SGV
Building a better working world

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INDEPENDENT AUDITOR'S REPORT

The Board of Directors and the Stockholders
Bangko Kabayan, Inc.
(A Private Development Bank)
Santiago Street
Poblacion, Ibaan, Batangas

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Bangko Kabayan, Inc. (the Bank), which comprise the statement of financial position as at December 31, 2021, and the statement of income, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year 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 its financial performance and its cash flows for the year then ended in accordance with Philippine Financial Reporting Standards (PFRS).

Basis for Opinion

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

Other Matter

The financial statements of the Bank as at December 31, 2020 and for the year then ended were audited by another auditor whose report dated February 17, 2021 expressed an unqualified opinion on those financial statements.

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

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

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

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

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

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information required under BSP Circular No. 1074 in Note 23 to the financial statements and Revenue Regulations 15-2010 in Note 24 to the financial statements is presented for purposes of filing with the Bureau of Internal Revenue and the BSP, respectively, and is not a required part of the basic financial statements. Such information is the responsibility of the management of Bangko Kabayan, Inc. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

Janet A. Paraiso
Partner
CPA Certificate No. 92305
Tax Identification No. 193-975-241
BOA/PRC Reg. No. 0001, August 25, 2021, valid until April 15, 2024
SEC Partner Accreditation No. 92305-SEC (Group A)
Valid to cover audit of 2021 to 2025 financial statements of SEC covered institutions
SEC Firm Accreditation No. 0001-SEC (Group A)
Valid to cover audit of 2021 to 2025 financial statements of SEC covered institutions
BIR Accreditation No. 08-001998-062-2020, December 3, 2020, valid until December 2, 2023
PTR No. 8853462, January 3, 2022, Makati City

April 20, 2022

COLLECTION SECTION
APR 25 2022
BY

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INDEPENDENT AUDITOR'S REPORT

The Stockholders and the Board of Directors
The Board of Directors and the Stockholders
Bangko Kabayan, Inc.
(A Private Development Bank)
Santiago Street
Poblacion, Ibaan, Batangas

We have audited the financial statements of Bangko Kabayan, Inc. (the Bank) as at December 31, 2021 and for the year then ended on which we have rendered the attached report dated April 20, 2022.

In compliance with Securities Regulation Code Rule 68, we are stating that the Bank has 156 stockholders owning one hundred (100) or more shares each of the Bank's capital stock.

SYCIP GORRES VELAYO & CO.

Janet A. Paraiso
Partner
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PTR No. 8853462, January 3, 2022, Makati City

April 20, 2022

BANGKO KABAYAN, INC.
(A PRIVATE DEVELOPMENT BANK)

STATEMENT OF FINANCIAL POSITION
AS OF DECEMBER 31, 2021
(With Comparative Figures as of December 31, 2020)
(Amounts in Philippine Pesos)

	December 31	
	2021	2020
RESOURCES		
CASH AND OTHER CASH ITEMS (Note 7)	**₱57,505,770**	₱68,207,826
DUE FROM BANGKO SENTRAL NG PILIPINAS (Note 7)	**223,669,489**	374,140,674
DUE FROM OTHER BANKS (Note 8)	**238,949,811**	440,746,597
FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (Note 9)	**145,555,046**	181,217,647
FINANCIAL ASSETS AT AMORTIZED COST (Note 9)	**375,391,478**	255,911,871
LOANS AND OTHER RECEIVABLES (Note 10)	**2,060,521,960**	1,903,630,087
BANK PREMISES, FURNITURES, FIXTURES AND EQUIPMENT (Note 11)	**132,665,815**	128,809,532
INVESTMENTS PROPERTIES (Note 12)	**96,701,888**	79,412,251
OTHER RESOURCES (Note 13)	**39,341,745**	56,182,156
TOTAL RESOURCES	**₱3,370,303,002**	₱3,488,258,641
LIABILITIES AND EQUITY		
DEPOSIT LIABILITIES (Note 15)	**₱2,777,074,140**	₱2,741,067,799
OTHER LIABILITIES (Note 16)	**82,277,515**	117,495,036
Total Liabilities	**2,859,351,655**	2,858,562,835
CAPITAL STOCK (Note 17)	**367,739,200**	367,739,200
SURPLUS RESERVES (Note 17)	**17,170,130**	14,294,614
SURPLUS FREE (Note 17)	**146,084,062**	268,978,704
REVALUATION RESERVES	**(20,042,045)**	(21,316,712)
Total Equity	**510,951,347**	629,695,806
TOTAL LIABILITES AND EQUITY	**₱3,370,303,002**	₱3,488,258,641

See accompanying Notes to Financial Statements.

BANGKO KABAYAN, INC.
(A PRIVATE DEVELOPMENT BANK)

STATEMENT OF INCOME
FOR THE YEAR ENDED DECEMBER 31, 2021
(With Comparative Figures for the Year Ended 2020)
(Amounts in Philippine Pesos)

	Years Ended December 31	
	2021	2020
INTEREST INCOME		
Loans and receivables (Note 10)	₱273,790,340	₱285,937,327
Investment securities (Note 9)	19,783,524	16,783,100
Due from BSP and other banks (Notes 7 and 8)	9,201,251	13,653,962
	302,775,115	316,374,389
INTEREST EXPENSE		
Deposit liabilities (Note 15)	11,471,366	13,953,702
Others - net	1,888,502	1,857,214
	13,359,868	15,810,916
NET INTEREST INCOME	289,415,247	300,563,473
PROVISION FOR (REVERSAL OF) CREDIT AND IMPAIRMENT LOSSES (Notes 4 and 12)	(2,438,839)	43,344,976
NET INTEREST INCOME AFTER PROVISION FOR CREDIT AND IMPAIRMENT LOSSES	291,854,086	257,218,497
OTHER INCOME (Note 18)	31,117,885	55,269,831
TOTAL INCOME	322,971,971	312,488,328
OPERATING EXPENSES (Note 18)	(247,938,016)	(244,164,268)
INCOME BEFORE INCOME TAX	75,033,955	68,324,060
PROVISION FOR INCOME TAX (Note 20)	20,053,081	20,459,977
NET INCOME	₱54,980,874	₱47,864,083

See accompanying Notes to Financial Statements.

BANGKO KABAYAN, INC.
(A PRIVATE DEVELOPMENT BANK)

STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2021
(With Comparative Figures for the Year Ended 2020)
(Amounts in Philippine Pesos)

	Years Ended December 31	
	2021	2020
NET PROFIT	**₱54,980,874**	₱47,864,083
OTHER COMPREHENSIVE INCOME (LOSS)		
Item that will not be reclassified subsequently to profit or loss		
Gain (loss) on remeasurement of post-employment defined benefit obligation (Note 19)	**11,422,073**	(19,591,971)
Income tax benefit (expense)	**(4,734,012)**	5,877,591
	6,688,061	(13,714,380)
Item that will be reclassified subsequently to profit or loss		
Fair value gains (losses) on financial assets at fair value through other comprehensive income (Note 9)	**(5,662,600)**	8,240,561
Income tax benefit (expense)	**249,206**	(235,259)
	(5,413,394)	8,005,302
Other Comprehensive Income (Loss)	**1,274,667**	(5,709,078)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**₱56,255,541**	₱42,155,005

See accompanying Notes to Financial Statements.

BANGKO KABAYAN, INC.
(A PRIVATE DEVELOPMENT BANK)

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2021
(With Comparative Figures for the Year Ended 2020)
(Amounts in Philippine Pesos)

	Capital Stock	Surplus Free	Reserves	Revaluation Reserve: Unrealized Fair Value Gains or Losses on Financial Assets at Fair Value through Other Comprehensive Income	Revaluation Reserve: Remeasurement on Retirement Benefit Obligation	Total Equity
Balance at January 1, 2021	**₱367,739,200**	**₱268,978,704**	**₱14,294,614**	**₱4,982,199**	**(₱26,298,911)**	**₱629,695,806**
Appropriations during the year (Note 17)	–	(2,875,516)	2,875,516	–	–	–
Cash dividends (Note 17)	–	(175,000,000)	–	–	–	(175,000,000)
Total comprehensive income (loss) for the period	–	54,980,874	–	(5,413,394)	6,688,061	56,255,541
Balance as of December 31, 2021	**₱367,739,200**	**₱146,084,062**	**₱17,170,130**	**(₱431,195)**	**(₱19,610,850)**	**₱510,951,347**
Balance at January 1, 2020	₱367,739,200	₱220,371,004	₱15,038,231	(₱3,023,103)	(₱12,584,531)	₱587,540,801
Reversal of appropriations during the year	–	743,617	(743,617)	–	–	–
Total comprehensive income (loss) for the year	–	47,864,083	–	8,005,302	(₱13,714,380)	42,155,005
Balance as of December 31, 2020	₱367,739,200	₱268,978,704	₱14,294,614	₱4,982,199	(₱26,298,911)	₱629,695,806

See accompanying Notes to Financial Statements.

BANGKO KABAYAN, INC.
(A PRIVATE DEVELOPMENT BANK)

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2021
(With Comparative Figures for the Year Ended 2020)
(Amounts in Philippine Pesos)

	Years Ended December 31	
	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before tax	**₱75,033,952**	₱68,324,060
Adjustments for:		
Depreciation and amortization (Note 18)	**21,781,202**	22,975,532
Gain on sale of non-financial assets (Note 18)	**(10,217,451)**	(35,861,981)
Provision for (reversal of) credit and impairment losses (Note 10 and 12)	**(2,438,839)**	43,341,256
Premium (discount) amortization on financial assets at amortized cost	**970,393**	(861,871)
Unrealized foreign currency (gains) losses	**(2,487)**	3,043
Operating profit before changes in operating assets and liabilities	**85,126,770**	97,920,039
Changes in operating assets and liabilities		
Decreases (increases) in:		
Loans and other receivables	**(294,972,144)**	1,609,573
Other resources	**14,772,689**	(23,536,038)
Increases (decreases) in:		
Deposit liabilities	**36,006,341**	186,083,072
Other liabilities	**(38,384,508)**	3,398,160
Cash generated from (used in) operations	**(222,450,852)**	265,474,806
Income taxes paid	**(7,546,923)**	(30,759,000)
Net cash provided by (used in) operating activities	**(229,997,775)**	234,715,806
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of financial assets at amortized cost	**(210,450,000)**	(170,050,000)
Proceeds from maturities of financial assets at amortized cost	**120,000,000**	50,000,000
Proceeds from disposal of investment properties	**27,405,040**	76,363,722
Acquisition of bank premises, furniture, fixtures and equipment	**(15,749,105)**	(12,369,493))
Acquisition of computer software	**(2,095,610)**	(46,200)
Proceeds from sale of bank premises, furniture, fixtures and equipment	**1,202,898**	2,718,153
Net cash used in investing activities	**(1,912,482,650)**	(53,383,818)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payment of dividends (Note 14)	**(173,866,481)**	–
Payment of lease liability (Note 14)	**(6,753,665)**	(7,053,270)
Cash used in financing activities	**(180,620,146)**	(7,053,270)
Effects of changes in foreign exchange rate	**2,487**	(3,043)
NET INCREASE IN CASH AND CASH EQUIVALENTS	**(465,302,211)**	174,275,675

(Forward)

	Years Ended December 31	
	2021	2020
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		
Cash and other cash equivalents	**68,207,826**	68,652,536
Due from Bangko Sentral ng Pilipinas	**374,140,674**	375,899,457
Due from other banks	**371,746,597**	286,284,325
Securities under overnight repurchase agreement	**127,332,184**	36,315,288
	941,427,281	767,151,606
CASH AND CASH EQUIVALENTS AT END OF THE YEAR		
Cash and other cash equivalents	**₱57,505,770**	₱68,207,826
Due from Bangko Sentral ng Pilipinas	**223,669,489**	374,140,674
Due from other banks	**194,949,811**	371,746,597
Securities under overnight repurchase agreement	**–**	127,332,184
	₱476,125,070	₱941,427,281

OPERATIONAL CASH FLOWS FROM INTEREST		
Interest received	**₱314,174,332**	₱297,459,911
Interest paid	**14,721,570**	17,993,696

See accompanying Notes to Financial Statements.

1. **Corporate Matters**

Incorporation and Operations
Bangko Kabayan Inc. (A Private Development Bank), formerly known as Bangko Kabayan (A Rural Bank) Inc. (the Bank), was incorporated in the Philippines on August 2, 2007 to engage in the business of rural banking. It was organized to carry the merger between Bangko Kabayan (Ibaan Rural Bank, Inc.) and Banco de Jesus Rural Bank, Inc. The Monetary Board of the Bangko Sentral ng Pilipinas (BSP) issued the Bank's authority to operate as a thrift bank on May 27, 2016. On April 25, 2016, the Securities and Exchange Commission (SEC) approved the Bank's application to operate as a thrift bank.

On February 6, 2019, City Savings Bank, Inc. (CSB) and UBP Investments Corporation (UIC) signed a share purchase agreement (SPA) with the Bank's shareholders for the purchase of 2,574,178 common shares representing 70% ownership the Bank. On September 19, 2019, the BSP approved the transfer of shares equivalent to 49% and 21% of the Bank's outstanding common shares to CSB and UIC, respectively.

CSB and UIC are 99.79% and 100.00%, respectively, owned subsidiaries of Union Bank of the Philippines (UnionBank or the Ultimate Parent Company). Unionbank is a publicly-listed universal bank incorporated and domiciled in the Philippines providing expanded commercial banking products and services such as loans and deposits, cash management, retail banking, foreign exchange, capital markets, corporate and consumer finance, investment management and trust banking. The registered office of CSB, which is also their principal place of business, is located at City Savings Financial Plaza, corner Osmeña Blvd. & P. Burgos St., Cebu City. The Ultimate Parent Company and UIC's registered address, which is also the principal place of business, is located at UnionBank Plaza, Meralco Avenue corner Onyx Street and Sapphire Road, Ortigas Center, Pasig City.

The Bank was authorized to engage in the business of extending financial services to farmers, employees, entrepreneurs, commercial, manufacturing and industrial enterprises and to such other persons or entities that require financial intermediation, and to have and to exercise all authority and powers, and to do and perform all acts, and to transact all business which may legally be done by Thrift Banks organized under and in accordance with the existing New Thrift Banks Act of 1995 (Republic Act No. 7906).

As of December 31, 2021, the Bank has 23 branches, including the head office, in the areas of Batangas, Laguna and Quezon (Southern Luzon), and one branch-lite in Lobo, Batangas. The Bank's registered address, which is also its principal place of business, is at Santiago Street, Poblacion, Ibaan, Batangas.

Merger with First Agro Industrial Rural Bank and Progressive Bank, Inc.
On December 21, 2021 and December 22, 2021, the Board of Directors and stockholders of the Bank approved the plan of merger between the Bank, First Agro Industrial Rural Bank, (FAIR Bank) and Progressive Bank, Inc. (PBI), with the Bank as the surviving entity.

Approval of Financial Statements
The accompanying financial statements of the Bank were authorized and approved for issue by the Bank's Board of Directors (BOD) on April 20, 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. Those policies have been consistently applied to all the years presented, unless otherwise stated.

Basis of Preparation of Financial Statements

The financial statements have been prepared in accordance with with Philippine Financial Reporting Standards (PFRS). PFRS includes all applicable PFRS, Philippine Accounting Standards (PAS) and interpretations as approved by the Financial Reporting Standards Council (FRSC) and adopted by the SEC.

Presentation of Financial Statements

The Bank presents its statement of financial position broadly in order of liquidity. An analysis regarding recovery or settlement within 12 months after the statement of reporting date (current) and more than 12 months after the statement of reporting date (non-current) is presented in the respective notes to financial statement for each assets and liabilities. The Bank presents the statement of comprehensive income separate from the statement of income.

The accompanying financial statements have been prepared on a historical cost basis, except for financial assets at fair value through other comprehensive income (FVOCI) that have been measured at fair value. 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.

Changes in Accounting Policies and Disclosures

The accounting policies adopted by the Bank are consistent with those of the previous financial year, except for the following amended PFRS which the Bank applied for the first time, which is effective for annual periods beginning on or after January 1, 2021. The adoption of this amendment did not have any significant impact on the financial statements, except as otherwise stated.

Effective beginning on or after January 1, 2021

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

  The amendments provide the following temporary reliefs which address the financial reporting effects when an interbank offered rate (IBOR) is replaced with an alternative nearly risk-free interest rate (RFR):
  - Practical expedient for changes in the basis for determining the contractual cash flows as a result of IBOR reform
  - Relief from discontinuing hedging relationships
  - Relief from the separately identifiable requirement when an RFR instrument is designated as a hedge of a risk component

  The Bank shall also disclose information about:
  - The about the nature and extent of risks to which the entity is exposed arising from financial instruments subject to IBOR reform, and how the entity manages those risks; and

- Their progress in completing the transition to alternative benchmark rates, and how the entity is managing that transition

The amendments are effective for annual reporting periods beginning on or after 1 January 2021 and apply retrospectively, however, the Bank is not required to restate prior periods. The amendments did not have significant impact to the financial statements of the Bank.

Future changes in accounting policies
Effective beginning on or after January 1, 2022
Pronouncements issued but not yet effective are listed below. Unless otherwise indicated, the Bank does not expect that the future adoption of the said pronouncements will have a significant impact on its financial statements. The Bank intends to adopt the following pronouncements when they become effective.

