COVER SHEET

A 1 9 9 7 - 9 5 8 7

S.E.C Registration Number

C I T Y S T A T E   S A V I N G S   B A N K   I N C .

(Company's Full Name)

C I T Y S T A T E   C E N T R E   B U I L D I N G

7 0 9   S H A W   B O U L E V A R D   P A S I G   C I T Y

(Business Address: No. Street City/ Town / Province)

ATTY. SOCRATES M. AREVALO	8470-3333
Contact Person	Company Telephone Number

1 2	3 1	17-Q		
Month	*Day*	FORM TYPE	*Month*	*Day*
Fiscal Year			Annual Meeting	

GSED

Secondary License Type, If Applicable

C RM D

Dept. Requiring this Doc.

Amended Articles Number/Section

Total Amount of Borrowings

Total No. of Stockholders

Domestic

Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document I.D

Cashier

S T A M P S

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-Q

QUARTERLY REPORT PURSUANT TO SECTION 17 OF THE SECURITIES REGULATION CODE AND SRC RULE 17(2) (b) THEREUNDER

1. For the quarterly period ended June 30, 2022

2. Commission identification number A1997-9587 3. BIR Tax Identification No.005-338 421-000

4. Exact name of issuer as specified in its charter: Citystate Savings Bank, Inc. .

Makati City, Metro Manila, Philippines .

5. Province, country or other jurisdiction of incorporation or organization

6. Industry Classification Code: (SEC Use Only)

Citystate Centre Building, 709 Shaw Boulevard, Pasig City 1600 .

7. Address of issuer's principal office Postal Code

(632) 8470-3333 .

8. Issuer's telephone number, including area code

N/A .

9. Former name, former address and former fiscal year, if changed since last report

10. Securities registered pursuant to Sections 8 and 12 of the Code, or Sections 4 and 8 of the RSA

Title of each Class	Number of shares of common stock outstanding and amount of debt outstanding
Common Stock	150,600,000

11. Are any or all of the securities listed on a Stock Exchange?

Yes [✓] No [ ]

If yes, state the name of such Stock Exchange and the class/es of securities listed therein:

Philippine Stock Exchange Common Stock .

12. Indicate by check mark whether the registrant:

(a) has filed all reports required to be filed by Section 17 of the Code and SRC Rule 17 thereunder or Sections 11 of the RSA and RSA Rule 11(a)-1 thereunder, and Sections 26 and 141 of the Corporation Code of the Philippines, during the preceding twelve (12) months (or for such shorter period the registrant was required to file such reports).

Yes [✓]   No [ ]

(b) has been subject to such filing requirements for the past ninety (90) days.

Yes [✓]   No [ ]

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

CSBI's unaudited "interim" financial statements are shown in Annex "A" of this report comprising of the following:

a) Consolidated Statements of Condition as of June 30, 2022 and December 31, 2021;

b) Consolidated Statements of Income and Expenses for the quarter ended June 30, 2022 (with comparative figures for the same period ended June 30, 2021);

c) Consolidated Statements of Income and Expenses for the semester ended June 30, 2022 (with comparative figures for the same period ended June 30, 2021);

d) Consolidated Statements of Changes in Equity for the semester ended June 30, 2022 (with comparative figures for the semester ended June 30, 2021);

e) Consolidated Statement of Cash Flow for the semester ended June 30, 2022 (with comparative figures for the semester ended June 30, 2021);

f) Notes to the Financial Statements.

The unaudited "interim" financial statements of CSBI reflect all adjustments which are of normal recurring nature that transpired during the quarter ended June 30, 2022. The bank followed the same accounting policies and methods of computation in the "interim" financial statements as compared with the most recent annual financial statements.

The interim financial statements were prepared in compliance with generally accepted accounting principles in the Philippines as mandated by the Securities and Exchange Commission.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

For the Semester Ended June 30, 2022

Interest Income

Total gross interest income for the first semester of the year increased to P143.406 million versus P128.875 million recorded the previous year. This was primarily derives from the acquisition of security investment for the period with BSP short-term securities. However, Due from BSP and other banks decreased to P0.952 million for the period as compared to P8.11 million last year. Loans and receivables increased to P116.036 million from P103.437 million last year, this is due to the repurchased/redemption of foreclosed property. The aforementioned were comparative figures for the semester ending June 30, 2022 and June 30, 2021.

Interest Expense

For the six months ended, Interest Expense on deposits down by 21.51% in the amount of P8.761 million versus P11.163 million recorded last year. Also, this year recorded the Interest Expense – Others for re-calculation of PFRS16 (Leases). The Interest Expense is 7.76% of the Net Interest Income of P133.084 million.

Other Income/Expenses

Other Income generated during first semester amounting to P33.821 million is higher as compared to P24.144 million generated over the same period last year. Miscellaneous income increased from P20.330 last year to P27.355 this year due to the collection of charges on loans, while service charges and fees increased by 69.53% from P3.814 million last year versus P6.465 million this year, this is due to the increase in the fee-based collected from the DepEd Loans (APDS).

The bank's Operating Expenses increased by P26.455 million from P133.973 million to P160.428 million. Major accounts with positive variance are as follows, Salaries and employee benefits increased from P49.820 million to P62.017 due to owing to the hiring of key personnel during the period and accordingly increased in accrual for retirement plan assets; Depreciation and amortization expense increased from P17.260 million to P28.303 million due to newly acquired properties; Taxes and licenses increased from P3.258 million to P10.169 million due to various sale of ROPA; Fuel and oil rose from P4.779 million to P8.040 million, this is due to the hiring of new officers; Litigation and asset acquired expenses increased from P0.262 million to P2.325 million; and Miscellaneous from P12.147 million to P14.950 million due to private placement in PSE; Repairs and maintenance increased from P0.848 million to P1.014 million due to the minor repairs in the branches and service vehicles.

On the other hand, some accounts with negative variance are as follows, Occupancy decreased from P15.792 million to P4.478 million, this is due to the re-calculation of PFRS16 (Leases); while communication, light and water expense decreased on usage.

Net Income/Loss

The Bank net income is P7.863 million after six months of operations versus P4.285 million net income for the same period last year.

Total Resources

The bank's Total Resources was up to P5.214 billion or 3.46% higher as compared to P5.034 billion from 2021 year-end level. This is due to the increased in Held-to-collect-financial Assets by P262.922 million or 35.09%. Financial Assets at Fair Value through Other Comprehensive Income is higher by 1.60% from P672.079 last year to 683.026 million this year. Likewise, Bank Premises, furniture and fixture and Equipment decreased from P206.110 million previous year to P200.731 million this year. Loans and Receivables were lower by 14.68% or P300.237 million from P2.345 billion last year to P2.045 billion this year. Other Resources recorded at P117.449 million higher by 4.35% or P5.111 million against 2021 year-end balance of 112.338 million.

Total Deposit Liabilities

Deposits generated by the bank's thirty (30) branches increased by P155.355 million from P3.761 billion year-end balance to P3.917 billion at the end of first semester of 2022. Of this amount, P2.659billion or 67.88% comprised savings deposits while the remaining 32.12% or P1.258 billion is in the form of demand and time deposits. Total Deposit Liabilities of P3.917 billion is 96.37% of the Total Liabilities amounting to P4.064 billion and 75.11% of the Total Liabilities and Equity of P5.214 billion.

Other Liabilities

This account increase by 23.45% from P112.831 million to P147.398 million at the end of second quarter of 2022. The ending balance of P147.398 million is 3.63% of the Total Liabilities of P4.064 billion.

Capital Funds/Equity

Capital Funds/Equity decreased by 0.82% or P9.384 million from P1.160 million year-end balance to P1.150 billion at the end of second quarter of 2022.

Sources of Funds

Deposit generation provided the main source of loanable funds, Deposit Liabilities increased by 3.97% from P3.761 billion to P3.917 billion.

Marketing Programs

To maintain its competitive advantage in public awareness and to reach a wider scope of audience, the bank continues to be aggressive in its advertising campaign through print and radio advertisements, social media and company website.

Key Performance Indicators

The Bank monitors its performance with the other players in the banking industry in terms of the following indicators:

Key Performance Indicators	**CSB** ***June 2022***	**Industry** ***June 2022***
Capital Adequacy Capital to Risk Assets Ratio	24.19%	
Asset Quality Non-Performing Loan (NPL) Ratio Non-Performing Loan (NPL) Cover	14.20% 54.08%	7.78% 63.24%
Liquidity Loans to Deposit	53.51%	79.92%
Profitability Return on Average Equity Net Interest Margin	1.35% 5.00%	9.25% 6.24%
Cost Efficiency Cost to Income	102.30%	61.88%

The Bank's Capital Adequacy Ratio (CAR) stood at 24.19%is above the minimum 10% regulatory requirement. The bank's NPL ratio of 14.20% is higher compared with the industry's 7.78% average. The Bank will continue to be highly implementing the appropriate actions to improve the quality of loans and closely monitored on the lending operation. Allowance for Probable Losses over Non-performing loans increased at 54.08% versus the industry's 63.24%.

The Bank's loan to deposit ratio of 53.51% is lower compared with the thrift banking industry's 79.92%.

In terms of profitability, the bank's Return on Ave. Equity (ROE) is 1.35%, showed some improvement but it is still below the industry's par. Its Net Interest Margin continuous to be slightly well as it's approximates the industry average.

The Bank's cost to income at 102.30% is higher against the industry's 61.88%.

The Bank continues to adopt measures to provide a strong and stable financial condition.

The manner by which the Bank calculates the above indicators is as follows:

Key Performance Indicator	***Formula***
Capital to Risk Assets Ratio	BSP prescribed formula: <u>Total Qualifying Capital</u> Market and Credit Risk Weighted Exposures
Non-performing Loan (NPL) Ratio	<u>Non-performing Loans</u> Gross Loans
Non-performing Loan (NPL) Cover	<u>Allowance for Probable Losses</u> Non-performing Loans
Loans to Deposits Ratio	<u>Total Loans</u> Total Deposits
Return on Average Equity	<u>Net Income After Income Tax</u> Average Total Capital Accounts
Net Interest Margin	<u>Net Interest Income</u> Average Interest Earning Assets
Cost to Income	<u>Total Operating Expenses</u> Net Interest Income + Other Income

A schedule showing financial soundness indicators in two (2) comparative periods is as follows:

	June 2022	June 2021
1. Liquidity Ratio	0:16:1	0:16:1
2. Solvency Ratios		
a) current ratio	0:16:1	0:16:1
b) current liabilities to net worth ratio	3.41	3.27
3. Debt-to-equity ratio	3.53	3.46
4. Asset-to-equity ratio	4.53	4.46
5. Interest rate Coverage ratio	1.15	11.55
6. Profitability Ratio		
a) Return on Asset Ratio	0.15	0.08%
b) Return on Net Worth Ratio	0.68	0.37%

Earnings per Share

Basic earnings per share are as follows:

	June 30, 2022	June 30, 2021
Net Income/Loss	P 7,863,158	P 4,284,595
Divided by the number of outstanding shares	150,600,000	100,000,000
Basic earnings per share	0.52	0.43
	=====	=====

Dividends

No dividends declared during the quarter ended June 30, 2022.

PART II - OTHER INFORMATION

No other information for this period.

SIGNATURES

Pursuant to the requirements of the Securities Regulation Code, the issuer has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Issuer Citystate Savings Bank, Inc.

