that cater to different segments of the market.

The Bank also keeps credit lines with financial institutions, as well as a pool of liquid or highly marketable securities. Reserves management is another specialized function within the Bank, complying with BSP reserve requirements, which may be a buffer against unforeseen liquidity drains.

The liquidity or maturity gap report is another tool for measuring liquidity risk. Although available contractual maturity dates are generally used for putting instruments into time bands, expected liquidation periods, often based on historical data, are used if contractual maturity dates are unavailable. The liquidity gap per time band is computed by getting the difference between the inflows and outflows within the time band. A positive liquidity gap is an estimate of the Bank's net excess funds for the time band. A negative liquidity gap is an estimate of a future funding



requirement of the Bank. Although such gaps are a normal part of the business, a significant negative amount may bring significant liquidity risk. To help control liquidity risk arising from negative liquidity gaps, maximum cumulative outflow (MCO) targets are set for time bands up to one (1) year.

Analysis of financial instruments by remaining maturities

The table below summarized the maturity profile of the Bank's financial instruments based on contractual undiscounted cash flows:

	December 31, 2021					
	On demand	Up to 3 months	Over 3 up to 12 months	Over 1 to 5 Years	Over 5 years	Total
Financial Assets						
(including assets of disposal group classified as held for sale)						
Cash and other cash items	₱106,648,011	₱-	₱-	₱-	₱-	₱106,648,011
Due from BSP*	64,564,592	336,033,600	-	-	-	400,598,192
Due from other banks	84,767,979	-	-	-	-	84,767,979
Securities purchased under resale agreement*	-	117,611,483	-	-	-	117,611,483
Investment securities at amortized cost*	-	180,876	542,628	20,596,891	-	21,320,395
Loans and receivables*	245,867,439	60,846,037	236,095,794	1,636,609,817	190,806,610	2,370,225,697
Refundable deposits*	179,656	121,000	96,000	1,590,116	2,691,000	4,677,772
	₱502,027,677	₱514,792,996	₱236,734,422	₱1,658,796,824	₱193,497,610	₱3,105,849,529
Financial Liabilities						
(including liabilities of disposal group classified as held for sale)						
Deposit liabilities*	₱1,907,982,910	₱352,448,443	₱239,803,884	₱468,858,832	₱3,229,817	₱2,972,323,886
Redeemable preferred shares	30,700,000	-	-	-	-	30,700,000
Accrued expenses and other liabilities	-	20,183,690	-	-	-	20,183,690
Other liabilities**	1,340,334	17,552,222	-	58,602,052	-	77,494,608
	₱1,940,023,244	₱390,184,355	₱239,803,884	₱527,460,884	₱3,229,817	₱3,100,702,184

*Include future interests

**Exclude nonfinancial liabilities

	December 31, 2020					
	On demand	Up to 3 months	Over 3 up to 12 months	Over 1 to 5 Years	Over 5 years	Total
Financial Assets						
Cash and other cash items	₱72,868,361	₱-	₱-	₱-	₱-	₱72,868,361
Due from BSP*	61,968,492	383,076,600	-	-	-	445,045,092
Due from other banks	98,109,462	-	-	-	-	98,109,462
Securities purchased under resale agreement*	-	129,700,753	-	-	-	129,700,753
Investment securities at amortized cost*	-	-	-	21,863,023	-	21,863,023
Loans and receivables*	245,867,439	60,846,037	236,095,794	1,636,609,817	190,806,610	2,370,225,697
Refundable deposits*	-	107,387	79,615	1,007,707	767,265	1,961,974
	₱478,813,754	₱573,730,777	₱236,175,409	₱1,659,480,547	₱191,573,875	₱3,139,774,362
Financial Liabilities						
Deposit liabilities*	₱1,287,010,431	₱250,779,889	₱213,575,035	₱356,335,583	₱1,632,011	₱2,109,332,949
Redeemable preferred shares	30,700,000	-	-	-	-	30,700,000
Accrued expenses and other liabilities	-	20,651,593	-	-	-	20,651,593
Other liabilities**	14,403,903	2,493,356	8,236,912	33,287,693	13,832,690	72,254,554
	₱1,332,114,334	₱273,924,838	₱221,811,947	₱389,623,276	₱15,464,701	₱2,232,939,096

*Include future interests

**Exclude nonfinancial liabilities

Market Risk

Market risk may be defined as the possibility of loss due to adverse movements in market factors such as rates and prices. Market risk is present in both trading and non-trading activities.

These are the risk to earnings or capital arising from changes in the value of traded portfolios of financial instruments. The risk arises from market-making, dealing and position-taking in quoted debt securities and foreign exchange.



The Bank observes market risk limits, which are approved by the BOD and reviewed at least annually. Limits are set in such a way as to ensure that risks taken are based on the Bank's existing capital adequacy framework, and corresponding monitoring reports are prepared regularly by an independent risk management unit.

When limits are breached, approval is sought from successive levels of authority depending on the amount of the excess. Limit breaches are periodically presented to the BOD.

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments.

The Bank's ALCO surveys the interest rate environment, adjusts the interest rates for the Bank's loans and deposits, assesses investment opportunities and reviews the structure of assets and liabilities. The Bank uses Earnings-at-Risk (EaR) as a tool for measuring and managing interest rate risk in the banking book.

Earnings-at-Risk objectives and methodology

EAR is a statistical measure of the likely impact of changes in interest rates to the Bank's net interest income (NII). To do this, repricing gaps (difference between interest rate-sensitive assets and liabilities) are classified according to time to repricing and multiplied with applicable historical interest rate volatility, although available contractual repricing dates are generally used for putting instruments into time bands, contractual maturity dates (e.g., for fixed rate instruments) or expected liquidation periods often based on historical data are used alternatively. The repricing gap per time band is computed by getting the difference between the inflows and outflows within the time band. A positive repricing gap implies that the Bank's NII could decline if interest rates decrease upon repricing. A negative repricing gap implies that the Bank's NII could decline if interest rates increase upon repricing. Although such gaps are a normal part of the business, a significant change may bring significant interest rate risk. To help control interest rate risk arising from repricing gaps, maximum repricing gap and EaR/NII targets are set for time bands up to one year. EaR is prepared and reported to the RMC monthly, starting December 2015.

The change in interest rate is calculated using historical simulation. It is computed as the 99th percentile rank change in rates if the gap is negative (liability-sensitive) or the 1st percentile rank change in rates if the gap is positive (asset-sensitive).

The Bank's EaR figures as of December 31, 2021 and 2020 are as follows (in PHP millions):

2021				
	Average	Highest	Lowest	December 31
Instruments sensitive to local interest rates	₱-0.06	₱5.51	₱2.78	₱0.11
2020				
	Average	Highest	Lowest	December 31
Instruments sensitive to local interest rates	₱0.54	₱0.42	(₱7.38)	₱0.00

Foreign currency risk

Foreign currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. The Bank's policy is to maintain foreign currency exposure within acceptable limits.



Changes in foreign exchange rates have no significant impact on the Banks's foreign exchange gain or loss on 'Due from other banks' as of December 31, 2021 and 2020.

5. Fair Value Measurement

As of December 31, 2021 and 2020, the carrying amounts of the Bank's financial instruments are reasonable approximations of fair values except for investment securities at amortized cost, loans and receivables, refundable deposits and deposit liabilities with terms of more than one (1) year.

The methods and assumptions used by the Bank in estimating the fair value of the financial instruments are as follows:

Investment securities at amortized cost - Debt securities

Fair values are generally based on quoted market prices. If the market prices are not readily available, fair values are estimated using adjusted quoted market prices of comparable investments or using the discounted cash flow methodology.

Receivables from customers, sales contract receivable, finance lease receivable and refundable deposits

Fair values are estimated using the discounted cash flow methodology, using the average market price of savings banks for similar types of receivables with maturities consistent to the receivable being valued. Where the instruments reprice on a short-term basis or have a relatively short maturity, the carrying amounts approximate fair values.

Time and special savings deposits

Fair values are estimated using the discounted cash flow methodology using the Bank's current incremental borrowing rates for similar borrowings with maturities consistent with those remaining for the liability being valued.

Investment properties

Fair value of investment properties are based on market data (or direct sales comparison) approach. This approach relies on the comparison of recent sale transactions or offerings of similar properties which have occurred and/or offered with close proximity to the subject property.

The fair values of the Bank's investment properties have been determined by appraisers, including independent external appraisers, in the basis of the recent sales of similar properties in the same areas as the investment properties and taking into account the economic conditions prevailing at the time of the valuations are made. The Bank has determined that the highest and best use of the property used for the land and building is its current use.

Financial liabilities at amortized cost except time and special savings deposits

Carrying amounts approximate fair values due to either the demand nature or the relatively short-term maturities of these liabilities.



The following table summarizes the carrying amounts and fair values of loans and receivables and deposit liabilities for which carrying amounts do not approximate fair values:

2021					
	Carrying Value	Level 1	Level 2	Level 3	Fair Value
Financial Assets					
Investment securities at amortized cost	₱19,998,100	₱19,785,450	₱–	₱–	₱19,785,450
Loans and receivables:					
Receivables from customers					
Consumption	1,598,612,021	–	–	1,625,665,329	1,625,665,329
Commercial	57,452,154	–	–	88,715,501	88,715,501
Real estate	141,488,213	–	–	141,766,120	141,766,120
Other receivables					
Sales contract receivable	₱18,431,334	₱–	₱–	₱13,873,900	₱13,873,900
Refundable deposits	2,427,107	–	–	2,063,460	2,063,460
Non-financial Assets					
Investment properties	96,715,942	–	–	196,386,264	196,386,264
Financial Liabilities					
Deposit liabilities					
Time	282,528,914	–	–	283,889,583	283,889,583
Savings	1,673,983,657	–	–	1,676,131,975	1,676,131,975
2020					
	Carrying Value	Level 1	Level 2	Level 3	Fair Value
Financial Assets					
Investment securities at amortized cost	₱19,998,100	₱19,442,468	₱–	₱–	₱19,442,468
Loans and receivables:					
Receivables from customers					
Consumption	1,332,142,721	–	–	1,548,530,996	1,548,530,996
Commercial	97,398,209	–	–	151,820,361	151,820,361
Real estate	83,486,396	–	–	84,389,009	84,389,009
Other receivables					
Sales contract receivable	20,508,312	–	–	17,016,087	17,016,087
Refundable deposits	1,968,719	–	–	1,792,579	1,792,579
Non-financial Assets					
Investment properties	105,813,713	–	–	210,886,136	210,886,136
Financial Liabilities					
Deposit liabilities					
Time	362,276,750	–	–	364,021,487	364,021,487
Savings	452,047,648	–	–	452,628,300	452,628,300

For assets and liabilities that are recognized at fair value on a recurring basis, the Bank determines whether transfers have occurred between levels in the hierarchy by reassessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole at the end of each statement of financial position).

