

Report of Independent Certified Public Accountants to Accompany Income Tax Return

Punongbayan & Araullo

20th Floor, Tower 1
The Enterprise Center
6766 Ayala Avenue
1200 Makati City
Philippines


T +63 2 8988 2288

The Board of Directors
Country Builders Bank, Inc. (A Rural Bank)
10 General Luna St.
Taguig City

We have audited the financial statements of Country Builders Bank, Inc. (A Rural Bank) (the Bank) for the year ended December 31, 2021, on which we have rendered the attached report dated April 18, 2022.

In compliance with Revenue Regulations V-20, we are stating that no partner of our Firm is related by consanguinity or affinity to the president, manager or principal stockholders of the Bank.

PUNONGBAYAN & ARAULLO



By: Mary Grace A. Punay
Partner

CPA Reg. No. 0116576
TIN 244-931-755
PTR No. 6493469, January 12, 2022, City of Davao
SEC Group A Accreditation
Partner - No. 116576-SEC (until Dec. 31, 2025)
Firm - No. 0002 (until Dec. 31, 2024)
BIR AN 08-002511-043-2021 (until Nov. 9, 2024)
Firm's BOA/PRC Cert. of Reg. No. 0002 (until Aug. 27, 2024)

April 18, 2022

Report of Independent Auditors

Punongbayan & Araullo

20th Floor, Tower 1
The Enterprise Center
6766 Ayala Avenue
1200 Makati City
Philippines

T +63 2 8988 2288

The Board of Directors
Country Builders Bank, Inc. (A Rural Bank)
10 General Luna St.
Taguig City

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Country Builders Bank, Inc. (A Rural Bank) (the Bank), which comprise the statements of financial position as at December 31, 2021 and 2020, and the 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 (PFRS).

Basis for Opinion

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

Emphasis of a Matter

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

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

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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


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

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

Report on Other Legal and Regulatory Requirements

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information for the years ended December 31, 2021 and 2020 required by the Bangko Sentral ng Pilipinas, and for the year ended December 31, 2021 required by the Bureau of Internal Revenue, as disclosed in Notes 24 and 25 to the financial statements, respectively, is presented for purposes of additional analysis and is not a required part of the basic financial statements prepared in accordance with PFRS. Such supplementary information is the responsibility of management. The supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

PUNONGBAYAN & ARAULLO


By: Mary Grace A. Punay
Partner

CPA Reg. No. 0116576
TIN 244-931-755
PTR No. 6493469, January 12, 2022, City of Davao
SEC Group A Accreditation
Partner - No. 116576-SEC (until Dec. 31, 2025)
Firm - No. 0002 (until Dec. 31, 2024)
BIR AN 08-002511-043-2021 (until Nov. 9, 2024)
Firm's BOA/PRC Cert. of Reg. No. 0002 (until Aug. 27, 2024)

April 18, 2022

COUNTRY BUILDERS BANK, INC. (A RURAL BANK)
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2021 AND 2020
(Amounts in Philippine Pesos)

	<u>Notes</u>	<u>2021</u>	<u>2020</u>
<u>RESOURCES</u>			
CASH AND OTHER CASH ITEMS	7	P 146,891,957	P 223,999,265
DUE FROM BANGKO SENTRAL NG PILIPINAS	7	104,991,920	48,846,725
DUE FROM OTHER BANKS	7	236,883,976	191,334,119
HELD TO COLLECT INVESTMENTS - Net	8	816,647,078	792,140,335
LOANS AND RECEIVABLES - Net	9	1,231,517,658	1,293,972,062
BANK PREMISES, FURNITURE, FIXTURES AND EQUIPMENT - Net	10	110,600,007	115,584,321
INVESTMENT PROPERTIES - Net	11	121,334,613	128,483,911
DEFERRED TAX ASSETS - Net	21	24,087,936	33,424,008
OTHER RESOURCES - Net	12	<u>42,085,963</u>	<u>44,744,941</u>
TOTAL RESOURCES		<u>P 2,835,041,108</u>	<u>P 2,872,529,687</u>
<u>LIABILITIES AND EQUITY</u>			
DEPOSIT LIABILITIES	13	P 2,305,998,259	P 2,344,791,407
ACCRUED EXPENSES AND OTHER LIABILITIES	14	129,752,271	150,486,365
POST-EMPLOYMENT BENEFIT OBLIGATION	17	<u>29,289,221</u>	<u>21,173,175</u>
TOTAL LIABILITIES		2,465,039,751	2,516,450,947
EQUITY	16	<u>370,001,357</u>	<u>356,078,740</u>
TOTAL LIABILITIES AND EQUITY		<u>P 2,835,041,108</u>	<u>P 2,872,529,687</u>

See Notes to Financial Statements.

COUNTRY BUILDERS BANK, INC. (A RURAL BANK)
STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020
(Amounts in Philippine Pesos)

	<u>Notes</u>	<u>2021</u>	<u>2020</u>
INTEREST INCOME			
Loans and receivables	9	P 139,942,722	P 127,532,975
Investment securities	8	25,171,209	31,313,412
Due from other banks	7	<u>3,574,060</u>	<u>7,107,719</u>
		<u>168,687,991</u>	<u>165,954,106</u>
INTEREST EXPENSE			
Deposit liabilities	13	(17,983,631)	(25,476,801)
Lease liabilities	14	(<u>3,299,452</u>)	(<u>2,433,589</u>)
		(<u>21,283,083</u>)	(<u>27,910,390</u>)
NET INTEREST INCOME		147,404,908	138,043,716
IMPAIRMENT LOSSES	9	(<u>139,159</u>)	(<u>9,720,320</u>)
NET INTEREST INCOME AFTER IMPAIRMENT LOSSES		147,265,749	128,323,396
OTHER INCOME	18	67,524,424	47,201,823
OPERATING EXPENSES	19	(<u>152,917,025</u>)	(<u>142,697,522</u>)
PROFIT BEFORE TAX		61,873,148	32,827,697
TAX EXPENSE	21	(<u>20,553,242</u>)	(<u>11,045,740</u>)
NET PROFIT		<u>41,319,906</u>	<u>21,781,957</u>
OTHER COMPREHENSIVE LOSS			
Items that will not be reclassified subsequently through profit or loss			
Loss on remeasurement of post-employment benefit obligation	17	(6,677,396)	(4,215,216)
Tax income	21	<u>1,103,064</u>	<u>1,264,565</u>
		(<u>5,574,332</u>)	(<u>2,950,651</u>)
TOTAL COMPREHENSIVE INCOME		<u>P 35,745,574</u>	<u>P 18,831,306</u>

See Notes to Financial Statements.

COUNTRY BUILDERS BANK, INC. (A RURAL BANK)
STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020
(Amounts in Philippine Pesos)

Capital Stock				Reserves					
Note	Common Stock		Preferred Stock	Appraisal Increment	Retirement	Regulatory	Total	Surplus	Total Equity
Balance as of January 1, 2020	P	135,263,200	P 38,345,800	P 6,530,629	P 7,927,986	P 1,989,714	P 16,448,329	P 166,021,411	P 356,078,740
Cash dividends	16	-	-	-	-	-	-	(21,822,957)	(21,822,957)
Total comprehensive income for the year		-	-	-	(5,574,332)	-	(5,574,332)	41,319,906	35,745,574
Balance as of December 31, 2020		P 135,263,200	P 38,345,800	P 6,530,629	P 2,353,654	P 1,989,714	P 10,873,997	P 185,518,360	P 370,001,357
Balance as of January 1, 2020	P	135,263,200	P 38,345,800	P 6,530,629	P 10,878,637	P 1,047,185	P 18,456,451	P 147,481,859	P 339,547,310
Cash dividends	16	-	-	-	-	-	-	(2,299,876)	(2,299,876)
Appropriation for general loan loss reserve	16	-	-	-	-	942,529	942,529	(942,529)	-
Total comprehensive income for the year		-	-	-	(2,950,651)	-	(2,950,651)	21,781,957	18,831,306
Balance as of December 31, 2020	P	135,263,200	P 38,345,800	P 6,530,629	P 7,927,986	P 1,989,714	P 16,448,329	P 166,021,411	P 356,078,740

See Notes to Financial Statements.

COUNTRY BUILDERS BANK, INC. (A RURAL BANK)
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020
(Amounts in Philippine Pesos)

	Notes	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		P 61,873,148	P 32,827,697
Adjustments for:			
Interest received		177,913,455	148,660,497
Interest income	7, 8, 9	(168,687,991)	(165,954,106)
Gain on sale of acquired assets	11	(21,312,338)	(4,963,940)
Interest expense	13, 14	21,283,083	27,910,390
Depreciation and amortization	10, 11, 12	19,955,409	21,523,915
Interest paid		(18,295,632)	(27,022,670)
Amortization of held to collect (HTC) investments	8	3,459,338	(3,198,647)
Gain on pretermination of lease contracts		1,290,764	-
Gain on sale of bank premises, furniture, fixtures and equipment	10	(170,490)	(216,820)
Impairment losses	9	139,159	9,720,320
Reversal of impairment losses	9, 11	(4,015,993)	-
Operating income before changes in resources and liabilities		73,431,912	39,286,636
Decrease in loans and other receivables		57,105,775	44,324,271
Decrease in investment properties		26,995,302	8,331,425
Increase in other resources		(10,823,805)	(88,161)
Decrease in deposit liabilities		(38,793,148)	(81,689,539)
Decrease in accrued expenses and other liabilities		(6,177,355)	(22,745,423)
Cash generated from (used in) operations		101,738,681	(12,580,791)
Cash paid for income taxes		(6,821,851)	(9,460,685)
Net Cash From (Used in) Operating Activities		94,916,830	(22,041,476)
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisitions of HTC investments	8	(324,025,937)	(395,376,000)
Proceeds from maturities of HTC investments	8	296,059,856	242,253,856
Acquisitions of bank premises, furniture, fixtures and equipment	10	(9,718,793)	(1,246,719)
Proceeds from disposals of bank premises, furniture, fixtures and equipment	10	508,066	216,825
Net Cash Used in Investing Activities		(37,176,808)	(154,152,038)
CASH FLOWS FROM FINANCING ACTIVITIES			
Payment of cash dividends	16	(21,822,957)	(2,299,876)
Payment of lease liabilities	14	(11,329,321)	(15,484,571)
Cash Used in Financing Activities		(33,152,278)	(17,784,447)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		24,587,744	(193,977,961)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	7		
Cash and other cash items		223,999,265	136,292,056
Due from Bangko Sentral ng Pilipinas		48,846,725	109,653,551
Due from other banks		191,334,119	412,212,463
		464,180,109	658,158,070
CASH AND CASH EQUIVALENTS AT END OF YEAR	7		
Cash and other cash items		146,891,957	223,999,265
Due from Bangko Sentral ng Pilipinas		104,991,920	48,846,725
Due from other banks		236,883,976	191,334,119
		P 488,767,853	P 464,180,109

Supplemental Information on Noncash Investing and Financing Activities –

In 2021 and 2020, additional right-of-use assets and liabilities were recognized by the Bank amounting to P9,616,616 and P7,519,853, respectively (see Notes 10 and 14).

See Notes to Financial Statements.

COUNTRY BUILDERS BANK, INC. (A RURAL BANK)
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020
(Amounts in Philippine Pesos)

1. CORPORATE INFORMATION

1.1 Incorporation and Operations

Country Builders Bank, Inc. (A Rural Bank) (CBB or the Bank) is the product of the consolidation of two banks, Country Rural Bank of Taguig, Inc. and Builders Rural Bank (BRB). It was incorporated in the Philippines and registered with the Philippine Securities and Exchange Commission (SEC) on September 27, 2012. The Bank started its operations on November 5, 2012.

The Bank was incorporated primarily to engage in the business of granting rural credit to small farmers and tenants, and deserving rural industries or enterprises, to have and exercise all authority and powers, to do and perform all acts, and to transact all business which may legally be had or done by rural banks organized under and in accordance with Republic Act (R.A.) No. 7353, *Rural Bank Act of 1992*.

The Bank serves a broad and diverse clientele including micro, small and medium enterprises, agricultural businesses, businessmen, professionals, teachers, vendors, government and private employees.

The Bank's registered office is located at 10 General Luna St., Taguig City. The Bank has a total branch network of 33 sites located in Metro Manila, Cavite, Laguna, Rizal and Bulacan areas.

1.2 Approval of Financial Statements

The financial statements of the Bank as at and for the year ended December 31, 2021 (including the comparative financial statements as of and for the year ended December 31, 2020) were approved and authorized for issue by the Bank's Board of Directors (BOD) on April 18, 2022.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of Preparation of Financial Statements

(a) Statement of Compliance with Philippine Financial Reporting Standards

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

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

(b) *Presentation of Financial Statements*

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

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

(c) *Functional and Presentation Currency*

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

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

2.2 Adoption of New and Amended PFRS

(a) *Effective in 2021 that are Relevant to the Bank*

The Bank adopted for the first time the following amendments to PFRS, which are mandatorily effective for annual periods beginning on or after January 1, 2021:

- (i) PFRS 9 (Amendments), *Financial Instruments*, PFRS 7 (Amendments), *Financial Instruments: Disclosures*, and PFRS 16 (Amendments), *Leases – Interest Rate Benchmark Reform Phase 2*. The amendments address issues that may affect financial reporting during the interest rate benchmark reform, including the effect of changes to contractual cash flows or hedging relationships resulting from the replacement of the London Interbank Offered Rate with alternative benchmark rates. The application of these amendments had no significant impact on the Bank's financial statements.
- (ii) The Bank opted to early adopt the application of the amendments to PFRS 16, *Leases – COVID-19-Related Rent Concessions beyond June 30, 2021*, which is effective from April 1, 2021. The amendments extend for one year the use of practical expedient of not assessing whether rent concessions reducing payments up until June 30, 2022 occurring as a direct consequence of the COVID-19 pandemic are lease modifications and instead to account for those rent concessions as if they are not lease modifications. The application of these amendments had no significant impact to the Bank's financial statements as the Bank did not receive any rent concession from its lessors in 2021.

(b) *Effective Subsequent to 2021 but not Adopted Early*

There are new PFRS and amendments to existing standards effective for annual periods subsequent to 2021, which are adopted by the FRSC. Management will adopt the following relevant pronouncements in accordance with their transitional provisions; and, none of these are expected to have significant impact on the Bank's financial statements:

- (i) PAS 16 (Amendments), *Property, Plant and Equipment – Proceeds Before Intended Use* (effective from January 1, 2022)
- (ii) PAS 37 (Amendments), *Provisions, Contingent Liabilities and Contingent Assets – Onerous Contracts – Cost of Fulfilling a Contract* (effective from January 1, 2022)
- (iii) Annual Improvements to PFRS 2018-2020 Cycle. Among the improvements, the following amendments, which are effective from January 1, 2022, are relevant to the Bank:
 - a. PFRS 9 (Amendments), *Financial Instruments – Fees in the '10 per cent' Test for Derecognition of Liabilities*
 - b. Illustrative Examples Accompanying PFRS 16, *Leases – Lease Incentives*
- (iv) PAS 1 (Amendments), *Presentation of Financial Statements – Classification of Liabilities as Current or Non-current* (effective from January 1, 2023)
- (v) PAS 1 (Amendments), *Presentation of Financial Statements – Disclosure of Accounting Policies* (effective from January 1, 2023)
- (vi) PAS 8 (Amendments), *Accounting Estimates – Definition of Accounting Estimates* (effective from January 1, 2023)
- (vii) PAS 12 (Amendments), *Income Taxes – Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction* (effective from January 1, 2023)

2.3 Financial Assets

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

(a) *Classification, Measurement and Reclassification of Financial Assets*

The classification and measurement of financial assets is driven by the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. Financial assets at amortized cost, the only classification and measurement of financial assets applicable to the Bank, is described as follows.

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

- the asset is held within the Bank's business model whose objective is to hold financial assets in order to collect contractual cash flows ("held-to-collect" or HTC); and,
- the contractual terms of the instrument give rise, on specified dates, to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

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

Where the business model is to hold assets to collect contractual cash flows, the Bank assesses whether the financial instruments' cash flows represent SPPI. In making this assessment, the Bank considers whether the contractual cash flows are consistent with a basic lending arrangement [see Note 3.1(b)], i.e., interest includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at fair value through profit or loss (FVTPL).

The Bank's financial assets at amortized cost are presented in the statement of financial position as Cash and Other Cash Items, Due from Bangko Sentral ng Pilipinas (BSP), Due from Other Banks, HTC Investments, Loans and Receivables and Security deposits, which is presented as part of Other Resources.

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

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

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

(b) *Recognition of Interest Income Using Effective Interest Rate Method*

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

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

If expectations regarding the cash flows on the financial asset are revised for reasons other than credit risk, the adjustment is booked as a positive or negative adjustment to the carrying amount of the asset with an increase or reduction in interest income.

The Bank calculates interest income by applying the effective interest rate to the gross carrying amount of the financial assets, except for those that are subsequently identified as credit-impaired and or are purchased or originated credit-impaired assets.

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

The interest earned is recognized as part of Interest Income in the statement of comprehensive income.

(c) *Impairment of Financial Assets*

The Bank recognizes allowances for ECL on a forward-looking basis associated with its financial assets at amortized cost. It considers a broad range of information in assessing credit risk and measuring expected credit losses, including past events, current conditions, reasonable and supportable forecasts that affect collectability of the future cash flows of the financial assets.

The Bank measures loss allowances at an amount equal to lifetime ECL, except for the following financial instruments for which they are measured as 12-month ECL:

- debt securities that are identified to have 'low credit risk' at the reporting date; and,

- other financial instruments on which credit risk has not increased significantly since their initial recognition.

For these financial instruments, the allowance for credit losses is based on 12-month ECL associated with the probability of default of a financial instrument in the next 12 months (referred to as 'Stage 1' financial instruments). Unless there has been a significant increase in credit risk (SICR) subsequent to the initial recognition of the financial asset, a lifetime ECL (which are the expected shortfalls in contractual cash flows, considering the potential for default at any point during the life of the financial asset) will be recognized (referred to as 'Stage 2' financial instruments). 'Stage 2' financial instruments also include those loan accounts and facilities where the credit risk has improved and have been reclassified from 'Stage 3'. A lifetime ECL shall be recognized for 'Stage 3' financial instruments, which include financial instruments that are subsequently credit-impaired, as well as purchased or originated credit impaired assets.

The Bank's definition of credit risk and information on how credit risk is mitigated by the Bank are disclosed in Note 4.4.