Signature and Title Ariel V. Ajesta
Chief Compliance Officer

Date August 15, 2022

Principal Financial/Accounting Officer/Comptroller Martin Jerry E. Machado
Chief Financial Officer

Signature and Title

Date August 15, 2022

CITYSTATE SAVINGS BANK, INC.
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2022 AND DECEMBER 31, 2021
(Amounts in Philippine Pesos)

	2022 Unaudited	2021 Audited
R E S O U R C E S		
CASH AND OTHER CASH ITEMS	**54,021,576**	61,873,023
DUE FROM BANGKO SENTRAL NG PILIPINAS	**433,705,805**	597,269,563
DUE FROM OTHER BANKS	**184,372,880**	168,642,433
LOANS AND RECEIVABLES ARISING FROM REVERSE REPURCHASE AGREEMENT	**163,421,768**	173,285,446
FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	**683,026,284**	672,078,884
HELD-TO-COLLECT FINANCIAL ASSETS(Net)	**749,290,211**	486,368,226
LOANS AND RECEIVABLES - Net	**2,045,222,433**	2,345,459,824
BANK PREMISES, FURNITURE, FIXTURES AND EQUIPMENT - Net	**200,731,543**	206,110,608
INVESTMENT PROPERTIES - Net	**583,245,910**	210,523,943
OTHER RESOURCES - Net	**117,448,665**	112,337,612
TOTAL RESOURCES	**5,214,487,075**	5,033,949,562
LIABILITIES AND EQUITY		
DEPOSIT LIABILITIES		
Demand	**987,068,759**	920,807,467
Savings	**2,658,686,536**	2,603,218,147
Time	**271,040,974**	237,415,731
Total Deposit Liabilities	**3,916,796,268**	3,761,441,346
OTHER LIABILITIES	**147,397,597**	112,830,565
Total Liabilities	**4,064,193,866**	3,874,271,911
EQUITY	**1,150,293,209**	1,159,677,651
TOTAL LIABILITIES AND EQUITY	**5,214,487,075**	5,033,949,562

CITYSTATE SAVINGS BANK, INC.
STATEMENTS OF COMPREHENSIVE INCOME
For the Quarter Ended June 30, 2022
(With Comparative Figures for the Quarter Ended June 30,2021)
(Amounts in Philippine Pesos)

	2022	2021
INTEREST INCOME		
Loans and receivables	49,877,835	51,592,366
Due from BSP and other banks	3,689,367	3,437,658
Available-for-sale securities	10,462,756	10,497,784
	64,029,958	65,527,808
INTEREST EXPENSE		
Deposit liabilities	4,610,024	5,185,355
Others	1,020,360	-
	5,630,384	5,185,355
NET INTEREST INCOME	58,399,573	60,342,453
IMPAIRMENT LOSSES - Net	(346,275)	-
NET INTEREST INCOME AFTER IMPAIRMENT LOSSES	58,745,849	60,342,453
OTHER OPERATING INCOME		
Service charges and fees	4,890,270	1,598,926
Trading gains	-	-
Miscellaneous	16,650,255	11,262,616
	21,540,525	12,861,542
OTHER OPERATING EXPENSES		
Employee benefits	33,333,478	26,270,590
Security, janitorial and messengerial services	5,749,757	5,894,544
Depreciation and amortization	15,139,813	8,907,272
Occupancy	1,352,712	7,906,339
Communication, light and water	5,469,952	6,190,798
Taxes and licenses	5,406,834	2,160,565
Insurance	3,777,975	3,470,698
Fuel and oil	4,367,587	2,603,003
Repairs and maintenance	426,294	207,994
Litigation and asset acquired expenses	1,225,810	496,998
Miscellaneous	8,516,991	5,185,347
	84,767,203	69,294,148
PROFIT (LOSS) BEFORE TAX	(4,480,829)	3,909,846
RECOVERY ON CHARGED-OFF ASSETS	-	-
TAX EXPENSE	2,087,491	2,025,158
NET PROFIT (LOSS)	(6,568,320)	1,884,689
OTHER COMPREHENSIVE INCOME (LOSS)		
Fair value gain (loss)	(6,952,573)	1,871,571
TOTAL COMPREHENSIVE INCOME (LOSS)	384,253	13,118
Earnings Per Share	-0.44%	0.19%

CITYSTATE SAVINGS BANK, INC.
STATEMENTS OF COMPREHENSIVE INCOME
For the Semester Ended, June 30, 2022
(With Comparative Figures for the Semester Ended June 30,2021)
(Amounts in Philippine Pesos)

	2022	2021
INTEREST INCOME		
Loans and receivables	**116,035,510**	103,437,436
Due from BSP and other banks	**7,158,803**	8,110,673
Available-for-sale securities	**20,211,399**	17,327,250
	143,405,712	128,875,359
INTEREST EXPENSE		
Deposit liabilities	**8,761,297**	11,162,757
Others	**1,560,290**	-
	10,321,588	11,162,757
NET INTEREST INCOME	**133,084,125**	117,712,602
IMPAIRMENT LOSSES - Net	**(5,363,683)**	(38,374)
RECOVERY ON CHARGED OFF ASSETS	**-**	
NET INTEREST INCOME AFTER IMPAIRMENT LOSSES	138,447,807	117,750,976
OTHER OPERATING INCOME		
Service charges and fees	**6,465,752**	3,813,969
Trading gains	**-**	-
Miscellaneous	**27,355,468**	20,329,953
	33,821,220	24,143,923
OTHER OPERATING EXPENSES		
Employee benefits	**62,016,768**	49,820,771
Security, janitorial and messengerial services	**11,818,337**	11,462,499
Depreciation and amortization	**28,303,453**	17,259,575
Occupancy	**4,478,300**	15,791,552
Communication, light and water	**10,717,968**	11,674,464
Taxes and licenses	**10,168,595**	3,258,219
Insurance	**6,595,167**	6,670,431
Fuel and oil	**8,040,027**	4,778,713
Repairs and maintenance	**1,013,795**	847,980
Litigation and asset acquired expenses	**2,325,226**	262,021
Miscellaneous	**14,950,115**	12,146,848
	160,427,752	133,973,073
PROFIT (LOSS) BEFORE TAX	**11,841,275**	7,921,826
TAX EXPENSE	**3,978,117**	3,637,231
NET PROFIT (LOSS)	**7,863,158**	4,284,595
OTHER COMPREHENSIVE INCOME (LOSS)		
Fair value gain (loss)	**(14,052,601)**	1,781,670
TOTAL COMPREHENSIVE INCOME (LOSS)	**(6,189,443)**	6,066,265
Earnings Per Share	**0.52%**	0.43%

CITYSTATE SAVINGS BANK, INC.
STATEMENTS OF CHANGES IN EQUITY
FOR THE SEMESTER ENDED JUNE 30,2022
(With Comparative Figures for the Period Ended June 30, 2021)
(Amounts in Philippine Pesos)

	2022	2021
CAPITAL STOCK		
Balance at the beginning of the period	**1,506,000,000**	1,000,000,000
Additional Subscription	**-**	
Balance at the end of the period	**1,506,000,000**	1,000,000,000
ADDITIONAL PAID-IN CAPITAL	**2,222,444**	2,222,444
DEPOSIT FOR STOCKS SUBSCRIPTION		506,000,000
REVALUATION RESERVES		
Balance at the beginning of the period	**9,772,559**	34,370,510
Total Comprehensive Income (Loss)	**(14,052,601)**	6,536,683
Balance at the end of the period	**(4,280,042)**	40,907,193
SURPLUS RESERVES		
Reserve for trust operations during the period	**5,257,142**	4,467,776
RETAINED EARNINGS		
Balance at the beginning of the period	**(366,769,493)**	(388,795,732)
Net income (Loss)	**7,863,158**	4,284,595
	-	
Balance at the end of the period	(358,906,335)	(384,511,136)
TOTAL CAPITAL FUNDS	**1,150,293,209**	**1,169,086,277**

CITYSTATE SAVINGS BANK, INC.
STATEMENTS OF CASH FLOWS
For the Semester End, June 30,2022
(With Comparative Figures for the Semester Ended June 30,2021)
(Amounts in Philippine Pesos)

	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit (Loss) before tax	**34,939,561**	7,921,826
Adjustments for:		
Gain / (Loss) from sale of ASS	**10,154,604**	6,443,447
Depreciation and amortization	**(28,303,453)**	(15,338,820)
Punong bayan audit adjustments	**-**	-
Operating income before working capital changes	**16,790,712**	(973,548)
Decrease (Increase) in loans and receivables	**(300,237,390)**	(11,015,012)
Decrease (Increase) in investment properties (ROPA)	**372,721,966**	2,920,831
Decrease(Increase) in other resources	**5,111,052**	(18,641,613)
(Decrease) Increase in deposit liabilities	**155,354,923**	128,552,367
Increase(decrease) in other liabilities	**34,567,032**	(457,204,444)
Cash from operations	**284,308,295**	(356,361,419)
Cash paid for income taxes	**3,978,117**	3,637,230
Net Cash From Operating Activities	**288,286,412**	(352,724,189)
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisitions of bank premises, furniture, fixtures and equipment	**(5,379,065)**	(1,531,396)
(Increase) Decrease in available-for-sale securities	**10,947,400**	1,013,093,293
Net Cash (Used) in Investing Activities	**5,568,334**	1,011,561,897
CASH FLOWS FROM FINANCING ACTIVITY		
Payment of dividends	**-**	-
Issuance of capital stock	**-**	6,000,000
Net Cash Used in Financing Activities	**-**	6,000,000
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	**293,854,747**	664,837,708
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD		
Cash and other cash items	**61,873,023**	42,001,435
Due from Bangko Sentral ng Pilipinas	**770,555,009**	394,637,929
Due from other banks	**168,642,433**	418,535,416
	1,001,070,465	855,174,780
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD		
Cash and other cash items	**54,021,576**	39,458,863
Due from Bangko Sentral ng Pilipinas	**597,127,573**	520,072,505
Due from other banks	**184,372,880**	157,306,708
	835,522,029	716,838,076

CITYSTATE SAVINGS BANK, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022, 2021 AND 2020
(Amounts in Philippine Pesos)

1. CORPORATE INFORMATION

1.1 Incorporation and Operations

Citystate Savings Bank, Inc. (the Bank) was incorporated in the Philippines on May 20, 1997. The Bank obtained a thrift bank license from the Bangko Sentral ng Pilipinas (BSP) on August 7, 1997 and started operations on August 8, 1997.

The Bank's common shares were listed in the Philippine Stock Exchange (PSE) on November 28, 2001. On March 4, 2004, the Bank was authorized by the BSP to engage in quasi-banking functions. On July 13, 2006, the Bank was granted license to operate foreign currency deposit unit (FCDU) and trust function. The Bank's FCDU started operations in November 2006, while its trust operations started in February 2007. At the end of 2021, the Bank has 30 branches, and 31 on-site and six off-site automated teller machines (ATMs) strategically located in key cities and municipalities within Metro Manila and provincial areas.

The Bank's operations include commercial banking, retail banking and treasury services, however, management does not view the Bank's business operations, activities and components separately but rather they view the Bank as a whole. Accordingly, no business segment information is presented in its financial statements.

As a banking institution, the Bank's operations are regulated and supervised by the BSP. As such, the Bank is required to comply with banking rules and regulations such as those relating to maintenance of reserve requirements on deposit liabilities and deposit substitutes and those relating to the adoption and use of safe and sound banking practices, among others, as promulgated by the BSP. The Bank's activities are subject to the provisions of the General Banking Law of 2000 [Republic Act (RA) No. 8791] and other related banking laws.

The Bank's registered address, which is also its principal place of business, is located at 2nd Floor, Citystate Centre, 709 Shaw Boulevard, Pasig City.

1.2 Status of Operations

The Bank earned net income amounting to P1.8 million in 2021, P5.3 million in 2020 and net loss amounting to P22.7 million in 2019, resulting to Deficit of P403.7 million and P426.6 million as of December 31, 2021 and 2020, respectively. As of January 1, 2021, the Bank's level of equity amounting to P643.6 million is lower than the minimum capital of P1.0 billion for thrift banks with head office in Metro Manila and with 11 to 100 branches as mandated by the BSP based on BSP Circular No. 854, *Minimum Capitalization of Banks*. In response to this matter, the Bank's Board of Directors (BOD) has come up with the plan in prior years to implement various measures to improve the Bank's financial condition within a reasonable period. These measures under the plan include formulation of a capital build up plan in compliance with BSP Circular No. 854 and the implementation of business improvement plan.

Also, as discussed in Note 17.4, the Bank received additional capital infusions from certain existing stockholders to subscribe to the increase in the Bank's authorized capital stock and meet the minimum capital requirement of the BSP. The Bank reclassified Deposit on future stock subscription to Capital Stock amounting to P506.0 million and the Bank's equity amounted to P1.2 billion as of December 31, 2021. Accordingly, the Bank's financial statements have been prepared on the assumption that the Bank will continue as a going concern which contemplates the realization of assets and the settlement of liabilities in the normal course of business [see also Note 3.1(a)].

1.3 Approval of Financial Statements

The financial statements of the Bank as of and for the year ended December 31, 2021 (including the comparative financial statements as of December 31, 2020 and for the years ended December 31, 2020 and 2019) were authorized for issue by the Bank's BOD on April 27, 2022.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of Preparation of Financial Statements

(a) Statement of Compliance with Philippine Financial Reporting Standards

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

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

(b) Presentation of Financial Statements

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

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

(c) *Functional and Presentation Currency*

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

Items included in the financial statements of the Bank are measured using its functional currency. Functional currency is the currency of the primary economic environment in which the Bank operates (see Note 2.13).

2.2 Adoption of New and Amended PFRS

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

The Bank adopted the following amendments to existing standards:

PFRS 9, PFRS 7 and PFRS 16 (Amendments)	:	Financial Instruments, Financial Instruments Disclosures and Leases – Interest Rate Benchmark Reform Phase 2
PFRS 16 (Amendments)	:	Leases – COVID-19-Related Rent Concessions beyond June 30, 2021

Discussed below and in the succeeding page are the relevant information about these pronouncements.