There were no transfers between Level 1 and Level 2 fair value measurements and there were no transfers into and out of the Level 3 category in 2021 and 2020.



Description of significant unobservable inputs to valuation:

Accounts	Valuation Technique	Significant Unobservable Inputs
Loans and receivables	Discounted cash flow method	8.13% - 12.25% risk premium rate
Investment properties		
Land	Market data approach	Price per square meter, size, shape, location, time element and discount
Building	Cost approach	Cost per square meter, size, shape, location, and time element
Deposit liabilities	Discounted cash flow method	0.25 -3.50% Risk Premium Rate
Refundable deposits	Discounted cash flow method	7.67% - 11.00% Risk Premium Rate

Significant increases (decreases) in price per square meter and size of investment properties would result in a significantly higher (lower) fair value of the properties. Significant increases (decreases) in discount would result in a significantly lower (higher) fair value of the properties.

Significant Unobservable Inputs

Size	Size of lot in terms of area. Evaluate if the lot size of property or comparable conforms to the average cut of the lots in the area and estimate the impact of the lot size differences on land value.
Shape	Particular form or configuration of the lot. A highly irregular shape limits the usable area whereas an ideal lot configuration maximizes the usable area of the lot which is associated in designing an improvement which conforms with the highest and best use of the property.
Location	Location of comparative properties whether on a main road, or secondary road. Road width could also be a consideration if data is available. As a rule, properties located along a main road are superior to properties located along a secondary road.
Time Element	An adjustment for market conditions is made if general property values have appreciated or depreciated since the transaction dates due to inflation or deflation or a change in investor's perceptions of the market over time. In which case, the current data is superior to historic data.
Discount	Generally, asking prices in ads posted for sale are negotiable. Discount is the amount the seller or developer is willing to deduct from the posted selling price if the transaction will be in cash or equivalent.

6. Securities Purchased Under Resale Agreement

SPURA pertains to lending to BSP and have a remaining maturity of three (3) days. As of December 31, 2021 and 2020, the fair value of the related collateral of SPURA amounted to ₱117.59 million and ₱129.67 million, respectively.

SPURA earns annual interest ranging from 2.00% in 2021 and 4.00% to 4.75% in 2020. The interest income of the Bank from SPURA amounted to ₱2.16 million and ₱4.01 million in 2021 and 2020, respectively.



7. Investment Securities at Amortized Cost

This account consists of:

	2021	2020
Corporate bond	₱20,000,000	₱20,000,000
Less allowance for credit losses (Note 12)	(1,900)	(1,900)
	₱19,998,100	₱19,998,100

In 2021 and 2020, investment securities at amortized cost were carried at Stage 1 and there were no transfers into and out of Stage 1.

In 2020, the Bank disposed government securities classified as HTC securities with carrying amount of ₱180.98 million which resulted in a gain of ₱2.93 million recorded in the statement of income under 'Profit from assets sold'. The sale was due to a change in the Bank's intention on the instruments from holding to collect principal and interest to realizing the gains from the disposal of the securities in view of the impact of the COVID-19 pandemic. The remaining HTC securities of the Bank will remain to be under HTC business model.

The Bank's investments in corporate bonds classified as investment securities at amortized cost bears effective interest rates of 4.52%.

In 2021 and 2020, interest income on investment securities at amortized cost follow:

	2021	2020
Government securities	₱—	₱1,883,464
Corporate bonds	894,834	1,710,875
	₱894,834	₱3,594,339

8. Loans and Receivables

This account consists of:

	2021	2020
Receivables from customers:		
Consumption	₱1,774,564,246	₱1,553,089,649
Commercial	49,371,385	151,836,347
Real estate	6,473,191	84,722,858
	1,830,408,822	1,789,648,854
Less: Unearned interest and discount	71,884,075	50,193,981
Discount on loan modification	6,657,591	24,397,000
	1,751,867,156	1,715,057,873
Other receivables:		
Accrued interest receivable	48,340,615	76,603,136
Accounts receivable (Note 22)	16,980,148	46,554,431
Sales contract receivable	18,554,616	21,811,512
	1,835,742,535	1,860,026,862
Less allowance for credit losses (Note 12)	262,843,309	235,538,042
	₱1,572,899,226	₱1,624,488,820



An analysis of changes in the gross carrying amount and the corresponding allowance for credit losses in relation to consumption loans follow:

	2021			
	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount				
Beginning balance	₱1,336,078,643	₱21,663,103	₱195,347,903	₱1,553,089,649
New assets originated or purchased	1,952,459,970	—	—	1,952,459,970
Assets derecognized or repaid (excluding write offs)	(1,619,452,983)	(3,739,809)	(21,148,710)	(1,644,341,502)
Transfers to Stage 1	11,325,914	(11,178,037)	(147,877)	—
Transfers to Stage 2	(22,154,826)	22,567,204	(412,378)	—
Transfers to Stage 3	(36,168,912)	(2,487,309)	38,656,221	—
Amounts written off	—	—	—	—
Ending balance before effect of disposal group	1,622,087,806	26,825,152	212,295,159	1,861,208,117
Effect of disposal group classified as held for sale (Note 24)	(86,616,055)	—	(27,816)	(86,643,871)
Ending balance	₱1,535,471,751	₱26,825,152	₱212,267,343	₱1,774,564,246
Allowance for credit losses				
Beginning balance	₱12,688,444	₱171,609	₱135,873,724	₱148,733,777
Provisions for (recovery of) credit losses*	19,032,150	(199,616)	17,399,678	36,232,211
Transfers to Stage 1	92,772	(77,169)	(15,603)	—
Transfers to Stage 2	(138,312)	205,558	(67,246)	—
Transfers to Stage 3	(20,315,321)	(31,402)	20,346,723	—
Amounts written off	—	—	—	—
Ending balance before effect of disposal group	11,359,733	68,980	173,537,276	184,965,988
Effects of disposal group classified as held for sale (Note 24)	(596,104)	—	(5,478)	(601,582)
Ending balance	₱10,763,629	₱68,980	₱173,531,798	₱184,364,406

*The net effect on allowance of transfers between Stage 1 to 3 are reflected in provision for (recovery of) credit losses

	2020			
	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount				
Beginning balance	₱1,365,071,080	₱22,923,801	₱206,159,217	₱1,594,154,098
New assets originated or purchased	1,185,346,170	—	—	1,185,346,170
Assets derecognized or repaid (excluding write offs)	(1,128,182,553)	(22,030,678)	(43,336,256)	(1,193,549,487)
Transfers to Stage 1	906,750	(814,323)	(92,427)	—
Transfers to Stage 2	(23,530,989)	23,530,989	—	—
Transfers to Stage 3	(63,531,815)	(1,946,686)	65,478,501	—
Amounts written off	—	—	(32,861,132)	(32,861,132)
Ending balance	₱1,336,078,643	₱21,663,103	₱195,347,903	₱1,553,089,649
Allowance for credit losses				
Beginning balance	₱13,203,767	₱227,663	₱141,875,915	₱155,307,345
Provisions for (recovery of) credit losses*	16,629,243	(223,013)	9,881,334	26,287,564
Transfers to Stage 1	57,220	(1,002)	(56,218)	—
Transfers to Stage 2	(195,851)	195,851	—	—
Transfers to Stage 3	(17,005,935)	(27,890)	17,033,825	—
Amounts written off	—	—	(32,861,132)	(32,861,132)
Ending balance	₱12,688,444	₱171,609	₱135,873,724	₱148,733,777

*The net effect on allowance of transfers between Stage 1 to 3 are reflected in provision for credit losses

An analysis of changes in the gross carrying amount and the corresponding allowance for credit losses in relation to commercial loans follow:

	2021			
	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount				
Beginning balance	₱78,529,587	₱6,488,228	₱66,818,532	₱151,836,347
New assets originated or purchased	55,010,890	—	—	55,010,890
Assets derecognized or repaid (excluding write offs)	(84,699,755)	(5,209,607)	(14,950,816)	(104,860,178)
Transfers to Stage 1	—	—	—	—
Transfers to Stage 2	—	—	—	—

(Forward)



	2021			
	Stage 1	Stage 2	Stage 3	Total
Transfers to Stage 3	(P937,579)	(P317,686)	P1,255,265	P-
Amounts written off	-	-	-	-
Ending balance before effect of disposal group	47,903,143	960,935	53,122,981	101,987,059
Effects of disposal group classified as held for sale (Note 24)	(47,903,143)	-	(4,712,531)	(52,615,674)
Ending balance	P-	P960,935	P48,410,450	P49,371,385
Allowance for credit losses				
Beginning balance	P293,192	P1,632,500	P50,532,022	P52,457,714
Provisions for (recovery of) credit losses*	377,989	(1,632,500)	(7,695,717)	(8,950,228)
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	(38)	38	-	-
Transfers to Stage 3	(434,930)	-	434,930	-
Amounts written off	-	-	-	-
Ending balance before effect of disposal group	236,213	38	43,271,235	43,507,486
Effects of disposal group classified as held for sale (Note 24)	(236,213)	-	(15,695)	(251,908)
Ending balance	P-	P38	P43,255,540	P43,255,578

*The net effect on allowance of transfers between Stage 1 to 3 are reflected in recovery of credit losses

	2020			
	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount				
Beginning balance	P57,998,243	P13,334,989	P104,598,498	P175,931,730
New assets originated or purchased	81,930,669	-	-	81,930,669
Assets derecognized or repaid (excluding write offs)	(19,027,221)	(14,654,690)	(27,319,471)	(61,001,382)
Transfers to Stage 1	3,588,373	(3,588,373)	-	-
Transfers to Stage 2	(12,447,409)	12,447,409	-	-
Transfers to Stage 3	(33,513,068)	(1,051,107)	34,564,175	-
Amounts written off	-	-	(45,024,670)	(45,024,670)
Ending balance	P78,529,587	P6,488,228	P66,818,532	P151,836,347
Allowance for credit losses				
Beginning balance	P179,508	P961	P93,211,752	P93,392,221
Provisions for credit losses*	2,265,148	-	-	2,265,148
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	(1,632,500)	1,632,500	-	-
Transfers to Stage 3	(518,964)	(961)	519,925	-
Amounts written off	-	-	(45,024,670)	(45,024,670)
Ending balance	P293,192	P1,632,500	P50,532,022	P52,457,714