Effective beginning on or after January 1, 2022
- Covid-19-Related Rent Concessions beyond 30 June 2021 – Amendment to IFRS 16
- Amendments to PFRS 3, *Updating a Reference to the Conceptual Framework*
- Amendments to PAS 16, *Property, Plant and Equipment: Proceeds before Intended Use*
- Amendments to PAS 37, *Onerous Contracts - Cost of Fulfilling a Contract*
- Annual Improvements to PFRS Standards 2018–2020
  - PFRS 1 First-time Adoption of International Financial Reporting Standards – *Subsidiary as a first-time adopter*
  - PFRS 9 Financial Instruments – *Fees in the '10 per cent' test for derecognition of financial liabilities*
  - PAS 41 Agriculture – *Taxation in fair value measurements*

Effective beginning on or after January 1, 2023
- IFRS 17, *Insurance Contracts*
- Amendments to PAS 1, *Classification of Liabilities as Current or Non-current*
- Amendments to PAS 8, *Definition of Accounting Estimates*
- Amendments to PAS 1 and IFRS Practice Statement 2, *Disclosure of Accounting Policies*
- Amendments to PAS 12, *Deferred Tax related to Assets and Liabilities arising from a Single Transaction*

Deferred effectivity
- Amendments to IFRS 10 and IAS 28, *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

Significant Accounting Policies

Cash and Cash Equivalents
For purposes of cash flows reporting and presentation, cash and cash equivalents comprise of accounts with original maturities of three months or less from placement date, including cash and other cash items and non-restricted balances of Due from BSP, Due from Other Banks, and Securities under reverse repurchase agreement (SPURRA) (presented as part of Loans and Other Receivables account). 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. Due from BSP includes the statutory reserves required by the BSP which the Bank considers as cash equivalents wherein withdrawals can be made to meet the Bank's cash requirements as allowed by the BSP.

Financial Instruments - Initial Recognition and Subsequent Measurement

Date of recognition

Purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place are recognized on the settlement date. Deposits, amounts due to banks and customers, and loans and receivables are recognized when cash is received by the Bank or advanced to the borrowers.

Initial recognition of financial instruments

All financial instruments are initially recognized at fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability except for financial assets and financial liabilities at fair value through profit or loss (FVTPL). The Bank classifies its financial assets in the following categories: financial assets at amortized cost, financial assets at FVTPL and financial assets classified under FVOCI. Financial liabilities are categorized as financial liabilities at FVTPL and financial liabilities carried at amortized cost. The classification and measurement of financial instruments is driven by the Bank's business model for managing the financial instruments and the contractual cash flow characteristics of the financial instruments.

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.

Classification, Measurement and Reclassification of Financial Assets

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

Financial Assets at Amortized Cost

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

- the asset is held within the Bank's business model whose objective is to hold financial assets in order to collect contractual cash flows ("hold to collect"); and
- the contractual terms of the instrument give rise, on specified dates, to cash flows that are solely payments of principal and interests (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 allowance for ECL. Where the business model is to hold assets to collect contractual cash flows, the Bank assesses whether the financial instruments' cash flows represent SPPI. In making this assessment, the Bank considers whether the contractual cash flows are consistent with a basic lending arrangement, i.e., interest includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement (see Note 3). 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 BSP, Due from Other Banks, Held-to-Collect (HTC) Financial Assets, Loans and Receivables and Refundable deposits (presented under Other Resources account).

Financial Assets at Fair Value Through Other Comprehensive Income (FVOCI)

The Bank accounts for financial assets at FVOCI if the assets meet the following conditions:

- they are held under a business model whose objective is to hold to collect the associated cash flows and sell ("hold to collect and sell"); and

- the contractual terms of the financial assets give rise to cash flows that are SPPI on the principal amount outstanding.

At initial recognition, the Bank can make an irrevocable election (on an instrument-by-instrument basis) to designate equity investments as at FVOCI; however, such designation is not permitted if the equity investment is held by the Bank for trading. The Bank has not designated any equity financial assets at FVOCI.

Financial assets at FVOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value, with no deduction for any disposal costs. Gains and losses arising from changes in fair value are recognized in other comprehensive income, net of any effects arising from income taxes, and are reported as part of Revaluation Reserves account in equity. When the asset is disposed of, the cumulative gain or loss previously recognized in the Revaluation Reserves account is not reclassified to profit or loss but is reclassified directly to Surplus Free account, except for those debt securities classified as FVOCI wherein cumulative fair value gains or losses are recycled to profit or loss.

Financial Assets at FVTPL

Financial assets that are held within a different business model other than "hold to collect" or "hold to collect and sell" are categorized at FVTPL. Further, irrespective of business model, financial assets whose contractual cash flows are not SPPI are accounted for at FVTPL. Also, equity securities are classified as financial assets at FVTPL, unless the Bank designates an equity investment that is not held for trading as at FVOCI at initial recognition.

Financial assets at FVTPL are initially measured at fair value. Subsequently, they are measured at fair value with gains or losses recognized in profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are SPPI.

The Bank has no outstanding financial assets at FVTPL.

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 effected only at the beginning of the next reporting period following the change in the business model.

Effective Interest Rate Method and Interest Income

Interest income is recorded using the effective interest rate (EIR) method for all financial instrument measured at amortized cost and financial instrument designated at FVTPL. Interest income on interest bearing financial assets measured at FVOCI is recorded by using the EIR method. The EIR 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 EIR is calculated by taking into account any discount or premium on acquisition, fees and costs that are an integral part of EIR. 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 loan. 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 (negative) adjustment to the carrying amount of the asset in the balance sheet with an increase (reduction) in Interest income. The adjustment is subsequently amortized through interest and similar income in the statement of income.

The Bank calculates interest income by applying the EIR to the gross carrying amount of financial assets other than 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, then the calculation of interest income reverts to the 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 improves.

Impairment of Financial Assets

The Bank recognizes allowance for ECL on a forward-looking basis associated with its financial assets at amortized cost, debt securities at FVOCI, and loan commitments issued.

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

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 (other than lease receivables) 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 (POCI) assets.

The Bank's definition of credit risk and information on how credit risk is mitigated by the Bank are disclosed in Note 4.

Assessment of Significant Increase in Credit Risk
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.

The Bank's ECL model follows a three-stage impairment approach in determining the loss allowance to be recognized in the financial statements:

(a) Stage 1 – these are credit exposures that are considered 'performing' and with no SICR since initial recognition or with low credit risk. The loss allowance is determined based on a 12-month ECL.

(b) Stage 2 – these are credit exposures that are considered 'under performing' and with SICR since initial recognition. A lifetime ECL is recognized for these credit exposures.

(c) Stage 3 – these are credit exposures with objective evidence of impairment and considered 'non-performing'. The Bank recognizes a lifetime ECL for all credit-impaired financial assets.

Definition of Default

(a) Loans and receivables
The Bank defines a loan instrument as in default, which is aligned with the definition of credit-impaired, when the borrower is more than 90 days past due on its contractual payments, except for the eleven days past due threshold for microfinance loan portfolio. As part of a qualitative assessment of whether a customer is in default, the Bank also considers a variety of instances and factors that may indicate unlikeliness to pay which may include (a) significant financial difficulty of the issuer or borrower; (b) the restructuring of a loan by the Bank, for economic or legal reasons relating to the borrower's financial difficulty, on terms that the Bank would not consider otherwise; or, (c) it becoming probable that the borrower will enter bankruptcy or other financial reorganization. When such events occur, the Bank carefully considers whether the event should result in treating the customer as defaulted.

An instrument is considered to be no longer in default or have cured when the borrower is able to repay the installments in arrears and the account no longer meets any of the default criteria for a consecutive period of 180 days within which the borrower shall make consecutive payments.

These criteria are consistent with the definition of default used for internal credit risk management purposes that is aligned with the default criteria used for regulatory capital purposes. Such definition is consistently applied in determining PD, LGD, and EAD for each loan portfolio segment and throughout the ECL calculations of the Bank.

(b) Investment in debt securities
Investments in debt securities is assessed as credit-impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of an event that occurred after the initial recognition of the security (a "loss event") and that loss event has impact on the estimated future cash flows of the securities. Losses expected as a result of future events, shall also be considered in estimating the ECL.

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

Measurement of the ECL is determined by a probability-weighted estimate of credit losses over the expected life of the financial instrument.

The Bank's detailed ECL measurement, as determined by the management, is disclosed in Note 4.

Derecognition of Financial Assets
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;
- change in the currency the loan is denominated in; and/or,
- insertion of collateral, other security or credit enhancements that will significantly affect the credit risk associated with the loan.

If the terms are substantially different, the Bank derecognizes the financial asset and recognizes a "new" asset at fair value, and recalculates a new effective interest rate for the asset. The date of renegotiation is consequently considered to be the date of initial recognition for impairment calculation, including for the purpose of determining whether a SICR 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. Difference between the carrying amount of the old financial asset derecognized and the fair value of the new financial asset is recognized as gain or loss in profit or loss upon derecognition. 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 POCI 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.

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.

Offsetting Financial Instruments

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

Bank Premises, Furniture, Fixtures and Equipment

Land is stated at cost less allowance for impairment losses, if any. All other 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 lives of the assets as follows:

Building and improvements	5 to 25 years
Furniture, fixtures and equipment	3 to 5 years
Transportation equipment	3 to 5 years

Leasehold improvements are amortized over the term of the lease or useful lives of the improvements of 10 years, whichever is shorter.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

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.

An item of bank premises, furniture, fixtures and equipment, including the related accumulated depreciation and amortization and any 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 presented as part of Gain on sale of non-financial assets under Other Operating Income account in the statement of income in the year the item is derecognized.

Investment Properties

Investment properties pertain to parcels of land, building and improvements acquired by the Bank in settlement of loans from defaulting borrowers through foreclosure or dacion in payment which are held either to earn rental income or for capital appreciation or both, but not for use in the production or supply of goods or services or for administrative purposes.

Investment properties are measured initially at cost. Directly attributable cost incurred such as legal fees, transfer taxes and other transaction costs are capitalized as part of the carrying amount of investment properties.

The Bank adopted the cost model in measuring its investment properties; hence, these are carried at cost less accumulated depreciation and any impairment in value, if any. Investment properties, except land, are depreciated on a straight-line basis over a period of 10 years.

Investment property is derecognized upon disposal or when permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gain or loss on the disposal of an investment property is recognized in profit or loss and is presented as part of Gain on sale of non-financial assets under Other Operating Income in the statement of income in the year of disposal.

Direct operating expenses related to investment properties, such as repairs and maintenance, and real estate taxes are normally charged against current operations in the period in which these costs are incurred.

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.

Intangible Assets

Intangible assets include computer software licenses, which is presented as part of Other Resources account. Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and install the specific software. These costs are amortized on a straight-line basis over the expected useful life of three to seven years. Costs associated with maintaining computer software are expensed as incurred. In addition, computer software licenses are subject to impairment testing as described in 'Impariment of Non-Financial Assets'.

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

Financial Liabilities

Financial liabilities, which include deposit liabilities, bills payable and other liabilities (except tax-related payables) 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 income.

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

Bills payable are recognized initially at fair value, equivalent to the issue proceeds (fair value of consideration received), net of direct issue costs. Bills payable are subsequently measured at amortized cost. Any difference between proceeds, net of transaction costs, and the redemption value is recognized in profit or loss over the period of the borrowings using the effective interest method.

Dividend distributions to shareholders are recognized as financial liabilities when the dividends are declared by the Bank.

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.

Equity

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

Surplus reserve pertains to the appropriation of the Surplus account, brought about by cases when the allowance for credit losses on 'Stage 1' loan accounts computed under the requirements of PFRS 9 is less than the 1% GLLP required by the BSP. This is in pursuant to BSP Circular No. 1011, *Guidelines on the Adoption of PFRS 9*, which requires financial institutions to set up GLLP to set up an appropriation to surplus equivalent to the difference of 1% of all outstanding 'Stage 1' on-balance sheet loan accounts and the computed ECL under PFRS 9.

Surplus free represents all current and prior period results of operations as disclosed in the statement of profit or loss, reduced by the amount of dividends declared.

Revaluation reserves consist of:

(a) Net unrealized fair value gains or losses arising from remeasurements of financial assets at FVOCI; and,

(b) Remeasurements of post-employment defined benefit plan comprising of net accumulated actuarial gains or losses arising from experience adjustments and other changes in actuarial assumptions, and actual return on plan assets (excluding account included in net interest).

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 pretax 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.

Revenue and Expense Recognition

Revenue is recognized only when (or as) the Bank satisfies a performance obligation by transferring control of the promised services to the customer. A contract with a customer that results in a recognized financial instrument in the Bank's financial statements may be partially 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.

Refer to 'Financial Instrument - Initial recognition and subsequent measurement' for the policies on interest income recognition.

The Bank also earns service fees on various banking services and gains on sale of properties which are supported by contracts approved by the parties involved. These revenues are accounted for by the Bank in accordance with PFRS 15.

For revenues to be accounted for under PFRS 15, the following information about the nature and timing of satisfaction of performance obligations in contracts with customers including significant payment terms, and the related revenue recognition policies:

(a) *Fees and commissions* – are generally recognized when the service has been provided. These include commissions and fees arising from loans, deposits and other banking transactions and are taken up as income based on agreed terms and conditions.

(b) *Gain on sale of non-financial assets* – is recognized when the title to the properties is transferred to the buyer or when the collectibility of the entire sales price is reasonably assured. This is included in profit or loss as part of Other Operating Income.

Leases – Bank as Lessee

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

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

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

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

At lease commencement date, the Bank recognizes a right-of-use asset and a lease liability in the statement of financial position. The right-of-use asset is measured at cost, which is made up of the initial measurement of the lease liability, any initial direct costs incurred by the Bank, an estimate of any costs to dismantle and remove the asset at the end of the lease, and any lease payments made in advance of the lease commencement date (net of any incentives received). Subsequently, the Bank depreciates the right-of-use asset on a straight-line basis from the lease commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The Bank also assesses the right-of-use asset for impairment when such indicators exist (see Note 2). On the other hand, the Bank measures the lease liability at the present value of the lease payments unpaid at the commencement date, discounted using the interest rate implicit in the lease if that rate is readily available or the Bank's incremental borrowing rate. Lease payments include fixed payments (including in-substance fixed) less lease incentives receivable, if any, variable lease payments based on an index or rate, amounts expected to be payable under a residual value guarantee, and payments arising from options (either renewal or termination) reasonably certain to be exercised.

Subsequent to initial measurement, the liability will be reduced for payments made and increased for interest. It is remeasured to reflect any reassessment or modification, or if there are changes in in-substance fixed payments. When the lease liability is remeasured, the corresponding adjustment is reflected in the right-of-use asset, or profit and loss if the right-of-use asset is already reduced to zero.

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

On the statement of financial position, right-of-use assets and lease liabilities have been presented under Bank Premises, Furniture, Fixtures and Equipment account and Other Liabilities account, respectively.

Foreign Currency Transactions and Translations

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 in profit or loss.

Impairment of Non-financial Assets

The Bank's bank premises, furniture, fixtures and equipment, investment properties, intangible assets, and other non-financial assets are subject to impairment testing. All other individual assets or cash-generating units are tested for impairment whenever events or changes in circumstances indicate that the carrying amount of those assets may not be recoverable.

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

Impairment loss is recognized 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. The recoverable amount is the higher of fair value, reflecting market conditions, less costs to sell and 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 and the carrying amount of the asset is adjusted to the recoverable amount resulting in the reversal of the impairment loss.

Employee Benefits

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

Post-employment Defined Benefit

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 pension plan is tax-qualified, non-contributory and administered by a trustee.

The asset or 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 independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows for expected benefit payments using a discount rate derived from the interest rates of a zero coupon government bonds, that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related post-employment liability. BVAL provides evaluated prices that are based on market observations from contributed sources.

Remeasurements, comprising of actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions and the return on plan assets (excluding amount included in net interest) are reflected immediately in the statement of financial position with a charge or credit recognized in other comprehensive income in the period in which they arise. Net interest is calculated by applying the discount rate at the beginning of the period, unless there is a plan amendment, curtailment or settlement during the reporting period. The calculation also takes into account of any changes in the net defined benefit liability or asset during the period as a result of contributions and benefit payments. Net interest is reported as part of Interest Expense or Interest Income account in the statement of income.

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

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, *Provisions, Contingent Liabilities and Contingent Assets,* 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 reporting period are discounted to their present value.

Bonuses
The Bank recognizes a liability and an expense for accrual of bonuses. The Bank recognizes a provision where it is contractually obliged to pay the benefits.

Compensated Absences
Unavailed leaves at the end of reporting period, included in Accrued expenses under Other Liabilities account in the statement of financial position, are accrued at the amount payable to employees based on the Bank's benefits policy. Each regular employee is entitled to 15 days vacation and sick leaves each year. Five of the vacation leaves are convertible into cash when unused and can be carried forward to the next taxable year. The maximum vacation leaves that can be accumulated by each employee is 45 days.

Sick leaves, on the other hand, are non-convertible but cumulative.

Borrowing Costs

Borrowing costs are recognized as expense 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.

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 using the tax rates and tax laws applicable to the fiscal periods to which they relate, based on the taxable profit for the year. All changes to current tax assets or liabilities are recognized as a component of tax expense in profit or loss.

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the asset is realized or the liability is settled provided such tax rates have been enacted or substantively enacted at the end of the reporting period. The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized.

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

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

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

Related Party Transactions and Relationships
Related party transactions are transfers of resources, services or obligations between the Bank and its related parties, regardless of 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. These include: (a) individuals owning, directly or indirectly through one or more intermediaries, control or are controlled by, or under common control with the Bank; (b) associates; (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.

Diluted earnings per share is computed by adjusting the weighted average number of ordinary shares outstanding to assume conversion of dilutive potential shares. Currently, the Bank does not have dilutive potential shares outstanding, hence, the diluted earnings per share is equal to the basic earnings per share.

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 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.

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

Evaluation of Business Models Applied and Testing the Cash Flow Characteristics of Financial Assets in Managing Financial Instruments

The Bank manages its financial assets based on business models that maintain adequate level of financial assets to match its expected cash outflows, largely its core deposit funding arising from customers' withdrawals and continuing loan disbursements to borrowers, while maintaining a portfolio of financial assets for asset and liability management and regulatory requirement purposes.

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

In determining the classification of a financial instrument, the Bank evaluates in which business model a financial instrument or a portfolio of financial instruments belong to taking into consideration the objectives of each business model established by the Bank (e.g., held-for-trading, generating accrual income, direct matching to a specific liability) as those relate to the Bank's investment, trading and lending strategies. Furthermore, the Bank assesses whether the contractual terms of the financial assets give rise on specified dates to cash flows that are SPPI 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 addition, if more than an infrequent sale is made out of a portfolio of financial assets carried at amortized cost, an entity should assess whether and how such sales are consistent with the objective of collecting contractual cash flows. In making this judgment, the Bank considers certain circumstances documented in its business model manual to assess that an increase in the frequency or value of sales of financial instruments in a particular period is not necessarily inconsistent with an HTC business model if the Bank can explain the reasons for those sales and why those sales do not reflect a change in Bank's investment objective for the business model.