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

- *Probability of default (PD)* – it is an estimate of likelihood of a borrower defaulting on its financial obligation (see Note 4.4.1.2) over a given time horizon, either over the next 12 months (12-month PD) or over the remaining lifetime (lifetime PD) of the obligation.
- *Loss given default (LGD)* – it is an estimate of loss arising in case where a default occurs at a given time (either over the next 12 months or 12-month LGD, or over the remaining lifetime or lifetime LGD). It is based on the difference between the contractual cash flows of a financial instrument due from a counterparty and those that the Bank would expect to receive, including the realization of any collateral. It is presented as a percentage loss per unit of exposure at the time of default.
- *Exposure at default (EAD)* – it represents the gross carrying amount of the financial instruments in the event of default which pertains to its amortized cost; hence, this is the amount that the Bank expects to be owed at the time of default over the next 12 months (12-month EAD) or over the remaining lifetime (lifetime EAD). In case of a loan commitment, the Bank shall include the- 6 -nderawn balance (up to the current contractual limit) at the time of default should it occur.

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

The Bank recognizes an impairment loss in profit or loss for all financial instruments subjected to impairment assessment with a corresponding adjustment to their carrying amount through a loss allowance account.

The Bank's detailed ECL measurement, as determined by the management, is disclosed in Note 4.4.1.

(d) *Derecognition of Financial Assets*

(a) *Modification of Loans*

When the Bank derecognizes a financial asset through renegotiation or modification of contractual cash flows of loans to customers, the Bank assesses whether or not the new terms are substantially different to the original terms. The Bank considers, among others:

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

If the terms are substantially different, the Bank derecognizes the financial asset and recognizes a "new" asset at fair value, and recalculates a new effective interest rate for the asset. The date of renegotiation is consequently considered to be the date of initial recognition for impairment calculation, including for the purpose of determining whether a significant increase in credit risk has occurred. However, the Bank also assesses whether the new financial asset recognized is deemed to be credit-impaired at initial recognition, especially in circumstances where the renegotiation was driven by the debtor being unable to make the originally agreed payments.

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

If the terms are not substantially different, the renegotiation or modification does not result in derecognition, and the Bank recalculates the gross carrying amount based on the revised cash flows of the financial asset and recognizes a modification gain or loss in profit or loss. The new gross carrying amount is recalculated by discounting the modified cash flows of the original effective interest rate (or credit-adjusted effective interest rate for purchased or originated credit-impaired financial assets). As to the impact on ECL measurement, the derecognition of the existing financial asset will result in the expected cash flows arising from the modified financial asset to be included in the calculation of cash shortfalls from the existing financial asset.

(b) Derecognition of Financial Assets Other than Modification

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

2.4 Bank Premises, Furniture, Fixtures and Equipment

Land is stated at cost less any impairment losses. As no finite useful life for land can be determined, the related carrying amount is not depreciated. All other items of bank premises, furniture, fixtures and equipment are stated at cost less accumulated depreciation, amortization and any impairment in value.

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

Depreciation is computed on a straight-line basis over the estimated useful life of the assets as follows:

Buildings	10 to 20 years
Transportation equipment	5 to 10 years
Furniture, fixtures and equipment	3 to 7 years

Leasehold improvements are amortized using the estimated useful lives of five years depending on the nature of the improvement or the remaining term of the lease whichever is shorter.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (see Note 2.14).

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

Fully depreciated and fully amortized assets are retained in the accounts until these are no longer in use and no further charge for depreciation is made in respect of those assets.

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

2.5 Investment Properties

Investment properties represent properties held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in providing services or for administrative purposes.

The Bank adopted the cost model in measuring its investment properties, hence, these are stated at cost less accumulated depreciation and any impairment in value. The cost of an investment property comprises of the carrying amount of the foreclosed loan and directly attributable costs incurred such as legal fees, transfer fees and other transaction costs. Direct operating expenses such as repairs and maintenance and real estate taxes are normally charged against current operations during the period in which these costs are incurred.

Transfers from other accounts (such as bank premises, furniture, fixtures and equipment) are made to investment properties when and only when, there is a change in use, evidenced by ending of owner-occupation or holding the property for capital appreciation, while transfers from investment properties are made when, and only when, there is a change in use, evidenced by commencement of owner-occupation.

Depreciation is computed using the straight-line method over the estimated useful lives of the depreciable assets of 10 years.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (see Note 2.14).

Investment properties including the related accumulated depreciation and any impairment losses are derecognized upon disposal or when permanently withdrawn from use and no future economic benefit is expected from their disposal. Any gain or loss on the retirement or disposal of an investment property is recognized in profit or loss and is presented as part of Other Income in the statement of comprehensive income in the year of retirement or disposal.

2.6 Assets Held-for-Sale

Assets held-for-sale presented under Other Resources include land and buildings that the Bank intends and committed to sell through an active marketing program.

The Bank classifies an asset as held-for-sale if its carrying amount will be recovered principally through a sale transaction rather than through a continuing use. In the event that the sale of the asset is extended beyond one year, the extension of the period required to complete the sale does not preclude an asset from being classified as held-for-sale if the delay is caused by events or circumstances beyond the Bank's control and there is sufficient evidence that the Bank remains committed to its plan to sell the asset through an active marketing and disposal program.

Assets held-for-sale are measured at the lower of their carrying amounts immediately prior to their classification as held-for-sale, and their fair value less costs to sell. The Bank recognizes an impairment loss for any initial or subsequent write-down of the asset to fair value less cost to sell. Gain for any subsequent increase in fair value less cost to sell of an asset is recognized to the extent of the cumulative impairment losses previously recognized. The assets classified as held-for-sale are not subject to depreciation or amortization.

If the Bank has classified an asset as held-for-sale, but the criteria for it to be recognized as held for sale are no longer satisfied, the Bank shall cease to classify the asset as held for sale. The gain or loss on sale of assets is included as part of Other Income or Operating Expenses in the statements of comprehensive income.

2.7 Intangible Assets

Intangible assets presented under Other Resources include goodwill and acquired computer software which are accounted for under the cost model. The cost of the asset is the amount of cash or cash equivalents paid or the fair value of the other considerations given up to acquire an asset at the time of its acquisition or production.

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and install the specific software. Costs associated with maintaining computer software and those costs associated with research activities are recognized as expense in profit or loss as incurred. Capitalized costs are amortized on a straight-line basis over the estimated useful lives of five years as the lives of these intangible assets are considered finite.

Goodwill represents the excess of the cost of an acquisition over fair value of the Bank's share of the net identifiable assets of the acquired business at the date of acquisition. Business acquisitions are accounted for using the acquisition method of accounting. Subsequent to initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed (see Note 2.14).

For the purpose of impairment testing, goodwill is allocated to cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose. The cash-generating units or groups of cash-generating units are identified according to operating segment.

2.8 Other Resources

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

2.9 Financial Liabilities

Financial liabilities which include deposit liabilities, and accrued expenses and other liabilities (except tax-related liabilities and unearned income), are recognized when the Bank becomes a party to the contractual terms of the instrument. All interest-related charges incurred on a financial liability are recognized as an expense in profit or loss as part of Interest Expense in the statement of comprehensive income.

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

Dividend distributions to shareholders are recognized as financial liabilities upon declaration by the Bank's BOD.

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

2.10 Offsetting of Financial Instruments

Financial assets and financial liabilities are offset and the resulting net amount, considered as a single financial asset or financial liability, is reported in the statement of financial position when there is a legally enforceable right to set-off the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

The right of set-off must be available at the end of the reporting period, that is, it is not contingent on a future event. It must also be enforceable in the normal course of business, in the event of default, and in the event of insolvency or bankruptcy; and must be legally enforceable for both entity and all counterparties to the financial instruments.

2.11 Provisions and Contingencies

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

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the end of the reporting period, including the risks and uncertainties associated with the present obligation. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. When time value of money is material, long-term provisions are discounted to their present values using a pre-tax rate that reflects market assessments and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense. Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate.

In those cases where the possible outflow of economic resource as a result of present obligations is considered improbable or remote, or the amount to be provided for cannot be measured reliably, no liability is recognized in the financial statements. Similarly, possible inflows of economic benefits to the Bank that do not yet meet the recognition criteria of an asset are considered contingent assets; hence, are not recognized in the financial statements. On the other hand, any reimbursement that the Bank can be virtually certain to collect from a third party with respect to the obligation is recognized as a separate asset not exceeding the amount of the related provision.

2.12 Other Income and Other Expense Recognition

Other income is recognized only when (or as) the Bank satisfies a performance obligation by transferring control of the promised services to the customer. A contract with a customer that results in a recognized financial instrument in the Bank's financial statements may partially be within the scope of PFRS 9 and partially within the scope of PFRS 15, *Revenue from Contracts with Customers*. In such case, the Bank first applies PFRS 9 to separate and measure the part of the contract that is in-scope of PFRS 9, and then applies PFRS 15 to the residual part of the contract. Expenses and costs, if any, are recognized in profit or loss upon utilization of the assets or services or at the date these are incurred. All finance costs are reported in profit or loss on accrual basis.

Revenue is recognized only when (or as) the Bank satisfies a performance obligation by transferring control of the promised goods or services to a customer. The transfer of control can occur over time or at a point in time.

The Bank assesses its revenue arrangements against specific criteria to determine if it is acting as a principal or agent. The Bank concluded that it is acting as a principal in all its revenue arrangements.

A performance obligation is satisfied at a point in time unless it meets one of the following criteria, in which case it is satisfied over time:

- the customer simultaneously receives and consumes the benefits provided by the Bank's performance as the Bank performs;
- the Bank's performance creates or enhances an asset that the customer controls as the asset is created or enhanced; and,
- the Bank's performance does not create an asset with an alternative use to the Bank and the entity has an enforceable right to payment for performance completed to date.

The transaction price of the performance obligations satisfied at a point in time is recognized as revenue when control of the goods or services transfers to the customer.

If the performance obligation is satisfied over time, the transaction price allocated to that performance obligation is recognized as revenue as the performance obligation is satisfied.

Other income arising from various banking services such as payment and intermediation service fees, commissions, and other income, which are to be accounted for under PFRS 15 are recognized as income based on agreed terms and conditions with customers which are generally when the services has been performed.

Other income outside the scope of PFRS 15, includes gains or losses on sale of assets acquired and bank premises, furniture, fixtures and equipment . These are recognized when the title to the properties is transferred to the buyer or when the collectability of the entire sales price is reasonably assured.

Other expenses are recognized in profit or loss upon utilization of the goods or services or at the date they are incurred. All finance costs reported in profit or loss on an accrual basis and considering the effective yield of the related financial liability, except if there are any capitalized borrowing costs which are included as part of the cost of the related qualifying asset (see Note 2.17).

2.13 Leases – Bank as Lessee

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

- the contract contains an identified asset, which is either explicitly identified in the contract or implicitly specified by being identified at the time the asset is made available to the Bank;
- the Bank has the right to obtain substantially all of the economic benefits from use of the identified asset throughout the period of use, considering its rights within the defined scope of the contract; and,
- the Bank has the right to direct the use of the identified asset throughout the period of use. The Bank assesses whether it has the right to direct ‘how and for what purpose’ the asset is used throughout the period of use.

At lease commencement date, the Bank recognizes a right-of-use asset and a lease liability on the statement of financial position. The right-of-use asset is measured at cost, which is made up of the initial measurement of the lease liability, any initial direct costs incurred by the Bank, an estimate of any costs to dismantle and remove the asset at the end of the lease, and any lease payments made in advance of the lease commencement date (net of any incentives received).

The Bank amortizes the right-of-use assets on a straight-line basis from the lease commencement date over the useful life of the right-of-use assets or the term of the lease, whichever is shorter. The Bank also assesses the right-of-use assets for impairment when such indicators exist (see Note 2.14).

At the commencement date, the Bank measures the lease liability at the present value of the lease payments unpaid at that date, discounted using the interest rate implicit in the lease if that rate is readily available or the Bank’s incremental borrowing rate.

Lease payments included in the measurement of the lease liabilities are made up of fixed payments (including those determined to be fixed in substance), variable payments based on an index or rate, amounts expected to be payable under a residual value guarantee and payments arising from options reasonably certain to be exercised.

Subsequent to initial measurement, the liability will be reduced for payments made and increased for interest. It is remeasured to reflect any reassessment or modification, or if there are changes in in-substance fixed payments.

When the lease liability is remeasured, the corresponding adjustment is reflected in the right-of-use assets, or profit and loss if the right-of-use asset is already reduced to zero.

The Bank has elected to account for any short-term leases (less than 12 months) using the practical expedients. Instead of recognizing a right-of-use asset and lease liability, the lease payments in relation to these are recognized as an expense in profit or loss on a straight-line basis over the lease term.

The corresponding right-of-use assets and lease liabilities are presented as part of Bank Premises, Furniture, Fixtures and Equipment, and Accrued Expenses and Other Liabilities, respectively, in the statement of financial position.

2.14 Impairment of Non-financial Assets

Bank premises, furniture, fixtures and equipment, investment properties, intangible assets (except goodwill), and other non-financial assets are subject to impairment testing whenever events or changes in circumstances indicate that the carrying amount of those assets may not be recoverable. Goodwill is tested for impairment at least annually.

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

Impairment loss is recognized in profit or loss for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amounts which is the higher of its fair value less costs to sell and its value in use. In determining value in use, management estimates the expected future cash flows from each cash-generating unit and determines the suitable interest rate in order to calculate the present value of those cash flows. The data used for impairment testing procedures are directly linked to the Bank's latest approved budget, adjusted as necessary to exclude the effects of asset enhancements. Discount factors are determined individually for each cash-generating unit and reflect management's assessment of respective risk profiles, such as market and asset-specific risk factors.

All assets are subsequently reassessed for indications that an impairment loss previously recognized may no longer exist. An impairment loss is reversed if the asset's or cash generating unit's recoverable amount exceeds its carrying amount.

2.15 Foreign Currency Transactions and Translation

The accounting records of the Bank are maintained in Philippine pesos. Foreign currency transactions during the year are translated into the functional currency at exchange rates which approximate those prevailing on transaction dates.

Foreign currency gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized as Foreign exchange gain - net under Other Income in the statement of comprehensive income.

2.16 Employee Benefits

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

(a) Post-employment Defined Benefit Plan

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

The liability recognized in the statement of financial position for a defined benefit plan is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated annually by an independent actuary using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows for expected benefit payments using a discount rate derived from the interest interpolated yields of government bonds, available in Bloomberg which is calculated using Bloomberg Valuation Evaluated Pricing Service.

Remeasurements, comprising of actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are reflected immediately in the statement of financial position with a charge or credit recognized in other comprehensive income in the period in which they arise. Net interest is calculated by applying the discount rate at the beginning of the period, taking account of any changes in the defined benefit liability or asset during the period as a result of contributions and benefit payments.

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

(b) Termination Benefits

Termination benefits are payable when employment is terminated by the Bank before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Bank recognizes termination benefits at the earlier of when it can no longer withdraw the offer of such benefits and when it recognizes costs for a restructuring that is within the scope of PAS 37 and involves the payment of termination benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the end of the reporting period are discounted to their present value.

(c) *Compensated Absences and Other Employee Benefits*

Compensated absences are recognized for the number of paid leave days (including holiday entitlement) remaining at the end of the reporting period. In addition, the Bank recognizes a liability and an expense for other employee benefits based on a formula that is fixed, regardless of the Bank's income after certain adjustments, and does not take into consideration the profit attributable to the Bank's shareholders. The Bank recognizes a provision where it is contractually obliged to pay the benefits, or where there is a past practice that has created a constructive obligation. They are included in Accrued expenses under the Accrued Expenses and Other Liabilities account in the statement of financial position at the undiscounted amount that the Bank expects to pay as a result of the unused entitlement.

2.17 Borrowing Costs

Borrowing costs are recognized as expenses in the period in which they are incurred, except to the extent that they are capitalized. Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset (i.e., an asset that takes a substantial period of time to get ready for its intended use or sale) are capitalized as part of cost of such asset. The capitalization of borrowing costs commences when expenditures for the asset and borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalization ceases when substantially all such activities are complete.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

2.18 Income Taxes

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

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

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

Unrecognized deferred tax assets are reassessed at the end of each reporting period and are recognized to the extent that it has become probable that future taxable profit will be available to allow such deferred tax assets to be recovered.

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

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

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

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

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

2.19 Related Party Transactions and Relationships

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

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. This includes: (a) individuals owning, directly or indirectly through one or more intermediaries, control or are controlled by, or under common control with the Bank; (b) associates; (c) individuals owning, directly or indirectly, an interest in the voting power of the Bank that gives them significant influence over the Bank and close members of the family of any such individual; and, (d) the Bank's funded retirement plan.

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

2.20 Equity

Capital stock represents the nominal value of common and preferred shares that have been issued.

Preferred shares whose distributions to holders (whether cumulative or non-cumulative) are at the discretion of the issuer are recognized as equity instruments.

Reserves comprise of actuarial gains or losses on remeasurements of retirement benefit obligation, appraisal increment, and regulatory reserves which pertain to the accumulated amount of appropriation made by the Bank arising from the excess of the one percent general loan loss provisions for outstanding loans as required by the BSP under Circular No. 1011, *Guidelines on the Adoption of PFRS 9* (Circular No. 1011) over the computed ECL for Stage 1 accounts.

Surplus represents all current and prior period results of operations as reported in the profit and loss section of the statement of comprehensive income, reduced by the amounts of dividends declared, if any.

2.21 Events After the End of the Reporting Period

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

3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

The preparation of the Bank's financial statements in accordance with PFRS requires management to make judgments and estimates that affect the amounts reported in the financial statements and related notes. Judgments and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results may ultimately differ from these estimates.

3.1 Critical Management Judgments in Applying Accounting Policies

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

(a) Evaluation of Business Model Applied in Managing Financial Instruments

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

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 shall be applied at the level of a portfolio of financial instruments (i.e., group of financial instruments that are managed together by the Bank) and not on an instrument-by-instrument basis (i.e., not based on intention or specific characteristics of individual financial instrument).

In determining the classification of a financial instrument, the Bank evaluates in which business model a financial instrument or a portfolio of financial instruments belongs to taking into consideration the objectives of each business model established by the Bank as those relate to the Bank's investment and lending strategies.

(b) *Testing the Cash Flow Characteristics of Financial Assets and Continuing Evaluation of the Business Model*

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

The objective of the assessment is to determine how different the undiscounted contractual cash flows could be from the undiscounted cash flows that would arise if the time value of money element was not modified (the benchmark cash flows). If the resulting difference is significant, the SPPI criterion is not met. In view of this, the Bank considers the effect of the modified time value of money element in each reporting period and cumulatively over the life of the financial instrument.

If more than an infrequent sale is made out of a portfolio of financial assets carried at amortized cost, the Bank assesses whether and how such sales are consistent with the objective of collecting contractual cash flows. In making this judgment, 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.