*The net effect on allowance of transfers between Stage 1 to 3 are reflected in provision for (recovery of) credit losses

An analysis of changes in the gross carrying amount and the corresponding allowance for credit losses in relation to real estate loans follow:

	2021			
	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount				
Beginning balance	P82,670,110	P-	P2,052,748	P84,722,858
New assets originated or purchased	112,670,200	-	-	112,670,200
Assets derecognized or repaid (excluding write offs)	(59,537,542)	4,317,157	331,897	(54,888,488)
Transfers to Stage 1	-	-	-	-
Transfers to Stage 2	-	-	-	-
Transfers to Stage 3	-	-	-	-
Amounts written off	-	-	-	-
Ending balance before effect of disposal group	135,802,768	4,317,157	2,384,645	142,504,570
Effects of disposal group classified as held for sale (Note 24)	(135,389,379)	-	(642,000)	(136,031,379)
Ending balance	P413,389	P4,317,157	P1,742,645	P6,473,191

(Forward)



	2021			
	Stage 1	Stage 2	Stage 3	Total
Allowance for credit losses				
Beginning balance	₱157,214	₱–	₱681,751	₱838,965
Provision for (recovery of) credit losses*	434,270	–	(141,017)	293,253
Transfers to Stage 1	–	–	–	–
Transfers to Stage 2	(9,417)	9,417	–	–
Transfers to Stage 3	(180,556)	–	180,556	–
Amounts written off	–	–	–	–
Ending balance before effect of disposal group	401,511	9,417	721,290	1,132,218
Effects of disposal group classified as held for sale (Note 24)	(401,511)	–	(71,959)	(473,470)
Ending balance	₱–	₱9,417	₱649,331	₱658,748

*The net effect on allowance of transfers between Stage 1 to 3 are reflected in recovery of credit losses

	2020			
	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount				
Beginning balance	₱46,693,108	₱53,115	₱5,587,314	₱52,333,537
New assets originated or purchased	58,296,000	–	–	58,296,000
Assets derecognized or repaid (excluding write offs)	(20,624,257)	(53,115)	(153,680)	(20,831,052)
Transfers to Stage 1	–	–	–	–
Transfers to Stage 2	–	–	–	–
Transfers to Stage 3	(1,694,741)	–	1,694,741	–
Amounts written off	–	–	(5,075,627)	(5,075,627)
Ending balance	₱82,670,110	₱–	₱2,052,748	₱84,722,858
Allowance for credit losses				
Beginning balance	₱42,661	₱–	₱5,587,314	₱5,629,975
Provision for credit losses*	116,189	–	168,428	284,617
Transfers to Stage 1	–	–	–	–
Transfers to Stage 2	–	–	–	–
Transfers to Stage 3	(1,636)	–	1,636	–
Amounts written off	–	–	(5,075,627)	(5,075,627)
Ending balance	₱157,214	₱–	₱681,751	₱838,965

*The net effect on allowance of transfers between Stage 1 to 3 are reflected in provision for (recovery of) credit losses

An analysis of changes in the gross carrying amount and the corresponding allowance for credit losses in relation to other receivables follow:

	2021			
	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount				
Beginning balance	₱93,190,462	2,774,468	49,004,149	₱144,969,079
New assets originated or purchased	20,170,525	–	–	20,170,525
Assets derecognized or repaid (excluding write offs)	(97,964,475)	(1,307,314)	25,505,785	(73,766,004)
Transfers to Stage 1	48,188,740	(674,791)	(47,513,949)	–
Transfers to Stage 2	(₱891,671)	₱2,295,458	(₱1,403,787)	₱–
Transfers to Stage 3	(11,578,331)	(743,779)	12,322,110	–
Amounts written off	–	–	–	–
Ending balance before effect of disposal group	51,115,250	2,344,042	37,914,308	91,373,600
Effects of disposal group classified as held for sale (Note 24)	(7,419,613)	–	(78,608)	(7,498,221)
Ending balance	₱43,695,637	2,344,042	37,835,700	₱83,875,379
Allowance for credit losses				
Beginning balance	₱891,759	₱166,158	₱32,449,668	₱33,507,585
Provisions for (recovery of) credit losses*	(4,109,046)	(1,315,039)	6,554,380	1,130,295
Transfers to Stage 1	5,130,769	(5,042)	(5,125,727)	–
Transfers to Stage 2	(5,151)	1,393,006	(1,387,855)	–
Transfers to Stage 3	(647,159)	(2,818)	649,977	–
Amounts written off	–	–	–	–
Ending balance before effect of disposal group	1,261,172	236,265	33,140,443	34,637,880
Effects of disposal group classified as held for sale (Note 24)	(52,611)	–	(20,692)	(73,303)
Ending balance	₱1,208,561	₱236,265	₱33,119,751	₱34,564,577

*The net effect on allowance of transfers between Stage 1 to 3 are reflected in provision for credit losses



	2020			
	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount				
Beginning balance	₱54,938,924	₱6,854,932	₱26,745,799	₱88,539,655
New assets originated or purchased	92,999,456	—	—	92,999,456
Assets derecognized or repaid (excluding write offs)	(22,437,431)	(5,888,567)	(962,012)	(29,288,010)
Transfers to Stage 1	824,855	(194,182)	(630,673)	—
Transfers to Stage 2	(1,143,880)	2,280,736	(1,136,856)	—
Transfers to Stage 3	(31,991,462)	(278,450)	32,269,912	—
Amounts written off	—	—	(7,282,022)	(7,282,022)
Ending balance	₱93,190,462	2,774,469	49,004,148	₱144,969,079
Allowance for credit losses				
Beginning balance	₱673,793	₱608,990	₱19,109,623	₱20,392,406
Provisions for (recovery of) credit losses*	16,563,517	(454,828)	4,288,512	20,397,201
Transfers to Stage 1	50,644	(196)	(50,448)	—
Transfers to Stage 2	(160,733)	160,733	—	—
Transfers to Stage 3	(16,235,462)	(148,541)	16,384,003	—
Amounts written off	—	—	(7,282,022)	(7,282,022)
Ending balance	₱891,759	₱166,158	₱32,449,668	₱33,507,585

*The net effect on allowance of transfers between Stage 1 to 3 are reflected in provision for (recovery of) credit losses

Sales contract receivable earns interest at annual fixed rates ranging from 10.00% to 14.00% in 2021 and 2020.

Interest income on loans and receivables consists of:

	2021	2020
Receivables from customers:		
Consumption	₱290,082,687	₱285,126,789
Commercial	4,801,412	18,244,709
Real estate	8,477,536	6,498,957
Accretion of interest on the modified loans	17,739,500	55,441,023
Sales contract receivable	2,867,637	2,432,144
	₱323,968,772	₱367,743,622

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

Based on the Bank's assessment, the modifications in the contractual cash flows as a result of the above reliefs are not substantial and therefore do not result in the derecognition of the affected financial assets. Total modification losses resulting from Bayanihan 1 Act and Bayanihan 2 Act amounted to ₱79.84 million. Accretion of interest on the receivables from customers amounted to ₱17.74 million and ₱55.44 million in 2021 and 2020, respectively.



9. Property and Equipment

The composition of and movements in this account follow:

	2021						Total
	Land	Building	Furniture, Fixtures and Equipment	Transportation Equipment	Leasehold Improvements	Right-of-use Assets (Note 20)	
Cost							
Balances at beginning of year	₱20,354,527	₱19,174,702	₱123,509,918	18,880,020	₱80,592,014	₱71,935,864	₱334,447,045
Additions	—	65,621	9,849,569	304,734	4,221,957	11,011,703	25,453,584
Disposals/Modifications	—	—	(582,289)	(2,122,285)	—	1,332,279	(1,372,295)
Reclassifications (Note 11)	—	—	205,850	1,655,000	(824,128)	—	1,036,722
Effect of disposal group classified as held for sale (Note 24)	(4,066,356)	(9,460,538)	(49,292,158)	(4,184,506)	(43,812,540)	(32,559,699)	(143,375,797)
Balances at end of year	16,288,171	9,779,785	83,690,890	14,532,963	40,177,303	51,720,147	216,189,259
Accumulated depreciation and amortization							
Balances at beginning of year	—	9,906,826	101,792,498	11,075,049	39,360,016	21,301,934	183,436,323
Depreciation and amortization	—	787,339	14,199,624	2,537,917	11,033,742	13,843,975	42,402,597
Disposals/Modifications	—	—	(582,255)	(1,914,232)	—	(580,494)	(3,076,981)
Reclassifications (Note 11)	—	—	5	597,778	(6,127)	—	591,656
Effect of disposal group classified as held for sale (Note 24)	—	(8,241,920)	(43,563,143)	(2,396,828)	(30,183,850)	(15,783,831)	(100,169,572)
Balances at end of year	—	2,452,245	71,846,729	9,899,684	20,203,781	18,781,584	123,184,023
Allowance for impairment losses (Note 12)							
Balance at beginning of year	₱11,385,054	₱1,194,537	₱—	₱—	₱—	₱—	₱12,579,591
Reclassification	—	—	—	87,500	—	—	87,500
Effect of disposal group classified as held for sale (Note 24)	(1,714,356)	(1,027,555)	—	—	—	—	(2,741,911)
Balance at end of year	9,670,698	166,982	—	87,500	—	—	9,925,180
Net book value at end of year	₱6,617,473	₱7,160,558	₱11,844,161	₱4,545,779	₱19,973,522	₱32,938,563	₱83,080,056

	2020						Total
	Land	Building	Furniture, Fixtures and Equipment	Transportation Equipment	Leasehold Improvements	Right-of-use Assets (Note 20)	
Cost							
Balances at beginning of year	₱20,354,527	₱19,101,702	₱112,597,747	₱17,821,067	₱72,343,190	₱59,551,460	₱301,769,693
Additions	—	73,000	10,912,171	1,361,900	8,248,824	12,384,404	32,980,299
Disposals	—	—	—	(1,757,947)	—	—	(1,757,947)
Reclassifications (Note 11)	—	—	—	1,455,000	—	—	1,455,000
Balances at end of year	20,354,527	19,174,702	123,509,918	18,880,020	80,592,014	71,935,864	334,447,045
Accumulated depreciation and amortization							
Balances at beginning of year	—	8,627,299	88,955,621	10,089,622	29,362,183	9,342,731	146,377,456
Depreciation and amortization	—	1,279,527	12,836,877	2,273,333	9,997,833	11,959,203	38,346,773
Disposals	—	—	—	(1,720,962)	—	—	(1,720,962)
Reclassifications (Note 11)	₱—	₱—	₱—	₱433,056	₱—	₱—	₱433,056
Balances at end of year	—	9,906,826	101,792,498	11,075,049	39,360,016	21,301,934	183,436,323
Allowance for impairment losses (Note 12)							
Balance at beginning of year	11,385,054	1,194,537	—	—	—	—	12,579,591
Balance at end of year	₱8,969,473	₱8,073,339	₱21,717,420	₱7,804,971	₱41,231,998	₱50,633,930	₱138,431,131

Gain on sale of items of property and equipment reported under 'Profit from assets sold' amounted to ₱0.40 million and ₱0.20 million in 2021 and 2020, respectively.