(i) PFRS 9 (Amendments), *Financial Instruments*, PFRS 7 (Amendments), *Financial Instruments Disclosures*, and PFRS 16 (Amendments), *Leases – Interest Rate Benchmark Reform Phase 2*. The amendments address issues that may affect the financial reporting during the interest rate benchmark reform, including the effect of changes to contractual cash flows or hedging relationships resulting from the replacement of the London Interbank Offered Rate (LIBOR) with alternative benchmark rates. The Phase 2 amendments are relevant to the Bank because it is exposed to the effects of the LIBOR reform on its financial instruments that will mature post-2021 (the date by which the reform is expected to be implemented).

Discussed below are the relevant information arising from the Bank's adoption of these amendments.

- When the contractual terms of the Bank's borrowings are amended as a direct consequence of the interest rate benchmark reform and the new basis for determining the contractual cash flows is economically equivalent to the basis immediately preceding the change, the Bank changes the basis for determining the contractual cash flows prospectively by revising the effective interest rate. If additional changes are made, which are not directly related to the reform, the applicable requirements of PFRS 9 are applied to the other changes.

- When a lease is modified as a direct consequence of the interest rate benchmark reform and the new basis for determining the lease payments is economically equivalent to the previous basis, the Bank remeasures the lease liability to reflect the revised lease payments discounted using a revised discount rate that reflects the change in the basis for determining the contractual cash flows.

For the year ended December 31, 2021, the interest rate benchmark reform has no impact on the Bank's financial assets and liabilities.

(ii) PFRS 16 (Amendments), *Leases – COVID-19-Related Rent Concessions beyond June 30, 2021 (*effective from April 1, 2021). The amendment extends for one year the use of practical expedient of not assessing whether rent concessions reducing payments up until June 30, 2022 occurring as a direct consequence of the COVID-19 pandemic are lease modifications and instead to account for those rent concessions as if they are not lease modifications. The application of these amendments had no significant impact to the Company's financial statements as the Company did not receive any rent concession from its lessors in 2021.

(b) Effective Subsequent to 2021 that are not Adopted Early

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

(i) PAS 16 (Amendments), *Property, Plant and Equipment – Proceeds Before Intended Use* (effective from January 1, 2022)

(ii) PAS 37 (Amendments), *Provisions, Contingent Liabilities and Contingent Assets – Onerous Contracts – Cost of Fulfilling a Contract* (effective from January 1, 2022)

(iii) Annual Improvements to PFRS 2018-2020 Cycle. Among the improvements, the following amendments, which are effective from January 1, 2022, are relevant to the Company:

- PFRS 9 (Amendments), *Financial Instruments – Fees in the '10 per cent' Test for Derecognition of Liabilities*

- Illustrative Examples Accompanying PFRS 16, *Leases – Lease Incentives*

(iv) PAS 1 (Amendments), *Presentation of Financial Statements – Classification of Liabilities as Current or Non-current* (effective from January 1, 2023)

(v) PAS 1 (Amendments), *Presentation of Financial Statements – Disclosure of Accounting Policies* (effective from January 1, 2023)

(vi) PAS 8 (*Amendments*), *Accounting Estimates – Definition of Accounting Estimates* (effective from January 1, 2023)

(vii) PAS 12 (Amendments), *Income Taxes – Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction* (effective from January 1, 2023)

2.3 Financial Instruments

Financial assets and financial liabilities are recognized when the Bank becomes a party to the contractual provisions of the financial instrument. For purposes of classifying financial instrument, 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 under PAS 32, *Financial Instruments: Presentation*. All other non-derivative financial instruments are treated as debt instruments.

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

At initial recognition, the Bank measures a financial asset or financial liability at its fair value plus or minus transaction costs such as fees and commissions that are incremental or directly attributable to the acquisition or issue of the financial asset or financial liability.

(a) Classification, Measurement and Remeasurement of Financial Assets

The classification and measurement of financial assets is driven by the Bank's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. Financial assets are classified into the following: financial assets at amortized, at fair value through other comprehensive income (FVOCI) and at fair value through profit or loss (FVTPL). The classification and measurement of financial assets relevant to the Bank are described below and in the succeeding pages.

(i) Financial Assets at Amortized Cost

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

- the financial 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. These are subsequently measured at amortized cost using the effective interest method, less any allowance for expected credit losses (ECL).

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, Loans and Receivables Arising from Reverse Repurchase Agreement, Held-to-collect (HTC) Financial Assets, Loans and Receivables, and as part of Other Resources in respect of Utility deposit, Security deposits, Deposit with Philippine Clearing House Corp. (PCHC), Deposit to Bancnet, Other investments and Petty cash fund.

For purposes of cash flows reporting and presentation, cash and cash equivalents comprise accounts with maturities of three months or less, including cash and non-restricted balances with the BSP and other banks. For statement of cash flows purposes, cash and cash equivalents include cash and other cash items, due from BSP, due from other banks, and loans and receivables arising from reverse repurchase agreement that are unrestricted and readily available for use in the Bank's operations and are subject to insignificant risk of change in value.

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

The Bank accounts for financial assets, particularly debt securities, 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-per-instrument basis) to designate equity securities as at FVOCI; however, such designation is not permitted if the equity investments are held by the Bank for trading. The Bank has designated certain equity securities as at FVOCI on initial application of PFRS 9.

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 Deficit account, except for those debt securities classified as FVOCI wherein cumulative fair value gains or losses are recycled to profit or loss.

Any dividends earned on holding equity instruments are recognized as part of Other Income (within Miscellaneous) under Other Operating Income in the statement of profit or loss, when the Bank's right to receive dividends is established, it is probable that the economic benefits associated with the dividend will flow to the Bank, and the amount of the dividend can be reliably measured, unless the dividends clearly represent recovery of a part of the cost of the investment.

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.

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

Interest income on financial assets at amortized cost and financial assets at FVOCI is calculated by applying the effective interest rate to the gross carrying amount of the financial assets except for those that are subsequently identified as credit-impaired and those that are purchased or originated credit-impaired assets.

The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument or, when appropriate, a shorter period, to the net carrying amount of the financial asset.

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

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

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

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

The interest earned is recognized as part of Interest Income in the statement of profit or loss.

(c) Impairment of Financial Assets

The Bank recognizes allowances for ECL on a forward-looking basis associated with its financial assets at amortized cost and debt securities at FVOCI. No impairment loss is recognized on equity investments that is designated at FVOCI. Recognition of credit losses is no longer dependent on the Bank's identification of a credit loss event. The measurement of the ECL reflects: (i) an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes; (ii) the time value of money; and, (iii) reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

The amount of allowance for ECL is updated at the end of each reporting period to reflect the changes in credit risk of the financial asset since initial recognition. The Bank recognizes lifetime ECL when there has been a significant increase in credit risk (SICR) since initial recognition. However, if the credit risk on the financial instrument has not increased significantly since initial recognition, the Bank measures the loss allowance for that financial instrument at an amount equal to 12-month ECL. Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a financial instrument. In contrast, 12-month ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the end of the reporting period.

The Bank's ECL model follows a three-stage impairment approach, which guide in the determination of the loss allowance to be recognized in the financial statements. The staging of financial assets, definition of default for purposes of determining ECL, and credit risk assessment are further discussed in Note 4.

ECL is a function of the probability of default (PD), loss-given default (LGD), and exposure-at-default (EAD), with the timing of the loss also considered, and is estimated by incorporating forward-looking economic information and through the use of experienced credit judgement. These elements are discussed more fully in Notes 4.1.6(a) and 4.1.6(b).

The Bank calculates ECL on a collective basis. For modelling ECL parameters which were carried out on a collective basis, the financial instruments are grouped on the basis of shared credit risk characteristics, such as but not limited to instrument product type, collateral type, and historical net charge-offs of the borrowers or counterparties.

Also, the Bank applies a simplified ECL approach for its accounts receivables wherein the Bank uses a provisioning matrix that considers historical changes in the behavior of the portfolio of credit exposures based on internally collected data to predict conditions over the span of a given observation period. These receivables include claims from various counterparties, which are not originated through the Bank's lending activities. For these instruments, the Bank measures the loss allowance of an amount equal to lifetime ECL.

The Bank recognizes an impairment loss in profit or loss for all financial instruments subjected to ECL impairment assessment with a corresponding adjustment to their carrying amount through a loss allowance account. With respect to investments in debt securities that are measured at FVOCI, the related loss allowance account is recognized in other comprehensive income and accumulated in the Revaluation Reserve account, and does not reduce the carrying amount of the financial asset in the statement of financial position.

(d) Derecognition of Financial Assets

(i) 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 significant increase in credit risk has occurred.

However, the Bank also assesses whether the new financial asset recognized is deemed to be credit-impaired at initial recognition, especially in circumstances where the renegotiation was driven by the debtor being unable to make the originally agreed payments. Differences in the carrying amount are recognized as gain or loss on derecognition of financial assets in profit or loss. As to the impact on ECL measurement, the expected fair value of the "new" asset is treated as the final cash flow from the existing financial asset at the date of derecognition; such amount is included in the calculation of cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

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

As to the impact on ECL measurement, the derecognition of the existing financial asset will result in the expected cash flows arising from the modified financial asset to be included in the calculation of cash shortfalls from the existing financial asset.

(ii) Derecognition other than Modification of Loans

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 also recognizes a collateralized borrowing for the proceeds received.

(e) Financial Liabilities at Amortized Cost

Financial liabilities which include deposit liabilities and other liabilities (except for tax related payables and post-employment defined benefit obligation), are recognized when the Bank becomes a party to the contractual terms of the instrument.

Financial liabilities are recognized initially at their fair value and subsequently measured at amortized cost using the effective interest method, for maturities beyond one year less settlement payments. All interest-related charges on financial liabilities are recognized as an expense in the statement of profit or loss under the caption Interest Expense. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are charged to profit or loss on an accrual basis and are added to the carrying amount of the instrument to the extent that they are not settled in the period when they arise.

(f) Derecognition of Financial Liabilities

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

2.4 Offsetting of Financial Instruments

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

2.5 Bank Premises, Furniture, Fixtures and Equipment

Land is stated at cost less impairment losses, if any. All other items of bank premises, furniture, fixtures and equipment are carried at acquisition cost less subsequent depreciation, amortization and any impairment losses.

The cost of an asset comprises its purchase price and directly attributable cost 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	40 years
Office furniture, fixtures and equipment	5 years

Leasehold improvements are amortized using the estimated useful lives of 5 to 20 years or the remaining term of the lease whichever is shorter.

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

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

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

An item of bank premises, furniture, fixtures and equipment including the related accumulated depreciation, 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 de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in profit or loss in the year the item is derecognized.

2.6 Investment Properties

Investment properties include land and buildings acquired by the Bank, in settlement of loans from defaulting borrowers through foreclosure or dacion in payment. These properties are held either to earn rental income or for capital appreciation or for both, but not held for sale in the next twelve months or used in the rendering of services or for administrative purposes.

Investment properties are stated at cost, less accumulated depreciation and any impairment losses (see Note 2.14). The cost of an investment property comprises its purchase price and directly attributable costs incurred. For these assets, the cost is recognized initially at the lower of the outstanding loan balance or bid price, which should not be higher than the appraised value of the property.

Buildings included under investment properties have estimated useful life of ten years and are depreciated using the straight-line basis.

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

Direct operating expenses related to investment properties, such as repairs and maintenance, and real estate taxes are charged to profit or loss in the period in which these costs are incurred.

Investment properties including the related accumulated depreciation and any impairment losses, are derecognized upon disposal or when no future economic benefit is expected from its disposal. Any gain or loss on the retirement or disposal of an investment property is recognized in profit or loss under the caption Miscellaneous under the Other Operating Income account in the year of retirement or disposal.

2.7 Assets Held-for-Sale

Assets held-for-sale pertain to motor vehicles and jewelry items, presented as part of the Other Resources account in the statement of financial position, which are acquired through repossession or foreclosure where the Bank intends to sell within one year from the date of classification as held for sale and remains committed to immediately dispose the assets through an active marketing plan.

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

Assets held-for-sale are measured at the lower of their carrying amounts, immediately prior to their classification as held for sale, and their fair value less costs to sell. These assets are not subject to depreciation. If the Bank has classified an asset as held-for-sale or disposal group, but the criteria for it to be recognized as held-for-sale or disposal group are no longer satisfied, the Bank shall cease to classify the asset as such.

The Bank recognizes an impairment loss for any initial or subsequent write-down of the assets held-for-sale and disposal group to fair value less cost to sell, to the extent that it has not been previously recognized in profit or loss. On the other hand, any gain from any subsequent increase in fair value less to costs to sell of an asset up to the extent of the cumulative impairment loss that has been previously recognized is recognized in profit or loss.

Assets that ceases to be classified as held-for-sale is measured at the lower of:
(a) its carrying amount before the asset was classified as held for sale, adjusted for any depreciation, amortization or revaluations that would have been recognized had the asset not been classified as held for sale; and, (b) its recoverable amount at the date of the subsequent decision not to sell. Any adjustment to the carrying amount of an asset that ceases to be classified as held for sale resulting in either a gain or loss, is recognized in profit or loss.