(c) *Distinguishing Investment Properties, Assets Held-for-Sale and Owner-occupied Properties*

The Bank determines whether a property qualifies as investment property. In making its judgment, the Bank considers whether the property generates cash flows largely independent of the other assets held by an entity. Owner-occupied properties generate cash flows that are attributable not only to the property but also to other assets used in the Bank's operations.

The Bank classifies its acquired properties as Bank Premises, Furniture, Fixtures and Equipment if used in operations, as Assets Held-for-Sale presented under the Other Resources account if the Bank expects that the properties will be recovered through sale within one year from the date of classification, or as Investment Properties if the Bank intends to hold the properties for capital appreciation or for rental, or for both.

(d) *Classification and Determination of Fair Value of Acquired Properties*

The Bank classifies its acquired properties as Bank Premises, Furniture, Fixtures and Equipment if used in operations, as Assets Held-for-Sale if the Bank expects that the properties will be recovered through sale rather than use, as Investment Properties if held for rental or for currently undetermined future use and is regarded as held for capital appreciation, or as financial assets. At initial recognition, the Bank determines the fair value of acquired properties through internal and external appraisal depending on the Bank's threshold policy. The appraised value is determined based on the current economic and market conditions, as well as the physical condition of the property.

The Bank's methodology in determining the fair value of acquired properties are further discussed in Note 6.4.

(e) *Determination of Lease Term of Contracts*

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated).

The Bank did not include renewal options and termination options as part of the lease term of as the terms are renewable upon mutual agreement.

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

(f) *Recognition of Provisions and Contingencies*

Judgment is exercised by management to distinguish between provisions and contingencies. Policies on recognition of provisions and contingencies are discussed in Note 2.11 and disclosures on relevant commitments and contingencies are presented in Note 22.

3.2 Key Sources of Estimation Uncertainty

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

(a) *Estimation of Allowance for ECL*

The Bank provides ECL for financial instruments that have passed the SPPI test (see Note 2.3). The Bank's ECL calculations are outputs of complex models with a number of underlying assumptions which include: the Bank's criteria for assessing if there has been a significant increase in credit risk; development of expected credit loss models, including the choice of inputs relating to macroeconomic variables; and, future economic conditions and credit behavior of counterparties (e.g., the likelihood of counterparties defaulting and the resulting losses). The computation of the ECL also consider the use of reasonable and supportable forward-looking information, which is based on assumptions for the future movement of different economic drivers and how these drivers will affect each other that may result in different levels of loss allowance.

Significant factors affecting the estimates on the ECL model include:

- criteria for assessing if there has been an SICR and when a financial asset will be transferred between the three stages;
- the Bank's definition of default for different segments of credit exposures that considers the regulatory requirements;
- establishing groups of similar financial assets (i.e., segmentation) for the purposes of measuring ECL on a collective basis;
- establishment of LGD parameters based on historical recovery rates of claims against defaulted counterparties across different group of financial instruments; and,
- establishing the number and relative weightings of forward-looking scenarios for each type of product/market and the associated ECL.

The analysis of the allowance for impairment and the ECL assessed on financial assets are shown in Notes 4.4 and 9.

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

The Bank measures its lease liabilities at present value of the lease payments that are not paid at the commencement date of the lease contract. The lease payments were discounted using a reasonable rate deemed by management equal to the Bank's incremental borrowing rate. In determining a reasonable discount rate, management considers the term of the leases, the underlying asset and the economic environment. Actual results, however, may vary due to changes in estimates brought about by changes in such factors.

(c) *Determining Fair Value Measurement for Financial Instruments*

Management applies valuation techniques to determine the fair value of financial instruments where active market quotes are not available. This requires management to develop estimates and assumptions based on market inputs, using observable data that market participants would use in pricing the instrument. Where such data is not observable, management uses its best estimate. Estimated fair values of financial instruments may vary from the actual prices that would be achieved in an arm's length transaction at the reporting date.

The carrying value of the Bank's financial assets and financial liabilities and the related fair values are disclosed in Note 5.

(d) *Determining Fair Value Less Cost to Sell of Assets Held-for-Sale*

In determining the fair value less cost to sell of assets held-for-sale, management takes into account the most reliable evidence available at the time the estimates are made. These estimates include prices at which the assets are expected to be sold and the necessary cost to be incurred in disposing the assets. The price and cost estimates, however, could change in the future. The above factor is considered key source of estimation uncertainty and may cause significant adjustments to the Bank's assets held for sale within the next reporting period.

(e) *Estimating Useful Lives of Bank Premises, Furniture, Fixtures and Equipment and Investment Properties*

The Bank estimates the useful lives of its bank premises, furniture, fixtures and equipment and investment properties based on the period over which the assets are expected to be available for use. The estimated useful lives of bank premises, furniture, fixtures and equipment and investment properties are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets.

The carrying amounts of bank premises, furniture, fixtures and equipment and investment properties are presented in Notes 10 and 11, respectively. Based on management's assessment as at December 31, 2021 and 2020, there is no change in the estimated useful lives of bank premises, furniture, fixtures and equipment and investment properties during those fiscal years. Actual results, however, may vary due to changes in estimates brought about by changes in factors mentioned above.

(f) *Determination of Fair Value of Investment Properties*

The Bank's investment properties are composed of parcels of land and buildings and improvements which are held for capital appreciation and are measured using the cost model. The estimated fair value of investment properties disclosed in Note 6.4 is determined on the basis of the appraisals conducted by professional appraiser applying the relevant valuation methodologies as discussed therein. At initial recognition, the Bank determines the fair value of the acquired properties based on valuations performed by both internal and external appraisers. The appraised value is determined based on the current economic and market conditions as well as the physical condition of the property. For investment properties with appraisal conducted prior to the end of the current reporting period, management determines whether there are significant circumstances during the intervening period that may require adjustments or changes in the disclosure of fair value of those properties. A significant change in key inputs and sources of information used in the determination of the fair value disclosed for those assets may result in adjustment in the carrying amount of the assets reported in the financial statements if their fair value will indicate evidence of impairment.

The Bank's methodology in determining the fair value of acquired properties are further discussed in Note 6.4.

(g) *Determining Realizable Amount of Deferred Tax Assets*

The Bank reviews its deferred tax assets at the end of each reporting date and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Management assessed that the deferred tax assets recognized as at December 31, 2021 and 2020 will be fully utilized in the coming years. The carrying value of deferred tax assets is disclosed in Note 21.

(h) *Evaluating Impairment of Non-financial Assets*

In assessing impairment, management estimates the recoverable amount of each asset or a cash-generating unit based on expected future cash flows and uses an interest rate to calculate the present value of those cash flows. Estimation uncertainty relates to assumptions about future operating results and the determination of a suitable discount rate (see Note 2.14). Though management believes that the assumptions used in the estimation of fair values reflected in the financial statements are appropriate and reasonable, significant changes in those assumptions may materially affect the assessment of recoverable values and any resulting impairment loss could have a material adverse effect on the results of operations.

No impairment loss was recognized on bank premises, furniture, fixtures and equipment, investment properties, assets held-for-sale, intangible assets including goodwill, and other non-financial assets in 2021 and 2020.

(i) *Valuation of Post-employment Defined Benefit*

The determination of the Bank's obligation and cost of post-employment defined benefit is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions are described in Note 17.2 and include, among others, discount rates, expected rate of return on plan assets and expected rate of salary increases. A significant change in any of these actuarial assumptions may generally affect the recognized expense, other comprehensive income or losses and the carrying amount of the post-employment benefit obligation in the next reporting period.

The amounts of retirement benefit obligation and expense and the analysis of the movements in the estimated present value of post-employment benefit, as well as significant assumptions used in estimating such obligation are presented in Note 17.2.

4. RISK MANAGEMENT OBJECTIVES AND POLICIES

Risk management involves identifying, measuring, controlling and reporting risks and disclosing possible consequences. The normal risks in daily operations include credit, liquidity, market, operations, legal and compliance. The Bank adopted a Risk Management Charter to see to it that its directors, officers and staff are cognizant and duly advised of the laws, rules and regulations relevant to banking and that these are observed to avoid penalties and administrative sanctions.

The Bank's Risk Management Committee assists the BOD in its oversight of the integrity of the Bank's financial reporting process and compliance with legal and regulatory requirements.

4.1 Liquidity Risk

Liquidity risk is the risk that there could be insufficient funds available to adequately meet the credit demands of the Bank and repay deposits on maturity. The Bank ensures that they have an adequate amount of liquid assets to meet the daily funding requirements.

The following are the analysis on the maturity groupings of the Bank's financial assets and financial liabilities as at December 31, 2021 and 2020.

	<u>Within One Year</u>	<u>Beyond One Year but Less than 5 Years</u>	<u>Beyond 5 Years</u>	<u>Total</u>
2021				
Financial assets				
Cash and other cash items	P 146,891,957	P -	P -	P 146,891,957
Due from BSP	104,991,920	-	-	104,991,920
Due from other banks	236,883,976	-	-	236,883,976
HTC investments	192,801,053	395,172,663	228,673,362	816,647,078
Loans and receivables – net	1,176,166,722	28,436,995	26,913,941	1,231,517,658
Other resources –				
Security deposits	-	5,991,394	-	5,991,394
	<u>-1,857,735,628</u>	<u>429,601,052</u>	<u>255,587,303</u>	<u>2,542,923,983</u>
Financial liabilities				
Deposit liabilities:				
Demand	62,801,201	-	-	62,801,201
Savings	1,415,017,254	-	-	1,415,017,254
Time	685,079,714	143,100,090	-	828,179,804
Accrued expenses and other liabilities	<u>80,080,169</u>	<u>24,416,931</u>	<u>9,423,298</u>	<u>113,920,398</u>
	<u>2,242,978,338</u>	<u>167,517,021</u>	<u>9,423,398</u>	<u>2,419,918,657</u>
Net Periodic Surplus (Gap)	(385,242,710)	262,084,031	246,164,005	123,005,326
Cumulative Total Surplus (Gap)	(P 385,242,710)	(P 123,158,679)	P 123,005,326	P -
2020				
Financial assets				
Cash and other cash items	P 223,999,265	P -	P -	P 223,999,265
Due from BSP	48,846,725	-	-	48,846,725
Due from other banks	191,334,119	-	-	191,334,119
HTC investments	206,165,174	422,369,830	163,605,331	792,140,335
Loans and receivables – net	372,230,444	503,094,229	418,647,389	1,293,972,062
Other resources –				
Security deposits	-	6,170,884	-	6,170,884
	<u>1,042,575,727</u>	<u>931,634,943</u>	<u>582,252,720</u>	<u>2,556,463,390</u>
Financial liabilities				
Deposit liabilities:				
Demand	58,000,252	-	-	58,000,252
Savings	1,437,883,915	-	-	1,437,883,915
Time	665,307,298	183,599,942	-	848,907,240
Accrued expenses and other liabilities	<u>94,314,366</u>	<u>33,457,966</u>	<u>8,286,590</u>	<u>136,058,922</u>
	<u>2,255,505,831</u>	<u>217,057,908</u>	<u>8,286,590</u>	<u>2,480,850,329</u>
Net Periodic Surplus (Gap)	(1,212,930,104)	714,577,035	573,966,130	75,613,061
Cumulative Total Surplus (Gap)	(P 1,212,930,104)	(P 498,353,069)	P 75,613,061	P -

The Bank manages its short-term negative gap by making available funds sourced from various other financial institutions and taking measures to maintain long-term core deposits from regular clients.

4.2 Minimum Liquidity Ratio

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

The minimum liquidity ratio (MLR) of 20% shall be complied with on an ongoing basis absent a period of financial stress effective January 1, 2019. On December 1, 2020, the BSP issued memorandum No. 2020-085, which provides extension of the effectivity of temporary reduction in MLR from 20.00% to 16.00% in response to COVID-19 pandemic. The reduction in the MLR and the arrangement set forth in the said memorandum shall be effective until December 31, 2020, unless otherwise revoked by BSP.

The Bank's MLR as of December 31, 2021 and 2020 are analyzed below (amounts in thousands except MLR figure).

	<u>2021</u>	<u>2020</u>
Eligible stock of liquid assets	P 487,834	P 452,420
Total qualifying liabilities	<u>1,236,655</u>	<u>1,116,157</u>
MLR	<u>39.45%</u>	<u>40.53%</u>

4.3 Interest Rate Risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair value of financial instruments. The Bank's cash flow interest rate risk relates primarily to the possible changes in the prevailing interest rates on due from other banks deposit liabilities. The volatility in the interest rates of these financial instruments will result to an increase or decrease of the Bank's interest spread, and consequently will affect its financial performance. All other financial assets and financial liabilities such as loans and discounts and deposit liabilities, have fixed rates, hence, were not considered in the cash flow interest rate risk sensitivity.

To mitigate this risk, the Bank follows a prudent policy in managing resources and liabilities in order to ensure that exposure to interest rate risk are kept within acceptable levels.

4.4 Credit Risk

Credit risk is the risk that the counterparty in a transaction may default and arises from lending and other activities undertaken by the Bank. The Bank's Credit Committee is tasked to evaluate, minimize and manage its exposure to credit risk. It is responsible for the thorough evaluation of the loan applications and the effective management of the loan portfolio of the Bank. It also ensures that its lending operation is within the BSP and industry standards.

4.4.1 Credit Risk Assessment and Measurement

The Bank has established a policy to perform an assessment, at the end of each reporting period, whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument.

In accordance with the Bank's policy, a debt instrument is assessed for impairment based on the following stages:

- Stage 1: When a debt instrument is first recognized, the Bank recognizes credit losses based on the 12-month ECLs. Stage 1 debt security also includes facilities where the credit risk has improved and security has been reclassified from Stage 2.
- Stage 2: When a debt instrument has shown an SICR since origination, the Bank recognizes an allowance for the lifetime ECL. Stage 2 debt instrument also includes facilities where the credit risk has improved and the instrument has been reclassified from Stage 3.
- Stage 3: When a debt instrument is considered as credit impaired, the Bank recognizes an allowance for the lifetime ECL.

The Bank's credit risk assessment and measurement are performed based on groups of loan portfolio segmented by product type.

4.4.1.1 Significant Increase in Credit Risk

The Bank considers a financial instrument to have experienced a SICR when one or more of the following quantitative and qualitative criteria have been met. In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Bank assesses the change in the risk of a default occurring over the remaining life of the financial instrument. In making this assessment, the Bank assesses on a periodic basis both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information as appropriate. These may include macroeconomic conditions, economic sector and geographical region relevant to the counterparties.

The Bank considers a financial instrument to have experienced a SICR when certain criteria have been met. The Bank's criteria are guided by the PFRS 9 three-stage model impairment based on changes in credit quality since initial recognition. All current account which has no history of default payment is classified into Stage 1. All past due accounts are classified into Stage 2 except those accounts that already exceed 90 days past due which will be classified into Stage 3. In addition, an account or borrower possess an SICR whenever events or changes in circumstances indicate that the carrying amount may not be recoverable, such as where the borrower is unlikely to pay its obligations and is deemed to be in significant financial difficulty, which include cases of long-term forbearance, borrower's death, insolvency, breach of financial covenant/s, disappearance of active market for that financial instrument because of financial difficulties, and bankruptcy.

The tables below summarize loan classification per BSP Revised Appendix 15 aligned with the PFRS 9 three-stage model impairment based on changes in credit quality since initial recognition:

General Rule

<u>Stage 1</u>	<u>Stage 2</u>	<u>Stage 3</u>
Pass	Especially Mentioned Substandard – Unimpaired*	Substantial – Impaired Doubtful Loss
(Performing)	(Underperforming)	(Non-performing) **

*Substandard accounts that are unpaid or with missed payment of less than 90 days

**Exposures that exhibit the characteristics for classified accounts described under MORB Section 143

Individually Assessed Credit Exposures (Unsecured)

<u>Days Unpaid/with Missed Payment</u>	<u>Appendix 15 Classification</u>	<u>PFRS 9 Stage</u>
31 – 90 days	Substandard (unimpaired)	2
91 – 120 days	Substandard (impaired)	3
121 – 180 days	Doubtful	3
181 days and over	Loss	3

Individually Assessed Credit Exposures (Secured)

<u>Days Unpaid/with Missed Payment</u>	<u>Appendix 15 Classification</u>	<u>PFRS 9 Stage</u>
31 – 90 days	Substandard (unimpaired)	2
91 – 180 days	Substandard (impaired)	3
181 – 365 days	Substandard (impaired)	3
Over 1 year – 5 years	Doubtful	3
Over 5 years	Loss	3

Collectively Assessed Credit Exposures (Unsecured)

<u>Days Unpaid/with Missed Payment</u>	<u>Appendix 15 Classification</u>	<u>PFRS 9 Stage</u>
1 – 30 days	Especially mentioned	2
31 – 60 days / 1 st restructuring	Substandard	2 or 3***
61 – 90 days	Doubtful	3
91 days and over / 2 nd restructuring	Loss	3

***Depends whether the account is classified as underperforming (Stage 2) or non-performing (Stage 3)

Collectively Assessed Credit Exposures (Secured)

<u>Days Unpaid/with Missed Payment</u>	<u>Appendix 15 Classification</u>	<u>PFRS 9 Stage</u>
31 – 90 days	Substandard (unimpaired)	2
91 – 120 days	Substandard (impaired)	3
121 – 365 days	Substandard (impaired)	3
Over 1 year – 5 years	Doubtful	3
Over 5 years	Loss	3

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

The Bank transfers the exposures from Stage 3 to Stage 1 when there is a sufficient evidence to support full collection. Exposures should exhibit both quantitative and qualitative indicators of probable collection prior to transfer. The quantitative indicator is characterized by payments made within an observation period (e.g., regularly pays during the minimum observation period). The qualitative indicator pertains to the results of assessment of borrower's financial capacity (e.g., improvement in counterparty's situation).

As a general rule, full collection is probable when payments of interests and/or principal are received for at least six months [see also Note 4.4.3(c)]. The Bank observes the following guidelines for exposures that were restructured:

- (a) Non-performing restructured exposures that have exhibited improvement in creditworthiness of the counterparty may only be transferred from Stage 3 to Stage 1 after a total of one year probation period (i.e., six months in Stage 3 before transferring to Stage 2, and another six months in Stage 2 before transferring to Stage 1; or directly from Stage 3 to Stage 1, without passing through Stage 2, after 12 months); and,
- (b) Restructured loans accounts classified as Stage 1 prior to restructuring shall be initially classified under Stage 2. The transfer from Stage 2 to Stage 1 will follow the six-month rule.

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

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

4.4.1.2 Inputs, Assumptions and Estimation Techniques

The ECL is measured on either a 12-month or lifetime basis depending on whether a SICR has occurred since initial recognition or whether an asset is considered to be credit-impaired. ECL is the discounted product of PD, EAD and LGD. It is determined by projecting the PD, LGD, and EAD for each future period and for each collective segment. These three components are multiplied together and adjusted for the likelihood of survival (i.e., the exposure has not prepaid or defaulted in an earlier month).