As of December 31, 2021 and 2020, the cost of fully depreciated items of property and equipment still in use amounted to ₱119.27 million and ₱91.14 million, respectively.

The details of depreciation and amortization follow:

	2021	2020
Property and equipment	₱42,402,597	₱38,346,773
Repossessed chattels (Note 11)	2,051,282	1,490,198
Software costs (Note 11)	1,927,038	—
Investment properties (Note 10)	925,570	1,275,066
	₱47,306,487	₱41,112,037



10. Investment Properties

The composition of and movements in this account follow:

	2021		
	Land	Building	Total
Cost			
Balances at beginning of year	₱123,977,054	₱25,202,720	₱149,179,774
Additions	9,118,000	5,882,857	15,000,857
Disposals	(26,217,687)	(9,098,500)	(35,316,187)
Balances at end of year	106,877,367	21,987,077	128,864,444
Accumulated depreciation			
Balances at beginning of year	–	19,642,354	19,642,354
Depreciation (Note 9)	–	925,570	925,570
Disposals	–	(2,193,773)	(2,193,773)
Balances at end of year	–	18,374,151	18,374,151
Allowance for impairment losses (Note 12)			
Balances at beginning of year	23,324,276	399,431	23,723,707
Provision for the year	6,221	–	6,221
Disposals	(9,654,255)	(301,322)	(9,955,577)
Balances at end of year	13,676,242	98,109	13,774,351
Net book value at end of year	₱93,201,125	₱3,514,817	₱96,715,942

	2020		
	Land	Building	Total
Cost			
Balances at beginning of year	₱130,275,862	₱28,771,720	₱159,047,582
Additions	720,000	596,000	1,316,000
Disposals	(7,018,808)	(4,165,000)	(11,183,808)
Balances at end of year	123,977,054	25,202,720	149,179,774
Accumulated depreciation			
Balances at beginning of year	–	18,995,783	18,995,783
Depreciation (Note 9)	–	1,275,066	1,275,066
Disposals	–	(628,495)	(628,495)
Balances at end of year	–	19,642,354	19,642,354
Cost			
Allowance for impairment losses (Note 12)			
Balances at beginning of year	23,882,611	279,109	24,161,720
Provision for the year	8,679	144,448	153,127
Disposals	(567,014)	(24,126)	(591,140)
Balances at end of year	23,324,276	399,431	23,723,707
Net book value at end of year	₱100,652,778	₱5,160,935	₱105,813,713

Rental income on investment properties included in other income under ‘Miscellaneous income’ amounted to ₱0.07million and nil in 2021 and 2020, respectively (see Note 18).

Direct operating expenses on investment properties included in ‘Litigation and other expense on assets acquired’ under ‘Miscellaneous expense’ amounted to ₱2.07 million and ₱2.66 million in 2021 and 2020, respectively (see Note 18).

Net gain from sale of investment properties reported under ‘Profit from assets sold’ amounted to ₱16.18 million and ₱1.63 million in 2021 and 2020, respectively.



Gain on foreclosure of investment properties reported under ‘Gain on foreclosure - net’ in the statements of income amounted ₱6.00 million and ₱0.76 million in 2021 and 2020, respectively.

11. Other Assets

This account consists of:

	2021	2020
Branch licenses	₱16,810,000	₱16,810,000
Prepaid expenses	4,601,000	4,331,356
Reposessed chattels - net	593,093	3,811,148
Refundable deposits	2,427,107	1,968,719
Software costs - net	1,259,378	1,207,683
Documentary stamps	591,680	514,414
Others	150,334,357	151,658,463
	176,616,615	180,301,783
Allowance for impairment losses (Note 12)	(162,054,000)	(162,054,000)
	₱14,562,615	₱18,247,783

‘Others’ mainly represent miscellaneous assets in process of reconciliation which have been fully provided for as of December 31, 2021 and 2020. The allowance for impairment losses pertains to branch licenses and other assets amounting to ₱15.90 million and ₱146.15 million, respectively (see Note 12).

Movements in ‘Reposessed chattels’ follow:

	2021	2020
Cost		
Balances at beginning of year	₱5,453,490	₱2,732,490
Additions	2,393,000	4,260,000
Disposals	(4,337,000)	(84,000)
Reclassifications (Note 9)	(1,655,000)	(1,455,000)
Balances at end of year	1,854,490	5,453,490
Accumulated depreciation		
Balances at beginning of year	1,415,435	442,291
Depreciation (Note 9)	2,051,282	1,490,198
Disposals	(1,638,287)	(83,998)
Reclassifications (Note 9)	(597,778)	(433,056)
Balances at end of year	1,230,652	1,415,435
Allowance for impairment losses (Note 12)		
Balances at beginning of year	226,907	3,883
Provisions for the year	-	223,024
Disposals	(108,662)	-
Reclassifications	(87,500)	
Balances at end of year	30,745	226,907
Net book value at end of year	₱593,093	₱3,811,148

Net gain from sale of reposessed chattel reported under ‘Profit from assets sold’ amounted to ₱0.01 million and ₱0.01 million in 2021 and 2020, respectively.



Gain on foreclosure of repossessed chattels reported under 'Gain on foreclosure - net' in the statement of income amounted to ₱6.00 million and ₱0.40 million in 2021 and 2020, respectively, .

Movements in 'Software costs' follow:

	2021	2020
Cost		
Balances at beginning of year	₱20,603,802	₱19,244,274
Additions	1,978,734	1,359,528
Balances at end of year	22,582,536	20,603,802
Accumulated amortization		
Balances at beginning of year	19,396,119	17,794,208
Amortization (Note 9)	1,927,038	1,601,911
Reclassification	1	—
Balances at end of year	21,323,158	19,396,119
Net book value at end of year	₱1,259,378	₱1,207,683

12. Allowance for Credit and Impairment Losses

Changes in the allowance for credit and impairment losses follow:

	2021	2020
Balances at beginning of year		
Investment at amortized cost (Note 7)	₱1,900	₱6,722
Loans and receivables (Note 8)	235,538,042	274,721,947
Property and equipment (Note 9)	12,579,591	12,579,591
Investment properties (Note 10)	23,723,707	24,161,720
Branch licenses (Note 11)	15,900,000	15,900,000
Repossessed chattels (Note 11)	226,907	3,883
Other assets (Note 11)	146,154,000	146,154,000
	434,124,147	473,527,863
Provisions for the year (Notes 8 and 10)	28,711,751	51,435,707
Reversal of allowance on assets sold (Notes 10 and 11)	(10,064,239)	(595,972)
Effect of disposal group classified as held for sale (Notes 8 and 9)	(4,142,174)	—
Accounts written-off	—	(90,243,451)
Balances at end of year		
Investment securities at amortized cost (Note 7)	1,900	1,900
Loans and receivables (Note 8)	262,843,309	235,538,042
Property and equipment (Note 9)	9,925,180	12,579,591
Investment properties (Note 10)	13,774,351	23,723,707
Branch licenses (Note 11)	15,900,000	15,900,000
Repossessed chattels (Note 11)	30,745	226,907
Other assets (Note 11)	146,154,000	146,154,000
	₱448,629,485	₱434,124,147



A reconciliation of the allowance for credit losses by class of loans and receivables in 2021 and 2020 follows:

	2021				
	Consumption	Commercial	Real estate	Others	Total
Balances at beginning of year	₱148,733,777	52,457,715	₱838,965	₱33,507,585	₱235,538,042
Provisions	36,869,935	(9,186,442)	(108,258)	1,130,295	28,705,530
Balances at end of year	₱185,603,712	₱43,271,273	₱730,707	₱34,637,880	₱264,243,572

	2020				
	Consumption	Commercial	Real estate	Others	Total
Balances at beginning of year	₱155,307,345	₱93,392,221	₱5,629,975	₱20,392,406	₱274,721,947
Provisions (reversals)	26,287,564	4,090,163	284,617	20,397,202	51,059,546
Accounts written-off	(32,867,612)	(45,024,670)	(5,075,627)	(7,282,022)	(90,249,931)
Balances at end of year	₱148,733,777	₱52,457,715	₱838,965	₱33,507,585	₱235,538,042

Below is the breakdown of provision for credit and impairment losses:

	2021	2020
Loans and receivables (Note 8)	₱28,705,530	₱51,059,546
Investment securities at amortized cost (Note 7)	6,221	10
Reposessed chattels (Note 11)	—	223,024
Investment properties (Note 10)	—	153,127
	₱28,711,751	₱51,435,707

13. Deposit Liabilities

Of the total deposit liabilities of the Bank as of December 31, 2021 and 2020, 47.07% and 48.10%, respectively, are subject to periodic interest repricing. Remaining deposit liabilities bear annual fixed interest rates ranging from 3.50% in 2021 and 3.00% to 4.50% in 2020.

The required reserves shall be kept in the form of deposits maintained in the Demand Deposit Accounts (DDA) with the BSP and any government securities which are previously used as compliance until they mature. As of December 31, 2021 and 2020, the Bank was in compliance with such regulations.

As of December 31, 2021 and 2020, the Bank's liquidity and statutory reserves as reported to the BSP amounting to ₱64.69 million and ₱61.97 million, respectively, are included under 'Due from BSP'.

Interest expense on deposit liabilities consists of:

	2021	2020
Time	₱15,065,096	₱14,677,654
Savings	15,265,351	17,040,014
	₱30,330,447	₱31,717,668



14. Accrued Expenses and Other Liabilities

Accrued expenses account consists of:

	2021	2020
Accrued expenses	₱17,971,024	₱17,187,077
Accrued interest payable	2,212,666	3,464,516
	₱20,183,690	₱20,651,593

Accrued expenses consist of accruals for professional fees and other administrative expenses.

Accrued interest payable pertains to accruals of interest expense on deposit liabilities (see Note 13).