The gain or loss arising from the sale or re-measurement of assets held-for-sale or disposal group is recognized in profit or loss and is included in the Net gain from assets acquired or exchanged under Miscellaneous Income or Loss on sale of acquired assets under Miscellaneous Expense in the statement of profit or loss.

2.8 Intangible Assets

Intangible assets include acquired branch license and computer software used in operations and administration which are accounted for under the cost model and presented under the Other Resources account in the statement of financial position. The cost of the asset is the amount of cash or cash equivalents paid or the fair value of the other considerations given to acquire an asset at the time of its acquisition.

Acquired branch license is classified as intangible assets with indefinite useful life, hence, is not subject to amortization but would require an annual test for impairment (see Note 2.14). Branch license is subsequently carried at cost less accumulated impairment losses, if any.

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and install the specific software. Costs associated with maintaining computer software and those costs associated with research activities are recognized as expense in profit or loss as incurred.

The costs of any internally generated software development are recognized as intangible assets. Any capitalized internally developed software that is not yet complete is not amortized but is subject to impairment testing as described in Note 2.14. Amortization commences upon completion of the asset.

Capitalized software costs are amortized on a straight-line basis over the estimated useful lives (ranging from three to ten years) as these intangible assets are considered finite.

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.

2.9 Other Resources

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

2.10 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.

2.11 Other Income and Expense Recognition

Revenue is recognized to the extent that the revenue can be reliably measured; it is probable that future economic benefits will flow to the Bank; and the expenses and costs incurred and to be incurred can be measured reliably.

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 partially be within the scope of PFRS 9 and partially within the scope of PFRS 15, *Revenue from Contracts with Customers*. In such case, the Bank first applies PFRS 9 to separate and measure the part of the contract that is in-scope of PFRS 9, and then applies PFRS 15 to the residual part of the contract. Expenses and costs, if any, are recognized in profit or loss upon utilization of the assets or services or at the date these are incurred. All finance costs are reported in profit or loss on accrual basis, except capitalized borrowing costs which are included as part of the cost of the related qualifying asset, if any.

The Bank also earns service fees and commissions 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 arising from various banking services, which are to be accounted for under PFRS 15, the following provides 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) *Service charges and fees* are generally recognized on an accrual basis when the service has been provided. Fees arising from negotiating, or participating in the negotiation of, a transaction for a third party, such as the arrangement of the acquisition of debt instruments or other securities, are recognized on completion of the underlying transaction. Other service fees are recognized based on the applicable service contracts, usually on a time-appropriate basis.

(b) *Trust fees* are service fees calculated in reference to the net asset value of the funds managed and deducted from the customers' account balance on a monthly basis which are recognized over time as the asset management services are provided. These are recognized in profit or loss, as part of Miscellaneous under Other Operating Income.

(c) *Penalties on loans,* presented as part of Miscellaneous Income, are recognized only upon collection or accrued when there is a reasonable degree of certainty as to its collectability.

For other income outside the scope of PFRS 15, the following provides information about the nature and the related revenue recognition policies:

(a) *Gains from assets acquired/exchanged* are from the disposals of bank premises, furniture, fixtures and equipment, investment properties, or assets held-for-sale, if any.

The Bank recognizes gain on sale at a point in time, subject to the following additional criteria:

- when control of the asset is transferred to the buyer;
- when the Bank does not retain either continuing managerial involvement to the degree usually associated with ownership, or effective control over the assets sold; and,
- when the collectability of the entire sales price is reasonably assured.

These are recognized in profit or loss, as part of Miscellaneous under Other Operating Income.

(b) *Dividend income* is recognized when the Bank's right to receive payment is established.

Collections from accounts, which did not qualify from revenue recognition, are treated as customers' deposits and are included as part of Accounts payable under Other Liabilities account in the statement of financial position.

2.12 Leases

The Bank accounts for its leases as follows:

(a) *Bank as a Lessee*

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

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

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

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

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

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

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

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

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

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

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

(b) Bank as Lessor

Leases, which do not transfer to the lessee substantially all the risks and benefits of ownership of the asset, are classified as operating leases. Lease income from operating leases is recognized in profit or loss on a straight-line basis over the lease term.

2.13 Foreign Currency Transactions and Translation

The accounting records of the Bank are maintained in Philippine pesos, except for the FCDU, which is maintained in United States (US) dollars. 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.

The financial statements of the FCDU of the Bank, which are expressed in US dollars as its functional currency, are translated using the closing rates for statement of financial position accounts and weighted average rates for statement of profit or loss and statement of comprehensive income accounts.

Changes in the fair value of monetary financial assets denominated in foreign currency classified as financial assets at FVOCI are analyzed between translation differences resulting from changes in the amortized cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in amortized cost are recognized in profit or loss, and other changes in the carrying amount are recognized in other comprehensive income.

2.14 Impairment of Non-financial Assets

The Bank's premises, furniture, fixtures and equipment (including right-of-use assets), investment properties, intangible assets and other non-financial assets are subject to impairment testing. Intangible assets with an indefinite useful life or those not yet available for use are tested for impairment at least annually. All other individual assets or cash-generating units are tested for impairment whenever events or changes in circumstances indicate that their carrying amount 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, some assets are tested for impairment either individually or at the cash-generating unit level.

Impairment loss is recognized in profit or loss for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amounts which is the higher of its fair value less costs to sell and its value in use.

In determining value in use, management estimates the expected future cash flows from each cash-generating unit and determines the suitable interest rate in order to calculate the present value of those cash flows. The data used for impairment testing procedures are directly linked to the Bank's latest approved budget, adjusted as necessary to exclude the effects of asset enhancements. Discount factors are determined individually for each cash-generating unit and reflect management's assessment of respective risk profiles, such as market and asset-specific risk factors.

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

2.15 Employee Benefits

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

(a) Post-employment Defined Benefit Plan

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

The liability recognized in the statement of financial position for defined benefit plan is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated annually by an independent actuary using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows for expected benefit payments using a discount rate derived from the interest rate of a zero coupon government bond that is 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. The interest rate is based from the reference rate published by Bloomberg using its valuation technology, Bloomberg Valuation (BVAL). 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 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, taking 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 Miscellaneous Account in the statement of profit or loss. Remeasurements are not reclassified to profit or loss in the subsequent periods.

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

(b) Post-employment Defined Contribution Plans

A defined contribution plan is a pension plan under which the Bank pays fixed contributions into an independent entity. Under this plan, the Bank has no legal or constructive obligations to pay further contributions after payment of the fixed contribution. The contributions recognized in respect of defined contribution plans are expensed as they fall due. Liabilities or assets may be recognized if underpayment or prepayment has occurred and are normally of a short-term nature.

(c) Termination Benefits

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

(d) Compensated Absences

Compensated absences are recognized for the number of paid leave days (including holiday entitlement) remaining at the end of each reporting period. They are included in the Other Liabilities account in the statement of financial position at the undiscounted amount that the Bank expects to pay as a result of the unused entitlement.

2.16 Income Taxes

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

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

Deferred tax is accounted for using the liability method, on temporary differences at the end of 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 carry forward of unused tax losses and unused tax credits to the extent that it is probable that taxable profit will be available against which the deferred tax asset 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 assets and liabilities reflects the tax consequences that would follow from the manner in which the Bank expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

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

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

2.17 Related Party Transactions and Relationships

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

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. These parties 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 an entity that gives them significant influence over the Bank and close members of the family of any such individual; and, (d) the Bank's funded post-employment benefit plan for its employees.

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

For purposes of reporting to the SEC, transactions amounting to 10% or more of the total assets based on the latest audited financial statements that were entered into with related parties are considered material. This is based on the requirement of SEC Memorandum Circular 2019-10, *Rules on Material Related Party Transactions for Publicly-listed Companies*.

All individual material related party transactions shall be approved by at least two-thirds vote of the BOD, with at least a majority of the independent directors voting to approve the material related party transactions. In case that a majority of the independent directors' vote is not secured, the material related party transaction may be ratified by the vote of the stockholders representing at least two-thirds of the outstanding capital stock. For aggregate related party transactions within a one year period that breaches the materiality threshold of 10% of the Company's total assets based on the latest audited financial statements, the same board approval would be required for the transaction that meets and exceeds the materiality threshold covering the same related party.

Directors with personal interest in the transaction should abstain from participating in discussions and voting on the same. In case they refuse to abstain, their attendance shall not be counted for the purposes of assessing the quorum and their votes shall not be counted for purposes of determining approval.

2.18 Equity

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

Additional paid-in capital includes any premiums received on the issuance of capital stock. Any transaction costs associated with the issuance of shares are deducted from additional paid-in capital, net of any related income tax benefits.

Deposit on subscription of shares represents the amount of money received from stockholders as deposit for its subscription to the Bank's unissued capital stock which is currently pending for its issuance.

As adopted from SEC Financial Reporting Bulletin 006 issued in 2012 and amended in 2013 and 2017, the Bank does not consider a deposit on future subscription as an equity instrument unless all of the following elements are present:

(i) the unissued authorized capital of the entity is insufficient to cover the amount of shares indicated in the contract;

(ii) there is BOD's approval on the increase in authorized capital stock (for which a deposit was received by the Bank);

(iii) there is stockholders' approval of said proposed increase; and,

(iv) the application for the approval of the proposed increase has been presented for filing or has been filed with the SEC.

If any or all of the foregoing elements are not present, the transaction should be recognized as a liability. The amount of deposits on future stock subscription will be reclassified to equity account when the Bank meets the foregoing criteria.

Revaluation reserves comprise of the following:

(a) net unrealized fair value gain arising from remeasurements of financial assets at FVOCI; and,

(b) remeasurements of defined benefit post-employment plan based on the accumulated balances of actuarial gains or losses arising from experience adjustments and other changes in actuarial assumptions used in the determination of defined benefit obligation, and actual return on plan assets (excluding amount included in net interest).

Surplus reserves include reserve for trust business which represents the accumulated amount set aside by the Bank under prevailing regulations, requiring the Bank to carry to surplus 10% of its net profits accruing from trust business until the surplus shall amount to 20% of its authorized capital stock. The reserve shall not be paid out in dividends, but losses accruing in the course of the trust business may be charged against this reserve.

Deficit represents all current and prior period results of operations as reported in the statement of profit or loss.

The Bank follows the requirements of BSP Circular No.1011, *Guidelines on the Adoption of PFRS 9*, which requires financial institutions to set up general loan loss provision (GLLP) equivalent to 1.00% of all outstanding on-balance sheet loan accounts. GLLP pertains to the appropriation in the Surplus Reserves account, brought about by cases when the allowance for credit losses on loan accounts computed under the requirements of PFRS 9 is less than the 1.00% GLLP required by the BSP.

2.19 Earnings (Loss) per Share

Basic earnings (loss) per share is computed by dividing net income (loss) attributable to the equity holders of the Bank by the weighted average number of shares issued and outstanding, adjusted retroactively for any stock dividend, stock split or reverse stock split declared during the reporting period.

Diluted earnings (losses) per share is computed by dividing net income (loss) by the weighted average number of common shares issued and outstanding during the period assuming the conversion of potentially dilutive shares.

Currently, the Bank does not have potentially dilutive shares outstanding; hence, the dilutive earnings (loss) per share is equal to the basic earnings (loss) per share.

2.20 Events After the End of the Reporting Period

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

3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

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

3.1 Critical Management Judgments in Applying Accounting Policies

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

(a) Going Concern Assumption

When preparing financial statements, management makes an assessment of the Bank's ability to continue as a going concern. It prepares financial statements on a going concern basis unless management either intends to liquidate the Bank or to cease trading, or has no realistic alternative but to do so. When management is aware in making its assessment of uncertainties related to events or conditions that may cast significant doubt upon the Bank's ability to continue as a going concern, the Bank discloses those uncertainties.

In assessing whether the going concern assumption is appropriate, management takes into account all available information about the future, which is at least, but is not limited to, 12 months from the end of the reporting period. The degree of consideration depends on the facts in each case. Management may need to consider a wide range of factors relating to current and expected profitability, debt repayment schedules and potential sources of replacement financing before it can satisfy itself that the going concern basis is appropriate.

Management believes that the Bank will continue as a going concern because the Bank committed to comply with the minimum capital requirement. The Bank obtained approval from the BOD and stockholders for the increase in its authorized capital stock; and received additional cash infusions from certain existing stockholders totalling to P502.8 million in 2020. In 2021, BSP and SEC approved the Bank's planned increase in authorized capital stock and reclassified the Deposit on future stock subscription to Capital Stock amounting to P506.0 million. The Bank's equity amounted to P1.2 billion as of December 31, 2021 (see also Note 1.2).