PD for the Bank's loan portfolio was estimated through Delinquency Loss Rates (DLR) using the borrower's days past due (DPD) information and movement, which is referenced with the BSP Revised Appendix 15 (see Note 4.4.1.1). To have more granular and accurate estimation of PD, a borrower's monthly delinquency bucket movement will be traced, instead of annual delinquency bucket movement.

The delinquency bucket movement of the accounts was properly traced in order to estimate the changes of a borrower to default. Account-level roll rates, also known as Markov chain model, use transition matrices to measure the movements in delinquency buckets in order to estimate PD. Account-level roll rates predict the future outcome based on present state. The Markov transition or migration matrix is a square matrix that describe the probabilities of moving from one state to another in a dynamic system.

The LGD is determined based on the factors which impact the recoveries made post default. LGD is primarily based on collateral type and projected collateral values, historical discounts to market value due to repossession, time of repossession and recovery costs observed.

Forward-looking economic information is also included in determining the 12-month and lifetime PD, EAD, and LGD.

The assumptions underlying the ECL calculation are monitored and reviewed on an annual basis.

4.4.1.3 Overlay of Forward-looking Information in the Measurement of ECL

The calculation of ECL incorporates forward-looking information (FLI). The Bank has performed historical analysis and identified the key economic value impacting credit risk and ECL for the loan portfolio.

These economic variables and their associated impact on the PD, EAD and LGD. Judgment has also been applied in this process. Forecast of these economic variables (the Base Economic Scenario) are provided by the Bank's Credit Risk Officer on an annual basis and provide the best estimate view of the economy over the future period. The impact of these economic variables has been determined by performing statistical regression analysis to understand the impact changes in these variables have had historically on default rates.

In addition to the base economic scenario, the Bank also provided other possible scenarios along with scenario weightings to capture the possibilities other best and worst case scenarios. As of December 31, 2021 and 2020, the weighting assigned to each economic scenario were as follows:

<u>Base</u>	<u>Upside</u>	<u>Downside</u>
50%	25%	25%

As with any economic forecasts, the projections and likelihoods of occurrence are subject to high degree of inherent uncertainty and therefore actual outcomes may significantly be different from those projected. The Bank considers these forecasts to represent its best estimate of the possible outcomes and has analyzed the non-linearity and asymmetries with the Bank's loan portfolio to establish scenarios are appropriately representative of possible scenarios.

In 2021 and 2020, gross domestic product (GDP) growth rate was used for the loan portfolio, given its significant coefficient or impact on the borrowers' ability to meet contractual repayments.

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

Set out below are the changes to the ECL allowance as at December 31, 2021 and 2020 that would result from reasonably possible changes in these parameters from the actual assumptions used in the Bank's economic variable assumptions:

Impact on ECL Allowance				
	Change in assumption		Increase in assumption	Decrease in assumption
December 31, 2021 –				
GDP growth rate	+ / - 1%	(P	9,220) P	9,220
December 31, 2020 –				
GDP growth rate	+ / - 1%	(P	114,397) P	110,377

Set out below are the changes in the ECL allowance as at December 31, 2021 and 2020 that would result from reasonably possible changes in the weightings determined for each of the economic scenarios:

	2021	2020
	Impact on ECL Increase (decrease)	Impact on ECL Increase (decrease)
60-20-20 scenario	P 164,625	P 1,630,036
20-40-40 scenario	162,932	691,892
Base case scenario	166,319	(1,153,155)

Each sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. These analyses may not be representative of the actual change in the ECL allowance as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated.

4.4.2 Impact of COVID-19 on Measurement of ECL

In response to COVID-19 situation and the Bank's expectations of economic impacts, the key conditions and assumptions utilized in the Bank's calculation of ECL have been revisited and recalibrated. The economic scenarios and forward-looking macroeconomic assumptions underpinning the ECL calculation are outlined in Note 4.4.1. As of December 31, 2021 and 2020, the expected impacts of COVID-19 have been reasonably captured using the Bank's business-as-usual (BAU) ECL methodology (i.e., the ECL methodology used in the prior years) and post-model adjustments (or the "COVID-19 overlay"). The BAU ECL methodology have been structured and calibrated using historical trends and correlations as well as forward-looking economic scenarios. The severity of the current macroeconomic projections and the added complexity caused by the various support schemes and regulatory guidance could not be reliably modelled for the time being. Therefore, the BAU ECL model may generate results that are either overly conservative or overly optimistic depending on the specific portfolio or segment. As a result, post-model adjustments are needed to reflect the considerable uncertainty in BAU ECL methodology given the unprecedented impacts of COVID-19. Given that the BAU ECL model changes take a significant amount of time to develop and validate and the data limitation in respect of lagging credit information and granular behavior analysis of customers, the Bank expects that post-model adjustments will be applied for the foreseeable future. Notwithstanding that the measurement inputs and assumptions, including forward-looking macroeconomic assumptions, were recalibrated in response to COVID-19 situation, the fundamental ECL mechanics and methodology underpinning the Bank's measurement of ECL have remained consistent with the prior periods.

The Bank focused on supporting customers who are experiencing (i.e., those availing of reliefs) and are about to experience financial difficulties (i.e., those with reprieved business operations) as a result of the COVID-19 situation and has offered a range of financial assistance measures including temporary loan repayment deferrals (principal and interest). In accordance with regulatory guidance, the Bank implemented mandatory payment holidays to all eligible loan accounts (see also Note 4.4.3).

The following are the considerations in measuring ECL under COVID-19 situation:

(a) Significant Increase in Credit Risk

The offer or uptake of COVID-19 related repayment deferrals (i.e., government mandated reliefs) do not itself constitute SICR event unless the exposure is considered to have experienced a SICR based on other available information. SICR has been reassessed with reference to the Bank's internal borrower risk rating which considers industry or segment assessment under COVID-19 situation, financial performance indicators, historical credit information of the borrower and other modifiers. The Bank's reassessment is to determine if changes in the customers' circumstances were sufficient to constitute SICR.

(b) COVID-19 Overlay

COVID-19 overlay represents adjustments in relation to data and model limitations as a result of the COVID-19 economic disruption. The adjustments are based on a combination of portfolio level credit risk analysis and an evaluation of ECL coverage at an exposure level. This also includes the effect of government and other support program. Considerations included the potential severity and duration of the economic disruption and the heightened credit risk of specific sectors and loan classes or segments.

The impact of post-model adjustments made in estimating the reported ECL as at December 31, 2021 and 2020 are disclosed in Note 4.4.6.

4.4.3 Modifications of Financial Assets

(a) Restructuring Provided by the Bank

The Bank sometimes modifies the terms of loans provided to customers due to commercial renegotiations, or for distressed loans, with a view to maximizing recovery.

Such restructuring activities include but not limited to extended payment term arrangements, payment holidays and payment forgiveness. Restructuring policies and practices are based on indicators or criteria which, in the judgement of management, indicate that payment will most likely continue. These policies are kept under continuous review.

The risk of default of such assets after modification is assessed at the reporting date and compared with the risk under the original terms at initial recognition, when the modification is not substantial and so does not result in derecognition of the original asset. The Bank monitors the subsequent performance of modified assets. The Bank may determine that the credit risk has significantly improved after restructuring, so that the assets are moved from Stage 3 or Stage 2 to Stage 1. This is only the case for assets which have performed in accordance with the new terms for six consecutive months or more. The gross carrying amount of such assets held as at December 31, 2021 and 2020 amounts to P6.8 million and P27.8 million, respectively.

The Bank continues to monitor if there is a subsequent SICR in relation to such assets through the use of specific models for modified assets [see Note 4.4.3(c)].

(b) Financial Reliefs Mandated by the Government

In compliance with R.A. No. 11469, *Bayaniban to Heal as One Act*, (BAHO Act), the Bank implemented a minimum 30-day grace period on all loans with principal and interests falling due within the period of the Enhanced Community Quarantine, which started on March 17, 2020 up to April 30, 2020, which was extended until May 31, 2020.

In compliance with R.A. No. 11494, *Bayaniban to Recover as One Act*, (BARO Act), the Bank granted one-time 60-day grace period for payments and/or maturity periods of all existing, current and outstanding loans as of September 15, 2020, falling due, or any part thereof, on or before December 31, 2020, subject to compliance with regulatory requirements.

During the grace period or payment holiday, there were no interests on interests, penalties, or other charges but accrued interests at contractual rate for grace periods were charged based on the outstanding principal balance of loan at the time of application of the grace periods.

As of December 31, 2021 and 2020, the total outstanding balance of loans modified under BAHO and BARO Acts amounts to P211.2 million and P10.8 million, respectively, and P448.4 million and P23.7 million, respectively.

The financial reliefs provided by the Bank and mandated by the Government has not resulted in material modification loss as the present value of the original cash flows and the present value of the revised cash flows were substantially equivalent.

The following table provides a summary of outstanding balances of modified loans resulting from the financial reliefs provided by the Bank and mandated by the Government as of December 31, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Stage 1 (Performing)	P 82,964,878	P 263,655,789
Stage 2 (Underperforming)	48,523,411	188,002,849
Stage 3 (Nonperforming)	<u>90,582,115</u>	<u>20,428,479</u>
Balance at end of year	<u>P 222,070,403</u>	<u>P 472,087,117</u>

(c) *Assessment of SICR*

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

The Bank may determine that the credit risk has significantly improved after restructuring (in accordance with the new terms for six consecutive months or more), so that the assets are moved from Stage 3 or Stage 2 (see Note 4.4.1.1).

The Bank continues to monitor if there is a subsequent SICR in relation to such modified assets through the use of specific models for modified assets [see also Note 4.4.2(a)].

4.4.4 Collateral Held as Security and Other Credit Enhancements

The Bank holds collateral against loans and advances to customers in the form of hold-out deposits, real estate mortgage, government guaranty, chattel mortgage, personal and corporate guaranty and other forms of security. Estimates of fair value are based on the value of collateral assessed at the time of borrowing and are generally updated annually.

Generally, collateral is not held over loans and advances to other banks, except when securities are held as part of repurchase and securities borrowing arrangements. Collateral is not usually held against trading and investment securities, and no such collateral was held as of December 31, 2021 and 2020.

The estimated fair value of collateral and other security enhancements held against the loan portfolio as at December 31, 2021 and 2020 are presented below.

	<u>Stage 1</u>	<u>Stage 2</u>	<u>Stage 3</u>	<u>Total</u>
<u>2021</u>				
Real properties	P 3,386,616,199	P 2,059,998	P 412,426,467	P 3,801,102,664
Chattel	3,822,000	-	-	3,822,000
Hold-out deposits	<u>2,470,000</u>	<u>-</u>	<u>-</u>	<u>2,470,000</u>
	<u>P 3,392,908,199</u>	<u>P 2,059,998</u>	<u>P 412,426,467</u>	<u>P 3,807,394,664</u>
<u>2020</u>				
Real properties	P 3,314,058,840	P 784,198,204	P 468,346,476	P 4,566,603,520
Chattel	20,156,083	10,971,500	10,813,844	41,941,427
Hold-out deposits	<u>8,330,391</u>	<u>-</u>	<u>-</u>	<u>8,330,391</u>
	<u>P 3,342,545,314</u>	<u>P 795,169,704</u>	<u>P 479,160,320</u>	<u>P 4,616,875,338</u>

As of December 31, 2021, the Bank has recognized certain properties arising from foreclosures in settlement of loan account amounting to P2.4 million. No similar transaction occurred in 2020 (see Note 11).

The Bank's manner of disposing the collateral for impaired loans and receivables is normally through sale of these assets after foreclosure proceedings have taken place. The Bank does not generally use the non-cash collateral for its own operations.

There were no changes in the Bank's collateral policies in 2021 and 2020.

4.4.5 Credit Risk Exposure

The Bank's maximum exposure to credit risk is equal to the carrying value of its financial assets, except for certain secured loans and receivables from customers, as shown below.

	<u>Gross Maximum Exposure</u>	<u>Fair Value of Collaterals</u>	<u>Net Exposure</u>	<u>Financial Effect of Collaterals</u>
<u>2021</u>				
Loans and discounts	P 1,191,026,559	P3,807,394,664	P -	P 1,191,026,559
<u>2020</u>				
Loans and discounts	P 1,171,550,124	P 4,616,875,338	P -	P 1,171,550,124

An analysis of the maximum credit risk exposure relating to Stage 3 financial assets as of December 31, 2021 and 2020 is shown below.

	<u>Gross Maximum Exposure</u>	<u>Fair Value of Collaterals</u>	<u>Net Exposure</u>	<u>Financial Effect of Collaterals</u>
<u>2021</u>				
Loans and discounts	P 103,015,248	P 412,426,467	P -	P 103,015,248
<u>2020</u>				
Loans and discounts	P 77,381,893	P 479,160,320	P -	P 77,381,893

The following table sets out the gross carrying amounts of the exposures to credit risk on financial assets with low credit risk measured at amortized cost as of December 31:

	<u>Notes</u>	<u>2021</u>	<u>2020</u>
Cash and other cash items	7	P 146,891,957	P 223,999,265
Due from BSP	7	104,991,920	48,846,725
Due from other banks	7	236,883,976	191,334,119
HTC Investments	8	816,647,078	792,140,335
Security deposits	12	5,991,394	6,170,884
		<u>P 1,311,406,325</u>	<u>P 1,262,491,328</u>

HTC debt securities include government and corporate bonds. These are held by the BSP, financial institutions and other counterparties that are reputable and with low credit risk; hence, ECL is negligible.

The Bank has no financial guarantee contracts and irrevocable loan commitments as at December 31, 2021 and 2020.

The Due from BSP account represents the aggregate balance of noninterest-bearing deposit accounts in local currency maintained by the Bank with the BSP primarily to meet reserve requirements and to serve as a clearing account for any interbank claims. Hence, no significant credit risk is anticipated for this account.

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

4.4.6 ECL Allowance

The ECL allowance recognized in the period is impacted by a variety of factors, as described below.

- transfers between Stage 1 and Stages 2 or 3 due to financial instruments experiencing significant increase or decrease of credit risk or becoming credit-impaired in the period, and the consequent step up or step down between 12-month and lifetime ECL;
- additional allowances for new financial instruments recognized during the period, as well as release for financial instruments derecognized in the period;
- impact on the measurement of ECL due to changes in PDs, EADs and LGDs in the period, arising from regular refreshing of inputs to models;
- impacts on the measurement of ECL due to changes made to models and assumptions; and,
- financial assets derecognized during the period and write-offs of allowances related to assets that were written off during the period.

The following tables explain the changes in the ECL allowance for Loans and Receivables between the beginning and the end of December 31, 2021 and 2020 due to above factors:

	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
ECL allowance as at January 1, 2021	P 8,838,290	P 7,678,811	P 39,429,408	P 55,946,509
Transfers from:				
Stage 1	(9,611,314)	415,276	9,196,038	-
Stage 2	-	(350,659)	350,659	-
Stage 3	66,754	528	(67,282)	-
Net remeasurement of allowance	19,655,599	(4,683,184)	(15,189,060)	(216,645)
New financial assets originated	3,026,614	144,026	590,002	3,760,642
Derecognition of financial assets	(1,863,430)	(2,567,615)	(3,000,827)	(7,431,872)
ECL allowance as at December 31, 2021	<u>P 20,112,513</u>	<u>P 637,183</u>	<u>P 31,308,939</u>	<u>P 52,058,634</u>

	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
ECL allowance as at January 1, 2020	P 15,741,608	P 1,045,545	P 29,439,036	P 46,226,189
Transfers from:				
Stage 1	(1,381,879)	1,085,664	296,215	-
Stage 2	130,287	(451,420)	321,133	-
Stage 3	1,472,042	566,412	(2,038,454)	-
Net remeasurement of allowance	(1,217,346)	1,570,096	11,255,399	11,608,149
New financial assets originated	3,131,956	4,199,401	2,208,169	9,539,526
Derecognition of financial assets	(9,038,378)	(336,887)	(2,052,090)	(11,427,355)
ECL allowance as at December 31, 2020	<u>P 8,838,290</u>	<u>P 7,678,811</u>	<u>P 39,429,408</u>	<u>P 55,946,509</u>

Other classes of debt instruments have no material ECL allowance.

Post-model adjustments made in estimating the reported ECL as at December 31, 2021 and 2020 to reflect the impact of COVID-19 situation amounted to P1.7 million and P4.8 million, respectively.

4.4.7 Significant Changes in Gross Carrying Amount Affecting Allowance for ECL

The table below provides information how the significant changes in the gross carrying amount of financial instruments in 2021 and 2020 contributed to the changes in the allowance for ECL (see Note 9).

	2021			
	Stage 1	Stage 2	Stage 3	Total
Loans and Discounts				
Balance at January 1, 2021	P 801,079,318	P 293,088,913	P 77,381,893	P 1,171,550,124
Transfers from:				
Stage 1	(117,851,908)	65,715,813	52,136,095	-
Stage 2	-	(1,262,047)	1,262,047	-
Stage 3	7,437,148	721,599	(8,158,747)	-
New financial assets originated	455,957,638	5,386,974	4,101,980	465,446,592
Derecognition of financial assets	(130,435,271)	(291,826,866)	(23,708,020)	(445,970,157)
Balance at December 31, 2021	<u>P 1,016,186,925</u>	<u>P 71,824,386</u>	<u>P 103,015,248</u>	<u>P 1,191,026,559</u>
Other Receivables				
Balance at January 1, 2021	P 161,182,510	P 3,275,778	P 13,910,159	P 178,368,447
Transfers from:				
Stage 1	(1,444,052)	1,444,052	-	-
Stage 2	50,700	(3,489,913)	3,439,213	-
New financial assets originated	10,509,666	-	12,358,970	22,868,636
Derecognition of financial assets	(102,077,578)	(725,825)	(5,883,947)	(108,687,350)
Balance at December 31, 2021	<u>P 68,221,246</u>	<u>P 504,092</u>	<u>P 28,824,395</u>	<u>P 92,549,733</u>

	2020			
	Stage 1	Stage 2	Stage 3	Total
Loans and Discounts				
Balance at January 1, 2020	P 1,053,075,235	P 63,929,706	P 78,057,399	P 1,195,062,340
Transfers from:				
Stage 1	(70,954,660)	64,990,443	5,964,217	-
Stage 2	11,380,282	(15,907,773)	4,527,491	-
Stage 3	10,474,955	3,553,151	(14,028,106)	-
New financial assets originated	298,635,517	202,303,472	3,784,667	504,723,656
Derecognition of financial assets	(501,532,011)	(25,780,086)	(923,775)	(528,235,872)
Balance at December 31, 2020	<u>P 801,079,318</u>	<u>P 293,088,913</u>	<u>P 77,381,893</u>	<u>P 1,171,550,124</u>
Other Receivables				
Balance at January 1, 2020	P 170,355,061	P 100,693	P 11,431,138	P 181,886,892
Transfers from:				
Stage 1	(3,039,574)	168,973	2,870,601	-
Stage 2	55,379	(55,379)	-	-
Stage 3	53,887	-	(53,997)	-
New financial assets originated	86,835,978	4,027,448	911,150	91,774,576
Derecognition of financial assets	(93,078,221)	(965,957)	(1,248,843)	(95,293,021)
Balance at December 31, 2020	<u>P 161,182,510</u>	<u>P 3,275,778</u>	<u>P 13,910,159</u>	<u>P 178,368,447</u>

4.4.8 Write-off Policy

The Bank writes off financial assets, in whole or in part, when it has exhausted all practical recovery efforts and has concluded there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include ceasing enforcement activity; and, where the Bank's recovery method is foreclosing on collateral and the value of the collateral is such that there is no reasonable expectation of recovering in full.