Other liabilities account consists of:

	2021	2020
Lease liability (Note 20)	₱38,119,662	₱57,850,651
Accounts payable (Note 22)	17,552,222	13,163,808
Retirement liability (Note 19)	28,957,526	22,642,535
Income tax payable	357,523	801,318
Withholding taxes and other taxes payable	1,062,104	1,339,209
Others	1,340,334	1,240,094
	₱87,389,371	₱97,037,615

Interest expense on lease liability amounted to ₱4.59 million and ₱4.78 million in 2021 and 2020, respectively (see Note 20).

Accounts payable consist of payables to service providers and advance payments from customers.

Others consist mainly of payables to agencies servicing employee welfare such as Social Security System, Home Development Mutual Fund and Medicare.

15. Redeemable Preferred Shares

The details of the Bank's redeemable preferred shares follow:

	Shares	Amount
Preferred stock - ₱1,000 par value		
Authorized	50,000	₱50,000,000
Issued and outstanding		
Balances at beginning and end of year	30,700	₱30,700,000

The preferred stock has the following features:

- The minimum subscription is 100 shares and payable in cash;
- The shares shall earn a monthly interest at a rate to be fixed by the BOD, but such interest shall not be less than the prevailing market interest rates and said shares shall not be treated as time deposit, deposit substitute or as other form of borrowings;
- The interest shall be paid in the form of dividends cumulatively, which may be declared annually or as often as the BOD may determine;



- d. The shares shall have preference in the distribution of dividends and in the distribution of assets in case of liquidation or dissolution, provided, however that no dividend shall be declared or paid on redeemable shares in the absence of sufficient undivided profits, free surplus and approval of the BSP;
- e. The shares are non-voting on matters provided for in the last paragraph of Section 6 of the Corporation Code;
- f. Pre-emptive rights are not available on preferred shares nor shall they be subject to one and the shares shall be held for five (5) years with a right of alienation or encumbrance of the same to any third person within the period of five (5) years from the original date of subscription, provided, however, that on the 5th year the holder shall be obliged to surrender the same to the corporation and upon prior approval of the BSP and in compliance with the provisions of the Manual of Regulations for Banks (MORB) and the BSP's circulars regarding this matter, the corporation shall be obliged to take up the subscription at the price when the preferred shares of stock were originally subscribed. Provided that shares redeemed are replaced with at least an equivalent amount of newly paid-in shares so that the total paid-in capital stock is maintained at the same level immediately prior to redemption and provided further, that the corporation is not insolvent or if such redemption will not cause insolvency, impairment of capital or inability of the corporation to meet its debts as they mature; and
- g. As of December 31, 2021, the Bank has not yet created a sinking fund pending request from the BSP to redeem and retire the preferred shares. The fund that will be used to redeem the preferred shares will be taken from the equity infused by the Parent Bank.

The shares may again be disposed of by the Bank for a price fixed by the BOD. Based on the BOD resolution on March 6, 2013, the entire redeemable preferred shares of the Bank will be retired after its redemption subject to BSP's approval. As of December 31, 2021 and 2020 the entire redeemable preferred shares are still subject to BSP's approval.

As of December 31, 2021 and 2020 the Parent Bank owns 30,200 shares or ₱30.20 million of the outstanding redeemable preferred shares of the Bank.

16. Maturity Analysis of Assets and Liabilities

The following table shows an analysis of assets and liabilities analyzed according to whether they are expected to be recovered or settled within one year and beyond one year from statements of financial position date (amounts in millions):

	December 31, 2021			December 31, 2020		
	Due Within One Year	Due Beyond One Year	Total	Due Within One Year	Due Beyond One Year	Total
Financial assets						
Cash and other cash items	₱107	₱—	₱107	₱113	₱—	₱113
Due from BSP	401	—	401	445	—	445
Due from other banks	85	—	85	98	—	98
Securities purchased under resale agreement	118	—	118	129	—	129
Investment securities at amortized cost	—	20	20	—	20	20
Loans and receivables	698	1,499	2,197	540	1,395	1,935
Other assets	—	2	2	—	2	2
	1,409	1,521	2,930	1,325	1,417	2,742

(Forward)



	December 31, 2021			December 31, 2020		
	Due Within One Year	Due Beyond One Year	Total	Due Within One Year	Due Beyond One Year	Total
Non-financial assets						
Property and equipment	49	310	359	—	334	334
Investment properties	—	129	129	—	149	149
Deferred tax asset	—	143	143	—	128	128
Other assets	196	1	197	156	43	199
	245	583	828	156	654	811
	₱1,654	₱2,104	₱3,758	₱1,481	₱2,071	3,552
Less:						
Unearned interest and discount	₱	₱	₱79	₱	₱	₱50
Discount on loan modification			—			24
Accumulated depreciation and amortization			264			222
Allowance for credit and impairment losses			453			434
	₱8	₱256	₱2,962	₱	₱	₱2,821
Financial liabilities						
Deposit liabilities	₱1,754	₱432	₱2,186	₱1,747	₱310	₱2,057
Redeemable preferred shares	31	—	31	31	—	31
Lease liability	2	56	59			
Accrued expenses	20	—	20	20	—	20
Other liabilities	19	—	19	24	47	71
	1,826	489	2,315	1,822	357	2,179
Non-financial liabilities						
Other liabilities	2	29	31	3	23	26
	₱1,828	₱517	₱2,346	₱1,825	₱380	₱2,205

17. Equity

Capital Stock

Details of the Bank's capital stock as of December 31, 2021 and 2020 follow:

	Shares	Amount
Common stock - ₱100.00 par value		
Authorized	20,000,000	₱2,000,000,000
Issued and outstanding		
Balances at beginning and end of year	12,459,600	₱1,245,960,000

Surplus Reserve

The Bank's accumulated reserves amounting to ₱6.45 million was appropriated under the old management and BOD in previous years, prior to the acquisition by the Parent Bank.

As provided in the Articles of Incorporation, the Bank shall accumulate and maintain a surplus reserve of not less than 5.00% of its total assets and shall be available for meeting losses incurred by the Bank. Upon the required amount thereof being reached, a sinking fund pursuant to the BSP rules and regulations shall be set aside in the amount necessary for the redemption of redeemable preferred shares. The BOD may, at its discretion, provide for such other reserves as it may seem necessary. The appointment of net earnings for such reserves shall be made before effecting the distribution of net earnings.

The Bank is presently reviewing the propriety of this provision. Any required revision will be recommended for approval to the Bank's BOD and stockholders. No additional appropriation has been made as of December 31, 2021 and 2020.



Under BSP Circular No. 1011, the Bank shall treat Stage 1 provisions for loan accounts as General Provisions (GP) while Stage 2 and 3 provisions shall be treated as Specific Provisions (SP). The Bank shall set up GLLP equivalent to 1.00% of all outstanding on-balance sheet loan accounts, except for accounts considered as credit risk-free under existing regulations. In cases when the computed allowance for credit losses on Stage 1 accounts is less than the 1.00% required GP, the deficiency shall be recognized by appropriating the 'Surplus Reserve' account. GP recognized in profit or loss as allowance for credit losses for Stage 1 accounts and the amount appropriated in surplus shall be considered as Tier 2 capital subject to the limit provided under the CAR framework.

In 2021 and 2020, the Bank's allowance for credit losses is less than the required GP of 1.00% for Stage 1 accounts amounting to ₱11.63 million and ₱10.43 million, respectively. There were no retained earnings appropriations in 2021 and 2020 since the Bank is in a deficit position.

Capital Management

The primary objectives of the Bank's capital management are to ensure that the Bank complies with externally imposed capital requirements, as mandated by the BSP, and that the Bank maintains healthy capital ratios in order to support its business and to maximize shareholder's value.

The Bank manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Bank may adjust the amount of dividend payment to shareholders, return capital to shareholders or issue capital securities. No changes were made in the objectives, policies and processes from the previous years.

Regulatory Qualifying Capital

Under existing BSP regulations, the determination of the Bank's compliance with regulatory requirements and ratios is based on the amount of the Bank's "unimpaired capital" (regulatory net worth) as reported to the BSP, which is determined on the basis of regulatory accounting practices which differ from PFRS in some respects.

In addition, the risk-based capital ratio of a bank or Capital Adequacy Ratio (CAR), expressed as a percentage of qualifying capital to risk-weighted assets, should not be less than 10.00% for both solo basis and consolidated basis. Qualifying capital and risk-weighted assets are computed based on BSP regulations. Risk-weighted assets consist of total assets less cash on hand, due from BSP, loans covered by hold-out on or assignment of deposits, loans or acceptances under letters of credit to the extent covered by margin deposits and other non-risk items determined by the Monetary Board of the BSP.

On January 15, 2013, the BSP issued Circular No. 781, Basel III Implementing Guidelines on Minimum Capital Requirements, which provides the implementing guidelines on the revised risk-based capital adequacy framework particularly on the minimum capital and disclosure requirements for universal banks and commercial banks, as well as their subsidiary banks and quasi-banks, in accordance with the Basel III standards. The Circular is effective on January 1, 2014. Effective January 1, 2014, the Bank followed the same risk-based capital adequacy framework adopted by its Parent Bank.

The Circular sets out a minimum Common Equity Tier 1 (CET1) ratio of 6.00% and Tier 1 capital ratio of 7.50%. It also introduces a capital conservation buffer of 2.50% comprised of CET1 capital. The BSP's existing requirement for total CAR remains unchanged at 10.00% and these ratios shall be maintained at all times.



The table below shows the Bank's CAR as of December 31, 2021 and 2020 as reported to the BSP (amounts in millions).

	2021	2020
Tier 1 capital	₱477	₱571
Tier 2 capital	21	22
Gross qualifying capital	498	593
Less required deductions	—	—
Total qualifying capital	₱498	₱593
Risk weighted assets	₱2,607	₱2,590
Tier 1 capital ratio	18.27%	22.05%
Tier 2 capital ratio	0.79%	0.85%
Risk-based capital adequacy ratio	19.06%	22.90%

The computed CAR of 19.06% and 22.90% as of December 31, 2021 and 2020, respectively, as reported to the BSP, were based on the commercial bank's CAR template as required by the BSP since the Parent Bank is a commercial bank.

Regulatory capital consists of Tier 1 capital, which comprises paid-up common stock, surplus, surplus reserves including current year profit, less required deductions total outstanding unsecured credit accommodations, both direct and indirect, to DOSRI.

The other component of regulatory capital is Tier 2 capital, which represents the general loan loss provisions capped at a maximum of 1.00% of gross risk weighted assets. The general loan loss provisions are based on regulatory accounting principle.