Recognition of Provisions and Contingencies
Judgment is exercised by management to distinguish the difference between provisions and contingencies. Policies on recognition of provisions and contingencies are discussed in Note 2. and relevant disclosures are presented in Note 22.

In dealing with the Bank's various legal proceedings, its estimate of the probable costs that may arise from claims and contingencies has been developed in consultation and coordination with the Bank's internal and external counsels acting in defense for the Bank's legal cases and are based upon the analysis of probable results.

Although the Bank does not believe that its dealing on these proceedings will have material adverse effect on the Bank's financial position, it is possible that future results of operations could be materially affected by changes in the estimates or in the effectiveness of the strategies conducted relating to those proceedings.

<u>Estimates</u>
Following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next reporting period.

Estimation of Allowance for ECL on loans and receivables
The Bank uses a net flow rate model to calculate ECL for its loans and receivables, together with loan commitments and financial guarantee contracts, if any. The allowance for impairment is based on the ECLs associated with the probability of default of a financial instrument in the next 12 months, unless there has been a SICR since origination of the financial instrument, in such case, a lifetime ECL for the instrument is recognized.

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.

The Bank's ECL calculations are outputs of 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; and, development of expected credit loss models, including the choice of inputs relating to macroeconomic variables.

The calculation of credit-impairment provisions also involves expert credit judgement to be applied based upon counterparty information received from various sources including relationship managers and on external market information.

The analysis of the allowance for impairment and the ECL assessed on financial assets are shown in Note 4.

Estimation of Impairment of Investment Properties
In assessing impairment for investment properties, the Bank determines the estimated recoverable amount based on the recent sale transactions of similar assets with adjustments to reflect any changes in economic conditions since the date the transactions occurred. Though management believes that the assumptions used in the estimation of fair values used in impairment assessment 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.

As of December 31, 2021 and 2020, the carrying amount and impairment losses recognized by the Bank on investment properties, on the other hand, are discussed in Note 12.

Valuation of Post-employment Defined Benefit Plan
The determination of the Bank's obligation and cost of post-employment and other retirement benefits is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions are described in Note 19 and include, among others, discount rates and salary increase rates. 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 retirement benefit asset or obligation in the next reporting period.

The amounts of retirement benefit obligation and expense and an analysis of the movements in the estimated present value of defined benefit obligation, as well as the significant assumptions used in estimating such obligations are presented in Note 19.

4. Risk Management Objectives and Policies

The Bank recognizes that risk management is an activity critical to its success. It is committed to ensure constant adherence to best practices and standards and to apply prudence and accountability in its risk-taking activities. The Bank exposes itself to a myriad of risks arising from the use of financial instruments. In particular, these financial risks are mainly exposure to credit, liquidity and market risks. Consequently, the Bank has put in place the appropriate risk management structures, policies, and processes to address each type of risk. The key risk processes involve identifying, measuring, controlling and monitoring risks.

Risk Management Structure

The following structure shows the Bank's overall approach to risk management:

(a) Board of Directors
The BOD has the ultimate responsibility for approving and periodically reviewing the risk strategies and significant policies of the Bank. It adopts policies and guidelines to govern the safe and prudent functioning of the Bank with the end in view of effectively managing all risks in its activities. The policies to be formulated include, but not limited to, lending, investing, fund sourcing, liquidity management, personnel administration, and internal control.

(b) Risk Oversight Committee

Risk Oversight Committee (ROC) is the board level committee responsible for the development and oversight of the risk management program of the Bank. It oversees the system of limits to discretionary authority that the BOD delegates to management, ensures that the system remains effective, that the limits are observed and that immediate corrective actions are taken whenever limits are breached.

(c) Senior Management

Senior Management is responsible for the design, implementation and maintenance of effective management program. They also ensure compliance with laws and regulations and create systems to measure and monitor performance.

(d) Risk Unit

Risk Unit (RU) performs an independent risk governance function within the Bank.

It is tasked with identifying, measuring, controlling and monitoring existing and emerging risks inherent in the Bank. The unit develops and employs risk assessment tools to facilitate risk identification and measurement. It is responsible for developing and implementing the framework for policies and practices to assess and manage enterprise-wide risks. It also develops and endorses risk tolerance limits for approval of the BOD through ROC, and monitors compliance with the approved risk tolerance limits. It regularly reports to the BOD, through the ROC, the results of its risk monitoring.

(e) Executive Credit Committee

A board level committee responsible to oversee the credit risk-taking activities, quality and profitability of the credit portfolio, and credit evaluation process. All credit proposals beyond the credit approving limit of the Credit Committee passes through this committee for final approval. This committee also endorses credit proposals beyond its approving limit to the BOD for final approval.

(f) Asset-Liability Management Committee
A management level committee responsible for the overall management of the Bank's liquidity risks. It monitors the Bank's liquidity position and reviews the impact of strategic decisions on liquidity. It is responsible for managing liquidity risks and ensuring that the Bank's exposures remain within established tolerance levels.

(g) Compliance Unit
This unit is responsible for reviewing any legal or regulatory matters that could have a significant impact on the Bank's financial statements and compliance with laws and regulations. It reviews the effectiveness and adequacy of the system for monitoring compliance with laws and regulations. The Chief Compliance Officer (CCO) regularly reports to the Corporate Governance Committee and to the BOD.

(h) Internal Audit Department
Internal Audit Department (IAD) provides an independent assessment of the Bank's management and effectiveness of existing internal control systems through adherence testing of processes and controls across the organization. The IAD audits risk management processes throughout the Bank. It employs a risk-based audit approach that examines both the adequacy of the procedures and the Bank's compliance with the procedures. It discusses the results of all assessments with management, and reports its findings and recommendations to the Audit Committee of the BOD.

Market Risk
The Bank is exposed to market risk through its use of financial instruments and specifically to interest rate risk and certain other price risk which resulted from its operating, investing and financing activities.

(a) Interest Rate Risk
The Bank follows a prudent policy on managing its assets and liabilities so as to ensure that exposure to fluctuations in interest rates are kept within acceptable limits.

As a result of these, the Bank's exposure to interest rate fluctuations, and other market risks, is significantly reduced.

The Bank, in keeping with banking industry practice, maintains a large portion of its deposit base on short-term deposits. Savings and demand accounts, and time deposit accounts constitute 80.4% and 19.6%, respectively, of the total deposit liabilities as of December 31, 2021 and 80.8% and 19.2%, respectively, as of December 31, 2020. Rates on time deposits and special savings account are usually priced according to the amount deposited.

As of December 31, 2021 and 2020, the Bank's loans and other receivables have fixed interest rates.

The following table provides for the effective interest rates profile of the Bank's financial assets and liabilities as of December 31, 2021 and 2020.

	December 2021			December 2020		
	Less than 3 months	3 Months to 1 year	More than 1 year	Less than 3 months	3 Months to 1 year	More than 1 year
Resources						
Due from other banks	0% -.01%	1%-2.0%	–	0%-0.1%	1.4%-3.0%	3.0%
Loans and other receivables	11%-60.0%	8.0%-61.0%	8.0%-61.0%	8.0%-60.0%	8.0%-61.0%	8.0%-61.0%
Financial assets at FVOCI	–	-	3.25%- 5.75%	–	–	3.3% - 5.8%
HTC financial assets	–	–	2.38%-6.25%	–	4.9%	2.6-6.3%
Sales contract receivables	–	-	7%-12%	0 - 12.0%	12%	7%-12%
Liabilities						
Saving deposits	0-0.15%	–	–	0.25%	–	–
Time deposits	0.25%-1.15%	0.25%-1.75%	0.5%-7%	0.25-2.8%	0.5%-7.0%	0.5%-1.4%

(b) Foreign Currency Risk

The Bank has no significant exposure to foreign currency risks as most transactions are denominated in Philippine pesos, its functional currency. Its foreign currency denominated cash as of December 31, 2021 and 2020 amounted to both ₱0.07 million, which is recorded as part of Due from other banks in the statements of financial position (see Note 8).

(c) Other Price Risk

The Bank's market price risk arises from its financial assets at FVOCI. The Bank manages exposures to price risk by monitoring the changes in the market price of the investments.

The observed volatility rates of the fair values of the Bank's investment securities and their impact on the Bank's profit before tax and equity as at December 31, 2021 and 2020 are summarized below. These percentages have been determined using standard deviation based on the average market volatility in security prices in the previous 12 months.

	Observed Volatility Rates		Impact of increase on		Impact of decrease on	
	Increase	Decrease	Profit Before Tax	Equity	Profit Before Tax	Equity
December 31, 2021						
Debt securities						
Corporate bonds	4.30%	(4.30%)	₱4,095,691	₱ 3,923,849	(₱4,095,691)	(₱3,923,849)
Government bonds	4.90%	(4.90%)	2,465,015	2,215,551	(2,465,015)	(2,215,551)
			₱6,560,706	₱6,139,400	(₱6,560,706)	(₱6,139,400)

	Observed Volatility Rates		Impact of increase on		Impact of decrease on	
	Increase	Decrease	Profit before tax	Equity	Profit before tax	Equity
December 31, 2020						
Debt securities						
Corporate bonds	10.9%	10.9%	₱14,116,496	₱12,941,134	(₱14,116,496)	(₱12,941,134)
Government bonds	1.6%	1.6%	827,336	727,299	(827,336)	(727,299)
			₱14,943,832	₱13,668,433	(₱14,943,832)	(₱13,668,433)

Credit Risk

Credit risk refers to the potential loss of the Bank's earnings arising from the inability to review and analyze requests for credit to determine likelihood of repayment. This includes the failure to manage the risk that loss is incurred if counterparty does not fulfill its financial obligations in a timely manner. Managing credit risk involves defining the principles and parameters governing credit activities at various levels, i.e. strategic level, portfolio level down to individual transaction or account level.

The following tools, among others, are used in identifying, assessing and managing credit risk:

- Established credit policies, asset allocations and concentration limits, collateral acceptance criteria, target market and clearly defined approving authorities;
- Defined documentation policies of approved credit lines;
- Independence of credit control and monitoring functions from the credit risk-taking function;
- Periodic monitoring of individual account performance;
- Regular review of the adequacy of valuation reserves;

- Active loan portfolio management to determine the quality of the loan portfolio, including risks associated with particular industry sectors, loan size and maturity, monitoring portfolio growth, collection performance and delinquency trends, trend of non-performing loans, concentration risk, and other performance indicators; and,
- Close monitoring of remedial accounts.

Credit Quality Analysis

The following table sets out information about the credit quality of loans and other receivables, HTC financial assets and financial assets at FVOCI. As of December 31, 2021 and 2020, there are no POCI financial assets in the Bank's financial statements.

	As of December 31, 2021			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Loans and other receivables				
Performing:				
Current	**₱1,905,324,373**	**₱–**	**₱–**	**₱1,905,324,373**
Past due	**95,764,519**	**5,884,373**	**–**	**101,648,892**
Non-performing:				
Past due	**–**	**–**	**88,958,902**	**88,958,902**
Items in litigation	**–**	**–**	**436,816**	**436,816**
	2,001,088,892	**5,884,373**	**89,395,718**	**2,096,368,983**
Expected credit loss allowance	**(5,105,391)**	**(1,060,562)**	**(29,681,070)**	**(35,847,023)**
Carrying amount	**1,995,983,501**	**4,823,811**	**59,714,648**	**2,060,521,960**
HTC financial assets				
Carrying Amount	**375,391,478**	**–**	**–**	**375,391,478**
Financial assets at FVOCI				
Carrying amount	**145,555,046**	**–**	**–**	**145,555,046**

	As of December 31, 2020			
	Stage 1	Stage 2	Stage 3	Total
Loans and other receivables				
Performing:				
Current	₱1,801,672,645	₱–	₱–	₱1,801,672,645
Past due	–	4,362,264	–	4,362,264
Non-performing:				
Past due	–	–	157,506,419	157,506,419
Items in litigation	–	–	310	310
	1,801,672,645	4,362,264	157,506,729	1,963,541,638
Expected credit loss allowance	(20,310,692)	(762,200)	(38,838,659)	(59,911,551)
Carrying amount	₱1,781,361,953	₱3,600,064	118,668,070	1,903,630,087
HTC financial assets				
Carrying Amount	₱255,911,871	–	–	₱255,911,871
Financial assets at FVOCI				
Carrying amount	₱181,217,647	–	–	₱181,217,647

Concentrations of Credit Risk

Excessive concentration of lending poses undue risk on the Bank's asset quality.

The Bank believes that good diversification across economic sectors and kinds of borrowers will lessen this risk.

RU reviews the Bank's loan portfolio monthly, in line with its policy of avoiding significant credit concentration to specific industry or group of borrowers.

To maintain the quality of its loan portfolio, the Bank keeps its risk tolerance limits on asset quality lower than the industry ratio and enforce a stringent policy on credit evaluation, review and monitoring. Credit concentration profile as at December 31, 2021 and 2020 is presented in Note 10.

Credit Risk Assessment
All loans and receivables are subjected to evaluation for possible losses. The Bank's estimation of credit exposure for risk management purposes is complex and requires the use of models, as the exposure varies with changes in market conditions, expected cash flows, and the passage of time. The assessment of credit risk of a portfolio of assets requires further estimations as to the PDs occurring, of the associated loss ratios, and of default correlations between counterparties; accordingly, such credit risk is measured using probability of default (PD), exposure at default (EAD), and loss given default (LGD), for purposes of measuring ECL.

The Bank uses its internal credit risk rating system (ICRRS) to determine any evidence of potential deterioration in the quality of an instrument that take into consideration both quantitative and qualitative criteria. The rating system classifies performing accounts with weighted score from ICRRS of 70% and above, indicating an extremely strong capacity of the counterparty to meet financial commitments down to accounts with weighted score of less than 50%, demonstrating weakness in the counterparty's economic and financial condition that could lead to payment default on financial commitments. The ICRRS established by the Bank takes into consideration both quantitative and qualitative characteristics of the borrowers. Past due accounts, accounts identified for phase-out and those that exhibit the characteristics of classified loans shall be risk-rated following the guidelines on credit classification per BSP Manual of Regulations for Banks and under the BSP Circular No. 1011, i.e., Especially Mentioned, Substandard, Doubtful or Loss. These guidelines are used by the Bank to assign the individually assessed loan or a group of loans within a particular portfolio segment to a specific stage category under the PFRS 9 loan impairment standards (i.e. Stage 1, 2, 3).

In assessing accounts subject to individual assessment, the Bank has established a materiality threshold of P10.0 million for all exposures. Such threshold shall be regularly reviewed at the end of reporting period to ensure that it appropriately captures what the Bank considers as material items of loan for individual assessment. The provision for ECL for individually assessed exposures shall reflect consideration of the facts and circumstances that affect the repayment of each individual loan as of evaluation date.

A periodic assessment of credit quality may improve the borrower's weighted score or it could lead to one or more scoring downgrades over time; hence could lead to the transfer of credit exposure in different stages of impairment.

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

Assessment of Significant Increase in Credit Risk
The Bank considers low credit risk for listed debt security when its credit risk rating is equivalent to a globally understood definition of 'investment grade' (which should be from atleast one major rating agency); other debt securities are considered to be low credit risk when they have a low risk of default and the issuer has a strong capacity to meet its contractual cash flow obligations in the near term.

The criteria for determining whether credit risk has increased significantly vary by portfolio and include quantitative changes in probabilities of default and qualitative factors, including a backstop based on delinquency. The credit risk of a particular exposure is deemed to have increased significantly since initial recognition if, based on the Bank's internal credit assessment, the borrower or counterparty is determined to have well-defined credit weaknesses. Under the Bank's ICRRS, these are exposures rated at least Substandard. For exposures with no internal credit risk rating performed, if contractual payments are more than a specified days past due threshold, the credit risk is deemed to have increased significantly since initial recognition. Depending on the number of days past due which differ across the various products of the Bank, a credit exposure may be transferred to Stage 2 or Stage 3. Days past due are determined by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received. In subsequent reporting periods, if the credit risk of the financial instrument improves such that there is no longer a SICR since initial recognition, the Bank shall revert to recognizing a 12-month ECL. As a general rule, an upgrade or transfer of credit exposure from Stage 3 to Stage 1 is allowed when there is sufficient evidence to support that full collection of principal and interest is probable, consistent with the Bank's definition of curing period.

Expected Credit Loss Measurement Inputs
Integral in the Bank's established policies in measuring and calculating ECL on financial instrument is the use of appropriate model for each segment of financial asset that applies relevant inputs and assumptions, including forward-looking information as appropriate.

(a) Key Inputs and Assumptions in the ECL Model

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

(i) PD represents an estimate of likelihood of a borrower defaulting on its financial obligation over a given time horizon, either over the next 12 months (12-month PD) or over the remaining lifetime (lifetime PD) of the obligation. In determining PD, the Bank performed segmentation of its credit exposures based on homogenous characteristics. PD of individually assessed credit exposures is determined based on the historical losses incurred over total exposure while PD of collectively assessed credit exposure is determined based on the net flow rate which is developed from historical movements between one days past due bucket to the next.

(ii) LGD pertains to estimate of loss related to the amount that may not be recovered after the borrower defaults. The Bank estimates LGD parameters based on historical recovery rates of claims against defaulted counterparties, which takes into consideration the realization of any collateral that is integral to the financial asset.

(iii) EAD represents the gross carrying amount of the exposure in the event of default which include the amortized cost of an instrument and any accrued interest receivable. For lending commitments, the EAD includes the amount of drawn and undrawn irrevocable loan commitments under the contract, which are estimated based on historical observations and forward-looking forecast.