(b) *Application of ECL to Loans and Receivables and Financial Assets at FVOCI*

The Bank uses general approach and historical loss rates to calculate ECL for Loans and Receivables and external benchmarking approach for debt instruments carried at FVOCI. The allowance for impairment is based on the ECLs associated with the PD of a financial instrument in the next 12 months, unless there has been a significant increase in credit risk since origination of the financial instrument, in such case, a lifetime ECL for the instrument is recognized. This is where significant management judgment is required.

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 significantly increased since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument.

(c) *Evaluation of Business Model 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 strategic portfolio of financial assets for trading activities consistent with its risk appetite.

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 solely payments of principal and interest on the principal outstanding, with interest representing time value of money and credit risk associated with the principal amount outstanding.

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

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

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

(d) *Distinguishing Investment Properties and Owner-occupied Properties*

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

Some properties comprise a portion that is held to earn rental or for capital appreciation and another portion that is held for use in its banking operation and services or for administrative purposes. If a portion can be sold separately (or leased out separately under finance lease), the Bank accounts for the portion separately. If a portion cannot be sold separately, the property is accounted for as investment property only if an insignificant portion is held for use in its banking operation or services or for administrative purposes. Judgment is applied in determining whether ancillary services are so significant that a property does not qualify as investment property. The Bank considers each property separately in making its judgment.

(e) *Determination of Branch Licenses Having Indefinite Useful Lives*

The Bank's branch licenses were regarded as having an indefinite useful lives considering there is no foreseeable limit to the period over which such assets are expected to generate net cash inflows for the Bank. The assessment of having indefinite useful lives is reviewed periodically and is updated whether events and circumstances such as the period of control over these assets and legal or similar limits on the use of these assets continue to support such assessment.

(f) *Determination of Lease Term of Contracts*

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

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

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

(g) Distinguishing Operating and Finance Leases where the Bank is the Lessor

The Bank has entered into various lease agreements as a lessor. Critical judgment was exercised by management to distinguish each lease agreement as either an operating or finance lease by looking at the transfer or retention of significant risk and rewards of ownership of the properties covered by the agreements. Failure to make the right judgment will result in either overstatement or understatement of assets and liabilities. Management assessed that all of its existing lease arrangements qualify as operating leases.

(h) Recognition of Provisions and Contingencies

Judgment is exercised by management to distinguish between provisions and contingencies. Policies on recognition of provisions and contingencies are discussed in Note 2.10 and relevant disclosures on those provisions and contingencies are presented in Note 24. In dealing with the Bank's various legal proceedings, the Bank's 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 legal 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 on-going legal proceeding will have a 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.

3.2 Key Sources of Estimation Uncertainty

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

(a) Estimation of Allowance for ECL on Financial Assets

When measuring allowance for ECL for relevant categories of financial assets, management applies judgment in defining the criteria in assessing whether a financial asset has experienced significant increase in credit risk (SICR) since initial recognition, and in the estimation of the contractual cash flows due from counterparty and those that the Bank would expect to receive, taking into account the cash flows from the realization of collateral and integral credit enhancements.

The Bank's ECL calculations are outputs of complex models with a number of underlying assumptions about future economic conditions and credit behaviour of counterparties (e.g., the likelihood of counterparties defaulting and the resulting losses).

The computation of the ECL also considers the use of reasonable and supportable forward-looking information, which is based on assumptions for the future movement of different economic drivers and how these drivers will affect each other that may result in different levels of loss allowance.

Significant factors affecting the estimates on the ECL model include:

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

Explanation of the inputs, assumptions and estimation used in measuring ECL, and the analysis of the allowance for ECL on various groups of financial instruments is further detailed in Notes 4.1.6 and 4.1.7, respectively.

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

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

(c) Fair Value Measurement for Financial Instruments

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

The carrying values of the Bank's financial assets at FVOCI and the amounts of fair value changes recognized on those assets are disclosed in Notes 6 and 10, respectively.

(d) Estimating Useful Lives of Bank Premises, Furniture, Fixtures and Equipment, Buildings classified as Investment Properties, and Computer Software presented as part of Other Resources

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

The carrying amounts of these assets are presented in Notes 12, 13 and 14. Based on management's assessment as at December 31, 2021 and 2020, there is no change in the estimated useful lives of these assets during those years. Actual results, however, may vary due to changes in estimates brought about by changes in factors mentioned in the preceding page.

(e) Fair Value Measurement for Investment Properties

The Bank's investment properties are composed of parcels of land and buildings acquired from defaulting borrowers and are not held for sale within the next twelve months from the end of reporting period. The estimated fair values of these assets, as disclosed in Notes 6 and 13, are determined by in-house and independent appraisers applying the relevant valuation methodologies as described therein.

For investment properties with appraisal conducted prior to the end of the reporting period, management determines whether there are significant circumstances during the intervening period that may require adjustments or changes in the disclosure of the fair value of those properties.

A significant change in key inputs and sources of information used in the determination of the fair value disclosed for those assets may result in adjustment in the carrying amount of the assets reported in the financial statements if their fair value will indicate evidence of impairment.

(f) Determining Realizable Amount of Deferred Tax Assets

The Bank reviews its deferred tax assets at the end of each reporting period and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Management assessed that the carrying amount of deferred tax assets recognized in the statements of financial position as disclosed in Note 20 can be utilized in the coming years or within their prescriptive period.

(g) Estimating Impairment of Non-financial Assets

Except for intangible assets with indefinite useful lives, which are tested for impairment at least annually, PFRS requires that an impairment review be performed when certain impairment indications are present. In assessing impairment, management estimates the recoverable amount of each asset or cash-generating unit based on expected future cash flows and uses an interest rate to calculate the present value of those cash flows.

Estimation uncertainty relates to assumptions about future operating results and the determination of a suitable discount rate (see Note 2.14).

Though management believes that the assumptions used in the estimation of fair values of non-financial assets are appropriate and reasonable, significant changes in these assumptions may materially affect the assessment of recoverable amount and any resulting impairment loss could have a material adverse effect on the Bank's results of operations.

Based on management's assessment, the Bank's non-financial assets were not impaired as of December 31, 2021 and 2020.

(h) Valuation of Post-employment Defined Benefit Plan

The determination of the amounts of post-employment benefit obligation is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions include, among others, discount rates and expected rate of salary increases. A significant change in any of these actuarial assumptions may generally affect the recognized expense, other comprehensive income or loss, and the carrying amount of the post-employment benefit obligation in the next reporting period. The amounts of post-employment benefit obligation and expense and an analysis of the movements in the estimated present value of post-employment benefit obligation, as well as the effect of the changes in the assumptions used in estimating such obligation are presented in Note 19.2.

4. RISK MANAGEMENT OBJECTIVES AND POLICIES

Overall risk management function provides an oversight of the management of risks. The risk management function is generally responsible for (a) identifying the key risk exposures and assessing and measuring the extent of risk exposures of the Bank and its Trust operations; (b) monitoring the risk exposures and determining, on an on-going basis, the corresponding capital requirement in accordance based on the Bank's internal capital adequacy assessment; (c) accepting risks that are within the bank's approved risk tolerance and risk appetite after considering risk mitigation measures; and, (d) reporting on a regular basis to the BOD of the results of risk assessment and monitoring.

The Bank's Risk Oversight Committee (ROC) is a standing committee of the BOD. The ROC assists the BOD in fulfilling its responsibilities with respect to Bank's risk governance structure and risk management guidelines and policies including the supervision of the competency of the Chief Risk Officer. The ROC reports to the BOD the Bank's risk profile, risk management framework, and pertinent policies and practices employed to identified and manage risks. It also oversees the overall adequacy of the risk management function including the design, implementation, and maintenance of an effective risk program. In this regard, the Bank's senior management are primarily responsible in managing risks in the areas that they are responsible for.

4.1 Credit Risk

Credit risk is the risk that the counterparty in a transaction may default in payments and it arises chiefly from its lending and investment activities. The Bank manages its credit risk with the assistance of its Loan Operations Group (LOG), Credit & Collections Group (CCG), and Accounts Management Department (AMD), which oversees the lending process from origination to disbursement. The quantification of credit risk requires further estimations as to the Probability of Default (PD) occurring, the associated loss ratios, and of the default correlations between counterparties. Credit risk is measured using time-tested tools such as Probability of Default (PD), Exposure at Default (EAD), and Loss Given Default (LGD), for purposes of measuring Expected Credit Loss (ECL) as required under PFRS 9.

Adverse changes in the economy, health of a particular industry, or possible concentration risks could result in losses that are different from those provided for at the end of the reporting period. Management, therefore, carefully manages its exposure to credit risk.

4.1.1 Credit Quality Analysis

The following tables set out information about the credit quality of loans and other receivables, HTC financial assets and financial assets at FVOCI in 2021 and 2020 based on PFRS 9. Credit risks related to cash and other cash items, due from BSP, due from other banks, and loans and receivables arising from reverse repurchase agreement are negligible. As of December 31, 2021 and 2020, there are no purchased or originated credit-impaired financial assets in the Bank's financial statements.

	2021			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Loans and other receivables				
Performing:				
Current	P 1,346,214,325	P -	P -	P1,346,214,325
Past due	-	214,047,115	573,359,302	787,406,417
Non-performing:				
Past due	-	2,745,235	186,611,074	189,356,309
Items in litigation	-	-	99,039,701	99,039,701
	1,346,214,325	216,792,350	859,010,077	2,421,016,752
Expected credit loss allowance	(9,523,325)	(15,283,822)	(50,749,781)	(75,556,928)
Carrying amount	**P 1,335,691,000**	**P 201,508,528**	**P 808,260,296**	**P2,345,459,824**
HTC financial assets				
Gross amount	P 486,455,082	P -	P -	P 486,455,082
Expected credit loss allowance	(86,856)	-	-	(86,856)
Carrying amount	**P 486,368,226**	**P -**	**P -**	**P 486,368,226**
Financial assets at FVOCI				
Carrying amount	**P 398,132,176**	**P -**	**P -**	**P 398,132,176**
Other resources				
Carrying amount	**P -**	**P -**	**P 16,348,148**	**P 16,348,148**

	2020			
	Stage 1	Stage 2	Stage 3	Total
Loans and other receivables				
Performing:				
Current	P 1,709,709,118	P -	P -	P1,709,709,118
Past due	-	436,366,540	-	436,366,540
Non-performing:				
Past due	-	3,543,860	58,565,739	62,109,599
Items in litigation	-	-	117,551,306	117,551,306
	1,709,709,118	439,910,400	176,117,045	2,325,736,563
Expected credit loss allowance	(15,084,903)	(5,698,257)	(67,288,288)	(88,071,448)
Carrying amount	P 1,694,624,215	P 434,212,143	P 108,828,757	P 2,237,665,115
HTC financial assets				
Gross amount	P 321,971,796	P -	P -	P 321,971,796
Expected credit loss allowance	(125,231)	-	-	(125,231)
Carrying amount	P 321,846,565	P -	P -	P 321,846,565
Financial assets at FVOCI				
Carrying amount	P 154,392,725	P -	P -	P 154,392,725
Other resources				
Carrying amount	P -	P -	P 13,359,181	P 13,359,181

4.1.2 Concentration of Credit Risk

The Bank monitors concentrations of credit risk by industry. An analysis of concentrations of credit risk at the end of the reporting period is shown below (gross of allowance for impairment, and unearned interests, discounts and other charges).

	Due from BSP, Other Banks and Loans and Reverse Repurchase Agreements	Loans and Receivables	Investment Securities
December 31, 2021			
Financial intermediaries	P 939,197,442	P -	P 306,507,116
Other community, social and personal activities	-	155,152,549	-
Consumption	-	272,265,251	-
Real estate, renting and other related activities	-	1,117,244,474	-
Wholesale and retail trade	-	167,860,201	-
Agriculture, fishing and forestry	-	35,062,120	-
Manufacturing (various industries)	-	6,200,000	-
Others	-	668,389,963	578,080,142
	P 939,197,442	**P 2,422,174,558**	**P 884,587,258**
December 31, 2020			
Financial intermediaries	P 1,530,581,916	P 793,761	P 217,612,957
Other community, social and personal activities	-	78,345,442	-
Consumption	-	202,319,379	-
Real estate, renting and other related activities	-	1,052,064,812	-
Wholesale and retail trade	-	146,959,420	-
Agriculture, fishing and forestry	-	35,474,030	5,878,641
Manufacturing (various industries)	-	9,000,000	-
Others	-	821,134,651	252,872,923
	P 1,530,581,916	P 2,346,091,495	P 476,364,521

The Bank's significant portion of other financial assets under Other Resources are invested in financial intermediaries industry.

4.1.3 Credit Risk Management

The Credit Review Office (CRRO) undertakes credit analysis and review to ensure consistency in the Bank's risk assessment process. The AMD performs (a) risk ratings for corporate accounts and (b) risk scoring for consumer accounts subject to validation by CRRO. It also ensures that the Bank's credit policies and procedures are adequate to meet the demands of the business. The AMD is also responsible for developing procedures to streamline and expedite the processing of credit applications.