The Bank may write-off financial assets that are still subject to enforcement activity. There were no outstanding contractual amounts written off during the period ended December 31, 2021 and 2020. The Bank still seeks to recover amounts it is legally owed in full, but which have been partially written off due to no reasonable expectation of full recovery.

4.5 Market Risk

Market risk is the risk to earnings and capital arising from the possible decline in value of trading accounts and investments in equities and debt instruments. The Bank manages its risk by identifying, analyzing and measuring relevant or likely market risks. Moreover, it ensures that each investment is in accordance with current BSP regulations.

4.6 Operational Risk

Operational risk is the risk of direct or indirect loss from inadequate or failed internal processes, people and systems or from external events.

Managing operational risk in the Bank is founded on a sound internal control environment. Among the key components of a sound internal environment are recruitment and placement policies in place that ensure the integrity, ethics and competence of personnel; a written Code of Conduct; written policies and procedures that clearly establish accountability and responsibility, segregation of functions, verification and reconciliation procedures; and, an effective assurance and internal audit function.

4.7 Foreign Exchange Risk

The Bank manages its exposure to effects of fluctuations in the foreign currency exchange rates by maintaining foreign currency exposure within the existing regulatory guidelines.

Existing BSP regulations requires a cap of 20% of unimpaired capital or US\$50 million, whichever is lower, on the consolidated excess foreign exchange holdings of banks in the Philippines. The Bank's foreign exchange exposure is primarily from foreign currency due from other banks and deposit liabilities. In 2021 and 2020, the Bank's net foreign currency exposure in peso amounted to P6.6 million and P5.6 million, respectively, which is within the required cap of the BSP.

5. CATEGORIES, FAIR VALUE MEASUREMENT AND OFFSETTING OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

5.1 Carrying Amounts and Fair Values by Category

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

		2021		2020	
	Notes	Carrying Amounts	Fair Values	Carrying Amounts	Fair Values
Financial assets					
At amortized cost:					
Cash and other cash items	7	P 146,891,957	P 146,891,957	P 223,999,265	P 223,999,265
Due from BSP	7	104,991,920	104,991,920	48,846,725	48,846,725
Due from other banks	7	236,883,976	236,883,976	191,334,119	191,334,119
Held to collect investments	8	816,647,078	817,348,709	792,140,335	792,892,603
Loans and receivables	9	1,231,517,658	1,272,112,035	1,293,972,062	1,349,083,736
Security deposits	12	5,991,394	5,991,394	6,170,884	6,170,884
		<u>P 2,542,923,983</u>	<u>P 2,584,219,991</u>	<u>P 2,556,463,390</u>	<u>P 2,612,327,332</u>
Financial liabilities					
At amortized cost:					
Deposit liabilities:					
Demand	13	P 62,801,201	P 62,801,201	P 58,000,252	P 58,000,252
Savings	13	1,415,017,254	1,415,017,254	1,437,883,915	1,437,883,915
Time	13	828,179,804	828,154,751	848,907,239	849,035,849
Accrued expenses and other liabilities	14	103,476,265	103,605,522	128,080,028	128,195,285
		<u>P 2,409,474,524</u>	<u>P 2,409,578,728</u>	<u>P 2,472,871,434</u>	<u>P 2,473,115,301</u>

See Notes 2.3 and 2.9 for a description of the accounting policies for each category of financial instruments including the determination of fair values. A description of the Bank's risk management objectives and policies for financial instruments is provided in Note 4.

5.2 Offsetting of Financial Instruments

The following financial assets with net amounts presented in the statement of financial position are subject to offsetting, enforceable master netting arrangements and similar agreements:

	<u>Gross amounts recognized in the Statement of Financial Position</u>		Net amount presented in the statements of financial position	<u>Related amounts not set-off in the Statements of Financial Position</u>		
	<u>Financial Assets</u>	<u>Financial liabilities set-off</u>		<u>Financial instruments</u>	<u>Deposits hold-out</u>	<u>Net amount</u>
December 31, 2021:						
Loans and receivables - net	<u>P 1,231,517,658</u>	<u>P -</u>	<u>P 1,231,517,658</u>	<u>P -</u>	<u>(P 683,032)</u>	<u>P 1,230,834,626</u>
December 31, 2020:						
Loans and receivables - net	<u>P 1,293,972,062</u>	<u>P -</u>	<u>P 1,293,972,062</u>	<u>P -</u>	<u>(P 2,995,154)</u>	<u>P 1,290,976,908</u>

There were no financial liabilities with net amounts presented in the statements of financial position that are subject to offsetting, enforceable master netting arrangements and similar agreements in both years.

For financial assets subject to enforceable master netting arrangements or similar arrangements between the Bank and counterparties allows for net settlement of the relevant financial assets and financial liabilities when both elect to settle on a net basis. In the absence of such election, financial assets and liabilities will be settled on a gross basis, however, each party to the master netting agreement or similar agreement will have the option to settle all such amounts on a net basis in the event of default of the other party.

For purposes of presenting the information above, the related amounts not set-off in the statement of financial position pertains to deposit hold-out which serves as the Bank's collateral enhancement for certain loans and receivables. The financial instruments that can be set-off are only disclosed to the extent of the amount of deposits held by the Bank's counterparties.

6. FAIR VALUE MEASUREMENT AND DISCLOSURES

6.1 *Fair Value Hierarchy*

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

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities that an entity can access at the measurement date;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and,
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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

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

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

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

6.2 Financial Instruments Measured at Fair Value

The Bank has no financial assets and liabilities measured at fair value as of December 31, 2021 and 2020.

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

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

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<u>December 31, 2021</u>				
<i>Financial assets</i>				
At amortized cost:				
Cash and other cash items	P 146,891,957	P -	P -	P 146,891,957
Due from BSP	104,991,920	-	-	104,991,920
Due from other banks	236,883,976	-	-	236,883,976
Held to collect investments	816,923,231	-	425,478	817,348,709
Loans and receivables	-	-	1,272,112,035	1,272,112,035
Security deposits	-	-	5,991,394	5,991,394
	<u>P1,305,691,084</u>	<u>P -</u>	<u>P 1,278,528,907</u>	<u>P 2,584,219,991</u>
<i>Financial liabilities</i>				
At amortized cost:				
Deposit liabilities	P -	P -	P 2,305,973,206	P 2,305,973,206
Accrued expenses and other liabilities	-	-	103,605,522	103,605,522
	<u>P -</u>	<u>P -</u>	<u>P 2,409,578,728</u>	<u>P 2,409,578,728</u>
<u>December 31, 2020</u>				
<i>Financial assets</i>				
At amortized cost:				
Cash and other cash items	P 223,999,265	P -	P -	P 223,999,265
Due from BSP	48,846,725	-	-	48,846,725
Due from other banks	191,334,119	-	-	191,334,119
Held to collect investments	790,210,148	-	2,682,455	792,892,603
Loans and receivables	-	-	1,349,083,736	1,349,083,736
Security deposits	-	-	6,170,884	6,170,884
	<u>P1,254,390,257</u>	<u>P -</u>	<u>P 1,357,937,075</u>	<u>P 2,612,327,332</u>
<i>Financial liabilities</i>				
At amortized cost:				
Deposit liabilities	P -	P -	P 2,344,920,016	P 2,344,920,016
Accrued expenses and other liabilities	-	-	128,195,285	128,195,285
	<u>P -</u>	<u>P -</u>	<u>P 2,473,115,301</u>	<u>P 2,473,115,301</u>

The fair values of financial assets and financial liabilities not presented at fair value in the statements of financial position are determined as follows:

(a) *Cash and Other Cash Items*

Cash consists primarily of funds in the form of Philippine currency notes and coins in the Bank's vault and those in the possession of tellers, including automated teller machines. Other cash items include cash items other than currency and coins on hand such as checks drawn on the other banks or other branches that were received after the Bank's clearing cut-off time until the close of the regular banking hours (see Note 7). Carrying amounts approximate fair values in view of the relatively short-term maturities of these instruments.

(b) *Due from BSP and Due from other Banks*

Due from BSP pertains to deposits made by the Bank to BSP for clearing and reserve requirements. Due from other banks includes interbank deposits and items in the course of collection. The fair value of floating rate placements and short-term deposits is their carrying amount. The estimated fair value of fixed interest-bearing deposits is based on discounted cash flows using prevailing money-market interest rates for debts with similar credit risk and remaining maturity, which for short-term deposits approximates the nominal value.

(c) *Loans and Receivables*

The estimated fair value of loans and receivables represents the discounted amount of estimated future cash flows expected to be received. Long term interest-bearing loans are periodically repriced at interest rates equivalent to the current market rates, to determine fair value.

(d) *HTC Investments*

HTC investments with fair values included in Level 1 include government securities issued by the Philippine government with fair value determined based on the prices quoted in BVAL representing the bid prices at the end of the reporting period.

For investment securities with fair values included in Level 3, management considers that the carrying amounts of those short-term financial instruments approximate their fair values.

(e) *Deposit Liabilities*

The estimated fair value of deposits with no stated maturity, which includes noninterest-bearing deposits, is the amount repayable on demand. The estimated fair value of long-term fixed interest-bearing deposits and other borrowings without quoted market price is based on discounted cash flows using interest rates for new debts with similar remaining maturity.

(f) *Accrued Expenses and Other Liabilities*

Accrued expenses and other liabilities classified as financial liabilities are recognized initially at their fair value and subsequently measured at amounts to which they are to be paid. Due to their short-duration, management ascertained that the fair values of these short-term liabilities approximate their carrying values.

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

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

6.4 Fair Value Measurement and Disclosures for Investment Properties

As at December 31, 2021 and 2020, the fair value of the Bank's investment properties of P321.5 million (P293.4 million for land and P28.1 million for building and improvements) and P328.3 million (P290.1 million for land and P38.2 million for building and improvements), respectively is classified in Level 3 of the fair value hierarchy (see Note 11). Level 3 fair value of the Bank's investment properties is determined on the basis of the appraisals performed by the Bank's internal appraisers with appropriate qualifications and recent experience in the valuation of similar properties in the relevant locations. To some extent, the valuation process was conducted by the appraiser in discussion with the Bank's management with respect to the determination of the inputs such as the size, age, and condition of the land and buildings, and the comparable prices in the corresponding property location.

In estimating the fair value of these properties, management takes into account the market participant's ability to generate economic benefits by using the assets in their highest and best use.

The fair value of these non-financial assets were determined based on the following approaches:

(a) Fair Value Measurement for Land

The Level 3 fair value of land was derived using the market comparable approach that reflects the recent transaction prices for similar properties in nearby locations. Under this approach, when sales prices of comparable land in close proximity are used in the valuation of the subject property with no adjustment on the price, fair value is included in Level 2. On the other hand, if the observable recent prices of the reference properties were adjusted for differences in key attributes such as property size, zoning, and accessibility, the fair value is included in Level 3.

The most significant input into this valuation approach is the price per square foot, hence, the higher the price per square foot, the higher the fair value.

(b) Fair Value Measurement for Buildings

The Level 3 fair value of the buildings was determined using the cost approach that reflects the cost to a market participant to construct an asset of comparable usage, construction standards, design and layout, adjusted for obsolescence.

7. CASH AND CASH EQUIVALENTS

The components of cash and cash equivalents are presented below.

	<u>Note</u>	<u>2021</u>	<u>2020</u>
Cash and other cash items		P 146,891,957	P 223,999,265
Due from BSP	13	104,991,920	48,846,725
Due from other banks		236,883,976	191,334,119
		<u>P 488,767,853</u>	<u>P 464,180,109</u>

Cash and other cash items primarily consist of funds in the form of Philippine currency notes and coins and foreign currencies in the Bank's vault and those in possession of tellers, including ATMs. Other cash items (other than currency and coins on hand) include checks drawn on other banks or other branches after the clearing cut-off time until the close of the regular banking hours.

Due from BSP represents the aggregate balance of noninterest-bearing deposit accounts in local currencies maintained by the Bank with BSP primarily to meet reserve requirements and to serve as a clearing account for interbank claims.

Due from other banks generally earn interest rates based on daily bank deposit rates. Interest income amounted to P3.6 million and P7.1 million in 2021 and 2020, respectively, and is presented under the Interest Income section of the statements of comprehensive income.

Foreign currency-denominated due from other banks amounted to P20.3 million and P17.8 million as of December 31, 2021 and 2020, respectively.

8. HELD – TO – COLLECT INVESTMENTS

The details of the HTC Investments are shown below.

	<u>2021</u>	<u>2020</u>
Face amount:		
Government bonds	P 795,210,530	P 784,367,057
Other banks	20,000,000	2,877,392
	815,210,530	787,244,449
Unamortized premiums	1,436,548	4,895,886
	<u>P 816,647,078</u>	<u>P 792,140,335</u>

Government bonds consist of peso-denominated bonds with maturities ranging from one to 10 years in both 2021 and 2020. Government bonds bear fixed interest rates ranging from 3.25% to 8.00% per annum in both in 2021 and 2020.

Government-owned and controlled corporation (GOCC) bonds consist of peso-denominated bonds with maturities of 10 years bearing fixed interest rate of 1.45% per annum in both 2021 and 2020. These bonds are issued by Land Bank of the Philippines, which are qualified as an alternative investment to comply with the investment required under R.A. No. 10000, *the Agri-Agra Reform Credit Act of 2010*.

The reconciliation of the carrying amounts of HTC investments are as follows:

	<u>2021</u>	<u>2020</u>
Balance at beginning of year	P 792,140,335	P 635,819,544
Additions	324,025,937	395,376,000
Maturities	(296,059,856)	(242,253,856)
Net amortization of discounts (premiums)	(3,459,338)	<u>3,198,647</u>
Balance at end of year	<u>P 816,647,078</u>	<u>P 792,140,335</u>

Interest income from these investments amounted to P25.2 million in 2021 and P31.3 million in 2020 and is presented under the Interest Income section in the statements of comprehensive income.

The breakdown of the HTC investments as to their maturities is presented below:

	<u>2021</u>	<u>2020</u>
One year and below	P 192,801,053	P 206,165,174
Beyond one year	<u>623,846,026</u>	<u>585,975,161</u>
	<u>P 816,647,079</u>	<u>P 792,140,335</u>

9. LOANS AND RECEIVABLES

The components of loans and other receivables are presented below.

	<u>2021</u>	<u>2020</u>
Loans and discounts	P 1,191,026,559	P 1,171,550,124
Allowance for impairment	(40,594,377)	(44,621,411)
	<u>1,150,432,182</u>	<u>1,126,928,713</u>
Other receivables:		
Accrued interest receivable	36,591,596	45,817,061
Sales contract receivables	32,904,429	37,469,197
Accounts receivable	23,053,708	95,082,189
Allowance for impairment	(11,464,257)	(11,325,098)
	<u>81,085,476</u>	<u>167,043,349</u>
	<u>P 1,231,517,658</u>	<u>P 1,293,972,062</u>

Effective interest rates on loans and discounts range from 4.50% to 75.00% per annum in both 2021 and 2020.

Interest income recognized from loans and discounts amounted to P139.9 million and P127.5 million in 2021 and 2020, respectively, and is presented under the Interest Income section of the statements of comprehensive income.

Accounts receivable is composed of receivables from Bancnet for ATM withdrawals, advances to employees and suppliers and accrued commission receivable from payment services.

Sales contract receivable represents the present value of the installment receivable arising from the sale of investment properties on an installment basis.

As to security, loans are classified into:

	<u>2021</u>	<u>2020</u>
Secured:		
Real estate mortgage	P1,105,368,027	P 1,092,060,959
Chattel mortgage	43,526,700	25,860,920
Deposit hold-out	<u>683,032</u>	<u>2,995,154</u>
	1,149,577,759	1,120,917,033
Unsecured	<u>41,448,800</u>	<u>50,633,091</u>
	<u>P 1,191,026,559</u>	<u>P 1,171,550,124</u>

A reconciliation of the allowance for impairment is shown below.

	<u>Note</u>	<u>2021</u>	<u>2020</u>
Balance at beginning of year		P 55,946,509	P 46,226,189
Impairment losses during the year		139,159	9,720,320
Reversal of impairment loss	18	(3,881,259)	-
Reallocation		<u>(145,775)</u>	<u>-</u>
Balance at end of year		<u>P 52,058,634</u>	<u>P 55,946,509</u>

10. BANK PREMISES, FURNITURE, FIXTURES AND EQUIPMENT

The gross carrying amounts and accumulated depreciation and amortization of bank premises, furniture, fixtures and equipment at the beginning and end of 2021 and 2020 are shown below.

	<u>Land</u>	<u>Buildings</u>	<u>Furniture, Fixtures, and Equipment</u>	<u>Transportation Equipment</u>	<u>Leasehold Improvement</u>	<u>Right-of-Use Assets</u>	<u>Total</u>
December 31, 2021							
Cost	P 45,187,608	P 44,497,266	P 110,229,255	P 14,607,558	P 23,807,478	P 57,426,024	P 295,755,189
Revaluation increment	4,308,791	2,221,838	-	-	-	-	6,530,629
Accumulated depreciation and amortization	-	(36,189,617)	(36,189,617)	(10,483,088)	(21,434,623)	(23,612,272)	(191,685,811)
Net carrying amount	<u>P 49,496,399</u>	<u>P 10,529,487</u>	<u>P 74,039,638</u>	<u>P 4,124,470</u>	<u>P 2,372,855</u>	<u>P 33,813,752</u>	<u>P 110,600,007</u>
December 31, 2020							
Cost	P 45,187,608	P 44,409,257	P 103,747,553	P 13,658,656	P 23,005,089	P 59,757,590	P 289,765,753
Revaluation increment	4,308,791	2,221,838	-	-	-	-	6,530,629
Accumulated depreciation and amortization	-	(35,006,329)	(95,398,560)	(10,705,338)	(20,028,880)	(19,572,954)	(180,712,061)
Net carrying amount	<u>P 49,496,399</u>	<u>P 11,624,766</u>	<u>P 8,348,993</u>	<u>P 2,953,318</u>	<u>P 2,976,209</u>	<u>P 40,184,636</u>	<u>P 115,584,321</u>
January 1, 2020							
Cost	P 45,187,608	P 44,404,507	P 103,068,181	P 14,833,099	P 22,442,494	P 52,237,737	P 282,173,626
Revaluation increment	4,308,791	2,221,838	-	-	-	-	6,530,629
Accumulated depreciation and amortization	-	(33,470,528)	(90,211,605)	(11,247,162)	(18,200,770)	(9,750,756)	(162,880,821)
Net carrying amount	<u>P 49,496,399</u>	<u>P 13,155,817</u>	<u>P 12,856,576</u>	<u>P 3,585,937</u>	<u>P 4,241,724</u>	<u>P 42,486,981</u>	<u>P 125,823,434</u>

A reconciliation of the carrying amounts of bank premises, furniture, fixtures and equipment at the beginning and end of year 2021 and 2020 is shown below.