(b) Overlay of Forward-looking Information
The Bank incorporates forward-looking information (FLI) in its assessment of SICR and calculation of ECL. The Bank has performed historical analysis and has identified the key macroeconomic variables (MEVs) impacting credit risk associated with its borrowers.

The MEVs and their associated impact on the PD, LGD and EAD vary by financial instrument. The impact of these MEVs on the PD, LGD, and EAD has been determined by performing statistical regression analysis to understand the impact changes in these variables have had historically on default rates and on the components of LGD and EAD.

The MEVs considered by the Bank includes economic data and forecasts published by government bodies (e.g., BSP and Philippine Statistics Authority). Accordingly, the Bank has identified key drivers for credit risk for each portfolio. Using an analysis on historical data, the Bank has estimated relationships between MEVs and credit risk and credit losses.

As with any economic forecasts, the projections and likelihoods of occurrence are subject to a high degree of inherent uncertainty, and therefore, the actual outcomes may be significantly different to those projections. The Bank considers these forecasts to represent its best estimate of the possible outcomes.

Impact of COVID-19 on Measurement of ECL
In response to the 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. As of December 31, 2021 and 2020, the expected impacts of COVID-19 have been reasonably captured using the Bank's ECL methodology (i.e., the ECL methodology consistently used in the prior years) and post-model adjustments (or the management overlay).

The ECL methodology has been constructed and calibrated using historical trends and correlations as well as forward-looking economic scenarios. Notwithstanding that the measurement inputs and assumptions, including forward-looking macroeconomic assumptions, were recalibrated in response to the COVID-19 situation, the fundamental ECL mechanics and methodology underpinning the Bank's measurement of ECL have remained consistent with the prior periods.

In identifying the impact of COVID-19 pandemic to the Bank's customers, the Bank managed its loan portfolio based on the perceived and expected COVID-19 impact to the customers' businesses and industries which also considers additional qualitative characteristics that would elevate COVID-19 changes to SICR such as differentiation of temporary liquidity need from permanently impacted or SICR.

Supporting the managing of the loan portfolio is the Bayanihan Para sa Kapakanan ng Kabayan (MFD Recovery Program), primarily designed to: (1) help alleviate the difficulties faced by borrowers affected by the community quarantine measures implemented by the government to control the spread of the COVID-19, (2) help rebuild the businesses of clients affected by the Covid-19 crisis, (3) increase the collection efficiency from affected borrowers and (4) maintain the good relationship that the Bank developed with its clients over the years.

The Bank is reviewing and updating the calculation of ECL model on a quarterly basis because of COVID-19. As far as macro economic variables are concerned, the data are updated and recalibrated for 2021.

Allowance for Expected Credit Loss

The following tables show the reconciliation of the loss allowance for ECL by class of financial instruments as of December 31, 2021 and 2020.

Loans and receivables

	December 31, 2021			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Balance at January 1	**₱20,310,692**	**₱762,200**	**₱38,838,659**	**₱59,911,551**
Transfers:				
Stage 1 to Stage 2	**(52,178)**	**52,178**	**–**	**–**
Stage 1 to Stage 3	**(1,706,259)**	**–**	**1,706,259**	**–**
Stage 2 to Stage 1	**127,912**	**(127,912)**	**–**	**–**
Stage 2 to Stage 3	**–**	**(162,499)**	**162,499**	**–**
Stage 3 to Stage 1	**301,153**	**–**	**(301,153)**	**–**
Stage 3 to Stage 2	**–**	**40,532**	**(40,532)**	**–**
New assets originated	**4,136,216**	**788,944**	**10,282,100**	**15,207,260**
Net remeasurement	**(2,612,454)**	**135,246**	**16,051,296**	**13,574,088**
Assets derecognized or repaid	**(15,297,904)**	**(428,127)**	**(15,200,447)**	**(30,926,478)**
Write-offs	**–**	**–**	**(21,919,398)**	**(21,919,398)**
	(15,103,514)	**298,362**	**(9,259,376)**	**(24,064,528)**
Balance at December 31	**₱5,207,178**	**₱1,060,562**	**₱29,579,283**	**₱35,847,023**

	December 31, 2020			
	Stage 1	Stage 2	Stage 3	Total
Balance at January 1	₱7,258,917	₱760,074	₱19,751,426	₱27,770,417
Transfers:				
Stage 1 to Stage 2	(660,776)	660,776	–	–
Stage 1 to Stage 3	(10,537,222)	–	10,537,222	–
Stage 2 to Stage 1	402,223	(402,223)	–	–
Stage 2 to Stage 3	–	(2,741,976)	2,741,976	–
Stage 3 to Stage 1	77,979	–	(77,979)	–
New assets originated	11,305,391	77,918	10,629,620	22,012,929
Net remeasurement	17,301,520	2,527,011	15,683,026	35,511,557
Assets derecognized or repaid	(4,837,340)	(119,380)	(8,109,916)	(13,066,636)
Write-offs	–	–	(12,316,716)	(12,316,716)
	13,051,775	2,126	19,087,233	32,141,134
Balance at December 31	₱20,310,692	₱762,200	₱38,838,659	₱59,911,551

The allowance for credit losses on loans and receivable comprises of allowance from receivables from customers and other receivables. Receivable from customers comprises of three loan portfolio (1) Regular loans, (2) Micro finance loans, (3) Supervised credits. Presented below are the reconciliations of expected credit loss allowance of receivables from customers, including segmentation of the loan portfolio.

Receivables from customers

	December 31, 2021			
	Stage 1	Stage 2	Stage 3	Total
Balance at January 1	₱19,401,061	₱708,130	₱35,765,063	₱55,874,254
Transfers:				
Stage 1 to Stage 2	(52,002)	52,002	–	–
Stage 1 to Stage 3	(1,659,744)	–	1,659,744	–
Stage 2 to Stage 1	117,673	(117,673)	–	–
Stage 2 to Stage 3	–	(162,499)	162,499	–
Stage 3 to Stage 1	245,705	–	(245,705)	–
Stage 3 to Stage 2	–	40,495	(40,495)	–
New assets originated	4,014,696	786,545	10,209,268	15,010,509
Net remeasurement	(2,296,867)	170,692	16,659,479	14,533,304
Assets derecognized or repaid	(14,899,334)	(427,957)	(14,792,754)	(30,120,045)
Write-offs	–	–	(21,919,398)	(21,919,398)
	(14,529,873)	341,605	(8,307,362)	(22,495,630)
Balance at December 31	₱4,871,188	₱1,049,735	₱27,457,701	₱33,378,624

	December 31, 2020			
	Stage 1	Stage 2	Stage 3	Total
Balance at January 1	₱7,035,338	₱734,947	₱18,180,967	₱25,951,252
Transfers:				
Stage 1 to Stage 2	(625,998)	625,998	–	–
Stage 1 to Stage 3	(8,860,897)	–	8,860,897	–
Stage 2 to Stage 1	385,771	(385,771)	–	–
Stage 2 to Stage 3	–	(2,732,580)	2,732,580	–
Stage 3 to Stage 1	59,091	–	(59,091)	–
New assets originated	11,305,392	77,918	10,550,476	21,933,786
Net remeasurement	14,817,836	2,506,395	14,975,273	32,299,504
Assets derecognized or repaid	(4,715,473)	(118,777)	(7,159,323)	(11,993,573)
Write-offs	–	–	(12,316,716)	(12,316,716)
Balance at December 31	₱19,401,060	₱708,130	₱35,765,063	₱55,874,253

Regular Loans

	December 31, 2021			
	Stage 1	Stage 2	Stage 3	Total
Balance at January 1	₱9,230,954	₱ 630,212	₱11,423,792	₱21,284,958
Transfers:				
Stage 1 to Stage 2	(2,743)	2,743	–	–
Stage 1 to Stage 3	(126,615)	–	126,615	–
Stage 2 to Stage 1	117,673	(117,673)	–	–
Stage 2 to Stage 3	–	(84,581)	84,581	–
New assets originated	86,829	67,082	229,344	383,255
Net remeasurement	(5,843,938)	(2,743)	(3,354,764)	(9,201,445)
Assets derecognized or repaid	(3,034,617)	(427,957)	(7,230,928)	(10,693,502)
Write-offs	–	–	(79,196)	(79,196)
Balance at December 31	₱427,543	₱67,083	₱1,199,444	₱1,694,070

	December 31, 2020			
	Stage 1	Stage 2	Stage 3	Total
Balance at January 1	₱1,215,219	₱734,947	₱5,696,779	₱7,646,945
Transfers:				
Stage 1 to Stage 2	(625,998)	625,998	–	–
Stage 1 to Stage 3	(370,282)	–	370,282	–
Stage 2 to Stage 1	385,771	(385,771)	–	–
Stage 2 to Stage 3	–	(2,732,580)	2,732,580	–
Stage 3 to Stage 1	12,733	–	(12,733)	–
New assets originated	1,607,407	–	5,963	1,613,370
Net remeasurement	7,610,754	2,506,395	5,826,011	15,943,160
Assets derecognized or repaid	(604,652)	(118,777)	(3,126,885)	(3,850,314)
Write-offs	–	–	(68,204)	(68,204)
Balance at December 31	₱9,230,952	₱630,212	₱11,423,793	₱21,284,957

Microfinance

	December 31, 2021			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Balance at January 1	**₱5,513,388**	**₱–**	**₱11,895,688**	**₱17,409,076**
Transfers:				
Stage 1 to Stage 3	**(500,950)**	**–**	**500,950**	**–**
Stage 3 to Stage 1	**1,379**	**–**	**(1,379)**	**–**
Stage 3 to Stage 2	**–**	**28,910**	**(28,910)**	**–**
New assets originated	**1,867,614**	**5,007**	**5,243,804**	**7,116,425**
Net remeasurement	**676,466**	**(26,082)**	**1,402,762**	**2,053,146**
Assets derecognized or repaid	**(5,690,170)**	**–**	**(5,924,540)**	**(11,614,710)**
Write-offs	**–**	**–**	**(4,779,158)**	**(4,779,158)**
Balance at December 31	**₱1,867,727**	**₱7,835**	**₱8,309,217**	**₱10,184,779**

	December 31, 2020			
	Stage 1	Stage 2	Stage 3	Total
Balance at January 1	₱2,509,460	₱–	₱5,328,302	₱7,837,762
Transfers:				
Stage 1 to Stage 3	(2,502,309)	–	2,502,309	–
Stage 3 to Stage 1	15,499	–	(15,499)	–
New assets originated	5,370,126	–	6,809,899	12,180,025
Net remeasurement	2,092,459	–	5,908,654	8,001,113
Assets derecognized or repaid	(1,971,845)	–	(1,757,770)	(3,729,615)
Write-offs	–	–	(6,880,207)	(6,880,207)
Balance at December 31	₱5,513,390	₱–	₱11,895,688	₱17,409,078

Supervised credits

	December 31, 2021			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Balance at January 1	**₱4,656,719**	**₱77,918**	**₱12,445,582**	**₱17,180,219**
Transfers:				
Stage 1 to Stage 2	**(49,259)**	**49,259**	**–**	**–**
Stage 1 to Stage 3	**(1,032,180)**	**–**	**1,032,180**	**–**
Stage 2 to Stage 3	**–**	**(77,918)**	**77,918**	**–**
Stage 3 to Stage 1	**244,327**	**–**	**(244,327)**	**–**
Stage 3 to Stage 2	**–**	**11,585**	**(11,585)**	**–**
New assets originated	**2,060,253**	**714,456**	**4,736,120**	**7,510,829**
Net remeasurement	**2,870,605**	**199,517**	**18,611,482**	**21,681,604**
Assets derecognized or repaid	**(6,174,548)**	**–**	**(1,637,285)**	**(7,811,833)**
Write-offs	**–**	**–**	**(17,061,044)**	**(17,061,044)**
Balance at December 31	**2,575,917**	**974,817**	**17,949,041**	**21,499,775**

	December 31, 2020			
	Stage 1	Stage 2	Stage 3	Total
Balance at January 1	₱3,310,659	₱ -	₱7,155886	₱10,466,545
Transfers:				
Stage 1 to Stage 3	(5,988,306)	–	5,988,306	–
Stage 3 to Stage 1	30,859	–	(30,859)	–
New assets originated	4,327,860	77,918	3,734,614	8,140,392
Net remeasurement	5,114,624	–	3,240,608	8,355,232
Assets derecognized or repaid	(2,138,977)	–	(2,274,668)	(4,413,645)
Write-offs	–	–	(5,368,305)	(5,368,305)
Balance at December 31	₱4,656,719	₱77,918	₱12,445,582	₱17,180,219

HTC financial assets and financial assets at FVOCI

As of December 31, 2021 and 2020, all of the Bank's HTC and FVOCI financial assets are securities classified as investment grade. The Bank assessed that the impact of ECL on these securities are not material and accordingly, no ECL was recognized for HTC financial assets and financial assets at FVOCI as of December 31, 2021 and 2020.

Loan commitments

Undrawn loan commitments do not require provision for credit losses, as these are revocable commitments.

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 as of December 31, 2021 and 2020 contributed to the changes in the allowance for ECL.

(a) Loans and receivables

	December 31, 2021			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Balance at January 1	**₱1,801,672,645**	**₱4,362,264**	**₱157,506,729**	**₱1,963,541,638**
Transfers:				
Stage 1 to Stage 2	**(5,071,994)**	**5,071,994**	–	–
Stage 1 to Stage 3	**(28,523,116)**	–	**28,523,116**	–
Stage 2 to Stage 1	**2,296,993**	**(2,296,993)**	–	–
Stage 3 to Stage 1	**12,175,089**	–	**(12,175,089)**	–
Stage 3 to Stage 2	–	**576,258**	**(576,258)**	–
New assets originated	**2,138,552,803**	**2,661,000**	**39,726,076**	**2,180,939,879**
Assets derecognized or repaid	**(1,920,013,527)**	**(4,490,151)**	**(101,689,459)**	**(2,026,193,137)**
Write-offs	–	–	**(21,919,398)**	**(21,919,398)**
	199,416,248	**1,522,108**	**(68,111,012)**	**132,827,344**
Balance at December 31	**₱2,001,088,893**	**₱5,884,372**	**₱89,395,717**	**₱2,096,368,982**

	December 31, 2020			
	Stage 1	Stage 2	Stage 3	Total
Balance at January 1	₱1,721,671,341	₱71,250,164	₱128,770,611	₱1,921,692,116
Transfers:				
Stage 1 to Stage 2	(3,187,608)	3,187,608	–	–
Stage 1 to Stage 3	(58,859,477)	–	58,859,477	–
Stage 2 to Stage 1	50,300,208	(50,300,208)	–	–
Stage 2 to Stage 3	–	(2,702,710)	2,702,710	–
Stage 3 to Stage 1	6,617,113	–	(6,617,113)	–
New assets originated	1,377,798,055	755,000	67,286,036	1,445,839,091
Assets derecognized or repaid	(1,292,666,987)	(17,827,590)	(80,754,505)	(1,391,249,082)
Write-offs	–	–	(12,740,487)	(12,740,487)
	80,001,304	(66,887,900)	28,736,118	41,849,522
Balance at December 31	₱1,801,672,645	₱4,362,264	₱157,506,729	₱1,963,541,638

Above presentation includes balances of receivables from customers and other receivables. Presented below are the reconciliation of gross carrying amount of receivables from customers per loan portfolio.

Receivables from customers

	December 31, 2021			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Balance at January 1	**₱1,630,687,815**	**₱3,969,757**	**₱112,223,186**	**₱1,746,880,758**
Transfers:				
Stage 1 to Stage 2	**(4,920,398)**	**4,920,398**	**–**	**–**
Stage 1 to Stage 3	**(25,326,644)**	**–**	**25,326,644**	**–**
Stage 2 to Stage 1	**2,176,915**	**(2,176,915)**	**–**	**–**
Stage 3 to Stage 1	**6,593,601**	**–**	**(6,593,601)**	**–**
Stage 3 to Stage 2	**–**	**564,942**	**(564,942)**	**–**
New assets originated	**2,133,630,103**	**2,661,000**	**32,629,576**	**2,168,920,679**
Assets derecognized or repaid	**(1,781,179,687)**	**(4,294,516)**	**(86,504,307)**	**(1,871,978,510)**
Write-offs	**–**	**–**	**(21,919,398)**	**(21,919,398)**
	330,973,890	**1,674,909**	**(57,626,028)**	**275,022,771**
Balance at December 31	**₱1,961,661,705**	**₱5,644,666**	**₱54,597,158**	**2,021,903,529**

	December 31, 2020			
	Stage 1	Stage 2	Stage 3	Total
Balance at January 1	₱1,638,794,621	₱70,324,723	₱97,696,831	₱1,806,816,175
Transfers:				
Stage 1 to Stage 2	(3,187,608)	3,187,608	–	–
Stage 1 to Stage 3	(40,905,265)	–	40,905,265	–
Stage 2 to Stage 1	50,300,208	(50,300,208)	–	–
Stage 2 to Stage 3	–	(2,702,710)	2,702,710	–
Stage 3 to Stage 1	3,107,238	–	(3,107,238)	–
New assets originated	1,377,798,055	755,000	58,385,428	1,436,938,483
Assets derecognized or repaid	(1,395,219,434)	(17,294,656)	(71,619,323)	(1,484,133,413)
Write-offs	–	–	(12,740,487)	(12,740,487)
	(8,106,806)	(66,354,966)	14,526,355	(59,935,417)
Balance at December 31	₱1,630,687,815	₱3,969,757	₱112,223,186	₱1,746,880,758

Regular loans

	December 31, 2021			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Balance at January 1	**₱1,410,751,623**	**₱3,815,964**	**₱39,863,127**	**₱1,454,430,714**
Transfers:				
Stage 1 to Stage 2	**(4,310,858)**	**4,310,858**	**–**	**–**
Stage 1 to Stage 3	**(9,503,936)**	**–**	**9,503,936**	**–**
Stage 2 to Stage 1	**2,176,915**	**(2,176,915)**	**–**	**–**
Stage 3 to Stage 1	**4,020,751**	**–**	**(4,020,751)**	**–**
New assets originated	**1,478,533,438**	**130,000**	**3,070,000**	**1,481,733,438**
Assets derecognized or repaid	**(1,238,842,029)**	**(3,240,946)**	**(30,233,620)**	**(1,272,316,595)**
Write-offs	**–**	**–**	**(79,196)**	**(79,196)**
Balance at December 31	**₱1,642,825,904**	**₱2,838,961**	**₱18,103,496**	**₱1,663,768,361**