The AMD also undertakes portfolio management by reviewing the Bank's loan portfolio, including the portfolio risks associated with particular industry sectors, loan size and maturity, and development of a strategy for the Bank to achieve its desired portfolio mix and risk profile.

The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and industry segments. Such risks are monitored on a revolving basis and subject to an annual or more frequent review.

Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits when appropriate. Exposure to credit risk is also managed in part by obtaining collateral and corporate and personal guarantees.

The AMD reviews the Bank's loan portfolio in line with the Bank's policy of not having significant unwarranted concentrations of exposure to individual counterparties, in accordance with the BSP's prohibitions on maintaining a financial exposure to any single person or group of connected persons in excess of 25% of its net worth.

Loan classification is an integral part of the Bank's management of credit risk. On a quarterly basis, loans are reviewed, classified and rated based on internal and external factors that affect their performance. On a quarterly basis, loan classifications of impaired accounts are assessed and the results are used as basis for the review of loan loss provisions.

Generally, accounts are classified by the Bank based on the loan credit quality as follows:

(a) *Unclassified*

These are individual credits that do not have a greater-than-normal risk and do not possess the characteristics of adversely classified loans as defined below. These are credits that have the apparent ability to satisfy their obligations in full and therefore, no loss in ultimate collection is anticipated. These are adequately secured by readily marketable collateral or other forms of support security or are supported by sufficient credit and financial information of favorable nature to assure repayment as agreed.

(b) *Loans Especially Mentioned (LEM)*

Accounts classified as LEM are individual credits that have potential weaknesses particularly on documentation or credit administration that deserve management's close attention. These potential weaknesses, if left uncorrected, may affect the repayment prospects of the loan and thus heighten the credit risk to the Bank.

A credit may also be classified as LEM if there is evidence of weakness in the borrower's financial condition or credit worthiness, or the credit is subject to an unrealistic repayment program or inadequate source of funds.

(c) *Substandard*

Accounts classified as "Substandard" are individual credits or portions thereof, which appear to involve a substantial and unreasonable degree of risk to the Bank because of unfavorable record or unsatisfactory characteristics. There exists in such accounts the possibility of future loss to the Bank unless given closer supervision. Those classified as "Substandard" must have a well-defined weakness or weaknesses that jeopardize their liquidation. Such well-defined weaknesses may include adverse trends or development of financial, managerial, economic or political nature, or a significant weakness in collateral.

(d) Doubtful

Accounts classified as "Doubtful" are individual credits or portions thereof which have the weaknesses inherent in those classified as "Substandard", with the added characteristics that existing facts, conditions and values make collection or liquidation in full highly improbable and in which substantial loss is probable. Positive and vigorous action is required to avert or minimize losses.

(e) Loss

Accounts classified as "Loss" are individual credits or portions thereof which are considered uncollectible or worthless and of such little value that their continuance as bankable assets is not warranted although the loans may have some recovery or salvage value. The amount of loss is difficult to measure and it is not practical or desirable to defer writing off these basically worthless assets even though partial recovery may be obtained in the future.

These loan classifications are also used by the Bank as inputs and basis in determining the impairment losses as described in Note 2.3.

4.1.4 Credit Risk Exposure

The Bank's credit risk measurement is performed on different segments of financial asset portfolio such as: (a) corporate and retail loans, which generally include corporate, individual, housing and auto loans, (b) debt securities that are measured at amortized cost and at FVOCI; and, (c) jewelry loans. The Bank also established credit risk assessment procedures for sales contract receivables and other risk assets including accounts receivables.

(a) Corporate and Retail Loans

Loans and receivables, regardless if the accounts have been fully paid, extended or renewed in subsequent year or period, are subjected to evaluation for possible losses. 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 PD, EAD, and LGD, for purposes of measuring ECL.

The Bank determines any evidence of potential deterioration in the quality of an instrument that take into consideration both quantitative and qualitative criteria. Past due accounts 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).

For corporate loans, the rating is determined at the borrower level. The Bank incorporates any updated or new information or credit assessments into the credit review system on an ongoing basis. In addition, the Bank updates information about the creditworthiness of the borrower every year from sources such as publicly available financial statements. This determined the internal credit rating and the PD.

For retail loans, subsequent to initial recognition, the payment behavior of the borrower is monitored on periodic basis. The ECL parameters were carried on a collective basis on shared credit risk characteristics of the borrowers and the repayment scheme of the products.

(b) Debt Securities Classified as Financial Assets at FVOCI and HTC Financial Assets

For the Bank's debt securities, credit ratings published by reputable external rating agency [such as Standard & Poor's (S&P's)] are used for purposes of applying the external benchmarking approach. 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 unless there is an indication of a heighten credit risk.

(c) Jewelry Loans

The ECL of jewelry loans is computed using loss rate approach. The provision rates are based on historical experience on sale of repossessed jewelry.

4.1.5 Expected Credit Loss Management

(a) Assessment of SICR

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Bank assesses the change in the risk of a default occurring over the remaining life of the financial instrument. In making this assessment, the Bank assesses on a periodic basis both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information as appropriate. These may include macroeconomic conditions, economic sector and geographical region relevant to the counterparty or borrower and other factors that are counterparty-specific.

As the Bank holds various arrays of financial instruments, the extent of assessment may depend on the materiality of the financial instrument or the complexity of the portfolio being assessed.

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

(i) Stage 1 – comprises of all credit exposures that are considered 'performing' and with no observed SICR since initial recognition. These include those financial instruments with low credit risk. For these financial instruments, the loss allowance is determined based on a 12-month ECL.

(ii) Stage 2 – comprises of all financial instruments assessed to have SICR since initial recognition based on the Bank's quantitative and qualitative criteria, though not yet deemed to be credit-impaired. With reference to the Bank's credit risk assessment, Stage 2 includes credit exposures that are considered 'under-performing' in which risk ratings were downgraded to LEM. Stage 2 financial instruments may also include those financial instruments where the credit risk has improved and have been reclassified from Stage 3 subject to the Bank's observation period on the creditworthiness of the counterparty. A lifetime ECL is recognized for these financial instruments.

(iii) Stage 3 – comprises credit exposures which are assessed as 'credit-impaired', thus considered by the Bank as 'non-performing', which is assessed consistently with the Bank's definition of default for each loan portfolio. Generally, this includes accounts that are classified as Substandard, Doubtful and Loss. The Bank recognizes a lifetime ECL for all credit-impaired financial assets.

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 at least 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.

Financial assets that are credit-impaired on initial recognition are classified as purchased or originated credit-impaired assets. ECL is only recognized or released to the extent that there is a subsequent change in the ECLs.

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.

For portfolios in respect of which the Bank has limited historical data particularly debt securities and government bonds, external benchmark information is used to supplement the internally available data. The portfolios for which external benchmark information represents a significant input into measurement of ECL include exposures to low default borrower segments.

(b) *Definition of Default*

(i) *Loans and Receivables*

The Bank defines a financial asset as in default, which is aligned with the definition of credit-impaired asset, when it meets one or more of the following criteria:

- *Quantitative* – in this criterion, 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 30 days past due threshold for retail loans.

- *Qualitative* – this includes instances where the borrower is unlikely to pay its obligations and is deemed to be in significant financial difficulty, which include cases of: (i) loan restructuring for economic or legal reasons relating to the borrower's financial difficulty on terms that the Bank would not consider otherwise; (ii) borrower's death; (iii) breach of financial covenant/s; or, (iv) the borrower entering bankruptcy or financial reorganization.

A loan that has been renegotiated due to a deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment.

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 have been applied to all financial instruments held by the Bank and are consistent with the definition of default used for internal credit risk management purposes. Such definition has been consistently applied in determining PD, EAD, and LGD throughout the ECL calculations of the Bank.

(ii) Debt Securities Classified as Financial Assets at FVOCI and HTC Financial Assets

For the Bank's debt securities, credit ratings published by reputable external rating agency (such as S&P) are used in relation to the external benchmarking adopted by the Bank. 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. Losses expected as a result of future events, shall also be considered in estimating the ECL.

Further, objective evidence that the security is impaired includes observable data that comes to the attention of the holder of the security about the following loss events:

- significant financial difficulty of the issuer or obligor;
- breach of contract, such as a default or delinquency in interest or principal payments;
- the financial institution, for economic or legal reasons relating to the issuer's financial difficulty, granting to the issuer a concession that the financial institution would not otherwise consider;
- it becoming probable that the issuer will enter bankruptcy or other financial reorganization;
- the disappearance of an active market for that security because of financial difficulties; or,
- observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of securities since the initial recognition of those assets, although the decrease cannot yet be identified with the individual securities in the portfolio, including adverse change in the payment status of issuers in the portfolio; or national or local economic conditions that correlate with defaults on the securities in the portfolio.

The disappearance of an active market because a financial institution's held securities are no longer publicly traded is not an evidence of impairment. A downgrade of an issuer's credit rating is not, by itself, evidence of impairment, although it may be evidence of impairment when considered with other available information. A decline in the fair value of a security below its cost or amortized cost is not necessarily evidence of impairment (for example, a decline in fair value of an investment in debt security that results from an increase in the risk-free interest rate).

In making an assessment of whether an investment in sovereign debt is credit-impaired, the Bank considers the following factors:

- the market's assessment of creditworthiness as reflected in the bond yields;
- the rating agencies' assessment of creditworthiness;
- the country's ability to access the capital markets for new debt issuance;

- the probability of debt being restructured, resulting in holders suffering losses through voluntary or mandatory debt forgiveness; or,
- the internal support mechanism in place to provide the necessary support as 'lender of last resort' to that country, as well as the intention, reflected in public statements, of governments and agencies to use those mechanisms. This includes an assessment of the depth of those mechanisms and, irrespective of the political intent, whether there is the capacity to fulfill the required criteria.

4.1.6 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 Expected Credit Loss 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.

These three components are multiplied together and adjusted for the likelihood of survival (i.e., the exposure has not been prepaid or defaulted in an earlier month). This effectively calculates an ECL for each future month, which is then discounted back to and summed at the end of the reporting period. The discount rate used in the ECL calculation is the original effective interest rate or an approximation thereof.

(b) Overlay of Forward-looking Information

The Bank incorporates forward-looking information (FLI) in its assessment of significant increase in credit risk 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. Accordingly, the Bank has identified key drivers for credit risk for its corporate loans portfolio, which is gross domestic product. On the other hand, the key drivers for the Bank's retail loans portfolio include unemployment rates, employment rates, consumer price indices and retail price indices.

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.

(c) Impact of COVID-19 on Measurement of Expected Credit Loss

In response to COVID-19 situation and the Bank's expectations of economic impacts, the key conditions and assumptions utilized in the Bank's calculation of ECL have been revisited. As of December 31, 2021 and 2020, the expected impacts of COVID-19 have been reasonably captured using the Bank's ECL methodology used in prior years with post-model adjustments.

The ECL methodology have been structured using historical trends and correlations as well as forward-looking economic scenarios. The severity of the current macroeconomic projections and added complexity caused by the various support schemes and regulatory guidance could not be reliably modelled for the time being. Therefore, the ECL model may generate results that are either overlay conservative or overly optimistic depending on the specific portfolio or segment. As a result, post-model adjustments are needed to reflect the considerable uncertainty in ECL methodology considering the unprecedented impacts of COVID-19. Notwithstanding that the measurement inputs and assumptions, including forward-looking macroeconomic assumptions, were revisited in response to COVID-19 situation, the fundamental ECL mechanics and methodology underpinning the Bank's measurement of ECL have remained consistent with the prior periods.

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

(i) Significant Increase in Credit Risk

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

(ii) Post-model Adjustments

Post-model adjustments represent adjustments in relation to data and model limitations as a result of the COVID-19 economic disruption. The adjustments are based on a combination of portfolio-level credit risk analysis and an evaluation of ECL coverage at an exposure level. Considerations included the potential severity and duration of the economic disruption and the heightened credit risk of specific sectors and loan classes.

4.1.7 Allowance for Expected Credit Losses

The following tables show the reconciliation of the loss allowance for ECL by class of financial instruments at the beginning and end of 2021 and 2020.