On May 22, 2014, the MB of the BSP approved the adoption of a prudential Real Estate Stress Testing (REST) limit for universal/commercial banks and thrift banks on a solo and consolidated basis on their aggregate real estate exposures, as provided under BSP Circular No. 839, Real Estate Stress Test Limit for Real Estate Exposures, dated June 27, 2014. The REST limit combines a macro prudential overlay of a severe stress test scenario, the principle of loss absorbency through minimum capital ratio thresholds and heightened supervisory response. The Circular sets out a minimum REST limit of 6.00% CET1 capital ratio and 10.00% risk-based capital adequacy ratio, on a solo and consolidated basis, under a prescribed write-off rate of 25.00% on the Bank's real estate exposure. These limits shall be complied with at all times.

On October 29, 2014, the BSP issued amendments to Circular No. 854 which requires a new minimum capitalization for Banks. The Bank, as a thrift bank with 11 to 100 branches, was required to increase its capitalization to ₱400.00 million. The Bank has complied with this requirement.

On June 9, 2015, the BSP issued Circular No. 881, Implementing Guidelines on the Basel III Leverage Ratio Framework, which provides implementing guidelines for universal, commercial, and their subsidiary banks/quasi banks. The circular sets out a minimum leverage ratio of 5.00%. The Bank has complied with this requirement.

Leverage Ratio

On June 9, 2015, BSP issued circular No. 881, which approved the guidelines for the implementation of the Basel III Leverage Ratio in the Philippines. The Basel III Leverage Ratio is designed to act as a supplementary measure to the risk-based capital requirements. The leverage ratio intends to restrict the build-up of leverage in the banking sector to avoid destabilizing deleveraging processes which can damage the broader financial system and the economy. Likewise, it reinforces the risk-based



requirements with a simple, non-risk based “backstop” measure. The Basel III leverage ratio is defined as the capital measure (the numerator) divided by the exposure measure (the denominator). The monitoring of the leverage ratio was implemented as a Pillar 1 minimum requirement effective on 1 July 2018.

The BLR of the Bank as of December 31, 2021 and 2020 as reported to the BSP are shown in the table below (amounts in millions).

	2021	2020
Tier 1 capital	₱477	₱571
Exposure measure	2,947	2,947
Leverage ratio	19.38%	19.38%

Liquidity Coverage Ratio (LCR)

BSP Circular No. 905 provides the implementing guidelines on LCR and disclosure standards that are consistent with the Basel III framework. The LCR is the ratio of high-quality liquid assets to total net cash outflows which should not be lower than 100.00%.

As of December 31, 2021 and 2020, the LCR as reported to the BSP is 318.86% and 1307.51%, respectively.

Net Stable Funding Ratio (NSFR)

On June 6, 2018, the BSP issued BSP Circular No.1007 covering the implementing guidelines on the adoption of the Basel III Framework on Liquidity Standards NSFR. The NSFR is aimed to promote long term resilience against liquidity risk by requiring banks to maintain a stable funding profile in relation to the composition of its assets and off-balance sheet activities. It complements the LCR, which promotes short term resilience of a bank's liquidity profile. Banks shall maintain an NSFR of at least 100 percent (100%) at all times. The implementation of the minimum NSFR shall be phased in to help ensure that covered banks can meet the standard through reasonable measures without disrupting credit extension and financial market activities. An observation period was set from July 1 to December 31, 2018. Effective, January 1, 2019, banks shall comply with the prescribed minimum ratio of 100%.

As of December 31, 2021 and 2020, the NSFR as reported to the BSP is 116.86% and 123.67%, respectively.

18. Income and Expenses

Service fees and commission income consists of:

	2021	2020
Service fees and commission income:		
Deposit-related	₱1,532,867	₱1,357,858
Commissions	44,002	23,715
	1,576,869	1,381,573
Service fees and commission expense:		
Banking fees	(9,184,494)	(4,568,001)
	(₱7,607,625)	(₱3,186,428)



Miscellaneous income consists of:

	2021	2020
ATM transaction fees	₱7,689,587	₱3,576,935
Penalties	5,961,773	5,796,360
Recovery on charged-off assets	1,290,305	187,130
Income on sale of checkbook	335,232	261,401
Lease concessions	—	624,879
Others (Note 10)	4,199,469	7,150,677
	₱19,476,366	₱17,597,382

Others include rental income from investment properties, other loan fees and surcharges.

Miscellaneous expenses consist of:

	2021	2020
Stationery and supplies	₱3,630,093	₱3,318,070
Litigation and other expense on assets acquired (Note 10)	2,489,527	2,656,890
Fines, penalties and other charges	1,386,807	1,129,010
Advertising	468,608	1,148,633
Membership fees and dues	411,165	414,649
Documentary stamp used	158,472	475,932
Others	3,069,024	3,911,035
	₱11,613,696	₱13,054,219

Other expenses include sponsorship expenses, appraisal fees, donations, periodicals and magazines.

19. Related Party Transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions or if they are subjected to common control of common significant influence such as subsidiaries and associates of subsidiaries or other related parties. Related parties may be individuals or corporate entities.

The Bank has several business relationships with related parties. Transactions with such parties are made in the ordinary course of business and on substantially same terms, including interest and collateral, as those prevailing at the time of comparable transactions with other parties. These transactions also did not involve more than the normal risk of collectability or present other unfavorable conditions.



Details on significant related party transactions of the Bank follow:

Related Party	Nature of Transaction	Terms and Condition	2021		2020	
			Amount/ Volume	Outstanding Balance	Amount/ Volume	Outstanding Balance
Parent	Accounts receivable	Unsecured, noninterest-bearing, payable on demand	(P3,140,334)	P4,385,893	P765,073	P5,583,708
	Accounts payable	Unsecured, noninterest-bearing, payable on demand	3,108,699	8,616,156	24,584	5,505,741
	Due from other banks	Regular checking account, non-interest bearing	(2,243,356)	6,841,771	(9,800,513)	2,555,282
Key employees	Receivables from customers	Personal loans to directors, officers and stockholders with interest rates ranging 6.25% - 9.00%; Secured and unimpaired	496,622	5,041,667	191,793	4,545,044
Key employees	Deposit liabilities	Deposits of directors, officers and stockholders with interest rates ranging 0.5% - 5.5%	113,925	1,453,752	1,051,458	1,339,827
	Interest income	Interest earned from loans of directors, officers and stockholders	367,028	—	191,793	—
	Interest expense	Interest expense on deposit liabilities	3,531	—	1,757	—
	Compensation and fringe benefits	Remuneration and benefits to directors and key management personnel	13,970,041	—	15,240,975	—
	Post-employment benefits	Post-employment benefits	1,632,414	—	856,109	—

20. Retirement Liability

The Bank has noncontributory defined benefit plan covering all its regular and permanent employees. Under the retirement plan, all employees are entitled to cash benefits after satisfying certain age and service requirements.

The existing regulatory framework, Republic Act (RA) 7641, *An Act Amending Article 287 of Presidential Decree No. 442, as Amended, otherwise known as the Labor Code of the Philippines*, requires a provision for retirement pay to qualified private sector employees in the absence of any retirement plan in the entity, provided however that the employee's retirement benefits under any collective bargaining and other agreements shall not be less than those provided under the law.

The law does not require minimum funding of the plan.

The latest actuarial valuation of the retirement plan of the Bank was made as of December 31, 2021.

The status and amounts recognized in the statement of financial position for retirement liability are as follows:

	2021	2020
Balance at beginning of year	P22,642,535	P16,563,457
Net benefit cost in statement of income*		
Current service cost	4,317,078	3,646,310
Net interest cost	926,709	826,517
	5,243,787	4,472,827

(Forward)



	2021	2020
Contribution	₱—	₱—
Benefits paid directly from Bank's operational assets	(123,572)	
	5,120,215	4,472,827
Remeasurements in OCI		
Actuarial changes arising from:		
Changes in financial assumptions	(7,395,852)	2,877,216
Experience adjustments	(328,412)	(1,259,985)
Changes in demographic assumptions	10,692,265	—
Actual return on plan assets	(1,773,225)	(10,980)
	1,194,776	1,606,251
Balance at end of year	₱28,957,526	₱22,642,535

* The net benefit cost is recorded under 'Compensation and fringe benefits' in the statements of income.

Movements in 'Remeasurement losses on retirement liability' in OCI follows:

	2021	2020
Balance at beginning of year	(₱5,090,784)	(₱3,966,408)
Remeasurement gain (loss) on retirement liability		
Due to changes in financial assumptions	7,395,852	(2,877,216)
Due to changes in experience adjustments	328,412	1,259,985
Due to changes in demographic assumptions	(10,692,265)	—
Actual return on plan assets	1,773,225	10,980
Remeasurement loss during the year	(1,194,776)	(1,606,251)
Tax effect	298,694	481,875
Remeasurement losses on retirement liability during the year, net of tax	(896,082)	(1,124,376)
Impact of CREATE	(363,627)	—
Total remeasurement losses, net of tax	(1,259,709)	(1,124,376)
Balance at end of year, net of tax	(₱6,350,493)	(₱5,090,784)

The principal actuarial assumptions used in determining the retirement liability of the Bank as of December 31, 2021 and 2020 are shown below:

	2021	2020
Discount rate	5.20%	3.94%
Salary increases	5.70%	5.70%
Mortality rate	2017 Philippine Intercompany Mortality Table	The 2001 CSO Table - Generational (Scale AA, Society of Actuaries)
Disability rate	The Disability Study, Period 2 Benefit 5 (Society of Actuaries)	The Disability Study, Period 2 Benefit 5 (Society of Actuaries)
Turnover rate	A scale ranging from 4% at age 18 decreasing to 0% at age 60	A scale ranging from 16% at age 18 decreasing to 0% at age 60



The sensitivity analysis below has been determined based on reasonably possible changes of each significant assumption on the defined benefit obligation as of the end of the reporting period, assuming if all other assumptions were held constant:

	Increase (Decrease)	Impact to DBO	
		2021	2020
Discount rate	1.00%	(P4,554,963)	(P2,751,976)
	(1.00%)	5,690,156	3,301,599
Salary increase rate	1.00%	5,600,835	3,208,176
	(1.00%)	(4,574,445)	(2,733,704)

Shown below is the maturity analysis of the undiscounted benefit payments:

	2021	2020
Less than 1 year	P195,896	P—
More than 1 year to 5 years	3,523,086	6,477,695
More than 5 years to 10 years	18,571,370	19,429,378
More than 10 years to 15 years	32,659,448	27,969,877
More than 15 years to 20 years	50,335,699	35,086,281
More than 20 years	382,696,218	95,730,462

The Bank's weighted average duration of the defined benefit obligation is equivalent to 16.8 years and 12.6 years in 2021 and 2020, respectively.