	December 31, 2020			
	Stage 1	Stage 2	Stage 3	Total
Balance at January 1	₱1,279,961,245	₱70,324,723	₱49,494,305	₱1,399,780,273
Transfers:				
Stage 1 to Stage 2	(3,187,608)	3,187,608	–	–
Stage 1 to Stage 3	(20,657,392)	–	20,657,392	–
Stage 2 to Stage 1	50,300,208	(50,300,208)	–	–
Stage 2 to Stage 3	–	(2,702,710)	2,702,710	–
Stage 3 to Stage 1	2,680,092	–	(2,680,092)	–
New assets originated	938,637,124	600,000	4,895,898	944,133,022
Assets derecognized or repaid	(836,982,046)	(17,293,449)	(35,111,729)	(889,387,224)
Write-offs	–	–	(95,357)	(95,357)
Balance at December 31	₱1,410,751,623	₱3,815,964	₱39,863,127	₱1,454,430,714

Microfinance

	December 31, 2021			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Balance at January 1	**₱117,391,633**	**–**	**₱23,993,007**	**₱141,384,640**
Transfers:				
Stage 1 to Stage 3	**(3,012,352)**	**–**	**3,012,352**	**–**
Stage 3 to Stage 1	**17,794**	**–**	**(17,794)**	**–**
Stage 3 to Stage 2	**–**	**42,000**	**(42,000)**	**–**
New assets originated	**398,071,000**	**81,000**	**18,716,000**	**416,868,000**
Assets derecognized or repaid	**(368,146,742)**	**(88,698)**	**(27,528,890)**	**(395,764,330)**
Write-offs	**–**	**–**	**(4,779,158)**	**(4,779,158)**
Balance at December 31	**₱144,321,333**	**₱34,302**	**₱13,353,517**	**₱157,709,152**

	December 31, 2020			
	Stage 1	Stage 2	Stage 3	Total
Balance at January 1	₱191,434,202	₱–	₱23,092,283	₱214,526,485
Transfers:				
Stage 1 to Stage 3	(4,859,771)	–	4,859,771	–
Stage 3 to Stage 1	235,821	–	(235,821)	–
New assets originated	298,373,000	–	25,820,000	324,193,000
Assets derecognized or repaid	(367,791,619)	–	(22,294,189)	(390,085,808)
Write-offs	–	–	(7,249,037)	(7,249,037)
Balance at December 31	₱117,391,633	₱–	₱23,993,007	₱141,384,640

Supervised credits

	December 31, 2021			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Balance at January 1	**₱102,544,559**	**₱153,793**	**₱48,367,052**	**₱151,065,404**
Transfers:				
Stage 1 to Stage 2	**(609,540)**	**609,540**	**–**	**–**
Stage 1 to Stage 3	**(12,810,356)**	**–**	**12,810,356**	**–**
Stage 3 to Stage 1	**2,555,055**	**–**	**(2,555,055)**	**–**
Stage 3 to Stage 2	**–**	**522,942**	**(522,942)**	**–**
New assets originated	**257,025,665**	**2,450,000**	**10,843,576**	**270,319,241**
Assets derecognized or repaid	**(174,190,915)**	**(964,872)**	**(28,741,797)**	**(203,897,584)**
Write-offs	**–**	**–**	**(17,061,044)**	**(17,061,044)**
Balance at December 31	**₱174,514,468**	**₱2,771,403**	**₱23,140,146**	**₱200,426,017**

	December 31, 2020			
	Stage 1	Stage 2	Stage 3	Total
Balance at January 1	₱167,399,175	₱-	₱25,110,242	₱192,509,417
Transfers:				
Stage 1 to Stage 3	(15,388,103)	–	15,388,103	–
Stage 3 to Stage 1	191,326	–	(191,326)	–
New assets originated	140,787,931	155,000	27,669,530	168,612,461
Assets derecognized or repaid	(190,445,770)	(1,207)	(14,213,403)	(204,660,380)
Write-offs	–	–	(5,396,094)	(5,396,094)
Balance at December 31	₱102,544,559	₱153,793	₱48,367,052	₱151,065,404

(b) HTC financial assets and financial assets at FVOCI

As of December 31, 2021 and 2020, all of the Bank's HTC and FVOCI financial assets are securities classified as investment grade and accordingly are under Stage 1. There were no significant movement in the Bank's HTC financial assets and financial assets at FVOCI during the year that affected the allowance for ECL (see Note 9).

Collateral

Quality of collateral is one of the considerations in granting of loan as this is an alternative way of collecting from the borrower in case of default. Collateral is valued according to existing credit policies, with the appraisal report as basis of the computed loan value.

As part of the Bank's risk control, a central unit is charged to handle collateral documentation wherein standard documents are used. Any deviation from these pro-forma documents are subject to Executive Credit Committee's approval prior to use and acceptance.

The table below provides the collateral profile of the outstanding loan portfolio (receivables from customers) of the Bank as of December 31, 2021 and 2020.

	2021	2020
Directors, officers, stockholders and related interests (DOSRI) loans		
Secured - Non-risk assets	**₱268,578**	₱300,000
Unsecured	**–**	71,711
	268,578	371,711

(Forward)

	2021	2020
Non-DOSRI loans		
Secured:		
Real estate mortgage	**1,324,233,922**	1,164,648,948
Non-risk assets	**35,096,414**	26,137,639
Others	**86,666,328**	109,267,108
	1,445,996,664	1,300,053,695
Unsecured	**575,638,287**	446,455,352
	₱2,021,903,529	₱1,746,880,758

Non-risk assets are securities covered by back-to-back on deposits. Others on the non-DOSRI loans includes chattel mortgages.

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

December 31, 2021

	Stage 1	Stage 2	Stage 3	Total
Real properties	**₱4,608,890,309**	**₱11,568,925**	**₱38,777,428**	**₱4,659,236,662**
Chattel	**118,802,790**	**680,000**	**56,576,667**	**176,059,457**
Hold-out deposits	**40,038,365**	**–**	**1,195,770**	**41,234,135**
Others	**31,129,252**	**–**	**4,376,944**	**35,506,196**
	₱4,798,860,716	**₱12,248,925**	**₱100,926,809**	**₱4,912,036,450**

December 31, 2020

	Stage 1	Stage 2	Stage 3	Total
Real properties	₱3,721,253,040	₱14,134,560	₱98,341,620	₱3,833,729,220
Chattel	212,095,793	650,000	68,801,667	281,547,460
Hold-out deposits	32,122,993	–	3,422,102	35,545,095
Others	16,626,263	–	3,382,349	20,008,612
	₱3,982,098,089	₱14,784,560	₱173,947,738	₱4,170,830,387

The Bank normally grants loans to borrowers at a rate ranging between 60% to 80% of the latest appraised value of the borrowers' collateral. Others include outstanding balance guaranteed by Agricultural Guarantee Fund Pool.

The Bank's manner of disposing the collateral for impaired loans and receivables is normally through sale of the assets after foreclosure proceedings are taken place.

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

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.

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

Other Information on Credit Risk
The credit risk for cash and cash equivalents is considered negligible, since the counterparties are reputable banks with high quality external credit ratings. Included in cash and cash equivalents are cash in banks and short-term investments which are insured by the Philippine Deposit Insurance Corporation up to a maximum coverage of P0.5 million for every depositor per banking institution.

Liquidity Risk
Liquidity risk is the risk that funds available may not be adequate to meet the credit demands of the Bank's customers and repay deposits on maturity. The Bank manages liquidity risk by holding sufficient liquid assets of appropriate quality to ensure short-term funding requirements are met and by maintaining a loan portfolio with evenly-spaced maturities and cash flows. In addition, the Bank seeks to maintain sufficient liquidity to take advantage of interest rate opportunities when they arise.

The main responsibility of daily asset liability management lies with the Treasury Unit. Liquidity risk management is monitored through Asset-Liability Management Committee. The Bank's principal source of liquidity is comprised of cash and other cash items, due from BSP and due from other banks.

Analysis of maturity profile of the financial assets and financial liabilities of the Bank are shown below.

<u>December 31, 2021</u>

	Less than 1 Month	1 to 3 Months	3 Months to 1 Year	More than 1 Year	Total
Resources					
Cash and other cash items	₱57,505,770	₱–	₱–	₱–	₱57,505,770
Due from BSP	223,669,489	–	–	–	223,669,489
Due from other banks	146,703,242	48,246,569	44,000,000	–	238,949,811
Financial assets at FVOCI	–	15,985,315	20,364,428	109,205,303	145,555,046
HTC financial assets	–	–	–	375,391,478	375,391,478
Loans and other receivables – net	82,870,900	116,695,254	392,384,257	1,468,571,549	2,060,521,960
Refundable deposits	125,397	2,000	26,025	493,859	647,281
	510,874,798	180,929,138	456,774,710	1,953,662,189	3,102,240,835
Liabilities:					
Deposit liabilities	2,406,910,442	273,441,736	76,575,216	20,146,746	2,777,074,140
Other liabilities	36,927,602	1,091,130	1,476,147	28,751,873	68,246,752
	2,443,838,044	274,532,866	78,051,363	48,898,619	2,845,320,892
Net periodic surplus (gap)	(1,932,963,246)	(93,603,728)	378,723,347	1,904,763,570	₱256,919,943
Cumulative total surplus (gap)	(₱1,932,963,246)	(₱2,026,566,974)	(₱1,647,843,627)	₱256,919,944	

December 31 2020

	Less than 1 Month	1 to 3 Months	3 Months to 1 Year	More than 1 Year	Total
Resources					
Cash and other cash items	₱68,207,826	₱–	₱–	₱–	₱68,207,826
Due from BSP	374,140,674	–	–	–	374,140,674
Due from other banks	323,964,923	47,781,674	69,000,000	–	440,746,597
Financial assets at FVOCI	181,217,647	–	–	–	181,217,647
HTC financial assets	–	–	90,861,871	165,050,000	255,911,871
Loans and other receivables – net	230,614,744	122,310,041	306,058,883	1,244,646,419	1,903,630,087
Refundable deposits	33,000	85,375	112,147	420,259	650,781
	1,178,178,814	170,177,090	466,032,901	1,410,116,678	3,224,505,483
Liabilities:					
Deposit liabilities	2,368,402,488	296,071,812	35,710,503	40,882,996	2,741,067,799
Other liabilities	67,600,322	–	–	–	67,600,322
	2,436,002,810	296,071,812	35,710,503	40,882,996	2,808,668,121
Net periodic surplus (gap)	(1,257,823,996)	(125,894,722)	430,322,398	1,369,233,682	₱415,837,362
Cumulative total surplus (gap)	(₱1,257,823,996)	(₱1,383,718,718)	(₱953,396,320)	₱415,837,362	

Liquidity Coverage Ratio

On March 10, 2016, the BSP issued Circular No. 905, *Implementation of Basel III Framework on Liquidity Standards - Liquidity Coverage Ratio and Disclosure Standards*, which provides the implementing guidelines on liquidity coverage ratio (LCR) and disclosure standards that are consistent with the Basel III framework. The LCR is the ratio of high-quality liquid assets to total net cash outflows, which should not be lower than 100.00%. Compliance with the LCR minimum requirement commenced on January 1, 2020.

To promote the short-term resilience of the liquidity risk profile, the Bank maintains adequate stock of unencumbered high-quality liquid assets (HQLAs) that consists of cash or assets that can be converted into cash at little or no loss of value in private markets, to meet its liquidity needs under stressed conditions. The stock of liquid assets should enable the Bank to withstand significant liquidity shocks for at least 30 calendar days, which would give time for corrective actions to be taken by the Bank management and/or the BSP.

Details of the Bank's LCR as of December 31, 2021 and 2020 are summarized below.

	2021	2020
Total stock of HQLA	**₱774,585,924**	₱969,638,489
Expected Net Cash Outflows	**186,619,156**	73,588,699
Liquidity Coverage Ratio	**415.06%**	1,317.65%

Net Stable Funding Ratio

To promote long-term resilience of the bank against liquidity risk, the bank maintain a stable funding profile in relation to the composition of its assets and off-balance sheet activities.

NSFR seeks to limit the overreliance on short-term wholesale funding and promoting enhanced assessment of funding risk across all on- and off-balance sheet accounts. It complements the Liquidity Coverage Ratio (LCR), which promotes short term resilience of a bank's/QB's liquidity profile. The NSFR applies to all universal and commercial banks (UBs/KBs) and their subsidiary banks and QBs on both solo and consolidated bases.

Details of the Bank's NSFR as of December 31, 2021 are summarized below (amounts in thousands):

	2021	2020
Available Stable Funding	**₱3,006,559**	₱3,043,434
Required Stable Funding	**1,958,322**	1,747,743
Net Stable Funding Ratio	**154%**	174%

Basel III Leverage Ratio (BLR)

BSP Circular Nos. 881 and 990 cover the implementing guidelines on the BLR framework designed to act as a supplementary measure to the risk-based capital requirements and shall not be less than 5.00%.

The details of the BLR as of December 31, 2021 and 2020 are as follows (amounts in thousands):

	2021	2020
Tier 1 Capital*	**₱488,312**	₱498,657
Exposure Measure*	**3,372,098**	3,378,046
BLR	**14.48%**	14.76%

**The amounts are based on the audited balances, and therefore, were not the same with the amounts previously reported to the BSP*

Under the framework, BLR is defined as the capital measure divided by the exposure measure. Capital measure is Tier 1 capital. Exposure measure is the sum of on-balance sheet exposures, derivative exposures, security financing exposures and off-balance sheet items.

Anti-Money Laundering Controls

The Anti-Money Laundering Act (AMLA) or Republic Act (RA) No. 9160 was passed in September 2001 and was amended by RA No. 9194, RA No. 10167, and RA No. 10365 in March 2003, June 2012 and February 2013, respectively. Under the AMLA, as amended, the Bank is required to submit "Covered Transaction Reports" to the Anti-Money Laundering Council (AMLC) involving single transactions in cash or other equivalent monetary instruments in excess of P0.5 million within one banking day. The Bank is also required to submit "Suspicious Transaction Reports" to the AMLC in the event that circumstances exist and there are reasonable grounds to believe that the transaction is suspicious. Furthermore, terrorist financing was criminalized in RA No. 10168.

In addition, the AMLA requires that the Bank safekeeps, as long as the account exists, all the Know Your Customer (KYC) documents involving its clients, including documents that establish and record the true and full identity of its clients. Likewise, transactional documents must be maintained and stored for five years from the date of the transaction. In cases involving closed accounts, the KYC docu ments must be kept for five years after their closure. Meanwhile, all records of accounts with court cases must be safe kept until there is a final resolution.

On January 27, 2011, BSP Circular No. 706, *Updated Anti-Money Laundering Rules and Regulations* (the Circular), was implemented superseding all policies on AMLA. The Circular requires the Bank to adopt a comprehensive and risk-based Money Laundering and Terrorist Financing Prevention Program (MLPP) designed according to the covered institution's corporate structure and risk profile.

The Compliance Unit of the Bank, headed by the CCO, monitors the Bank's compliance on the implementation and management of MLPP. The Branch Operations Head is the compliance officer at the branch level, that oversees the daily activities of the branch. The CCO regularly reports to the Corporate Governance Committee and to the BOD the results of their monitoring of AMLA compliance.

In an effort to further prevent money laundering activities, the Bank strengthens its KYC policies and guidelines. New individual customers shall establish their true and full identity, and shall maintain an account only in the true and full name of the account owner. Likewise, the Bank is required to risk profile its clients to Low, Normal or High with its corresponding due diligence of Reduced, Average or Enhanced, in compliance with the risk-based approach mandated by the Circular. Politically-Exposed Persons are automatically profiled as high risk and subject to enhanced due diligence. Any suspicious transaction is reported to the Bank's AML Committee, who investigates and deliberates whether the transaction has a valid ground to be reported as Suspicious Transaction Report.

5. Offsetting of Financial Assets and Financial Liabilities

Certain financial assets and financial liabilities of the Bank with amounts presented in the statements of financial position as of December 31, 2021 and 2020 are subject to offsetting, enforceable master netting arrangements and similar agreements. However, there were no financial assets presented at net in the statements of financial position.

Presented below are the financial assets subject to offsetting in the event of default but the related amounts are not set-off in the statements of financial position.

As at December 31, 2021

Financial assets recognized at end of reporting period by type	Gross carrying amounts (before offsetting)	Gross amounts offset in accordance with the offsetting criteria	Net amount presented in the statement of financial position [a-b]	Effect of remaining rights of set-off (including rights to set off financial collateral) that do not meet PAS 32 offsetting criteria		Net exposure [c-d]
				Financial instruments	Fair value of financial collateral	
	[a]	[b]	[c]	[d]		[e]
Financial Assets						
Loans and receivables	**₱2,060,521,960**	**₱–**	**₱2,060,521,960**	**₱–**	**₱43,745,549**	**₱2,016,776,411**
Financial Liabilities						
Deposit liabilities	**2,777,074,140**	**–**	**2,777,074,140**	**–**	**43,745,549**	**2,733,328,591**

As at December 31, 2020

Financial assets recognized at end of reporting period by type	Gross carrying amounts (before offsetting)	Gross amounts offset in accordance with the offsetting criteria	Net amount presented in the statement of financial position [a-b]	Effect of remaining rights of set-off (including rights to set off financial collateral) that do not meet PAS 32 offsetting criteria		Net exposure [c-d]
				Financial instruments	Fair value of financial collateral	
	[a]	[b]	[c]	[d]		[e]
Financial Assets						
Loans and receivables	₱1,903,630,087	₱–	₱1,903,630,087	₱–	(₱26,509,349)	₱1,877,120,738
Securities purchased under resale agreement	127,332,184	–	127,332,184	127,332,184	–	–
Financial Liabilities						
Deposit Liabilities	2,741,067,798	–	2,741,067,798	–	(26,509,349)	2,714,558,449

For purposes of presenting the information, the related amounts not set-off in the statements of financial position pertain to:

(a) Hold-out deposits which serve as the Bank's collateral enhancement for certain loans and receivables; and,
(b) Securities purchased under resale agreements (SPURA) pertain to overnight placements with the BSP, where the underlying securities cannot be sold or repledged. The Bank is not permitted to sell or repledge the securities in the absence of default by the owner of the collateral.