(a) Loans and Receivables

	2021			
	Stage 1	Stage 2	Stage 3	Total
Balance at January 1, 2021	P 15,084,903	P 5,698,257	P 67,288,288	P 88,071,448
Transfers:				
From Stage 1 to Stage 2	-	-	-	-
From Stage 2 to Stage 1	3,216,707	(3,216,707)	-	-
From Stage 3 to Stage 2	-	16,149,165	(16,149,165)	-
New financial assets originated – Remained in Stage 1	4,135,395	-	-	4,135,395
Financial assets derecognized or repaid during the year	(12,913,679)	(3,346,984)	(389,342)	(16,649,915)
	(5,561,578)	(9,585,565)	(16,538,507)	(12,514,520)
Balance at December 31, 2021	**P 9,523,325**	**P 15,283,822**	**P 50,749,781**	**P 75,556,928**

	2020			
	Stage 1	Stage 2	Stage 3	Total
Balance at January 1, 2020	P 5,335,318	P 8,377,025	P 75,334,866	P 89,047,209
Transfers:				
From Stage 1 to Stage 2	(1,432)	1,432	-	-
From Stage 2 to Stage 3	2,081,007	(2,081,007)	-	-
New financial assets originated – Moved to Stages 2 and 3	9,558,750	-	-	9,558,750
Financial assets derecognized or repaid during the year	(1,888,740)	(599,193)	(8,046,578)	(10,534,511)
	(9,749,585)	(2,678,768)	8,046,578	(975,761)
Balance at December 31, 2020	P 15,084,903	P 5,698,257	P 67,288,288	P 88,071,448

(b) HTC Financial Assets and Financial Assets at FVOCI

For the Bank's HTC financial assets, the Bank has recognized ECL amounting to P0.1 million in both years. No additional ECL was recognized for financial assets at FVOCI during the year.

Post-model adjustments made in estimating the reported ECL as of 2021 and 2020 to reflect the impact of COVID-19 situation are set out in the table below.

	Business as Usual ECL	Post-model Adjustments	Total ECL
December 31, 2021			
Loans and receivables	P 80,533,650	(P 4,976,722)	P 75,556,928
HTC financial assets	86,856	-	86,856
	P 80,620,506	**(P 4,976,722)**	**P 75,643,784**
December 31, 2020			
Loans and receivables	P 68,027,273	P 20,044,175	P 88,071,448
HTC financial assets	125,231	-	125,231
	P 68,152,504	**P 20,044,175**	**P 88,196,679**

The information on how the significant changes in the gross carrying amount of the financial **instruments contributed to the changes in the amount of allowance for ECL are presented in Note 4.1.9.**

4.1.8 Credit Risk Exposures

The Bank's maximum exposure to credit risk is equal to the carrying value of its financial assets, except for certain secured loans and receivables from customers, as shown below (gross of allowance for impairment, and net of unearned interests, discounts and other charges).

	Gross Maximum Exposure	Fair Value of Collaterals	Net Exposure	Financial Effect of Collaterals
2021				
Loans and discounts	**P 2,188,621,463**	**P 4,869,578,250**	**P -**	**P 2,188,621,463**
Sales contracts receivables	**134,874,045**	**152,436,390**	**-**	**134,874,045**
Other Receivables	**97,521,244**			97,521,244
	P 2,421,016,752	**P 5,002,014,640**	**-**	**P 2,421,016,752**
2020				
Loans and discounts	P 2,097,862,375	P 4,235,056,009	P -	P 2,097,862,375
Sales contracts receivables	138,056,938	146,838,818	-	138,056,938
Other Receivables	89,817,250			89,817,250
	P 2,325,736,563	P 4,381,894,827	P -	P 2,325,736,563

4.1.9 Significant Changes in Gross Carrying Amount Affecting Allowance for ECL

The following tables provide information how the significant changes in the gross carrying amount of financial instruments in 2021 and 2020 contributed to the changes in the allowance for ECL (net of unearned interests, discounts and other charges).

(a) Loans and Receivables

	2021			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Balance at January 1, 2021	P 1,709,709,118	P 439,910,400	P 176,117,045	P 2,325,736,563
Transfers:				
From Stage 1 to Stage 2	(591,869,790)	501,869,790	-	-
From Stage 1 to Stage 3	-	(737,127,522)	737,127,522	-
New financial assets originated –				
Remained in Stage 1	514,315,755	-	-	514,315,755
Moved to Stage 2 and 3	-	11,421,704	37,604,200	49,025,904
Financial assets derecognized or91,838,490 id during the year	(286,940,758)	(89,282,222)	(91,838,490)	(468,061,470)
	(364,494,793)	(223,118,050)	682,893,052	95,280,189
Balance at December 31, 2021	**P 1,345,214,325**	**P 216,792,350**	**P 859,010,077**	**P 2,421,016,752**

	2020			
	Stage 1	Stage 2	Stage 3	Total
Balance at January 1, 2020	P 1,454,518,265	P 682,169,500	P 181,031,683	P 2,317,719,448
Transfers:				
From Stage 2 to Stage 1	224,055,904	(224,055,904)	-	-
From Stage 3 to Stage 2	-	2,727,975	(2,727,975)	-
New financial assets originated:				
Remained in Stage 1	54,469,108	-	-	54,469,108
Financial assets derecognized or repaid during the year	(23,334,159)	(20,931,171)	(2,186,663)	(46,451,993)
	255,190,853	(242,259,100)	(4,914,638)	8,017,115
Balance at December 31, 2020	P 1,709,709,118	P 439,910,400	P 176,117,045	P 2,325,736,563

(b) HTC Financial Assets and Financial Assets at FVOCI

There was no significant movement in the Bank's HTC financial assets and financial assets at FVOCI in 2021 and 2020 that affected the allowance for ECL (see Note 10).

4.1.10 Collateral Held as Security and Other Credit Enhancements

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

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

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

	Stage 1	**Stage 2**	**Stage 3**	**Total**
2021				
Real properties	P 2,676,163,637	P 291,528,712	P 1,468,897,952	P 4,436,590,301
Chattel	85,178,387	6,355,504	15,486,473	107,020,365
Hold-out deposits	90,675,595	-	-	90,675,595
Jewelries	161,694,300		-	161,694,300
Others	111,265,500	37,514,640	71,253,939	226,034,079
	P 3,124,977,420	**P 335,398,856**	**P 1,561,638,364**	**P 5,022,014,640**
2020				
Real properties	P 2,991,725,102	P 680,017,480	P 289,660,682	P 3,961,403,264
Chattel	6,801,957	2,098,807	11,882,161	20,782,925
Hold-out deposits	13,380,000	-	-	13,380,000
Jewelries	176,968,250	-	-	176,968,250
Others	208,000,000	-	1,360,388	1,360,388
	P 3,396,875,309	P 682,116,287	P 302,903,231	P 4,381,894,827

As of December 31, 2021 and 2020, the Bank has recognized certain properties arising from foreclosures in settlement of loan account amounting to P26.7 million and P45.1 million, respectively (see Note 13).

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

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

4.1.11 Write Off

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.

The Bank may write off financial assets that are still subject to enforcement activity. There were no actual write offs done in 2021 and 2020.

4.1.12 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.

The Bank continues to monitor if there is a subsequent SICR in relation to such modified assets through the use of specific models for modified assets.

The outstanding balance of restructured loans amounts to P349.9 million and P418.0 million as of December 31, 2021 and 2020, respectively. The restructured loans are classified as performing before and after the restructuring and are fully secured by collateral. The related allowance for credit loss of such loans amounts to P7.3 million and P4.2 million as of the same dates, respectively. Of the total outstanding restructured loans as of December 31, 2021 and 2020, P385.3 million and P383.2 million, respectively, are due to the impact of COVID-19 situation [see Note 4.1.6(c)(i)].

4.2 Liquidity Risk

Liquidity risk is the risk that there are insufficient funds available to adequately 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 that short-term funding requirements are met. In addition, the Bank seeks to maintain sufficient liquidity to take advantage of interest rate and exchange rate opportunities when they arise.

The analysis of the maturity profile of resources, liabilities and off-statement of financial position items as of December 31, 2021 and 2020 in accordance with the account classification of the BSP, follows.

	Up to three months	More than three months to one year	More than one year to five years	More than five years	Total
December 31, 2021					
Resources:					
Cash and other cash items	P 61,873,023	P -	P -	P -	P 61,873,023
Due from BSP	597,269,563	-	-	-	597,269,563
Due from other banks	147,732,843	20,909,590	-	-	168,642,433
Loans and receivables arising from reverse repurchase agreement	173,285,446	-	-	-	173,285,446
Financial assets at FVOCI	-	-	547,944,483	124,134,401	672,078,884
HTC financial assets - net	336,422,140	-	99,946,086	50,000,000	486,386,226
Loans and receivables - net	351,451,935	373,299,438	299,530,711	1,321,177,740	2,345,459,824
Other resources - net	12,594,011	6,438,225	286,581,682	223,358,244	528,972,162
Total Resources	1,680,628,961	400.647,253	1,234,002,962	1,718,670,385	5,033,949,561
Liabilities and Equity:					
Deposit liabilities	3,571,207,779	33,224,129	157,009,437	-	3,761,441,345
Other liabilities	29,720,809	17,933,509	49,331,190	15,845,057	112,830,565
Total liabilities	3,600,928,508	51,157,638	206,540,627	15,845,057	3,874,271,910
Equity	-	-	-	1,159,677,651	1,159,677,651
Total Liabilities and Equity	3,600,928,588	51,137,638	206,340,627	1,175,522,708	5,033,949,561
On-book gap	(1,920,229,627)	349,489,615	1,027,662,335	543,147,677	-
Cumulative on-book gap	(1,920,229,627)	(1570,810,012)	(543,147,677)	-	-
Contingent assets	1,440,074	-	52,000,000	-	53,434,382
Contingent liabilities	(450,684,317)	(2,282,451)	(86,951,977)	(301,430,841)	(841,349,585)
Off-book gap	(449,235,243)	(2,282,451)	(34,951,977)	(301,430,840)	(787,900,511)
Cumulative off-book gap	(449,235,243)	(451,517,694)	(486,469,671)	(787,900,511)	-
Cumulative total gap	**(P 2,369,534,870)**	**(P2,022,327,706)**	**(P1,029,617,348)**	**(P787,900,511)**	**P 0**

	Up to three months	More than three months to one year	More than one year to five years	More than five years	Total
December 31, 2020					
Resources:					
Cash and other cash items	P 49,951,152	P -	P -	P -	P 49,951,152
Due from BSP	1,163,199,509	-	-	-	1,163,199,509
Due from other banks	159,158,358	19,689,430	-	-	178,847,788
Loans and receivables arising from reverse repurchase agreement	188,534,619	-	-	-	188,534,619
Financial assets at FVOCI	7,997,330	20,395,785	237,444,359	75,425,000	341,262,474
HTC financial assets - net	269,542,314	52,304,251	-	-	321,846,565
Loans and receivables - net	388,163,937	276,578,913	272,871,249	1,300,051,016	2,237,665,115
Other resources - net	28,251,784	3,530,894	117,529,516	384,012,875	533,325,069
Total Resources	2,254,799,003	372,499,273	627,845,124	1,759,488,891	5,014,632,291
Liabilities and Equity:					
Deposit liabilities	3,488,083,447	26,625,362	179,911,864	-	3,694,620,673
Other liabilities	119,226,008	525,222,524	31,976,565	-	676,425,097
Total liabilities	3,607,309,455	551,847,886	211,888,429	-	4,371,045,770
Equity	-	-	-	643,586,521	643,586,521
Total Liabilities and Equity	3,607,309,455	551,847,886	211,888,429	643,586,521	5,014,632,291
On-book gap	(1,352,510,452)	(179,348,613)	415,956,695	1,115,902,370	-
Cumulative on-book gap	(1,352,510,452)	(1,531,859,065)	(1,115,902,370)	-	-
Contingent assets	1,434,382	-	52,000,000	-	53,434,382
Contingent liabilities	(296,872,370)	(105,132,737)	(202,728,330)	(769,477,417)	(1,374,210,854)
Off-book gap	(295,437,988)	(105,132,737)	(150,728,330)	(769,477,417)	(1,320,776,472)
Cumulative off-book gap	(295,437,988)	(400,570,725)	(551,299,055)	(1,320,776,472)	-
Cumulative total gap	(P 1,647,948,440)	(P1,932,429,790)	(P1,667,201,425)	(P1,320,776,472)	P -

The Bank continually assesses business opportunities and strategies where it can effectively and sufficiently match its short-term funding requirements with adequate liquid assets through taking customers' deposits with longer maturities and originating loans with periodic repayments enough to cover credit demands of customers.

The contractual maturities of the Bank's financial liabilities as of December 31, 2021 and 2020, are presented below.

	Up to three months	More than three months to one year	More than one year to five years	More than five years	Total
December 31, 2021					
Deposit liabilities	P 3,571,207,779	P 33,224,129	P 157,009,437	-	P 3,761,441,345
Other liabilities	30,724,087	14,972,675	49,331,190	15,845,057	110,873,009
	P 3,601,931,866	**P 48,196,804**	**P 206,340,627**	**P 15,845,057**	**P 3,872,314,354**
December 31, 2020					
Deposit liabilities	P 3,488,083,447	P 26,625,362	P 179,911,864	-	P3,694,620,673
Other liabilities	97,095,653	525,222,524	31,976,565	-	654,294,742
	P 3,585,179,100	P 551,847,886	P 211,888,429	-	P4,348,915,415

4.3 Foreign Exchange Risk

The Bank manages its exposure to the effects of fluctuations in the foreign currency exchange rates by maintaining foreign currency exposure within the existing regulatory guidelines and at a level that it believes to be relatively conservative for a financial institution engaged in that type of business.