21. Leases

Bank as a Lessee

The Bank leases its head office and branch premises for periods ranging from five (2) to fifteen (15) years, renewable upon mutual agreement of both parties. Various lease contracts include escalation clauses, most of which bear annual rent increase ranging from 5.00% to 10.00%.

The Bank also has certain leases of building and branch premises with remaining lease terms of 12 months or less and leases with low value assets. The Bank applies the recognition exemptions for these types of leases. Rent expense charged against current operations (included in 'Occupancy and equipment-related' expenses in the statements of income) amounted to P6.97 million and P7.99 million in 2021 and 2020, respectively. Rent expense in 2021 pertains to expenses from short-term leases and leases of low-value assets.

The estimated minimum future annual rentals payable under non-cancellable leases follow:

	2021	2020
Within one year	P2,438,434	P14,855,408
Beyond one year but not more than five years	32,616,663	42,564,995
More than five years	35,561,465	14,895,633
	P70,616,562	P72,316,036

Right-of-use Assets

Details of the carrying amounts of right-of-use assets recognized and the movements during the year ended December 31, 2021 are disclosed in Note 9.



Lease Liabilities

As of December 31, 2021, the carrying amount of lease liabilities follow:

	2021	2020
Balance at beginning of year	₱57,850,651	₱52,431,767
Additions	10,847,282	11,757,495
Interest expense (Note 14)	4,590,992	4,778,928
Modifications/Lease concessions	2,132,464	(624,879)
Payments	(16,819,337)	(10,492,660)
Effect of Disposal Group Classified as Held for Sale (Note 24)	(20,482,390)	—
	₱38,119,662	₱57,850,651

22. Income and Other Taxes

Under Philippine tax laws, the Bank is subject to percentage and other taxes (presented as ‘Taxes and licenses’ in the statement of income) as well as income taxes. Percentage and other taxes paid consist principally of gross receipts tax (GRT) and documentary stamp taxes.

Current tax regulations provide that the RCIT rate shall be 25.00% and interest allowed as a deductible expense shall be reduced by an amount of 20.00% of interest income subjected to final tax.

The optional standard deduction (OSD) equivalent to 40.00% of gross income may be claimed as an alternative deduction in computing for the RCIT. In 2021 and 2020, the Bank elected to claim itemized expense deductions instead of the OSD in the RCIT computation.

The regulations also provide for a Minimum Corporate Income Tax (MCIT) of 1.00% on modified gross income and allow a NOLCO. The MCIT is imposed on the fourth taxable year from commencement of the business operations. The MCIT may be applied against the Bank’s income tax liability and taxable income over a three-year period from the year of inception

Current tax regulations also provide for the ceiling on the amount of entertainment, amusement and recreation (EAR) expense that can be claimed as a deduction against taxable income. Under the regulation, EAR expense allowed as a deductible expense for a service bank is limited to the actual EAR paid or incurred but not to exceed 1.00% of net revenue. EAR expenses of the Bank amounted to ₱1.47 million and ₱1.84 million in 2021 and 2020, respectively.

The following are the key changes to the Philippine tax law pursuant to the CREATE Act which have an impact to the Bank:

- Effective July 1, 2020, regular corporate income tax (RCIT) rate is reduced from 30.00% to 25.00% for domestic and resident foreign corporations. For domestic corporations with net taxable income not exceeding ₱5.00 million and with total assets not exceeding ₱100.00 million (excluding land on which the business entity’s office, plant and equipment are situated) during the taxable year, the RCIT rate is reduced to 20.00%.
- Minimum corporate income tax (MCIT) rate reduced from 2.00% to 1.00% of gross income effective July 1, 2020 to June 30, 2023.



Based on the provisions of Revenue Regulations (RR) No. 5-2021 dated April 8, 2021 issued by the Bureau of Internal Revenue (BIR), the prorated MCIT rate of the Bank for CY2020 is 1.50%. This resulted in a lower provision for current income tax of ₱0.89 million for the year ended December 31, 2020. The reduced amounts were reflected in the Bank's 2020 annual income tax return. However, for financial reporting purposes, the changes are recognized in the 2021 financial statements.

This also resulted to a write-down of the deferred tax assets of the Bank recognized as of December 31, 2020 by ₱21.43 million, of which ₱21.07 million was recognized as provision for deferred tax and ₱0.36 million in other comprehensive income in the 2021 financial statements.

Benefit from income tax consists of:

	2021	2020
Current:		
MCIT	₱2,092,556	₱3,570,911
Final	1,966,368	3,469,308
Impact of CREATE Act in CY2020	(892,728)	—
	3,166,196	7,040,219
Deferred:		
Deferred income tax	(35,227,808)	(14,739,675)
Impact of CREATE Act in CY2020	21,069,472	—
	(14,158,336)	(14,739,675)
	(₱10,992,140)	(₱7,699,456)

The components of the Bank's net deferred tax asset follow:

	2021	2020
Deferred tax assets on:		
Allowance for credit and impairment losses	₱113,192,440	₱120,965,867
NOLCO	14,346,283	—
Retirement liability	7,239,382	6,792,761
Accumulated depreciation on investment properties and repossessed chattels	4,901,201	6,317,337
Excess of MCIT over RCIT	4,770,739	—
Unamortized modification loss	1,664,398	—
Lease liability	2,221,905	2,165,016
Rent payable	—	—
	148,336,348	136,240,981
Deferred tax liabilities on:		
Unrealized gain on foreclosure of investment Properties	5,644,349	7,642,385
	5,644,349	7,642,385
	₱142,691,999	₱128,598,596



Movements in deferred tax assets comprise of:

	2021	2020
At beginning of the year	₱128,598,596	₱113,377,046
Amounts credited to statement of income	14,158,336	14,739,675
Amounts charged against statements of comprehensive income (Note 19)	(64,933)	481,875
At end of the year	₱142,691,999	₱128,598,596

As of December 31, 2021, there are no unrecognized deferred tax assets since management believes that it is probable that taxable profit will be available against which these can be utilized.

As of December 31, 2020, the Bank did not set up any deferred tax assets on the following temporary differences since management believes that it is not highly probable that the related future benefits will be realized in the future.

	2020
Allowance for credit and impairment losses	₱30,904,588
Loan modification	24,397,090
Excess of MCIT over RCIT	3,570,911
NOLCO	79,783,402
	₱138,655,991

On September 30, 2020, the BIR has issued Revenue Regulations (RR) No. 25-2020 to implement Section 4 (bbbb) of Republic Act No. 11494, otherwise known as “Bayanihan to Recover as One Act”, allowing qualified businesses or enterprises which incurred net operating loss for taxable years 2020 and 2021 to carry over the same as a deduction from its gross income for the next five (5) consecutive taxable years immediately following the year of such loss.

As of December 31, 2021, the Bank has incurred NOLCO in taxable year 2020 which can be claimed as deduction from the regular taxable income for the next five (5) consecutive taxable years pursuant to Bayanihan 2, as follows:

Inception Year	Amount	Used	Expired	Balance	Expiry Year
2020	₱79,783,402	₱22,398,272	₱–	₱57,385,130	2025

Details of the Bank’s excess MCIT over RCIT follow:

Inception Year	Amount	Used	Expired	Balance	Expiry Year
2020	₱2,678,183	₱–	₱–	₱2,678,183	2023
2021	2,092,556	–	–	2,092,556	2024

A reconciliation of statutory income tax to the effective income tax is as follows:

	2021	2020
Statutory income tax	(₱2,248,236)	(₱17,620,045)
Tax effect of:		
Impact of CREATE Act	20,176,744	–
Movements in unrecognized deferred tax assets	(30,391,043)	8,393,564
Nondeductible expenses	1,962,820	3,233,052
Tax-paid and nontaxable income	(492,425)	(1,706,027)
Effective income tax	(₱10,992,140)	(₱7,699,456)



23. Contingencies

The Bank is also involved in a number of legal proceedings. The estimate of the probable costs for the resolutions of these claims has been developed in consultation with outside counsel handling the Bank's defense and is based on an analysis of potential results. The Bank does not believe that these proceedings will have a material adverse effect on the financial statements.

Following is a summary of the Bank's commitments and contingent liabilities at their equivalent peso contractual amounts:

	2021	2020
Late deposit/payment received	₱55,000	₱644,091
Items held for safekeeping	15,134	15,491
Other contingent account	5,574	6,098
Total	₱75,708	₱665,680

Other contingent account includes post-dated checks and items held as collateral valued at ₱1 per item.

24. Assets and Liabilities of Disposal Group Classified as Held for Sale

In 2021, the Bank made a strategic decision to sell selected assets and liabilities to the Parent Bank as part of the overall strategies of the Bank to focus in growing DepEd Automatic Payroll Deduction System (APDS) loans. Relative to this, the Bank will transfer to the Parent Bank selected portfolios of consumption, commercial and real estate loans, and branch licenses of ten (10) regular branches and two (2) branch-lite units, including the related assets and liabilities of the branches and branch-lite units.

The Board approved such plan on October 21, 2021. The completion of this transaction will be subject to regulatory approvals.

The sale of the selected assets and liabilities to the Parent Bank is expected to be completed by fourth quarter of 2022. As of December 31, 2021, these assets and liabilities were classified as disposal group held for sale.

PFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*, requires assets and liabilities for disposal, to be classified separately from other assets and liabilities. As a result, the Bank reclassified all the assets and liabilities for disposal to 'Assets of disposal group classified as held for sale' and 'Liabilities of disposal group classified as held for sale', respectively, in the statement of financial position.

The major classes of assets and liabilities classified as disposal group held for sale to the Parent Bank as of December 31, 2021 are as follows:

Assets

Cash and Other Cash Items	₱47,233,144
Due from Bangko Sentral ng Pilipinas	359,495,106
Due from Other Banks	28,906,280

(Forward)



Loans and Receivables	₱281,388,882
Property and Equipment	40,464,314
Assets of Disposal Group Classified as Held for Sale	₱757,487,726

Liabilities

Deposit Liabilities	
Demand	₱186,118,626
Savings	631,299,186
	817,417,812
Other Liabilities	20,482,390
Liabilities of Disposal Group Classified as Held for Sale	₱837,900,202

25. Note to the Statement of Cash Flows

Non-cash investing and financing activities that relate to the analysis of the statement of cash flows of the Bank are as follows:

	2021	2020
Increase in repossessed chattels due to foreclosure	₱3,097,165	₱4,664,015
Sale of investment properties on account	8,527,818	1,292,000
Increase in property equipment due to reclassifications from investment property	1,862,563	1,021,944
Increase in investment properties due to foreclosure	8,300,701	553,808
Effect of PFRS 16		
Increase (decrease) in property and equipment	(919,499)	12,384,404
Increase in lease liability	751,401	12,382,374
Lease concessions	—	624,879

26. Events after the Reporting Period

On January 20, 2022, the BOD of the Bank approved the sale of selected portfolio of microfinance loans including the related deposit liabilities with net asset value amounting to ₱69.07 million to a third-party bank in line with the overall strategies of the Bank to focus in growing DepEd APDS loans. The sale is expected to be completed on April 30, 2022.