6. Fair Value Measurement and Disclosure

Fair Value Hierarchy
In accordance with PFRS 13, *Fair Value Measurement*, the fair value of financial assets and 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.

Fair Value Disclosures for Financial Instruments

The table below shows the carrying values and fair value hierarchy of the Bank's financial assets measured in the statements of financial position as of December 31, 2021 and 2020 (amounts in thousands).

		December 31,, 2021			
	Carrying value	Level 1	Level 2	Level 3	Total
Financial assets carried at fair value					
Financial assets at FVOCI:					
Government debt securities	₱50,306	₱50,306	₱–	₱–	₱50,306
Corporate debt securities	95,249	95,249	–	–	95,249
Financial assets for which fair value is disclosed					
Loans and other receivables	2,060,522	–	–	2,008,653	2,008,653
Debt securities - HTC financial assets	375,391	320,305	–	–	320,305
	₱2,581,468	₱465,860	₱–	₱2,008,653	2,474,513

		December 31, 2020			
	Carrying value	Level 1	Level 2	Level 3	Total
Financial assets carried at fair value					
Financial assets at FVOCI:					
Government debt securities	₱51,709	₱51,709	₱–	₱–	₱51,709
Corporate debt securities	129,509	129,509	–	–	129,509
Financial assets for which fair value is disclosed					
Loans and other receivables	1,903,630	–	–	1,890,502	1,890,502
Debt securities - HTC financial assets	255,912	258,391	–	–	258,391
	₱2,340,760	₱439,609	₱–	₱1,890,502	₱2,330,111

The methods and assumptions used by the Bank in estimating the fair value of the financial instruments are as follows. There were no changes in Level 2 and Level 3 instruments in both years:

Cash and other cash items, due from BSP and other banks, deposit liabilities and other liabilities

The carrying amounts approximate fair values due to the short-term nature of these accounts.

Financial asset at FVOCI

(a) Fair values of peso-denominated government debt securities issued by the Philippine government are determined based on the reference price per Bloomberg which uses BVAL. These BVAL reference rates are computed based on the weighted price derived using an approach based on a combined sequence of proprietary BVAL algorithms of direct observations or observed comparable.

(b) For other quoted debt securities under Level 1, fair value is determined to be the current bid price per Philippine Dealing & Exchange Corp.

Loans and receivables

Loans and receivables are net of provisions for credit losses. The estimated fair value of loans and receivables represents the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at current market rates to determine fair value.

HTC Financial Assets

These financial assets consist of government and corporate bonds. The fair value of these financial assets is determined by the direct reference to published price quoted in an active market as of reporting date.

Fair Value Measurement for Non-financial Assets

The table below shows the Levels within the fair value hierarchy of non-financial assets for which fair value is disclosed as of December 31, 2021 and 2020.

		December 31, 2021			
	Carrying values	**Level 1**	**Level 2**	**Level 3**	**Total**
Investment properties					
Land	₱75,837,158	₱–	₱–	₱185,619,364	₱185,619,364
Buildings	20,864,730	–	–	23,596,843	23,596,843
	₱96,701,888	₱–	₱–	₱209,216,207	₱209,216,207

		December 31, 2020			
	Carrying values	Level 1	Level 2	Level 3	Total
Investment properties					
Land	₱61,309,711	₱–	₱–	₱146,777,734	₱146,777,734
Buildings	14,238,402	–	–	46,685,829	46,685,829
	₱75,548,113	₱–	₱–	₱193,463,563	₱193,463,563

The fair value of the Bank's land, buildings and equipment classified under Investment Properties (see Note 12) are determined on the basis of the appraisals performed by an independent and internal appraiser 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, buildings and equipment, 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 values discussed in the preceding page, as determined by the appraisers, were used by the Bank in determining the fair value of investment properties.

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

(a) Fair Value Measurement of 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 adjusted for differences in key attributes such as property size, zoning, and accessibility. 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 of Buildings and Improvements

The Level 3 fair value of the buildings and equipment, on the other hand, 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. The more significant inputs used in the valuation include direct and indirect costs of construction such as but not limited to, labor and contractor's profit, materials and equipment, surveying and permit costs, electricity and utility costs, architectural and engineering fees, insurance and legal fees. These inputs were derived from various suppliers and contractor's quotes, price catalogues, and construction price indices. Under this approach, higher estimated costs used in the valuation will result in higher fair value of the properties.

There has been no change to the valuation techniques used by the Bank during the year for its non-financial assets. Also, there were no transfers into or out of Level 3 fair value hierarchy for the years ended December 31, 2021 and 2020.

7. Cash and Due from Bangko Sentral Ng Pilipinas

This account is composed of the following:

	2021	2020
Cash and other cash items	**₱57,505,770**	₱68,207,826
Due from BSP:		
Mandatory reserves (Note 15)	**33,456,724**	10,140,674
Non-mandatory reserves	**190,212,765**	364,000,000
	223,669,489	374,140,674
	₱281,175,259	₱442,348,500

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. Other cash items include cash items (other than currency and coins on hand) such as checks drawn on other banks or that were received after the Bank's clearing cut-off time until the close of the regular banking hours.

Mandatory reserves represent the balance of the deposit account maintained with the BSP to meet reserve requirements.

Interest income earned in 2021 and 2020 amounted to ₱6.8 million and ₱9.8 million, respectively, which are presented as part of Interest Income on Due from BSP and Other Banks in the statements of income.

8. Due from Other Banks

The breakdown of due from other banks by currency follows:

	2021	2020
Philippine pesos	**₱238,881,230**	₱440,680,527
United States dollars	**68,581**	66,070
	₱238,949,811	₱440,746,597

Due from other banks includes regular and time deposits with local banks. Annual interest rates on these deposits ranges from 0.0% to 3.0% both for the years ended December 31, 2021 and 2020. There are deposits such as current accounts, which do not earn interest. Total interest income earned amounted to ₱2.4 million, and ₱3.9 million in 2021 and 2020, respectively, and is presented as part of Interest Income on Due from BSP and Other Banks in the statements of income.

For statement of cash flows purposes, time deposits amounting to ₱44.0 million and ₱69.0 million as of December 31, 2021 and 2020, respectively, are not included as cash and cash equivalents since these have maturities of more than three months.

9. Investment Securities

Financial Assets at Fair Value Through Other Comprehensive Income

Financial assets at fair value through other comprehensive income as of December 31, 2021 and 2020 consist of the following quoted debt securities:

	2021	2020
Corporate notes and bonds	**₱95,248,621**	₱129,509,142
Government bonds	**50,306,425**	51,708,505
	₱145,555,046	₱181,217,647

The Bank incurred fair value losses amounting to ₱5.7 million for the year ended December 31, 2021 and fair value gains of ₱8.2 million for the year ended December 31, 2020 on its financial assets at FVOCI, which are recognized in other comprehensive income and presented in the statements of comprehensive income under items that will be reclassified subsequently to profit or loss.

The maturity profile of this account is presented below.

	2021	2020
Within one year	**₱36,349,743**	₱56,784,826
Between one year and five years	**109,205,303**	103,412,357
Beyond five years	**–**	21,020,464
	₱145,555,046	₱181,217,647

Interest income generated from financial assets at FVOCI in 2021 and 2020 amounted to ₱7.6 million and ₱8.1 million, respectively, and is shown as part of Interest Income on Investment Securities in the statements of income. Average interest rates on these investments for the years ended December 31, 2021 and 2020 is equivalent to 4.4%.

Changes in the Bank's holdings of financial assets at FVOCI are summarized below.

	2021	2020
Balance at beginning of year	**₱181,217,647**	₱172,977,086
Fair value gain (loss)	**(5,662,601)**	8,240,561
Maturities	**(30,000,000)**	–
	₱145,555,046	₱181,217,647

The Bank's financial assets at FVOCI, which are subject to credit risk exposure (see Note 4), have been reviewed for impairment. Based on such review, the management determines that the related expected credit losses are immaterial to the financial statements. Accordingly, the Bank did not recognize any impairment losses on these financial assets for years ended December 31, 2021 and 2020.

Financial Assets at Amortized Cost

Financial assets at amortized cost consist of:

	2021	2020
Government bonds	**₱285,391,478**	₱215,911,871
Corporate bonds	**90,000,000**	40,000,000
	₱375,391,478	₱255,911,871

The maturity profile of this account is presented below.

	2021	2020
Within one year	**₱–**	₱90,000,000
Between one years and five years	**275,500,000**	125,050,000
Beyond five years	**100,000,000**	40,000,000
	375,500,000	255,050,000
Unamortized premium/(discount)	**(108,522)**	861,871
	₱375,391,478	₱255,911,871

Interest income generated from HTC financial assets for the years ended December 31, 2021 and 2020 amounted to ₱12.2 million and ₱8.7 million respectively, and is shown as part of Interest Income on Investment Securities in the statements of income. Average interest rate on these investments assets for the years ended December 31, 2021 and 2020 is equivalent to 4.1% and 4.9%, respectively.

Changes in the Bank's holdings of HTC financial assets are summarized below.

	2021	2020
Balance at beginning of year	**₱255,050,000**	₱135,000,000
Additions	**210,450,000**	170,050,000
Maturities	**(90,000,000)**	(50,000,000)
	375,500,000	255,050,000
Unamortized premium/(discount)	**(108,522)**	861,871
	₱375,391,478	₱255,911,871

The Bank's HTC financial assets, which are subject to credit risk exposure (see Note 4), have been reviewed for impairment. Based on such review, the management determines that the related expected credit losses are not material to the financial statements. Accordingly, the Bank did not recognize any impairment losses on these financial assets for the years ended December 31, 2021 and 2020.

10. Loans and Other Receivables

This account consists of the following:

	2021	2020
Receivables from customers:		
Loans and discounts	**₱2,035,714,648**	₱1,758,051,606
Unearned discount	**(13,811,119)**	(11,170,848)
	2,021,903,529	1,746,880,758
Other receivables:		
Sales contract receivable (SCR)	**46,616,936**	49,504,960
SPURRA	**–**	127,332,184
Accrued interest receivable	**26,338,808**	36,767,632
Accounts receivable	**1,509,710**	3,056,104
	74,465,454	216,660,880
	2,096,368,983	1,963,541,638
Allowance for impairment	**(35,847,023)**	(59,911,551)
	₱2,060,521,960	₱1,903,630,087

Interest rates on receivables from customers range from 8.% to 61.0% assets in 2021 and 2020. Interest rates on SCR range from 8.0% to 12% for the same aforementioned covered period, respectively. All receivables from customers have fixed interest rate and all other receivables are noninterest bearing, unsecured and are generally payable on demand.

Total interest income earned from loans and other receivables amounted to ₱273.8 million and ₱285.9 million for the years ended December 31, 2021 and 2020, respectively, and are presented as Interest Income on Loans and Other Receivables in the statements of income.

Maturity Profile of Receivables from Customers

The maturity profile of the Bank's receivables from customers, gross of allowance for impairment loss, follows:

	2021	2020
Within one year	**₱512,313,268**	₱524,155,510
Beyond one year but within five years	**392,376,631**	779,959,549
Beyond five years	**1,117,213,630**	442,765,699
	₱2,021,903,529	₱1,746,880,758

Receivables from customers (before allowance of impairment losses) have the following types and category of loans:

	2021	2020
Current loans:		
Agra and other agri credits	**₱366,072,943**	₱710,902,390
Small and medium enterprises	**837,939,191**	290,086,591
Private corporations	**216,241,976**	221,938,767
Microenterprise loans	**221,034,935**	184,107,992
Individuals for housing purposes	**241,880,230**	152,774,768
Individuals for consumption purposes	**74,216,573**	62,944,222
Individuals for other purposes	**4,275,855**	7,933,085
	1,961,661,704	1,630,687,815
Past due loans:		
Agra and other agri credits	**8,294,739**	17,792,120
Small and medium enterprises	**15,669,830**	48,468,971
Microenterprise loans	**22,762,027**	36,127,473
Individuals for housing purposes	**7,757,660**	10,748,828
Individuals for consumption purposes	**5,505,956**	3,055,551
Individuals for other purposes	**251,613**	–
	60,241,825	116,192,943
	₱2,021,903,529	₱1,746,880,758

The maturity profile of the Bank's SCR from customers, gross of allowance for impairment loss, follows:

	2021	2020
Within one year	**₱4,091,667**	₱9,373,266
Beyond one year but within five years	**3,825,380**	9,508,042
Beyond five years	**38,699,889**	30,623,653
	₱46,616,936	₱49,504,961

Refer to Note 4 for the reconciliation of allowance for impairment for the years ended December 31, 2021 and 2020.

The Bank recovered certain loans and receivables previously written-off. Such recoveries amounted to ₱4.6 million and ₱1.5 million in 2021 and 2020, respectively, and are presented as net of provision for impairment losses under 'Provision for credit and impairment losses' in the statements of income.

11. 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 the years ended December 31, 2021 and 2020 are shown below.

	December 31, 2021						
	Land	Building and Improvements	Furniture, Fixtures, and Equipment	Transportation Equipment	Leasehold Improvements	Right-of-Use Asset	Total
Cost or valuation	₱62,614,860	₱76,224,508	₱79,160,970	₱34,929,838	₱29,956,760	₱34,609,445	₱317,496,381
Accumulated depreciation and amortization	–	(67,754,540)	(68,520,501)	(15,173,090)	(22,739,594)	(10,642,841)	(184,830,566)
Net carrying amount	₱62,614,860	₱8,469,968	₱10,640,469	₱19,756,748	₱7,217,166	₱23,966,604	₱132,665,815

	December 31, 2020						
	Land	Building and Improvements	Furniture, Fixtures, and Equipment	Transportation Equipment	Leasehold Improvements	Right-of-Use Asset	Total
Cost or valuation	₱62,614,860	₱76,088,762	₱73,866,028	₱30,234,338	₱29,885,060	₱32,633,709	₱305,322,757
Accumulated depreciation and amortization	–	(66,693,209)	(67,088,096)	(12,667,225)	(20,494,836)	(9,569,859)	(176,513,225)
Net carrying amount	₱62,614,860	₱9,395,553	₱6,777,932	₱17,567,113	₱9,390,224	₱23,063,850	₱128,809,532

Reconciliations of the carrying amounts at the beginning and end of the years ended December, 2021 and 2020 are shown below.

	Land	Building and Improvements	Furniture, Fixtures, and Equipment	Transportation Equipment	Leasehold Improvements	Right-of-Use Asset	Total
Balance at January 1, 2021, net accumulated depreciation and amortization	₱62,614,860	₱9,395,553	₱6,777,933	₱17,567,113	₱9,390,224	₱23,063,850	₱128,809,532
Additions	–	135,746	8,701,158	6,840,500	71,700	6,397,101	22,146,205
Disposals	–	–	(47,898)	(1,155,000)	–		(1,202,898)
Depreciation and amortization charges for the year	–	(1,061,331)	(4,790,724)	(3,495,865)	(2,244,758)	(5,494,347)	(17,087,025)
Balance at December 31, 2021 net accumulated depreciation and amortization	₱62,614,860	₱8,469,968	₱10,640,469	₱19,756,748	₱7,217,166	₱23,966,605	₱132,665,815

	Land	Building and Improvements	Furniture, Fixtures, and Equipment	Transportation Equipment	Leasehold Improvements	Right-of-Use Asset	Total
Balance at January 1, 2020, net accumulated depreciation and amortization	₱62,614,860	₱9,688,902	₱7,702,883	₱15,090,231	₱11,944,765	₱24,976,848	₱132,018,489
Additions	–	651,038	3,796,409	7,636,888	285,159	3,664,572	16,034,066
Disposals	–	–	(12,762)	(2,148,696)	–	–	(2,161,347)
Depreciation and amortization charges for the year	–	(944,388)	(4,708,597)	(3,011,421)	(2,839,700)	(5,577,570)	(17,081,676)
Balance at December 31, 2020 net accumulated depreciation and amortization	₱62,614,860	₱9,395,552	₱6,777,933	₱17,567,113	₱9,390,224	₱23,063,850	₱128,809,532

As of December 31, 2021 and 2020, the Bank wrote-off certain furniture, fixtures and equipment with an aggregate book value of ₱0.05 million and ₱0.01 million, respectively. Losses from such write-off are included as part of Others under Other Operating Expenses account in the statements of income (see Note 18).

As of December 31, 2021 certain transportation equipment under car plan matured. The Bank's gain on sale of non-financial asset amounted to ₱0.01 million and ₱0.5 million for the years ended December 31, 2021 and 2020, respectively, and presented as part of Gain on sale of non-financial assets under Other Operating Income in the statements of income (see Note 18).

Depreciation and amortization on bank premises, furniture, fixtures and equipment are presented as part of Depreciation and amortization under Other Operating Expenses in the statements of income (see Note 18).

The gross carrying amount of fully depreciated bank premises, furniture, fixtures and equipment that are still in use as of December 31, 2021 and 2020 amounted to ₱170.2 million and ₱178.1 million, respectively.

The BSP requires that investment in bank premises, furniture, fixtures and equipment does not exceed 50% of the Bank's unimpaired capital. As of December 31, 2021 and 2020, the Bank has satisfactorily complied with this requirement.

12. Investment Properties

The gross carrying amounts and accumulated depreciation and impairment of investment properties as of December 31, 2021 and at the beginning and end of 2020 are shown below.