	<u>Land</u>	<u>Buildings</u>	<u>Furniture, Fixtures and Equipment</u>	<u>Transportation Equipment</u>	<u>Leasehold Improvement</u>	<u>Right-of-Use Assets</u>	<u>Total</u>
Balance at January 1, 2021, net of accumulated depreciation and amortization	P 49,496,339	P 11,624,766	P 8,348,993	P 2,953,318	P 2,976,209	P 40,184,636	P 115,584,321
Additions	-	88,010	6,486,492	2,341,902	802,389	9,616,616	19,335,409
Disposals	-	-	-	(337,576)	-	(6,066,983)	(6,404,559)
Depreciation and amortization charges	-	(1,183,289)	(4,572,441)	(833,174)	(1,405,743)	(9,920,517)	(17,915,164)
Balance at December 31, 2021, net of accumulated depreciation and amortization	<u>P 49,496,399</u>	<u>P 10,529,487</u>	<u>P 10,263,044</u>	<u>P 4,124,470</u>	<u>P 2,372,855</u>	<u>P 33,813,752</u>	<u>P 110,600,007</u>
Balance at January 1, 2020, net of accumulated depreciation and amortization	P 49,496,399	P 13,155,817	P 12,856,576	P 3,585,937	P 4,241,724	P 42,486,981	P 125,823,434
Additions	-	4,750	679,374	-	562,595	7,519,853	8,766,572
Disposals	-	(1)	-	(4)	-	-	(5)
Depreciation and amortization charges	-	(1,535,800)	(5,186,957)	(632,615)	(1,828,110)	(9,822,198)	(19,005,680)
Balance at December 31, 2020, net of accumulated depreciation and amortization	<u>P 49,496,399</u>	<u>P 11,624,766</u>	<u>P 8,348,993</u>	<u>P 2,953,318</u>	<u>P 2,976,209</u>	<u>P 40,184,636</u>	<u>P 115,584,321</u>

The Bank's fully depreciated assets that are still being used in operations amount to P100.2 million and P121.8 million as at December 31, 2021 and 2020, respectively.

The Bank recognized gain on disposal of certain assets amounting to P0.2 million both in 2021 and 2020, which are presented as Gain on sale of bank premises, furniture, fixtures and equipment under Other Income in the statements of comprehensive income (see Note 18).

Under BSP rules, investments in bank premises, furniture, fixtures and equipment should not exceed 50.00% of a bank's unimpaired capital. As at December 31, 2021 and 2020, the Bank has satisfactorily complied with this BSP requirement.

The Bank leases office space for its various branches. With the exception of short-term leases, right-of-use assets arising from leases are presented in the statements of financial position as part of Bank Premises, Furniture, Fixtures, and Equipment and in respect of the related obligation as lease liabilities under Accrued Expenses and Other Liabilities (see Note 14.2). Leases have terms ranging from one to 20 years with renewal options and annual escalation rates from 2.00% to 16.00% in both 2021 and 2020.

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

The use of extension and termination options gives the Bank added flexibility in the event it has identified more suitable premises in terms of cost and/or location or determined that it is advantageous to remain in a location beyond the original lease term. An option is only exercised when consistent with the Bank's strategy and the economic benefits of exercising the option exceeds the expected overall cost.

In 2021, the Bank pre-terminated certain lease contracts resulting to the derecognition of right-of-use assets amounting to P6.1 million. The derecognition resulted to a gain amounting to P1.3 million in 2021 and is presented as part of Gain on pre-termination of lease contract under Other Income account in the 2021 statement of comprehensive income (see Note 18). There was no similar transaction in 2020.

11. INVESTMENT PROPERTIES

Investment properties include parcels of land and buildings and improvements acquired principally through foreclosures. The gross carrying amounts and the accumulated depreciation and impairment of investment properties are shown below.

	<u>Land</u>	<u>Building and Improvements</u>	<u>Total</u>
December 31, 2021			
Cost	P 116,172,617	P 18,381,758	P 134,554,375
Accumulated impairment	-	(4,428,170)	(4,428,170)
Accumulated depreciation	-	(8,791,592)	(8,791,592)
Net carrying amount	<u>P 116,172,617</u>	<u>P 5,161,996</u>	<u>P 121,334,613</u>
December 31, 2020			
Cost	P 121,519,462	P 19,117,694	P 140,637,156
Accumulated impairment	-	(4,428,170)	(4,428,170)
Accumulated depreciation	-	(7,725,075)	(7,725,075)
Net carrying amount	<u>P 121,519,462</u>	<u>P 6,964,449</u>	<u>P 128,483,911</u>
January 1, 2020			
Cost	P 124,418,902	P 19,883,600	P 144,302,502
Accumulated impairment	-	(4,428,170)	(4,428,170)
Accumulated depreciation	-	(6,150,827)	(6,150,827)
Net carrying amount	<u>P 124,418,902</u>	<u>P 9,304,603</u>	<u>P 133,723,505</u>

A reconciliation of the carrying amounts at the beginning and end of 2021 and 2020 of investment properties is shown below.

	<u>Land</u>	<u>Building Improvements</u>	<u>Total</u>
Balance at January 1, 2021, net of accumulated depreciation and impairment	P 121,519,462	P 6,964,449	P 128,483,911
Additions	2,364,460	-	2,364,460
Disposals	(7,711,305)	(336,119)	(8,047,424)
Depreciation charges for the year	<u>-</u>	<u>(1,466,334)</u>	<u>(1,466,334)</u>
Balance at December 31, 2021, net of accumulated depreciation and impairment	<u>P 116,172,617</u>	<u>P 5,161,996</u>	<u>P 121,334,613</u>
Balance at January 1, 2020, net of accumulated depreciation and impairment	P 124,418,902	P 9,304,603	P 133,723,505
Disposals	(2,899,440)	(468,045)	(3,367,485)
Depreciation charges for the year	<u>-</u>	<u>(1,872,109)</u>	<u>(1,872,109)</u>
Balance at December 31, 2020, net of accumulated depreciation and impairment	<u>P 121,519,462</u>	<u>P 6,964,449</u>	<u>P 128,483,911</u>

As of December 31, 2021, foreclosed investment properties still subject to redemption period by the borrowers amount to P4.6 million (nil as of December 31, 2020).

The Bank recognized gain on disposal of investment properties of P21.3 million in 2021 and P5.0 million in 2020, which are presented as Gain on sale of acquired assets under the Other Income in the statements of comprehensive income (see Note 18). The Bank also recognized rental income from investment properties amounting to P1.0 million and P0.4 million in 2021 and 2020, respectively, and is presented as Rental income under Other Income in the statements of comprehensive income (see Note 18).

Expenses incurred on investment properties include asset acquired expenses and depreciation. Asset acquired expenses incurred on these investment properties amounted to P1.1 million and P1.4 million in 2021 and 2020, respectively, and are presented as Assets acquired expenses under Operating Expenses in the statements of comprehensive income (see Note 19). Depreciation recognized are included in Depreciation and amortization under Operating Expenses in statements of comprehensive income (see Note 19).

Fair market value of investment properties amounts to P321.5 million and P328.3 million as at December 31, 2021 and 2020, respectively (see Note 6.4). Based on management's assessment, no impairment loss that is required to be recognized in 2021 and 2020.

12. OTHER RESOURCES

This account consists of:

	Note	2021	2020
Goodwill	12.1	P 10,499,988	P 10,499,988
Prepaid income taxes		10,481,564	11,875,077
Assets held-for-sale	12.2	7,240,000	7,240,000
Security deposits		5,991,394	6,170,884
Stationery and supplies		2,109,410	2,344,378
Prepayments	12.2	940,038	1,112,042
Shortages		104,393	63,393
Others	12.2	4,719,176	5,439,179
		<u>P 42,085,963</u>	<u>P 44,744,941</u>

12.1 Goodwill

Goodwill arose from the following acquisitions:

BRB	P 6,000,000
First Micro Bank (FMB)	<u>4,499,988</u>
	<u>P 10,499,988</u>

Goodwill pertains to the excess of consideration the Bank paid for the acquisition of a branch of BRB and merger of the Bank with FMB.

As indicated in Notes 2.14 and 3.2(h), goodwill is tested for impairment annually. The recoverable amount of the cash-generating unit (CGU) has been based on fair value less cost to sell (FVLCTS) calculation using the excess projected net income from forecasts approved by the Bank's management covering a three-year period and a terminal growth rate.

The key assumptions used in the estimation of the FVLCTS are as follows:

	2021	2020
Discount rate	7.47%	6.84%
Terminal value growth rate	5.77%	6.47%

Key assumptions in FVCTS calculation of CGUs are most sensitive to discount rates and growth rates used to project excess net income. Future net income and growth rates were based on experience, strategies developed, and prospects. The discount rate used for the computation of the discounted excess earnings is the weighted average cost of capital and was determined by reference to the BVAL rate of a three-year treasury bond, adjusted for a risk premium. The terminal growth rate was determined based on the average annual GDP growth rate for a three-year period. Estimated cost to sell was based on underwriting fees for initial public offerings.

As at December 31, 2021 and 2020, the Bank has assessed that the carrying amount of the goodwill is fully recoverable. Accordingly, no impairment loss is required to be recognized in the statements of profit or loss in both years.

12.2 Others

Prepayments consist of advance payment for rent, insurance, taxes and utilities.

Assets held-for-sale include land that the Bank intends and committed to sell through an active marketing program. Management has assessed that no provision for impairment loss is required to be provided on these assets in 2021 and 2020.

This account also includes franchise fees, credit scoring, team viewer license and telecom e-load. The amortization of franchise fees amounted to P0.6 million both in 2021 and 2020, is presented as part of Depreciation and amortization under Operating Expenses in the statements of comprehensive income (see Note 19).

13. DEPOSIT LIABILITIES

This account is composed of:

	<u>2021</u>	<u>2020</u>
Demand	P 62,801,201	P 58,000,253
Savings	1,415,017,254	1,437,883,915
Time	<u>828,179,804</u>	<u>848,907,239</u>
	<u>P 2,305,998,259</u>	<u>P2,344,791,407</u>

Foreign currency denominated deposits amounted to P15.3 million and P15.4 million as of December 31, 2021 and 2020. Savings and time deposit liabilities bear interest at rates ranging from 0.1% to 2.0% per annum in 2021 and from 0.1% to 2.5% per annum in 2020. Interest expense incurred amounted to P18.0 million and P25.5 million in 2021 and 2020, respectively, and is presented under the Interest Expense section of the statements of comprehensive income.

Accrued interest payable amounting to P0.5 million and P0.8 million as of December 31, 2021 and 2020 respectively, are presented under the Accrued Expenses and Other Liabilities account in the statements of financial position (see Note 14).

Under existing BSP regulations, rural banks are subject to statutory and liquidity reserves equivalent to 2.0% of demand, savings and time deposits in 2021 and 2020 (BSP Circular No. 1092 Series of 2020).

Liquidity and statutory reserves pertain to Due from BSP amounting to P105.0 million and P48.8 million as of December 31, 2021 and 2020, respectively (see Note 7). The Bank is compliant with this regulation as of December 31, 2021 and 2020.

14. ACCRUED EXPENSES AND OTHER LIABILITIES

14.1 *Accrued Expenses and Other Liabilities*

The breakdown of accrued expenses and other liabilities is shown below.

	<u>Notes</u>	<u>2021</u>	<u>2020</u>
Accounts payable		P 57,014,723	P 71,518,996
Lease liabilities	14.2	44,378,435	53,448,886
Unearned income	18	13,934,078	13,093,186
Deposits and advance rentals		6,506,293	4,242,523
Accrued expenses		1,577,912	2,294,950
Withholding taxes		1,427,826	903,474
Accrued interests	13	505,195	817,196
SSS, HDMF, and Philhealth		469,969	430,783
Others		3,937,840	3,736,371
		<u>P 129,752,271</u>	<u>P 150,486,365</u>

Unearned income arises from service charges, fees and commissions on loans which are amortized over the term of the loans. The amortization for the year is presented as part of Fees and commissions under Other Income in the statements of comprehensive income (see Note 18).

Deposits and advance rentals represent payments received from buyers for properties acquired by the Bank principally through foreclosures where amounts paid do not meet the required down payments of the properties under the contract.

The Bank's expected settlement period of the Accrued expenses and other liabilities is within one year of each reporting date.

14.2 *Lease Liabilities*

The movements in the lease liabilities recognized in the statements of financial position are as follows:

	<u>Note</u>	<u>2021</u>	<u>2020</u>
Beginning balance		P 53,448,886	P 61,413,604
New and renewed	10	9,616,616	7,519,853
Pre-termination		(7,357,746)	-
Payments of principal portion of lease liabilities		(11,329,321)	(15,484,571)
Ending balance		<u>P 44,378,435</u>	<u>P 53,448,886</u>

The total interest expense incurred on the lease liabilities amounted to P3.3 million and P2.4 million in 2021 and 2020, respectively, and is presented under the Interest Expense section of the statements of comprehensive income.

As at December 31, 2021 and 2020, the Bank has no committed leases which had not yet commenced. The expenses relating to short-term leases amounted to P3.3 million and P3.9 million in 2021 and 2020, respectively, and is presented as Rent under Operating Expenses in the statements of comprehensive income (see Note 19).

The undiscounted maturity analysis of lease liabilities at December 31, 2021 and 2020 as follows:

	<u>Within 1 Year</u>	<u>Two to Five Years</u>	<u>More than Five Years</u>	<u>Total</u>
2021				
Lease payments	P 12,909,861	P 28,569,000	P 10,548,913	P 52,027,774
Finance charges	(2,371,755)	(4,152,069)	(1,125,515)	(7,649,339)
Net present value	<u>P 10,538,106</u>	<u>P 24,416,931</u>	<u>P 9,423,398</u>	<u>P 44,378,435</u>
2020				
Lease payments	P 14,915,003	P 39,431,237	P 9,579,910	P 63,926,150
Finance charges	(3,210,673)	(5,973,271)	(1,293,320)	(10,477,264)
Net present value	<u>P 11,704,330</u>	<u>P 33,457,966</u>	<u>P 8,286,590</u>	<u>P 53,448,886</u>

15. MATURITY ANALYSIS OF ASSETS AND LIABILITIES

The table below shows an analysis of assets and liabilities analyzed according to when they are expected to be recovered or settled:

Notes	2021			2020		
	Within One Year	Beyond One Year	Total	Within One Year	Beyond One Year	Total
Financial Resources:						
Cash and other cash items	P 146,891,957	P -	P 146,891,956	P 223,999,265	P -	P 223,999,265
Due from BSP	104,991,920	-	104,991,920	48,846,725	-	48,846,725
Due from other banks	236,883,976	-	236,883,976	191,334,119	-	191,334,119
Held to collect investments	192,801,053	623,846,025	816,647,078	206,165,174	585,975,161	792,140,335
Loans and other receivables	1,176,166,722	55,350,936	1,231,517,658	372,230,444	921,741,618	1,293,972,062
Other resources	-	5,991,394	5,991,394	-	6,170,884	6,170,884
	<u>1,857,735,628</u>	<u>685,188,355</u>	<u>2,542,923,983</u>	<u>1,042,575,727</u>	<u>1,513,887,663</u>	<u>2,556,463,390</u>
Non Financial Resources:						
Bank premises, furnitures, fixtures and equipment - net	10	110,600,007	110,600,007	-	115,584,321	115,584,321
Investment properties - net	11	121,334,613	121,334,613	-	128,483,911	128,483,911
Deferred tax assets	21	24,087,936	24,087,936	-	33,424,008	33,424,008
Other resources	12	16,798,662	16,798,662	18,961,563	19,612,494	38,574,057
	<u>16,798,662</u>	<u>275,318,463</u>	<u>292,117,125</u>	<u>18,961,563</u>	<u>297,104,734</u>	<u>316,066,297</u>
	<u>P 1,874,534,290</u>	<u>P 960,506,818</u>	<u>P 2,835,041,108</u>	<u>P 1,061,537,290</u>	<u>P 1,810,992,397</u>	<u>P 2,872,529,687</u>
Financial Liabilities:						
Deposit liabilities	13	P 143,100,090	P 2,305,998,259	P 2,161,191,465	P 183,599,942	P 2,344,791,407
Accrued expenses and other liabilities	14	80,080,064	113,920,393	94,314,366	41,744,556	136,058,922
	<u>2,242,978,233</u>	<u>176,940,419</u>	<u>2,419,918,652</u>	<u>2,255,505,831</u>	<u>225,344,498</u>	<u>2,480,850,329</u>
Non Financial Liabilities:						
Post-employment benefit obligation	17.2	29,289,221	29,289,221	-	21,173,175	21,173,175
Accrued expenses and other liabilities	14	15,831,878	15,831,878	14,427,443	-	14,427,443
	<u>15,831,878</u>	<u>29,289,221</u>	<u>45,121,099</u>	<u>14,427,443</u>	<u>21,173,175</u>	<u>35,600,618</u>
	<u>P 2,232,534,105</u>	<u>P 206,229,640</u>	<u>P 2,465,039,751</u>	<u>P 2,269,933,274</u>	<u>P 246,517,673</u>	<u>P 2,516,450,947</u>

16. EQUITY

16.1 Capital Stock

As of December 31, 2021 and 2020, capital stock consist of:

	<u>Shares</u>	<u>Amount</u>
Common shares – P100 par value		
Authorized – 1,500,000 shares		
Issued and outstanding:	<u>1,352,632</u>	<u>P 135,263,200</u>
Preferred shares – Class A - P100 par value		
Authorized – 490,000 shares		
Issued and outstanding:	383,240	P 38,324,000
Preferred shares – Class C – P100 par value		
Authorized – 10,000 shares		
Issued and outstanding:	<u>218</u>	<u>21,800</u>
Total preferred shares	<u>383,458</u>	<u>P 38,345,800</u>

The Bank has 50 stockholders owning 100 or more shares each of the Bank's capital stock as of December 31, 2021 and 2020.