27. Approval of the Release of the Financial Statements

The accompanying financial statements of the Bank were approved and authorized for issue by the BOD on March 25, 2022.

28. Supplementary Information Required under Revenue Regulations (RR) No. 15-2010

On November 25, 2010, the BIR issued RR No. 15-2010 prescribing the manner of compliance in connection with the preparation and submission of financial statements accompanying the tax returns. It includes provisions for additional disclosure requirements in the notes to the financial statements, particularly on taxes, duties and licenses paid or accrued during the year.



The Bank reported and/or paid the following types of taxes for the year:

Taxes and Licenses

In 2021, taxes and licenses of the Bank consist of:

Gross receipts tax	₱18,851,306
License, permits and others	2,868,436
	<u>₱21,719,742</u>

Documentary Stamp Taxes

In 2021, the Bank has paid documentary stamps tax amounting to ₱2,583,517.

Withholding Taxes

The following table shows the breakdown of taxes withheld and remitted in 2021:

	Amount	Total Remittances	Balance
Withholding taxes on			
compensation and benefits	₱2,191,656	₱2,119,903	₱71,753
Withholding tax on deposits	2,682,385	2,500,208	182,177
Expanded withholding taxes	1,883,020	1,726,489	156,531
	<u>₱6,757,061</u>	<u>₱6,346,600</u>	<u>₱410,461</u>

As of December 31, 2021, there are no outstanding tax cases under investigation, litigation or prosecution in courts or bodies outside BIR.

29. Supplementary Information Required under BSP Circular No. 1074

On February 7, 2020, the BSP issued Circular No. 1074 to amend certain provisions of the MORB and Manual of Regulations for Foreign Exchange Transactions (MORFXT). The Circular provides for new and amended disclosure requirements to the audited financial statements, which are to be presented either (i) on specific notes to the financial statements, or (ii) in a separate note containing supplementary information as required by the BSP. This supplementary information is not a required disclosure under PFRS.

In compliance with the requirements set forth by Circular No. 1074, hereunder are the supplementary information:

Financial performance indicators

The following basic ratios measure the financial performance of the Bank:

	2021	2020
Return on average equity	0.32%	-7.95%
Return on average assets	0.07%	-1.82%
Net interest margin on average earnings assets	12.47%	15.00%



The following formulas were used to compute the indicators:

Performance Indicator	BSP Prescribed Formula
Return on Average Equity	$\frac{\text{Net Income (or Loss) after Income Tax} \times 100}{\text{Average Total Capital Accounts}^*}$
Return on Average Assets	$\frac{\text{Net Income (or Loss) after Income Tax} \times 100}{\text{Average Total Assets}^*}$
Net Interest Margin	$\frac{\text{Net Interest Income} \times 100}{\text{Average Interest Earning Assets}^*}$

*Average amount is calculated based on current year-end and previous year-end balances

Capital instruments

As of December 31, 2021 and 2020, the Bank has outstanding capital stock as shown below:

	Shares	Amount
Common stock - ₱100.00 par value		
Authorized	20,000,000	₱2,000,000,000
Issued and outstanding		
Balances at beginning and end of year	12,459,600	₱1,245,960,000

Breakdown of total loans as to security and status

The following table shows the breakdown of receivable from customers as to secured and unsecured and the breakdown of secured receivables from customers as to the type of security as of December 31, 2021 and 2020:

	2021		2020	
	Amount	%	Amount	%
Secured by:				
Real estate	₱228,029,232	10.83	₱174,089,430	9.73
Chattel	97,047,682	4.61	129,001,546	7.21
Deposit hold-outs	1,030,618	0.05	927,764	0.05
Jewelry	7,858,019	0.37	20,277,723	1.13
	333,965,551	15.86	324,296,463	18.12
Unsecured	1,771,734,195	84.14	1,465,352,391	81.88
	₱2,105,699,746	100.00	₱1,789,648,854	100.00

As of December 31, 2021 and 2020, details of status of loans follow:

	Performing		Non-Performing	
	2021	2020	2021	2020
Consumption	₱1,648,912,958	₱1,357,741,746	₱212,295,159	₱195,347,903
Commercial	48,864,078	85,017,815	53,122,981	66,818,532
Real estate	140,119,925	82,670,110	2,384,645	2,052,748
	₱1,837,896,961	₱1,525,429,671	₱267,802,785	₱264,219,183



Under banking regulations, financial institutions shall adopt the ECL model in measuring credit impairment, in accordance with the provisions of PFRS 9. With the issuance of BSP Circular 941, *Amendments to the Regulations on Past Due and Non-Performing loans*, loans and lease receivables, or any financial asset shall be considered non-performing, even without any missed contractual payments, when it is considered impaired under existing accounting standards, classified as doubtful or loss, in litigation, and/or there is evidence that full repayment of principal and/or interest is unlikely without foreclosure of collateral, if any.

All other loans, even if not considered impaired, shall be considered non-performing if any principal and/or interest are:

1. Unpaid for more than ninety (90) days from contractual due date, or accrued interests for more than ninety (90) days have been capitalized, refinanced, or delayed by agreement.
2. Microfinance and other small loans with similar credit characteristics shall be considered non-performing after contractual due date or after it has become past due for more than 7-10 days.
3. Restructured loans shall be considered non-performing. However, if prior to restructuring, the loans were categorized as performing, such classification shall be retained.

Restructured receivables which do not meet the requirements to be treated as performing receivables shall also be considered as NPLs. Restructured receivables as of December 31, 2021 and 2020 amounted to ₱51.57 million and ₱60.03 million, respectively.

As of December 31, 2021 and 2020, details of gross NPLs follow:

	2021	2020
Secured	₱45,926,465	₱48,666,699
Unsecured	221,876,320	215,552,484
	₱267,802,785	₱264,219,183

The NPLs of the Bank not fully covered by allowance for credit losses as reported to BSP follow:

	2021	2020
Total NPLs	₱267,802,785	₱264,219,183
Allowance for credit losses*	216,480,809	159,009,408
	₱51,321,976	₱105,209,775

*Allowance for credit losses per BSP

Significant credit exposures as to industry/economic sector

As of December 31, 2021 and 2020, information on the concentration of credit as to industry, net of unearned interest and discount, follows:

	2021		2020	
	Amount	%	Amount	%
Other Services Activities	₱1,610,431,244	79.44	₱1,324,331,305	77.22
Wholesale and retail trade, repair of motor vehicles and motorcycles	179,941,297	8.88	188,761,076	11.01
Real estate activities	157,953,929	7.79	98,008,208	5.71
Agriculture, forestry and fishing	34,005,924	1.68	47,446,788	2.77
Construction	14,886,018	0.73	17,579,317	1.02
Education	11,856,105	0.58	13,965,208	0.81

(Forward)



	2021		2020	
	Amount	%	Amount	%
Manufacturing	₱5,364,976	0.26	₱8,178,140	0.48
Accommodation & food services activities	4,854,516	0.24	6,300,992	0.37
Professional, scientific and technical activities	4,607,521	0.23	6,292,244	0.37
Transportation and storage	2,213,554	0.11	2,323,822	0.14
Mining and quarrying	291,774	0.01	176,077	0.01
Water supply, sewerage, waste management and remediation activities	248,196	0.01	461,511	0.03
Activities of households as employers and undifferentiated goods-and-services-producing activities of households for own use	157,067	0.01	–	0.00
Human health and social work activities	91,927	0.00	76,053	0.00
Electricity, gas, steam and air, conditioning supply	87,952	0.00	147,972	0.01
Arts, entertainment and recreation	79,440	0.00	461,500	0.03
Information and communication	78,389	0.00	153,669	0.01
Administrative and Support Service Activities	8,251	0.00	–	0.00
Financial and Insurance Activities	–	0.00	393,901	0.02
	₱2,027,158,080	100.00	₱1,715,057,783	100.00

The BSP considers that concentration risk exists when the total loan exposure to a particular industry or economic sector exceeds 30.00% of the total loan portfolio.

Information on related party loans

In the ordinary course of business, the Bank has loan transactions with affiliates and with certain DOSRI. Existing banking regulations limit the amount of individual loans to DOSRI, 70.00% of which must be secured, to the total of their respective deposits and book value of their respective investments in the Bank. In the aggregate, loans to DOSRI generally should not exceed the Bank's total regulatory capital or 15.00% of total loan portfolio, whichever is lower.

On January 31, 2007, BSP Circular No. 560 was issued providing the rules and regulations that govern loans, other credit accommodations and guarantees granted to subsidiaries and affiliates of banks and quasi-banks. Under the said circular, the total outstanding exposures to each of a bank's subsidiaries and affiliates shall not exceed 10.00% of bank's net worth, the unsecured portion of which shall not exceed 5.00% of such net worth.

Further, the total outstanding exposures to subsidiaries and affiliates shall not exceed 20.00% of the net worth of the lending bank. BSP Circular No. 560 is effective on February 15, 2007.

The following table shows information relating to DOSRI accounts of the Bank:

	2021	2020
Total outstanding DOSRI accounts	₱ 5,041,667	₱ 4,869,293
Total outstanding DOSRI accounts prior to effectivity of BSP Circular No. 423	5,041,667	4,869,293
Percent of DOSRI accounts to total loans	0.24%	0.27%
Percent of unsecured DOSRI accounts to total DOSRI accounts	64.67%	51.98%
Percent of nonperforming DOSRI accounts to total DOSRI accounts	0.93%	0.96%
Percent of past due DOSRI accounts to total DOSRI accounts	0.93%	0.96%



As of December 31, 2021 and 2020, DOSRI loans include real estate loans to bank officers which were granted under the Bank's Financial Assistance Program, as approved by the BSP, amounting to ₱4.35 million and ₱0.50 million, respectively.

Commitments and contingent liabilities

Following is a summary of the Bank's commitments and contingent liabilities at their equivalent peso contractual amounts:

	2021	2020
Late deposit/payment received	₱55,000	₱644,091
Items held for safekeeping	15,134	15,491
Other contingent account	5,574	6,098
Total	₱75,708	₱665,680