	December 31, 2021			
	Land	**Building and Improvements**	**Others**	**Total**
Cost	₱75,837,158	₱24,841,474	₱2,318,341	₱102,996,973
Accumulated depreciation	–	(5,693,185)	(601,900)	(6,295,085)
	₱75,837,158	₱19,148,289	₱1,716,441	₱96,701,888

	December 31, 2020			
	Land	Building and Improvements	Others	Total
Cost	₱61,775,544	₱19,112,527	₱5,350,345	₱86,238,416
Allowance for impairment	(465,833)	–	–	(465,833)
Accumulated depreciation	–	(4,874,125)	(1,486,207)	(6,360,332)
	₱61,309,711	₱14,238,402	₱3,864,138	₱79,412,251

Reconciliations of the carrying amounts of investment properties are shown below.

	Land	**Building and Improvements**	**Others**	**Total**
Balance at January 1, 2021, net accumulated depreciation and impairment	₱61,309,711	₱14,238,402	₱3,864,138	₱79,412,251
Additions	33,760,919	8,868,262	5,664,317	48,293,498
Disposals	(19,233,472)	(1,559,387)	(6,612,179)	(27,405,038)
Depreciation for the year	–	(2,398,988)	(1,199,824)	(3,598,812)
Balance at December 31, 2021 net of accumulated depreciation and impairment	₱75,837,158	₱19,148,289	₱1,716,452	₱96,701,899

	Land	Building and Improvements	Others	Total
Balance at January 1, 2020, net accumulated depreciation and impairment	₱71,612,890	₱16,539,213	₱–	₱88,152,103
Additions	19,504,695	9,072,576	5,350,345	33,927,616
Disposals	(29,804,154)	(8,820,610)	–	(38,624,764)
Impairment loss for the year	(3,720)	–	–	(3,720)
Depreciation for the year	–	(2,552,777)	(1,486,207)	(4,038,984)
Balance at December 31, 2020 net of accumulated depreciation and impairment	₱61,309,711	₱14,238,402	₱3,864,138	₱79,412,251

As of December 31, 2021 and 2020, foreclosed investment properties still subject to redemption period by the borrowers amounted to ₱0.9 million and ₱21.7 million, respectively.

Depreciation on investment properties is presented as part of Depreciation and amortization under Other Operating Expenses in the statements of income (see Note 18).

Fair value of the Bank's investment properties as of December 31, 2021 and 2020 amounted to ₱209.2 million, ₱193.5 million, respectively (see Note 6).

In 2021 and 2020, recognized gains on sale of investment properties amounted to ₱10.1 million and P35.3 million, respectively, and are presented as part of Gain on sale of non-financial assets under Other Operating Income in the statements of income (see Note 18). Real property taxes and other litigation expenses related to these investment properties paid by the Bank and recognized as expense amounted to ₱0.1 million for both 2021 and 2020, and are presented as part of Litigation under Other Operating Expenses in the statements of income (see Note 18).

As of December 31, 2021 and 2020, there is no restriction on the realizability of investment properties or the remittance of income and proceeds of disposal therefrom. In addition, the Bank has not entered into a significant commitment to purchase, construct or develop any investment property in the near future.

13. **Other Resources**

This account consists of the following:

	2021	2020
Deferred tax assets - net (Note 20)	**₱20,037,417**	₱34,638,351
Prepaid expenses	**3,804,698**	681,356
Computer software - net	**2,601,613**	1,601,368
Office supplies	**2,280,099**	2,198,785
Architectural design - net	**2,142,000**	4,284,000
Electronic wallet	**1,504,132**	8,490,483
Retirement benefit plan asset (Note 19)	**1,092,487**	–
Refundable deposits	**647,281**	650,781
Miscellaneous	**5,232,018**	3,637,032
	₱39,341,745	₱56,182,156

In 2021, management reassessed the probability of future economic benefit arising from the cost related to architectural design in view of the Bank's updated plan for constructing a new executive building, and considering the plan of merger with other two banks within the UBP Group.

Management provided an allowance amounting to ₱2.1 million in 2021, included under 'Provision for credit and impairment losses' in the statement of income.

Miscellaneous assets include documentary stamps, electronic fund wallet and postage stamps.

Breakdown of other resources as to liquidity is shown below.

	2021	2020
Current	**₱13,468,338**	₱15,658,438
Non-current	**25,873,407**	40,523,718
	₱39,341,745	₱56,182,156

Movements of computer software is shown below.

	2021	2020
Balance at beginning of year	**₱1,601,368**	₱3,410,040
Additions	**2,095,610**	46,200
Amortization (Note 18)	**(1,095,365)**	(1,854,872)
Balance at end of year	**₱2,601,613**	₱1,601,368

14. Leases

The Bank has several leases covering the office space of its branches. Terms of the lease agreements range from three to 15 years under renewable options, and include escalation rates ranging from 5% to 10%. With the exception of short-term leases and leases of low-value underlying assets, each lease is reflected as a right-of-use asset under Bank Premises, Furnitures, Fixtures and Equipment (see Note 11) and a lease liability under Other Liabilities (see Note 16) in the statements of financial position. The Bank recognized Right-of-use asset with average remaining term of five years as of December 31, 2021 and 2020.

In 2021 and 2020, expenses related to lease arrangements recognized in the profit or loss follows:

	December 31, 2021	December 31, 2020
Depreciation expense (Note 11)	**₱5,494,347**	₱5,577,570
Interest expense	**1,306,451**	1,121,551
Rent expense - short term leases (Note 18)	**2,156,377**	1,595,784
	₱8,957,175	₱8,294,905

Set out below are the carrying amounts of right of use assets and lease liability as of December 31, 2021 and 2020 and the related movements during the period:

	Right-of-use assets	Lease liabilities
As at January 1, 2020	₱24,976,848	₱24,895,266
Additions	3,695,996	3,695,996
Depreciation	(5,608,994)	–
Payments	–	(5,963,143)
Accretion of interest	–	1,121,551
As at December 31, 2020	23,063,850	23,749,670
Additions	6,397,101	6,397,101
Depreciation	(5,494,347)	–
Payments	–	(5,447,213)
Accretion of interest	–	1,306,451
As at December 31, 2021	₱23,966,604	₱26,006,009

The maturity analysis of lease liability as at December, 2021 and 2020 are as follows:

	December 31, 2021						
	Within 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Over 5 years	Total
Lease payments	₱5,577,039	₱5,923,797	₱6,070,235	₱6,252,458	₱3,326,191	₱2,282,375	₱29,432,095
Interest expense	(1,162,735)	(929,708)	(672,049)	(399,236)	(194,220)	(68,138)	(3,426,086)
Net present values	₱4,414,304	₱4,994,089	₱5,398,186	₱5,853,222	₱3,131,971	₱2,214,237	₱26,006,009

	December 31, 2020						
	Within 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	Over 5 years	Total
Lease payments	₱4,161,085	₱4,337,133	₱4,557,347	₱4,690,482	₱4,598,459	₱5,455,029	₱27,799,535
Interest expense	(1,112,727)	(952,939)	(774,953)	(576,391)	(369,794)	(263,061)	(4,049,865)
Net present values	₱3,048,358	₱3,384,194	₱3,782,394	₱4,114,091	₱4,228,665	₱5,191,968	₱23,749,670

The Bank has elected not to recognize a lease liability for short-term leases or for leases of low value assets. Payments made under such leases are expensed on a straight-line basis.

15. Deposit Liabilities

The breakdown of deposit liabilities per classification follows:

	2021	2020
Demand	**₱8,473,098**	₱13,144,883
Savings	**2,225,160,577**	2,201,622,599
Time	**543,440,465**	526,300,317
	₱2,777,074,140	₱2,741,067,799

Deposit liabilities are in the form of savings and time deposits with annual interest rates ranging from 0.15% to 7.0% both as of December 31, 2021 and 2020. Demand deposits, on the other hand, do not bear interest. In 2021 and 2020, interest expense incurred on savings deposits amounted to ₱5.4 million, and ₱5.9 million, respectively, while interest expense incurred on time deposits amounted to ₱6.1 million, and ₱8.1 million, respectively. These are presented as Interest Expense on Deposit Liabilities in the statements of income. Interest payable as of December 31, 2021 and 2020 amounted to ₱6.4 million and ₱7.8 million, respectively, and are presented as part of Accrued interest payable under Other Liabilities account in the statements of financial position (see Note 16).

Under existing BSP regulations, deposit liabilities are subject to regular and liquidity reserve of 4% for demand, savings and time deposit . On April 6, 2012, the BSP issued an amendment to the existing provisions as to the eligibility of cash and deposit accounts with BSP as forms of reserve requirements. As indicated in the amendment, cash and other cash items are no longer considered as eligible reserves. The Bank is in compliance with these BSP regulations as of the end of each reporting period (see Note 7).

The maturity profile of deposit liabilities is shown below.

	2021	2020
Within one year	**₱2,756,927,394**	₱2,700,184,803
Beyond one year but less than five years	**20,146,746**	40,882,996
	₱2,777,074,140	₱2,741,067,799

16. Other Liabilities

This account consists of:

	2021	2020
Lease liability (Note 14)	**₱26,006,009**	23,749,670
Account payable	**17,997,037**	18,844,736
Accrued expenses	**15,531,196**	15,585,252
Accrued interest payable (Note 15)	**6,396,691**	7,758,393
Advances from customers	**5,060,703**	5,722,973
Gross receipts tax payable	**4,307,246**	4,143,544
Due to Treasurer of the Philippines	**2,315,820**	1,662,271
Dividends payable (Note 17)	**1,952,858**	817,796
Withholding taxes payable	**1,481,471**	1,511,778
Income tax payable	**1,195,016**	10,248,564
Retirement benefit obligation (Note 19)	**–**	27,417,272
Others	**33,468**	32,787
	₱82,277,515	₱117,495,036

Others include fringe benefit taxes and provision for loan commitments (see Note 4).

Breakdown of other liabilities as to liquidity is shown below.

	2021	2020
Current	**₱55,625,109**	₱59,571,461
Non-current	**26,652,406**	57,923,575
	₱82,277,515	₱117,495,036

17. Equity

Capital Management Objectives, Policies and Procedures
The Bank's policy is to maintain a strong capital base 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 regularly accounted for 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 through a sound capital position.

Regulatory Capital
The Bank's lead regulator, BSP, sets and monitors capital requirements of the Bank.

In implementing current capital requirements, BSP requires the Bank to maintain a prescribed ratio of 10% of qualifying regulatory capital to total risk-weighted assets including market risk and operational risk.

Under the relevant BSP regulations, the regulatory capital is analyzed into two tiers which are Tier 1 Capital plus Tier 2 Capital less allowable deductions from the total of Tier 1 and Tier 2 capital.

The Bank's regulatory capital position as of December 31, 2021 and 2020 is presented as follows:

	2021	2020
Tier 1 Capital	**₱488,312,317**	₱498,657,171
Tier 2 Capital	**6,298,003**	33,702,473
Total regulatory qualifying capital	**₱494,610,320**	₱532,359,644
Risk Weighted Assets		
Credit Risk Weighted Assets	**₱1,942,110,005**	₱1,860,677,023
Operational Risk Weighted Assets	**614,922,842**	589,272,337
Total risk-weighted assets	**₱2,557,032,847**	₱2,449,949,360

	2021	2020
Capital adequacy ratios (CAR):		
Total regulatory capital expressed as percentage of total risk-weighted assets	**19.34%**	21.7%
Total Tier 1 expressed as percentage of total risk-weighted assets	**19.10%**	20.4%

The above CARs as of December 31, 2021 and 2020 are based on audited balances and are not the same with the CARs as reported to the BSP. As of December 31, 2021 and 2020, the Bank's capital adequacy ratios (CAR) are higher than the BSP minimum requirement of 10%.

Capital Allocation
The allocation of capital between specific operations and activities is, to a large extent driven by optimization of the return achieved on the capital allocated. The amount of capital allocated to each operation or activity is based primarily upon the regulatory capital, but in some cases the regulatory requirements do not reflect fully the varying degrees of risk associated with different activities. In such cases, the capital requirements may be flexed to reflect differing risk profiles subject to the overall level of capital to support a particular operation or activity. The process of allocation of capital to specific operations and activities is undertaken independently of those responsible for the operation, and is subject to review by the Bank's ROC.

Although maximization of the return on risk-adjusted capital is the principal basis used in determining how capital is allocated within the Bank to particular operations or activities, it is not the sole basis used for decision making. Account profitability is also taken, and synergies with other operations and activities, the availability of management and other resources, and the fit of the activity with the Bank's longer term strategic objectives. The Bank's policies in respect of capital management and allocation are reviewed regularly by the BOD.

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" (regular 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). The Bank is compliant with ₱400.0 million minimum capital requirement of BSP for thrift banks as of December 31, 2021 and 2020.

Capital Stock
The authorized capital stock of the Bank is ₱1.0 billion divided into 10,000,000 shares both with a par value of P100 per share.

As of December 31, 2021 and 2020, total shares issued and outstanding are 3,677,392. As at the same dates, the Bank has 156 and 163 stockholders, respectively, owning 100 or more shares each of the Bank's capital stock.

Surplus Free
On April 22, 2021, the BOD approved the ₱175 million cash dividend. The cash dividends still outstanding, which amounted to ₱2.0 M and ₱0.8 million as of December 31, 2021 and 2020, respectively, is presented as Dividends payable under Other Liabilities account in the statements of financial position (see Note 16).

Surplus Reserve
Pursuant to the requirements of the BSP under Circular No. 1011 (see Note 2), 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 allowance for ECL on those exposures is less than the required one percent general loan loss provision, the deficiency is recognized through appropriation from the Bank's available Surplus. Such appropriation is considered as Tier 2 capital subject to the limit provided under the CAR framework. The accumulated amount of appropriation to surplus reserves for general loan loss portfolio as of December 31, 2021 and 2020 amounted to ₱17.17 and ₱14.3 million, respectively.

18. Other Operating Income and Expenses

Other Operating Income - net
This account consists of:

	2021	2020
Fees and commissions	**₱17,110,367**	₱15,053,290
Gain on sale of non-financial assets (Note 11 and 12)	**10,217,451**	35,861,981
Foreign currency exchange gains (loss) - net	**2,487**	(3,043)
Miscellaneous	**3,787,580**	4,357,603
	₱31,117,885	₱55,269,831

Miscellaneous income includes incidental charges from auto loans, prepayment penalty on loans and other income received.

Other Operating Expenses
This account consists of:

	2021	2020
Compensation expense (Note 19)	**₱142,742,202**	₱136,377,693
Taxes and licenses (Note 12)	**22,409,019**	25,112,999
Depreciation and amortization (Notes 11, 12 and 13)	**21,781,202**	22,975,532
Insurance	**11,018,246**	11,175,468
Security, clerical and messengerial	**11,709,493**	11,174,873
Postage, telephone, cables and telegrams	**4,616,096**	4,326,095
Power, light and water	**4,054,860**	3,431,837
Stationery and supplies	**1,705,247**	3,078,055
Management and other professional fees	**4,349,102**	2,968,353
Repairs and maintenance	**2,421,376**	1,575,347
Fees and commissions	**2,676,955**	2,461,720
Litigation (Note 12)	**2,407,137**	1,712,495
Travelling	**1,959,902**	1,605,489
Rentals (Note 14)	**2,156,377**	1,595,784
Fuel and lubricants	**975,785**	683,349
Advertising and publicity	**54,686**	97,311
Others (Notes 11 and 19)	**10,900,331**	13,811,868
	₱247,938,016	₱244,164,268

Others include expenses related to information technology, training, notarial and meals.

19. Employee Benefits

Compensation Expense
Details of this account are presented below (see Note 18).

	2021	2020
Short-term employee benefits (Note 21)	**₱132,994,667**	₱129,288,056
Post-employment defined benefit	**9,747,535**	7,089,637
	₱142,742,202	₱136,377,693

Post-employment Defined Benefit Plan
(a) Characteristics of the Defined Benefit Plan

The Bank maintains a funded, tax-qualified, noncontributory post-employment benefit plan that is being administered by trustee banks that are legally separated from the Bank. The post-employment plan covers all regular full-time employees.

The normal retirement age is 60. Normal retirement benefit is an amount equivalent to 150% of the final monthly covered compensation 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 reports obtained from an independent actuary as of December 31, 2021 and 2020.

The amount of retirement benefit obligation recognized as part of Other Liabilities account in the statements of financial position are determined as follows (see Note 16):

	2021	2020
Present value of the obligation	**₱100,225,297**	₱101,313,122
Fair value of plan assets	**(101,373,829)**	(73,895,850)
Adjustment for asset ceiling test	**56,045**	–
Retirement obligation/(asset)	**(₱1,092,487)**	₱27,417,272

The movements in the present value of the defined benefit obligation recognized in the financial statements are as follows:

	2021	2020
Balance at beginning of year	**₱101,313,122**	₱74,184,393
Current service cost	**9,747,535**	7,089,637
Interest expense	**3,930,949**	3,968,865
Remeasurements of actuarial losses (gains) arising from:		
Changes in financial assumptions	**(15,513,486)**	15,489,122
Changes in demographic assumptions	**1,189,309**	1,220,245
Experience adjustments	**2,143,226**	523,795
Benefits paid	**(2,585,358)**	(1,162,935)
Balance at end of period/year	**₱100,225,297**	₱101,313,122

The movements in the fair value of plan assets are presented below.

	2021	2020
Balance at beginning of year	₱73,895,850	₱47,845,888
Interest income	3,348,898	3,233,202
Gain (loss) on plan assets (excluding amounts included in net interest)	(702,833)	(2,358,810)
Benefits paid	(2,585,358)	(1,162,935)
Actual contributions	27,417,272	26,338,505
Balance at end of year	₱101,373,829	₱73,895,850

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

	2021	2020
Cash and cash equivalents	₱91,237	₱1,123,749
Debt instruments - Corporate bonds	28,567,145	46,687,393
Debt instruments - Other bonds	17,324,787	–
Investment in Unit Investment Trust Fund (UITF)	54,366,784	25,708,366
Accrued interest receivable	308,351	227,630
Others (market gains/losses, etc.)	828,182	183,720
	101,486,486	73,930,858
Accountabilities	(112,657)	(35,008)
	₱101,373,829	₱73,895,850

The fair values of the debt securities are determined based on quoted market prices in active markets (classified as Level 1 of the fair value hierarchy). The Bank's investments in UITF is classified under Level 2.