16.2 Preferred Shares

Preferred shares, Class A, shall be issued only against qualified private persons, natural, or juridical, subject to guidelines that may be promulgated by proper government agencies, and shall have the following features:

- (a) non-voting except when otherwise provided by law;
- (b) preferred as to dividends not exceeding 12%, non-cumulative; and,
- (c) preferred as to assets in case of dissolution to the extent of their par value together with accrued and unpaid dividends, if any.

Dividends declared and paid to preferred shares, Class A, amounted to P1.5 million and P2.3 million in 2021 and 2020, respectively (see Note 16.7).

Preferred shares, Class B, shall be issued only to PDIC. This serves as the equity component of the Strengthening Program for Rural Banks (SPRB) Plus and have the following features:

- (a) amount is up to 50% of the required additional capital to bring the eligible Bank's CAR to 10% as determined by the BSP;
- (b) non-voting, cumulative, convertible to common shares;

- (c) dividend rate equivalent to prevailing five-year Fixed Rate Treasury Note (FXTN) on gross basis, on the date of PDIC's subscription, payable annual to PDIC. Such rate shall be based on Philippine Dealing System Treasury (PDST-R2) set on the previous business day;
- (d) redeemable starting at the end of 5th year but not later than 10th year from issuance;
- (e) put option on the shares exercisable by PDIC; and,
- (f) such other features, terms, and conditions as may be agreed in writing by the Bank and PDIC, in accordance with the SPRB Plus, and other rules and regulations issued by the BSP.

Preferred shares, Class C, shall be issued only to Development Bank of the Philippines and Land Bank of the Philippines and have the following features:

- (a) non-voting except when otherwise provided by law;
- (b) preferred as to dividends not exceeding 2%, non-cumulative; and,
- (c) preferred as to assets in case of dissolution to the extent of their par value together with accrued and unpaid dividends, if any.

16.3 Capital Management Objectives, Policies and Procedures

The Bank aims to: (a) maintain strong capital base to attract customers and depositors necessary to continue as a going concern; (b) maintain investors by providing adequate return; and, (c) sustain future business development. It monitors its capital as defined under existing BSP regulations to ensure compliance based on the carrying amount of equity. Apart from quarterly reporting to the BSP of the Bank's Capital Adequacy Ratio (CAR), the management also reports to the BOD the information in the CAR on a monthly basis. The Compliance Matrix of the Bank also aids the Bank in monitoring its compliance with the minimum capital requirements.

16.4 Unimpaired Capital

Under current banking regulations, the combined capital accounts of the Bank should not be less than an amount equal to 10% of its risk assets. The unimpaired capital of the Bank for purposes of determining the capital-to-risk assets ratio is total equity excluding the following:

- (a) unbooked valuation reserves and other capital adjustments as may be required by the BSP;
- (b) total outstanding unsecured credit accommodations to related interests (DOSRI);
- (c) deferred tax asset or liability;
- (d) accumulated equity in earnings of investee Bank where the Bank holds 50% or less but where the equity method of accounting has been applied; and,
- (e) appraisal increment on property and equipment other than those allowed to be recognized in connection with a merger or acquisition.

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

As at December 31, 2021 and 2020, the Bank's capital-to-risk assets ratios are 18.86% and 16.83% respectively, which are in compliance with the minimum requirement of 10.00%.

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

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

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

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

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

The Bank's regulatory capital position (amount in thousands) as reported to BSP, follows:

	<u>2021</u>		<u>2020</u>
Tier 1 Capital			
Common stock	P 135,263	P	135,263
Preferred stock	-		38,346
Reserves	142,612		146,226
Undivided profits	49,973		28,349
Cumulative foreign currency translation	5		-
	<u>327,853</u>		<u>348,184</u>

	<u>2021</u>	<u>2020</u>
Less deduction from Tier 1 capital		
Deferred tax assets	(33,424)	(32,754)
Goodwill	(10,500)	(10,500)
Cumulative foreign currency translation	<u>-</u>	<u>(10)</u>
	<u>283,929</u>	<u>304,920</u>
Tier 2 Capital		
Preferred stock	38,346	-
Appraisal increment reserve	6,531	6,530
General loan loss provision	<u>8,773</u>	<u>21,013</u>
	<u>53,650</u>	<u>27,543</u>
Total Qualifying Capital	<u>P 337,579</u>	<u>P 332,463</u>
Total Risk Weighted Assets		
Credit risk	P 1,502,710	P 1,711,371
Operational risk	<u>287,583</u>	<u>264,146</u>
	<u>P 1,790,293</u>	<u>P 1,975,517</u>

Capital ratios

Total regulatory capital expressed as percentage of total risk weighted assets	18.86%	16.83%
Total Tier 1 capital expressed as percentage of total risk weighted assets	15.86%	15.43%

As of December 31, 2021 and 2020, based on the above capital ratios, the Bank has complied with the BSP requirement on the ratio of combined capital accounts against the risk assets.

16.5 Minimum Capital Requirement

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) reported to the BSP, determined on the basis of regulatory accounting policies, which differ from PFRS in some aspects (mainly in the recognition of deferred tax assets).

As at December 31, 2021 and 2020, after considering the adjustments mentioned, the Bank's unimpaired capital is in compliance with the minimum capital requirement of the BSP of P100.0 million for rural banks with head office in Metro Manila.

16.6 Reserves

The total reserves of the Bank are composed of appraisal increment and cumulative actuarial gains on retirement plan.

Pursuant to the requirements of the BSP under Circular No. 1011, the Bank shall recognize general loan loss provisions equivalent to one percent of all outstanding loans as of the end of the reporting period, except for accounts considered as credit risk-free under the existing BSP regulations. In cases when the computed ECL on those exposures is less than the one percent general loan loss provisions required, the deficiency is recognized through appropriation from the Bank's available surplus.

In 2020, the Bank appropriated an additional P0.9 million for Regulatory Reserves. No similar transaction occurred in 2021.

16.7 Cash Dividends

In 2021, the Bank declared quarterly cash dividends totalling to P1.5 million on preferred share to stockholders of record on December 31, 2020 and September 30, 2021. These were approved by the BOD on January 28, April 29, and October 28, 2021, respectively.

In 2020, the Bank declared quarterly cash dividends totalling to P2.3 million on preferred share to stockholders of record on December 31, 2019, March 31, June 30 and September 30, 2020. These were approved by the BOD on January 28, May 29, July 21, and October 22, 2020, respectively.

The breakdown of cash dividends on preferred shares declared and paid in 2021 and 2020 are as follows:

	<u>No. of Shares</u>		<u>Dividend Per Share</u>		<u>Total</u>
Class A	383,240	P	4	P	1,532,960
Class C	218		2		<u>436</u>
				P	<u>1,533,396</u>

Additionally, in 2021, the Bank also declared cash dividend of P20.3 million at 5.00% and 10.00% of the paid-in capital of common shareholders on record as of December 31, 2020 and September 30, 2021, respectively. There are no dividends payable as of December 31, 2021 and 2020.

17. EMPLOYEE BENEFITS

17.1 Salaries and Employee Benefits

Expenses recognized for salaries and employee benefits are presented below.

	<u>Notes</u>	<u>2021</u>	<u>2020</u>
Short-term benefits		P 71,327,331	P 68,857,279
Post-employment benefits	17.2	<u>1,606,111</u>	<u>1,744,111</u>
	19	<u>P 72,933,442</u>	<u>P 70,601,390</u>

17.2 Post-employment Benefit Obligation

(a) Characteristics of the Defined Benefit Plan

The Company maintains a funded, tax-qualified, non-contributory post-employment benefit plan that is being administered by a trustee bank that is legally separated from the Company. The trustee bank managed the fund in coordination with the Company's Retirement Plan Committee who acts in the best interest of the plan assets and is responsible for setting the investment policies. The post-employment plan covers all regular full-time employees.

The normal retirement age is 60 with a minimum of 5 years of credited service. The plan also provides for an early retirement at age 50 with a minimum of 5 years of credited service and late retirement after age 60, both subject to the approval of the Company's BOD. Normal retirement benefit is an amount equivalent to 150% of the final monthly covered compensation (average monthly basic salary during the last 12 months of credited service) for every year of credited service.

(b) Explanation of Amounts Presented in the Financial Statements

Actuarial valuations are made annually to update the retirement benefit costs and the amount of contributions. All amounts presented below are based on the actuarial valuation report obtained from an independent actuary in 2021 and 2020.

	<u>2021</u>	<u>2020</u>
Present value of the obligation	P 33,656,813	P 25,500,499
Fair value of plan assets	(4,367,592)	(4,327,324)
	<u>P 29,289,221</u>	<u>P 21,173,175</u>

Movements in the present value of the obligation are shown below.

	<u>2021</u>	<u>2020</u>
Balance at beginning of year	P 25,500,499	P 22,722,577
Current service cost	1,606,111	1,744,111
Benefits paid	(849,872)	(4,424,661)
Interest expense	843,820	1,011,754
Remeasurements – actuarial losses (gains) arising from:		
Experience adjustments	8,239,138	3,989,486
Changes in demographic assumptions	(2,480,204)	-
Changes in financial assumptions	<u>797,321</u>	<u>457,232</u>
Balance at end of year	<u>P 33,656,813</u>	<u>P 25,500,499</u>

Movements in the fair value of the plan assets are shown below.

	<u>2021</u>	<u>2020</u>
Balance at beginning of year	P 4,327,324	P 6,935,039
Interest income	161,409	217,641
Remeasurement – actuarial gains (losses) on plan assets	(121,141)	231,502
Benefits paid	-	(3,395,754)
Contributions to the plan assets	<u>-</u>	<u>338,896</u>
Balance at end of year	<u>P 4,367,592</u>	<u>P 4,327,324</u>

The composition of the fair value of plan assets at the end of the reporting period for each category and risk characteristics is shown below.

	<u>2021</u>	<u>2020</u>
Cash surrender value of life insurance	P 2,336,026	P 2,303,660
Philippine government bonds	2,007,119	405,443
Due from other banks	25,318	1,592,512
Interest receivable	11,344	11,631
Revaluation amount	5,757	20,236
Liabilities	(17,972)	(6,158)
	<u>P 4,367,592</u>	<u>P 4,327,324</u>

The fair values of the Philippine government bonds are determined based on the reference price available in Bloomberg. All plan assets of the Bank is classified as Level 3 of the fair value hierarchy.

The plan assets earned a return of P0.04 million and P0.5 million in 2021 and 2020, respectively.

Plan assets do not comprise any of the Bank's own financial instruments or assets held and owned by its related parties.

Retirement benefits expense recognized in profit or loss and other comprehensive income are as follows:

	<u>2021</u>	<u>2020</u>
<i>Reported in profit or loss:</i>		
Current service cost	P 1,606,111	P 1,744,111
Net interest expense	<u>682,411</u>	<u>794,113</u>
	<u>P 2,288,522</u>	<u>P 2,538,224</u>

	<u>2021</u>	<u>2020</u>
<i>Reported in other comprehensive loss:</i>		
Actuarial losses (gains) arising from changes in:		
Experience adjustments	P 8,239,138	P 3,989,486
Demographic assumptions	(2,480,204)	-
Financial assumptions	797,321	457,232
Loss (gain) on return on plan assets	<u>121,141</u>	<u>(231,502)</u>
	(P 6,677,396)	(P 4,215,216)

Current service cost is recognized as part of Salaries and employee benefits while interest expense is recognized as part of Operating Expenses. Amounts recognized in other comprehensive income were included within item that will not be reclassified subsequently to profit or loss.

In determining the amounts of the retirement benefit obligation, the following significant actuarial assumptions were used:

	<u>2021</u>	<u>2020</u>
Discount rates	4.88%	3.73%
Expected rate of salary increases	3.50%	2.00%

Assumptions regarding future mortality experience are based on published statistics and mortality tables. The average remaining working lives of an individual retiring at the age of 60 is 36 years for both males and females. These assumptions were developed by management with the assistance of an independent actuary. Discount factors are determined close to the end of each reporting period by reference to the benchmark market yields on the zero coupon government bonds considering the average years of life of the employees as the estimated term of the obligation. Other assumptions are based on current actuarial benchmarks and management's historical experience.

(c) *Risks Associated with the Retirement Plan*

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

(a) *Investment and Interest Risks*

The present value of the defined benefit obligation is calculated using a discount rate determined by reference to market yields of government bonds. Generally, a decrease in the interest rate of a reference government bonds will increase the plan obligation. However, this will be partially offset by an increase in the return on the plan's investments in debt securities and if the return on plan asset falls below this rate, it will create a deficit in the plan.

Currently, the plan is heavily invested in government bonds and due from other banks which are generally considered to be less risky than equity investments.

(b) *Longevity and Salary Risks*

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

(d) *Other Information*

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

(a) *Sensitivity Analysis*

The following table summarizes the effects of changes in the significant actuarial assumptions used in the determination of the retirement benefit obligation.

	<u>Impact on retirement benefit obligation</u>		
	<u>Change in assumption</u>	<u>Increase in assumption</u>	<u>Decrease in assumption</u>
December 31, 2021:			
Discount rate	+/-1.0%	(P 32,162,169)	P 35,339,964
Salary increase rate	+/-1.0%	35,499,567 (31,989,047)
December 31, 2020:			
Discount rate	+/-1.0%	(P 23,623,538)	P 27,681,074
Salary increase rate	+/-1.0%	27,811,799 (23,478,732)

The sensitivity analysis is based on a change in an assumption while holding all other assumptions constant. This analysis may not be representative of the actual change in the post-employment defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated.

Furthermore, in presenting the sensitivity analysis above, the present value of the post-employment benefit obligation has been calculated using the projected unit credit method at the end of the reporting period, which is the same as that applied in calculating the post-employment defined benefit obligation recognized in the statements of financial position.

(b) *Asset-liability Matching Strategies*

To efficiently manage the retirement plan, the Bank ensures that the investment positions are managed in accordance with its asset-liability matching strategy which is to ensure that investments are in line with the obligations under the retirement scheme. This strategy aims to match the plan assets to the retirement obligations by investing in less risky investments (placements with BSP and government bonds).

(c) *Funding Arrangements and Expected Contributions*

The Bank's management is yet to determine when it shall establish a formal plan to fund its post-employment benefit obligation as of December 31, 2021. The expected maturity of undiscounted expected benefits payments within the next 10 years is as follows:

	<u>2021</u>	<u>2020</u>
Within one year	P 13,913,204	P 5,755,932
More than one to five years	10,571,009	7,518,083
More than five years to 10 years	<u>39,717,816</u>	<u>50,636,946</u>
	<u>P 64,202,029</u>	<u>P 63,910,961</u>

The weighted average duration of the post-employment defined benefit obligation at the end of the reporting period is 9.27 years.

18. OTHER INCOME

Breakdown of other income is shown below.

	<u>Notes</u>	<u>2021</u>	<u>2020</u>
Payment services		P 26,237,239	P 19,842,249
Gain on sale of acquired assets	11	21,312,338	4,963,940
Fees and commissions	14.1	12,064,161	16,414,290
Recoveries	9	3,881,259	55,673
Gain on pre-termination of leases	10	1,290,764	-
Rental income	11	1,017,400	405,640
Intermediation services		820,124	399,052
Gain on sale of bank premises, furniture, fixtures and equipment	10	170,490	216,820
Foreign exchange gain – net		35,216	28,789
Miscellaneous		<u>695,433</u>	<u>4,875,370</u>
		<u>P 67,524,424</u>	<u>P 47,201,823</u>

In 2020, Miscellaneous mainly pertains to gain arising from derecognition of liabilities.

19. OPERATING EXPENSES

Breakdown of other expenses is shown below.

	Notes	2021	2020
Salaries and employee benefits	17.1	P 72,933,442	P 70,601,390
Depreciation and amortization	10, 11, 12.2	19,955,409	21,523,915
Security, clerical, messengerial and janitorial services		9,152,759	7,922,539
Taxes and licenses		7,012,671	7,577,980
Insurance fees		5,664,982	5,551,304
Power, light and water		4,975,298	4,533,509
IT expenses		4,311,935	4,210,420
Management and other professional fees		3,931,672	2,456,081
Rent	14.2	3,268,703	3,943,998
Postage, telephone, cable and telegram		2,653,780	2,692,485
Fees and commissions		2,442,590	1,038,225
Directors' fees		2,160,000	1,190,000
Repairs and maintenance		2,023,145	1,382,819
Fines, penalties and other charges		1,811,143	105,517
Stationery and supplies used		1,460,853	1,778,929
Assets-acquired expenses	11	1,080,361	1,391,058
Fuel and lubricants		984,228	681,555
Net Interest expense on retirement liability	17.2(b)	682,411	794,113
Travel		589,813	510,423
Supervision fees		538,877	564,250
Donations and charitable contributions		206,070	163,995
Advertising and publicity		175,341	201,636
Representation and entertainment		127,120	58,952
Training and development		119,720	158,207
Membership fees and dues		64,310	76,630
Periodicals and magazines		-	420
Miscellaneous		4,590,392	1,587,172
		<u>P 152,917,025</u>	<u>P 142,697,522</u>

The Bank's miscellaneous expense are composed of Christmas and documentation expenses.

20. RELATED PARTY TRANSACTIONS

The summary of the Bank's transactions with its related parties as of and for the years ended December 31, 2021 and 2020 is presented below.

Related Party Category	Note	2021		2020	
		Amount of Transaction	Outstanding Balance	Amount of Transaction	Outstanding Balance
Other Related Parties (inclusive of DOSRI):	20.1				
Deposit liabilities		P 78,067,906	P 27,931,493	P 2,160,124	P 25,110,053
Loans and receivable		39,770,868	61,304,062	1,682,926	21,533,194
Interest income		3,907,460	-	1,498,723	-
Interest expense		390,369	-	490,932	-
Key Management Personnel – Compensation	20.2				
		27,704,095	-	21,369,421	-

20.1 Loans and Deposits

All DOSRI loans are secured by real estate mortgage and hold-out deposits. Under existing policies of the Bank, these loans are made substantially on the same terms as loans to other individuals and businesses of comparable risks and are normally settled in cash. These loans bear effective interest rates ranging from 6.9% to 15.0% per annum. Based on management's assessment as of December 31, 2021 and 2020, no impairment is required to be recognized on the Bank's loans to DOSRI and other related parties.

Certain related parties have deposits with the Bank. Total amount of outstanding deposits from the related parties with outstanding loan balance above, subject to hold-out, amounted to P2.5 million and P0.4 million as of December 31, 2021 and 2020, respectively. Interest incurred from these deposits are included under the Interest Expense section of the statements of comprehensive income (see Note 13).