Plan assets do not comprise any of the Bank's own financial instruments or any of its assets occupied and/or used in its operations.

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

	2021	2020
Reported in profit or loss:		
Current service cost	₱9,747,535	₱7,089,637
Net interest expense (income)	582,051	735,663
	₱10,329,586	₱7,825,300

	2021	2020
Reported in other comprehensive income:		
Actuarial losses (gains) arising from changes in:		
Financial assumptions	**(₱15,513,486)**	₱15,489,122
Changes in demographic assumptions	**1,189,309**	1,220,245
Experience adjustments	**2,143,226**	523,795
Return on plan assets (excluding amounts included in net interest expense)	**702,833**	2,358,809
Effects of asset ceiling	**56,045**	–
	(₱11,422,073)	₱19,591,971

Current service cost and net interest expense (income), including the net interest expense on asset ceiling, are presented as part of Compensation expense and Others, respectively, under Other Operating Expenses and Interest Income - Others, respectively, in the statements of income (see Note 18).

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 defined benefit post-employment obligation, the following significant actuarial assumptions were used:

	2021	2020
Discount rates	**5.13%**	3.88%
Expected rate of salary increases	**6.00%**	6.00%

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 26 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 interest rates of a zero coupon government bond with terms to maturity approximating the terms of the post-employment 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 risk, interest rate risk, longevity risk and salary risk.

(i) 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 bond 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 assets is concentrated on investment in debt securities, investments in mutual fund and UITF. Due to the long-term nature of the plan obligation, a level of continuing debt, mutual fund and UITF investments is an appropriate element of the Bank's long-term strategy to manage the plan efficiently.

(ii) 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 plan participants both during and after their employment, and to their future salaries. Consequently, increases in the life expectancy and salary of the plan participants will result in an increase in the plan obligation.

(d) Other Information

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

(i) Sensitivity Analysis

The following table summarizes the effects of changes in the significant actuarial assumptions used in the determination of the defined benefit obligation as of December 31, 2021 and December 31, 2020:

	Impact on Post-employment Benefit Obligation		
	Change in Assumption	Increase in Assumption	Decrease in Assumption
December			
Discount rate	**+100 bps / -100bps**	**(₱12,125,090)**	**₱10,180,649**
Salary rate	**+100 bps / -100bps**	**11,893,950**	**(10,192,207)**
December 2020			
Discount rate	+100 bps / -100bps	(₱13,142,471)	₱10,962,980
Salary rate	+100 bps / -100bps	12,723,577	(10,855,944)

The sensitivity analysis presented above 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 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 above sensitivity analysis, the present value of the defined 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 defined benefit obligation recognized in the statements of financial position.

The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to the previous years.

(ii) 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 to achieve that long-term 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 long-term fixed interest securities (i.e., government bonds) with maturities that match the benefit payments as they fall due and in the appropriate currency. The Bank actively monitors how the duration and the expected yield of the investments are matching the expected cash outflows arising from the retirement obligations.

A large portion of the plan assets as of December 31, 2021 and 2020 consists of debt securities and investments in mutual fund and UITF. The Bank believes that debt securities and investments in mutual fund and UITF offer the best returns over the long term with an acceptable level of risk.

There has been no change in the Bank's strategies to manage its risks from previous periods.

(iii) Funding Arrangements and Expected Contributions

As of December 31, 2021 and 2020, the plan overfunded (underfunded) by ₱1.1 million and (₱27.4 million) based on the actuarial valuation report.

The maturity profile of undiscounted expected benefit payments from the plan for the next ten years follows:

	2021	2020
Within one year	**₱8,002,347**	₱4,852,657
More than one year to five years	**28,366,237**	28,864,058
More than five years to ten years	**47,526,252**	39,538,678
	₱83,894,836	₱73,255,393

The weighted average duration of the defined benefit obligation at the end of the reporting periods is 11.1 years.

20. Income Taxes

Current and Deferred Taxes

The components of tax expense (income) reported in the statements of income and statements of comprehensive income follow:

	2021	2020
Reported in statements of income		
Current tax expense:		
Regular corporate income tax (RCIT)	**₱3,980,150**	₱24,115,345
Final tax at 20%	**5,956,802**	6,643,655
	9,936,952	30,759,000
Provision for (benefit from) deferred tax	**10,116,129**	(10,299,023)
	₱20,053,081	₱20,459,977
Reported in statements of comprehensive income		
Income tax effect on other comprehensive income items	**(₱2,645,553)**	₱5,642,332

A reconciliation of tax on pretax profit computed at the applicable statutory rates to tax expense reported in the statements of income is presented below.

	2021	2020
Statutory income tax*	**₱18,758,488**	₱20,497,218
Adjustment on tax expense due to change in enacted rates	**1,296,806**	–
Income subjected to final tax	**(1,490,111)**	(3,377,188)
Tax effects of:		
Non-deductible expenses	**1,487,898**	3,339,947
Tax expense	**₱20,053,081**	**₱20,459,977**

**Using enacted rates of 25% and 30% as of December 31, 2021 and December 31, 2020, Respectively.*

The net deferred tax assets relate to the following as of December 31, 2021 and 2020 (see Note 13):

	2021	2020
Deferred tax asset		
Allowance for impairment losses	**₱8,961,759**	₱18,113,216
Retirement benefit obligation	**7,552,343**	13,422,376
Lease liability	**6,501,502**	7,124,902
Accumulated depreciation on investment properties	**1,573,768**	1,908,100
Accrued vacation leaves	**1,279,780**	1,223,448
Allowance for losses - other resources	**535,500**	–
Unrealized fair market value losses on financial assets at FVOCI - net	**13,758**	–
Foreign exchange losses	–	913
	26,418,410	41,792,955
Deferred tax liabilities		
Right-of-use asset	**5,991,651**	6,919,156
Gain on ROPA foreclosure	**388,720**	–
Unrealized fair market value gains on financial assets at FVOCI - net	–	235,448
Foreign exchange gains	**622**	–
	6,380,993	7,154,604
	₱20,037,417	₱34,638,351

Provision for (benefits from) deferred tax recognized in other comprehensive income for the years ended December 31, 2021 and 2020 amounted to ₱4.3 million and ₱5.6 million, respectively. This includes impact of change in tax rate as a result of enactment of Corporate Recovery and Tax Incentive for Enterprises Bill (see below).

Prior to enactment of CREATE Act (see below), the minimum corporate income tax (MCIT) is computed at 2% of gross income as defined under the tax regulations or to RCIT, whichever is higher. No MCIT was reported for the years ended December 31, 2021 and 2020 as the RCIT was higher than MCIT during the period.

In 2021 and 2020, the Bank opted to claim itemized deductions for the computation of its income tax due.

Corporate Recovery and Tax Incentives for Enterprises (CREATE) Bill
President Rodrigo Duterte signed into law on March 26, 2021 the CREATE Act to attract more investments and maintain fiscal prudence and stability in the Philippines. Republic Act (RA) 11534 or the CREATE Act introduces reforms to the corporate income tax and incentives systems. It takes effect 15 days after its complete publication in the Official Gazette or in a newspaper of general circulation or April 11, 2021.

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

- Effective July 1, 2020, regular corporate income tax (RCIT) rate is reduced from 30% to 25% for domestic and resident foreign corporations. For domestic corporations with net taxable income not exceeding ₱5 million and with total assets not exceeding ₱100 million (excluding land on which the business entity's office, plant and equipment are situated) during the taxable year, the RCIT rate is reduced to 20%.

- Minimum corporate income tax (MCIT) rate reduced from 2% to 1% of gross income effective July 1, 2020 to December 31, 2023.

As a result of the changes, the current tax due for 2020 was reduced by ₱2.64 million, resulting in reduction in current tax liability and current tax expense, which is recognized in the 2021 statement of income. Furthermore, applicable tax rates for future taxable and deductible amounts, for purposes of deferred tax measurement, were reduced from 30% to 25%, and accordingly reduced deferred tax asset by ₱5.77 million, ₱3.93 million of which was charged in profit or loss in 2021, while ₱1.84 million was charged in other comprehensive income.

21. Related Party Transactions

The Bank's related parties include its stockholders and the Bank's key management personnel.

Key Management Compensation

Short-term benefits paid to key management employees amounted to ₱21.1 million and ₱22.9 million for the years ended December 31, 2021 and 2020, respectively, which are presented as part of Compensation expense under Other Operating Expenses account in the statements of income (see Notes 18 and 19).

Directors, Officers, Stockholders and Related Interests

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

The General Banking Act and BSP regulations limit the amount of the loans granted by the Bank to a single borrower to 25% of equity. The amount of individual loans to DOSRI, of which 70% must be secured, should not exceed the amount of the deposit and book value of their investment in the Bank. In the aggregate, loans to DOSRI generally should not exceed the total equity or 15% of the total loan portfolio of the Bank, whichever is lower. As of December 31, 2021 and 2020, DOSRI relates to microfinance loans that are secured with hold-out savings and back to back loans with outstanding balance amounting to ₱0.3 million and ₱0.3 million, respectively.

In 2020, the Bank transferred the conduit bank to UnionBank which includes clearing and cash management. Deposit to UnionBank used as working fund is considered DOSRI and it was secured by UnionBank with government securities. As of December 31, 2021 and 2020, the Bank has outstanding deposit with UnionBank related to this arrangement amounting to ₱101.7 million and ₱86.1 million, respectively, which is presented under 'Due from other banks' in the statement of financial position.

Also, as of December 31, 2021 and 2020, certain related parties have deposits with the Bank. Total amount of deposits received from the related parties with outstanding loan balance above, subject to hold-out, amounted to ₱0.4 million and ₱0.5 million as of December 31, 2021 and 2020, respectively. Interest expense recognized from these deposits amounted to ₱3.7 thousands and ₱1.0 thousands for the years ended December 31, 2021 and 2020, respectively.

22. Commitments and Contingencies

The Bank is a defendant in various cases pending in courts for alleged claims against the Bank, the outcome of which are not fully determinable at present. Also, the Bank has unutilized credit lines from various local banks.

Additionally, the Bank has extended credit lines to borrowers. Unutilized credit line availments of the borrowers to the Bank as of December 31, 2021 and 2020 amounted to ₱90.4 million and ₱29.5 million, respectively. Contingent liabilities arising from these transactions are not reflected in the financial statements. The Bank recognizes in its books any losses and liabilities incurred in the course of its operations as soon as these become determinable and quantifiable.

Undrawn loan commitments do not require provision for credit losses, as these are irrevocable commitments.

23. Supplementary Information Required Under BSP Circular 1074

Presented below is the supplementary information required by the BSP under BSP Circular 1074.

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

	2021	2020
Return on average equity:		
$\frac{\text{Net profit}}{\text{Average total equity*}}$	**9.6%**	7.9%
Return on average resources:		
$\frac{\text{Net profit}}{\text{Average total resources*}}$	**1.6%**	1.4%
Net interest margin:		
$\frac{\text{Net interest income}}{\text{Average interest-earning resources*}}$	**9.3%**	9.8%

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

Capital instruments issued

The capital instrument issued by the Bank comprise only of common share (CET1). Moreover, the Bank has 3,677,392 common shares, which are issued and outstanding as at December 31, 2021 and 2020 (see Note 17).

Credit security and status of receivables from customers

The breakdown of the receivables from customers' portfolio (before allowance for credit losses) as to secured and unsecured follows:

	2021	2020
Secured:		
Real estate mortgage	₱1,324,233,922	₱1,164,648,948
Chattel mortgage	51,160,131	89,062,303
Deposit hold-out	35,364,992	26,509,349
Agricultural guarantee fund pool	35,506,197	20,204,805
	1,446,265,242	1,300,425,405
Unsecured	575,638,287	446,455,353
	₱2,021,903,529	₱1,746,880,758

The breakdown of the receivables from customers' portfolio as to status follows:

As of December 31, 2021

	Performing	Non-performing	Total loan portfolio
Gross carrying amount:			
Small and medium enterprise loans	₱840,964,990	₱12,644,031	₱853,609,021
Agra and other agri credit	366,110,701	8,256,981	374,367,682
Microenterprise loans	222,089,208	21,707,754	243,796,962
Loans to private corporations	216,241,976	–	216,241,976
Loans to individual for housing purposes	243,119,972	6,517,918	249,637,890
Loans to individual for consumption purposes	74,252,056	5,470,473	79,722,529
Loans to individual for other purposes	4,527,469	–	4,527,469
Total gross carrying amount	1,967,306,372	54,597,157	2,021,903,529
Allowance for ECL	(1,425,677)	(25,654,944)	(27,080,621)
Net carrying amount	₱1,965,880,695	₱28,942,213	₱1,994,822,908

As of December 31, 2020

	Performing	Non-performing	Total loan portfolio
Gross carrying amount:			
Small and medium enterprise loans	₱712,241,944	₱47,119,417	₱759,371,361
Agra and other agri credit	291,421,326	16,457,385	307,878,711
Microenterprise loans	184,424,758	35,810,707	220,235,465
Loans to private corporations	221,938,767	–	221,938,767
Loans to individual for housing purposes	153,380,908	2,449,411	155,830,319
Loans to individual for consumption purposes	63,306,784	10,386,266	73,693,050
Loans to individual for other purposes	7,933,085	–	7,933,085
Total gross carrying amount	1,634,657,572	112,223,186	1,746,880,758
Allowance for ECL	(708,130)	(35,765,063)	(36,473,192)
Net carrying amount	₱1,633,949,442	₱76,458,123	₱1,710,407,566

Significant credit exposures
The Bank's concentration of credit as to industry for its receivable for customers' portfolio follows:

	2021	2020
Retail trade	**₱422,987,517**	₱385,515,732
Real estate activities	**481,741,279**	335,026,515
Agriculture, forestry and fishing	**382,188,111**	305,126,286
Wholesale trade	**166,523,252**	161,100,576
Accommodation and food service activities	**121,510,290**	128,141,940
Manufacturing	**114,330,839**	112,845,590
Consumption loans	**79,722,529**	73,693,050
Construction	**76,550,100**	68,341,453
Transportation and storage	**84,084,208**	62,768,169
Education	**4,959,936**	20,903,559
Financial and insurance activities	**6,523,892**	9,032,246
Water supply, sewerage, waste management and remediation activities	**3,982,589**	2,966,350
Information and communication	**2,703,606**	2,369,091
Human health and social work activities	**2,612,003**	3,610,484
Administrative support services	**1,726,370**	3,201,209
Arts, entertainment and recreation	**1,132,149**	1,644,245
Professional, scientific and technical services	**928,569**	1,321,474
Mining and quarrying	**3,622,898**	922,569
Other service activities	**64,073,392**	68,350,220
	₱2,021,903,529	₱1,746,880,758

The BSP considers that loan concentration exists when the total loan exposure to a particular industry exceeds 30% of the total loan portfolio. The Bank is in compliance with this loan concentration limit of the BSP as of the end of each reporting period.

Information on Related Party Loans
As of December 31, 2021 and 2020, the Bank is in compliance with the existing BSP regulations on DOSRI. The following information relates to DOSRI loans of the Bank:

	2021	2020
Total DOSRI loans	**₱268,578**	₱371,711
Unsecured DOSRI loans	**–**	–
Interest income on DOSRI loans	**39,243**	123,850
Total DOSRI deposits	**137,481,005**	93,388,475
% of total DOSRI loans to total loan portfolio	**0.0%**	0.0%
% of unsecured DOSRI loans to total DOSRI loans	**0.0%**	0.0%
% of past-due DOSRI loans to total DOSRI loans	**0.0%**	0.0%
% of non-performing DOSRI loans to total DOSRI loans	**0.0%**	0.0%

Secured Liabilities and Assets Pledged as Security
In 2021 and 2020, there were no assets pledged by the Bank as security for liabilities.

Contingencies and Commitments Arising from Off-balance Sheet Items
The summary of the Bank's commitments and contingent accounts is shown below.

	2021	2020
Committed credit lines	**₱90,420,0000**	₱29,521,000
Guarantee issued	**52,000**	
Items held for safekeeping	**3,385**	3,534
Items held for collateral	**1,348**	1,385
	₱90,256,733	₱29,525,919

24. Supplementary Information Required Under Revenue Regulations 15-2010

Presented below is the supplementary information required by the Bureau of Internal Revenue (BIR) under RR 15-2010 to be disclosed as part of the notes to financial statements. This supplementary information is not a required disclosure under PFRS.

Gross Receipts Tax
In lieu of the value-added tax (VAT), the Parent Bank is subject to the GRT imposed on all banks and non-bank financial intermediaries pursuant to Section 121 of the Tax Code.

The Bank reported total GRT amounting to ₱15,486,670 in 2021 as shown under Taxes and Licenses under other operating expenses. Total GRT payable as of December 31, 2021 amounted to ₱4.3 million and is included under Other liabilities account in the 2021 statement of financial position.

Documentary Stamp Tax
In general, the Bank's documentary stamp tax (DST) transactions arise from the execution of debt instruments, security documents, certificates of deposits and bills of exchange.

For the year ended December 31, 2021, DST affixed amounted to ₱14,063,504 representing documentary stamps imposed mainly on debt instruments documents issued during the year, of which ₱10,191,968 were charged to the Bank's clients; hence, not reported as part of Taxes and licenses.

Taxes and Licenses
Details of taxes and licenses presented under Other Operating Expenses account in the 2021 statement of income follow (see Note 18):

GRT	₱15,486,670
DST	3,871,536
Business permits and other licenses	2,358,265
Fringe benefits tax	140,772
Real property tax	337,517
Vehicle Registration	214,258
	₱22,409,018

Withholding Taxes
Details of total withholding taxes for the year ended December 31, 2020 are shown below.

Compensation and employee benefits	₱6,387,030
Final	1,931,643
Expanded	1,696,846
	₱10,015,519

Deficiency Tax Assessments and Tax Cases
As of December 31, 2021, the Bank has no other final deficiency tax assessment from BIR nor does it have tax cases outstanding or pending in courts or bodies outside of the BIR in any of the open taxable years.