20.2 Key Management Personnel Compensation

Key management personnel include the Bank President, Senior Vice Presidents, Vice President, Department Heads and Branch Managers. Compensation of key management personnel is shown below.

	2021	2020
Short-term benefits	P 26,854,233	P 20,340,514
Post-employment benefits	849,872	1,028,907
	<u>P 27,704,105</u>	<u>P 21,369,421</u>

21. TAXES

On March 26, 2021, R.A. No. 11534, *Corporate Recovery and Tax Incentives for Enterprises (CREATE) Act*, as amended, was signed into law and was effective beginning July 1, 2020.

The following are the major changes brought about by the CREATE Act that are relevant to and considered by the Bank:

- regular corporate income tax (RCIT) rate was reduced from 30% to 25% starting July 1, 2020;
- minimum corporate income tax (MCIT) rate was reduced from 2% to 1% starting July 1, 2020 until June 30, 2023; and,
- the allowable deduction for interest expense is reduced from 33% to 20% of the interest income subjected to final tax.

As a result of the application of the lower RCIT rate of 25% starting July 1, 2020, the current income tax expense and income tax payable, as presented in the 2020 annual income tax return (ITR) of the Bank, would be lower by P0.4 million than the amount presented in the 2020 financial statements and such amount was charged to 2021 profit or loss.

In 2021, the recognized net deferred tax assets as of December 31, 2020 was remeasured to 25%. This resulted in a decline in the recognized net deferred tax assets in 2020 by P4.7 million, which was recognized in the 2021 profit or loss (deferred tax expense amounting to P4.2 million) and in other comprehensive income (deferred tax expense amounting to P0.5 million).

The components of tax expense relating to profit or loss and other comprehensive income follow:

	<u>2021</u>	<u>2020</u>
<i>Reported in profit or loss:</i>		
Current tax expense:		
RCIT at 25% in 2021 and 30% in 2020	P 9,784,181	P 2,788,301
Adjustment in 2020 income taxes due to change in income tax rate	(428,678)	-
Final tax at 20% and 7.5%	<u>5,738,980</u>	<u>7,662,387</u>
	<u>15,094,483</u>	<u>10,450,688</u>
Application of MCIT	(4,980,377)	-
Deferred tax expense arising from:		
Origination and reversal of temporary differences	6,264,816	595,052
Effect of the change in income tax rate	<u>4,174,320</u>	<u>-</u>
	<u>10,439,136</u>	<u>595,052</u>
	<u>P 20,553,242</u>	<u>P 11,045,740</u>

	<u>2021</u>	<u>2020</u>
<i>Reported in other comprehensive income –</i>		
Deferred tax expense (income) arising from:		
Origination and reversal		
of temporary differences	(P 1,669,349)	(P 1,264,565)
Effect of the change in income tax rate	<u>566,285</u>	<u>-</u>
	<u>(P 1,103,064)</u>	<u>(P 1,264,565)</u>

A reconciliation of tax on pretax loss computed at the applicable statutory rates to tax expense reported in the statements of profit or loss follows:

	<u>2021</u>	<u>2020</u>
Tax on pretax profit at 25% in 2021 and 30% in 2020	P 15,468,287	P 9,848,309
Adjustment for income subjected to lower tax rates	(1,447,337)	(3,863,952)
Effect of the change in income tax rate	<u>3,745,642</u>	<u>-</u>
Tax effects of:		
Non-deductible expenses	2,786,649	14,338,486
Non-taxable income	-	(7,113,541)
Application of net operating loss carryover (NOLCO)	<u>-</u>	<u>(2,163,562)</u>
	<u>P 20,553,242</u>	<u>P 11,045,740</u>

The net deferred tax assets relate to the following as of December 31:

	<u>Statements of Financial Position</u>		<u>Statements of Comprehensive Income</u>			
			<u>Profit or Loss</u>		<u>Other Comprehensive Income</u>	
	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>	<u>2021</u>	<u>2020</u>
Allowance for impairment:						
Loans and receivables	P 13,017,418	P 16,783,953	P 3,766,534	(P 2,916,096)	P -	P -
Investment properties	1,107,043	1,328,451	221,408	-	-	-
PFRS 16 - Leases	11,094,609	16,034,666	4,940,057	5,630,931	-	-
Amortization of right-of-use assets	(8,453,438)	(12,055,391)	(3,601,953)	(3,932,219)	-	-
Retirement benefit obligation	7,322,304	6,351,952	132,713	(351,126)	(1,103,064)	(1,264,565)
Excess MCIT over RCIT	-	4,980,377	4,980,377	-	-	-
NOLCO	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,163,562</u>	<u>-</u>	<u>-</u>
Deferred tax assets – net	<u>P 24,087,936</u>	<u>P 33,424,008</u>				
Deferred tax expense (income) – net			<u>P 10,439,136</u>	<u>P 595,052</u>	<u>(P 1,103,064)</u>	<u>(P 1,264,565)</u>

In 2021 and 2020, the Bank is subject to the MCIT which is computed at 1% and 2%, respectively, of gross income net of allowable deductions, as defined under the tax regulations, or to RCIT, whichever is higher. No MCIT was reported in 2021 and 2020 as the RCIT was higher than MCIT in both years.

In 2021, the Bank applied excess MCIT over RCIT incurred in 2019 and 2018 amounting to P3.5 million and P1.5 million, respectively, against its income tax due.

In 2020, the Bank applied NOLCO incurred in 2019 amounting to P7.2 million against its taxable income.

In 2021 and 2020, the Bank claimed itemized deductions in computing its income tax due.

22. COMMITMENTS AND CONTINGENT LIABILITIES

The following are the significant commitments and contingencies involving the Bank:

22.1 Capital Commitments

The Bank has no capital commitments as of December 31, 2021 and 2020.

22.2 Credit Line Facilities

As of December 31, 201 and 2020, the Bank has commitment on credit line facilities amounting to P24.6 million and P106.1 million, respectively.

22.3 Legal Claims

The Bank is a defendant in various cases, arising from the normal course of business, pending in courts for alleged claims against the Bank; the final outcome of which cannot be determined at present.

22.4 Others

The Bank has other outstanding commitments and contingent liabilities commitments to extend credit which are not reflected in the Bank's financial statements (see Note 24).

As at December 31, 2021 and 2021, the Bank's management believes that liabilities or losses, if any, arising from these commitments and contingencies will not have a material effect on the financial position and results of operations of the Bank.

23. OTHER MATTERS

23.1 Continuing Impact of COVID-19

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

- scaled-down branch operations due to mobility/quarantine restrictions;
- business units operating at less than full capacity as employees were unable to report for work;
- limited marketing and sales activity for businesses requiring face-to-face interaction due to social distancing;
- additional costs to keep a safe and COVID-19-free environment for both customers and employees; and,

- asset quality deterioration due to business disruption and significant increase in ECL (see Notes 4.4.6 and 9).

The following were the actions undertaken by the Bank's business to mitigate the impact of COVID-19 pandemic:

- operated as many branches as allowed by the government (consistent with quarantine guidelines) to provide continuing banking service to clients that is compliant with BSP directive;
- activated Business Continuity Plan;
- launched PesoNet for free electronic transfer of funds for clients;
- implemented new occupational safety and health standards to provide a safe and sanitized environment for both customers and employees through the strict observance of health and safety protocols, and periodic testing for employees to minimize infection within the workplace;
- performed comprehensive review of loan accounts to assess vulnerable sectors, and consideration of post-model adjustments to incorporate COVID-19 overlay on the Bank's existing ECL methodology for loans and receivables (see Note 4.4.2);
- ensured continued access to credit facilities for existing clients with sustainable businesses during the COVID-19 pandemic. Proactively worked with clients for the restructuring of loan terms to address temporary liquidity problems;
- implemented cost-saving measures such as the following: (a) reduced interest rates on deposits, (b) reduced number of security from two to one per branch, with one of our staff reassigned as safety officer, (c) requested for bill discounts/rebates from telecommunication service providers, (d) reduced number of consultants as those who are seniors and have comorbidities and (e) deferment of salary increases for 2020.
- complied with BAHO and BARO Acts by granting loan moratoria to qualified customers (see Note 4.4.3); and,
- significant purchases of held-to-collect investment to maximize the Bank's excess funds.

Based on the Bank's assessment, the expected impact of COVID-19 pandemic in 2021 will mainly depend on the government's announcement on the quarantine status and on the pace of the roll-out of vaccines. As soon as more businesses will be allowed to open and more people get back to work, the Bank expects that most borrowers will be able to repay their loan and people will come back from the provinces to work and start depositing again. Increase in sale of foreclosed assets as more OFWs are returning to the country for good and would want to acquire properties. Payment service transactions will slightly increase although not expected to go back as in pre-pandemic since more people have learned to pay online. Increase the promotion of micro-insurance as Bank clients have realized the advantage of having insurance in case of sudden deaths as they know their relatives and friends receive insurance proceeds from the bank during the pandemic. Interest rates are expected to remain stable and low.

Based on these actions and measures taken and to be taken by management to mitigate the adverse effect of the COVID-19 pandemic, the Bank believe that it would continue to report positive results of operations and would remain liquid to meet current obligation as it falls due. Accordingly, management has not determined material uncertainty that may cast significant doubt on the Bank.

24. SUPPLEMENTARY INFORMATION REQUIRED BY THE BSP

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

(a) *Selected Financial Performance Indicators*

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

	<u>2021</u>	<u>2020</u>
Return on average equity		
<u>Net profit</u>	11.38%	6.26%
Average total capital accounts		
Return on resources		
<u>Net profit</u>	1.45%	0.75%
Average total resources		
Net interest margin		
<u>Net interest income</u>	6.17%	5.34%
Average interest earning resources		

(b) *Capital Instruments Issued*

As of December 31, 2021, the Bank has no capital instruments considered in the computation of the Bank's regulatory and qualifying capital in accordance with Circular 781, *Basel III Implementing Guidelines on Minimum Capital Requirements, which may include*, instruments recorded as part of equity or a financial liability qualifying as Tier 2 capital.

(c) *Significant Credit Exposures for Loans*

The Bank's concentration of credit as to industry for its loans and discounts gross of allowance for ECL follows:

	<u>2021</u>		<u>2020</u>	
	<u>Amount</u>	<u>Percentage</u>	<u>Amount</u>	<u>Percentage</u>
Real estate activities	P 327,794,060	27.52%	P 337,260,394	28.79%
Construction	164,067,102	13.78%	134,991,245	11.52%
Personal Consumption	159,730,286	13.41%	96,959,133	8.28%
Education	118,934,221	9.99%	133,212,092	11.37%
Wholesale and retail trade	118,564,624	9.95%	170,915,633	14.59%
Agriculture, forestry and fishing	80,809,957	6.78%	31,147,969	2.66%
Transportation and storage	47,131,430	3.96%	39,476,254	3.37%
Activities of private household as employers and undifferentiated goods and services and producing activities of households for own use	39,987,296	3.36%	57,150,690	4.88%
Manufacturing	37,929,305	3.18%	49,428,112	4.22%
Accommodation and food service activities	32,919,196	2.76%	38,079,483	3.25%
Human health and social service activities	26,335,979	2.21%	29,677,100	2.53%
Other service activities	20,556,246	1.73%	33,708,357	2.88%
Mining and quarrying	8,240,474	0.69%	9,941,615	0.85%
Information and communication	3,840,001	0.32%	4,610,136	0.39%
Administrative and support services	2,008,578	0.17%	1,203,378	0.10%
Water supply, sewerage, waste management and remediation activities	1,731,849	0.15%	1,932,548	0.16%
Financial and insurance activities			1,300,000	0.11%
Electricity, gas, steam and and air-conditioning supply	445,955	0.04%	450,307	0.04%
Arts, entertainment and recreation	-	-	105,678	0.01%
	<u>P1,191,026,559</u>	<u>100%</u>	<u>P1,171,550,124</u>	<u>100%</u>

The BSP considers that loan concentration exists when the total loan exposure to a particular industry exceeds 30.00% of the total loan portfolio plus the outstanding interbank loans receivable or 10.00% of Tier 1 capital.

(d) *Credit Status of Loans*

The breakdown of loans and discounts as to status is shown below and in the succeeding page.

	<u>Performing</u>	<u>Non- performing</u>	<u>Total Loan Portfolio</u>
<u>2021</u>			
Gross carrying amount:	P 968,775,007	P 222,251,552	P1,191,026,559
Allowance for ECL	(15,683,372)	(24,911,005)	(40,954,377)
Net carrying amount	<u>P 953,091,635</u>	<u>P 197,340,547</u>	<u>P1,150,432,182</u>
<u>2020</u>			
Gross carrying amount:	P1,116,127,120	P 55,423,004	P1,171,550,124
Allowance for ECL	(22,284,962)	(22,336,449)	(44,621,411)
Net carrying amount	<u>P1,093,842,158</u>	<u>P 33,086,555</u>	<u>P1,126,928,713</u>

As at December 31, 2021 and 2020, the nonperforming loans (NPLs) not fully covered by allowance for credit losses follow:

	<u>2021</u>	<u>2020</u>
Gross NPLs	P 222,251,552	P 55,423,004
NPLs fully covered by allowance for impairment	(24,911,005)	(22,336,449)
	<u>P 197,340,547</u>	<u>P 33,086,555</u>

Under banking regulations, loan accounts shall be considered non-performing, even without any missed contractual payments, when they are considered impaired under existing accounting standards, classified as doubtful or loss, in litigation, and/or there is evidence that full repayment of principal or interest is unlikely without foreclosure of collateral, if any. All other loans, even if not considered impaired, shall be considered non-performing if any principal and/or interest are unpaid for more than 90 days from contractual due date, or accrued interests for more than 90 days have been capitalized, refinanced, or delayed by agreement.

Restructured loans shall be considered non-performing. However, if prior to restructuring, the loans were categorized as performing, such classification shall be retained. Moreover, NPLs shall remain classified as such until (a) there is sufficient evidence to support that full collection of principal and interests is probable and payments of interest and/or principal are received for at least 6 months; or (b) written off.

Restructured loans amount to P6.8 million and P27.8 million as of December 31, 2021 and 2020, respectively. The related allowance for credit loss of such loans amounted to P0.7 million and P0.9 million as of December 31, 2021 and 2020, respectively.

Interest income recognized on impaired loans and receivables amounted to P2.3 million and P4.8 million in 2021 and 2020, respectively.

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

As to security, receivable from customers, gross of allowance and unearned discount, are classified into the following (amounts in thousands):

	<u>2021</u>	<u>2020</u>
Secured:		
Real estate mortgage	P 1,105,368,027	P 1,092,060,959
Chattel mortgage	43,526,700	25,860,920
Deposit hold-out	<u>683,032</u>	<u>2,995,154</u>
	1,149,577,759	1,120,917,033
Unsecured	<u>41,448,800</u>	<u>50,633,091</u>
	<u>P 1,191,026,559</u>	<u>P 1,171,550,124</u>

(f) *Information on Related Party Loans*

In the normal course of business, the Bank has deposit and loan transactions with certain DOSRI. The General Banking Act and BSP regulations limit the amount of the loans to DOSRI. At least 70% of loans to DOSRI must be secured and should not exceed the amount of their deposits and the book value of their investments in the Bank. In aggregate, loans to DOSRI generally should not exceed the Bank's total capital funds or 15% of the Bank's total portfolio, whichever is lower. However, non-risk loans are excluded in both individual and aggregate ceiling computation.

The Bank is compliant with these regulatory requirements as at December 31, 2021 and 2020.

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

	DOSRI Loans		Related Party Loans (inclusive of DOSRI)	
	2021	2020	2021	2020
Total outstanding loans	P 54,456,170	P 19,790,197	P 61,304,062	P 21,533,194
% of loans to total loan portfolio	4.6%	1.7%	5.1%	1.8%
% of unsecured loans to total DOSRI/related party loans	-	-	-	-
% of past due loans to total DOSRI/related party loans	-	-	-	-
% of non-performing loans to total DOSRI/related party loans	-	-	-	-

Secured DOSRI loans are collateralized by real estate mortgage and hold-out on deposits and are payable within three months to five years.

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

As of December 31, 2021 and 2020, the Bank has no assets pledged as security for any liabilities.

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

The Bank's contingent account arising from transactions not given recognition in the statements of financial position, expressed at their equivalent peso contractual amount, pertains to outstanding letter of credit amounting to P24.6 million and P106.1 million as of December 31, 2021 and 2020, respectively.

25. SUPPLEMENTARY INFORMATION REQUIRED BY THE BUREAU OF INTERNAL REVENUE

Presented below are the supplementary information which is required by the Bureau of Internal Revenue (BIR) under Revenue Regulations (RR) No. 15-2010 and RR No. 34-2020 to be disclosed as part of the notes to financial statements. This supplementary information is not a required disclosure under PFRS.

25.1 Requirements Under RR No. 15-2010

(a) GRT

In lieu of the value-added tax, the Bank is subject to gross receipts tax (GRT) imposed on all banks and non-bank financial intermediaries pursuant to Section 121 of the Tax Code, as amended.

In 2021, the Bank paid GRT of 4,139,777.

(b) Documentary Stamp Tax

For the year ended December 31, 2021, the Bank has affixed DST totaling P3,847,691. Of this amount, P3,118,234 was charged to clients while the balance of P729,457 was for the account of the Bank and was accordingly included as part of the Bank's taxes and licenses in 2021.

(c) Withholding Taxes

Details of total withholding taxes for the year ended December 31, 2021 are shown below.

Compensation and benefits	P	3,334,311
Final		2,772,283
Expanded		<u>1,795,363</u>
	P	<u>7,901,957</u>

(d) Taxes and Licenses

Details of taxes and licenses are shown below.

GRT	P	4,139,777
Local taxes and business permits		1,546,862
DST		729,457
Others		<u>596,575</u>
	P	<u>7,012,671</u>

(e) Excise Taxes

The Bank does not have excise taxes accrued since it does not have any transactions subject to excise tax.

(f) Deficiency Tax Assessment and Tax Cases

As at December 31, 2021, the Bank does not have any final deficiency tax assessments and still subject for reinvestigation of the BIR in any open taxable year.

(g) Other Required Tax Information

The Bank has not paid or accrued any customs' duties and tariff fees as it has no importation for the fiscal year ended December 31, 2021.

25.2 Requirements Under RR No. 34-2020

RR 34-2020 prescribes the guidelines and procedures on the submission of BIR Form No. 1709, transfer pricing documentation and other supporting documents for related party transactions. The Bank is required to submit BIR Form 1709 but it is not required to submit transfer pricing documentation and other supporting documents as the Bank did not fall in any of the categories identified under Section 3 of RR No. 34-2020.