The Bank's net foreign currency exposure is computed as its foreign currency-denominated resources less foreign currency-denominated liabilities. BSP regulations impose a cap of 2.5% of net worth, or US$5 million, whichever is lower, on the consolidated excess foreign currency holding of banks in the Philippines. In the case of the Bank, its foreign currency exposure is primarily limited to the day-to-day, over-the-counter buying and selling of foreign currency in the Bank's branches. The Bank's foreign currency exposure on each day is guided by the limits set forth in the Bank's Risk Management Manual. These limits are within the prescribed ceilings mandated by the BSP. At the end of each day, the Bank reports to the BSP on its compliance with the mandated foreign currency exposure limits.

Foreign currency-denominated assets and liabilities as of December 31, 2021 and 2020 translated to closing rates consist of the following:

	2021		2020	
	US Dollar	**Philippine Peso**	US Dollar	Philippine Peso
Cash and other cash items	**$ 1,975,437**	**P100,745,327**	$ 1,925,124	P 92,450,238
Loans and receivables - net	**6,446**	**328,733**	1,301	62,466
Deposit liabilities	**(1,980,805)**	**(101,019,086)**	(1,925,943)	(92,489,578)
Other liabilities	**(1,078)**	**(54,974)**	(482)	(23,126)
Short-term exposure	**$ -**	**P -**	$ -	P -

The sensitivity of the net profit before tax and equity in regard to the Bank's financial assets and financial liabilities and the US dollar – Philippine peso exchange rate assumes a +/- 13.96% change and +/- 7.10% change in the Philippine peso/US dollar exchange rate for the years ended December 31, 2021 and 2020, respectively. These percentage changes have been determined based on the average market volatility in exchange rates, using standard deviation, in the previous 12 months, estimated at 99% confidence level.

As the Bank's foreign currency exposure in both years as shown above is minimal, management has assessed that the effects of changes in the foreign exchange rate to the Bank's results of operations are not significant.

Exposures to foreign exchange rates vary during the year depending on the volume of the Bank's foreign currency deposit unit transactions.

4.4 Interest Rate Risk

The Bank's policy is to minimize interest rate cash flow risk exposures. The Bank's cash flow interest rate risk relates primarily to the possible changes in the prevailing interest rates of due from other banks, debt securities – bonds and floating rate loans. The volatility in the interest rates of these financial instruments will result to an increase or decrease of the Bank's interest spread, and consequently will affect its financial performance. The due from BSP was not included in the cash flow interest rate sensitivity since the potential effects on net profit or loss before tax and equity will be immaterial. All other financial assets and financial liabilities have fixed rates.

The table below illustrates the sensitivity of the Bank's profit or loss before tax and equity to a reasonably possible change in interest rates of the assets mentioned above. These changes are considered to be reasonably possible based on observation of current market conditions. The calculations are based on the Bank's financial instruments held at the end of each reporting period. All other variables are held constant.

	Sensitivity Rate +/- %	Profit (Loss) Before Tax	Equity
December 31, 2021			
Loans and receivables	0.01%	P 250,964	P 188,223
HTC financial assets	0.10%	465,941	340,456
Financial assets at FVOCI	0.10%	645,196	483,897
Due from other banks	0.01%	21,249	15,937
		P 1,383,350	**P 1,037,513**
December 31, 2020			
Loans and receivables	0.01%	P 272,995	P 191,097
HTC financial assets	0.04%	122,945	86,062
Financial assets at FVOCI	0.04%	116,037	81,226
Due from other banks	0.05%	81,018	56,713
		P 592,995	P 415,098

The Bank's loan portfolio includes floating rate loans, which are repriced periodically by reference to the transfer pool rate which reflects the Bank's internal cost of funds. The changes in interest rates used in the analysis have been determined based on the average volatility in interest rates of the said resources, using standard deviation, in the previous 12 months.

4.5 Operational Risk

Operational risks are risks arising from the potential inadequate information systems and systems, operations or transactional problems (relating to service or product delivery), breaches in internal controls, fraud, or unforeseen catastrophes that may result in unexpected loss. Operational risks include the risk of loss arising from various types of human or technical error, settlement or payments failures, business interruption, administrative and legal risks, and the risk arising from systems not performing adequately.

The ROC of the Bank assists management in meeting its responsibility to understand and manage operational risk exposures. The ROC applies a number of techniques to efficiently manage operational risks. Among these are enumerated as follows:

- each major business line has an embedded operational risk management officer who acts as a point person for the implementation of various operational risk tools. The operational risk officers attend annual risk briefings conducted by the ROC to keep them up-to-date with different operational risk issues, challenges and initiatives.

- with ROC's bottom up self-assessment process, which is conducted at least annually, areas with high risk potential are highlighted and reported, and control measures are identified. The results of said self-assessment exercise also serve as one of the inputs in identifying specific key risk indicators (KRIs).

- KRIs are used to monitor the operational risk profile of the Bank and of each business unit, and alert the management of impending problems in a timely fashion.

- internal loss information is collected, reported and utilized to model operational risk.

- the ROC reviews product and operating manuals, policies, procedures and circulars, thus allowing the embedding of desired operational risk management practices in all business units.

(a) Reputational Risk

Reputation risk is the risk to earnings or capital arising from negative public opinion. This affects the Bank's ability to establish new relationships or services, or to continue servicing existing relationships. This risk can expose the Bank to litigation, financial loss, or damage to its reputation. Reputation risk arises whenever technology-based banking products, services, delivery channels or processes may generate adverse public opinion such that it seriously affects the Bank's earnings or impairs its capital. This risk is present in activities such as asset management and regulatory compliance.

The Bank adopted a reputation risk monitoring and reporting framework to manage public perception.

(b) Legal Risk and Regulatory Risk Management

Changes in laws and regulations and fiscal policies could adversely affect the Bank's operations and financial reporting. In addition, the Bank faces legal risks in enforcing its rights under its loan agreements, such as foreclosing of collateral. Legal risk is higher in new areas of business where the law remains untested by the courts. The Bank uses a legal review process as the primary control mechanism for legal risk. Such a legal review aims to verify and validate the existence, genuineness and due execution of legal documents, and verify the capacity and authority of counterparties and customers to enter into transactions. In addition, the Bank seeks to minimize its legal risk by using stringent legal documentation, imposing certain requirements designed to ensure that transactions are properly authorized, and consulting internal and external legal advisors.

Regulatory risk refers to the potential for the Bank to suffer financial loss due to changes in the laws or monetary, tax or other governmental regulations of the country. The Bank's Compliance Program, the design and implementation of which is overseen and coordinated by the Compliance Officer, is the primary control process for regulatory risk issues. The Compliance Officer is committed to safeguard the integrity of the Bank by maintaining a high level of regulatory compliance. It is responsible for communicating and disseminating new rules and regulations to all units, assessing and addressing identified compliance issues, performing periodic compliance testing on branches and head office units, and reporting compliance findings to the Corporate Governance Committee and the BOD.

4.6 Anti-Money Laundering Controls

The Anti-Money Laundering Act (AMLA) or 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 with as threshold amount exceeding P0.5 million within five banking days. The Bank is also required to submit "Suspicious Transaction Reports" to the AMLC in the event that suspicious 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 safe keeps, as long as the account exists, all the Customer Due Diligence (CDD) 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 CDD documents 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 November 26, 2018, BSP Circular No. 1022 was implemented updating policies on AMLA. The Circular requires the Bank to adopt a comprehensive and risk-based Money Laundering and Terrorist Financing Prevention Program (MTPP) designed according to the covered institution's corporate structure and risk profile.

In an effort to further prevent money laundering activities, the Bank revised its CDD policies and guidelines in order to comply with the aforementioned Circular. Under the guidelines, each business unit is required to validate the true identity of a customer based on official or other reliable identifying documents or records before an account may be opened. 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. Decisions to enter into a business relationship with a high risk (e.g online gambling business, money service business, etc.) customer requires senior management approval.

On August 19, 2020, Regulatory Issuance No. 5 or the Enforcement Action Guidelines was released by the AMLC. These Guidelines supplement the Rules of Procedures in Administrative Cases (RPAC) by providing procedures for early resolution of administrative cases at the level of the Compliance and Supervision Group (CSG) prior to the filing of a formal charge under the RPAC. Hence, the procedures herein are separate and distinct from the proceedings outlined in the RPAC

On January 29, 2021, Republic Act 11521 was passed which included the offshore gaming operations, real estate developers and brokers as covered persons/institutions and tax crimes as a predicate offense.

The Bank's procedures for compliance with the AMLA as well as its framework are set out in its MTPP. The Bank's Compliance Officer, through the Compliance Department, monitors AMLA compliance and conducts regular compliance testing of business units.

The Compliance Officer regularly reports to the Anti-Money Laundering Committee, Corporate Governance Committee and to the BOD results of their monitoring of AMLA compliance.

4.7 Maturity Profile of Resources and Liabilities

The following table presents the resources and liabilities analyzed according to whether these are expected to be recovered or settled in less than 12 months and over 12 months from statement of financial position dates:

	2021			2020		
	Within 12 Months	Over 12 Months	Total	Within 12 Months	Over 12 Months	Total
Financial Assets:						
Cash and other cash items	P 61,873,023	P -	P 61,873,023	P 49,951,152	P -	P 49,951,152
Due from BSP	597,269,563	-	597,269,563	1,163,199,509	-	1,163,199,509
Due from other banks	168,642,433	-	168,642,433	178,847,788	-	178,847,788
Loans and receivables arising from reverse repurchase agreement	173,285,446	-	173,285,446	188,534,619	-	188,534,619
Financial assets at FVOCI	-	672,078,884	672,078,884	28,393,115	312,869,359	341,262,474
HTC financial assets - net	336,422,140	149,946,086	486,368,226	321,846,565	-	321,846,565
Loans and other receivables - net	611,407,009	1,734,052,815	2,345,459,824	664,742,850	1,572,922,265	2,237,665,115
Other resources - net	98,000	16,250,148	16,348,148	103,000	13,256,181	13,359,181
	1,948,997,614	2,572,327,933	4,521,325,547	2,595,618,598	1,899,047,805	4,494,666,403
Non-financial Assets:						
Bank premises, furniture, fixtures, and equipment - net	5,507,460	200,603,148	206,110,608	-	228,271,724	228,271,724
Investment properties - net	-	210,523,943	210,523,943	-	202,143,378	202,143,378
Other resources - net	13,426,777	82,562,686	95,989,463	31,679,678	57,871,108	89,550,786
	18,934,237	493,689,777	512,624,014	31,679,678	488,286,210	519,965,888
	P 1,967,931,851	P 3,066,017,710	P 5,033,949,561	P 2,627,298,276	P 2,387,334,015	P 5,014,632,291
Financial Liabilities:						
Deposit liabilities	P 3,604,431,908	P 157,009,437	P 3,761,441,345	P 3,514,708,809	P 179,911,864	P 3,694,620,673
Other liabilities	45,696,762	65,176,247	110,873,009	622,318,177	31,976,565	654,294,742
	3,650,128,670	222,185,684	3,872,314,354	4,137,026,986	211,888,429	4,348,915,415
Non-financial Liabilities:						
Other liabilities	1,957,556	-	1,957,556	22,130,355	-	22,130,355
	P 3,650,128,670	P 222,185,684	P 3,874,271,910	P 4,159,157,341	P 211,888,429	P 4,371,045,770

5. CATEGORIES AND OFFSETTING OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

5.1 Carrying Amounts and Fair Values by Category

The following table presents a comparison by category of the carrying amounts and estimated fair values of the Bank's financial assets and financial liabilities:

		2021		2020	
	Notes	Carrying Amounts	Fair Values	Carrying Amounts	Fair Values
Financial Assets					
At amortized cost:					
Cash and other cash items		P 61,873,023	P 61,873,023	P 49,951,152	P 49,951,152
Due from BSP	7	597,269,563	597,269,563	1,163,199,509	1,163,199,509
Due from other banks	8	168,642,433	168,642,433	178,847,788	178,847,788
Loans and receivables arising from reverse repurchase agreement	9	173,285,446	173,285,446	188,534,619	188,534,619
Loans and receivables - net	11	2,345,459,824	2422,174,557	2,237,665,115	3,907,467,009
HTC financial assets - net	10	486,368,226	486,363,117	321,846,565	322,336,218
Other resources	14	16,348,148	16,348,148	13,359,181	13,359,181
		3,849,246,663	3,925,956,287	4,153,403,929	5,823,695,476
At fair value:					
Financial assets at FVOCI	10	672,078,884	672,078,884	341,262,474	341,262,474
		P 4,521,325,547	P 4,598,035,171	P 4,494,666,403	P 6,164,957,950

	Notes	2021 Carrying Amounts	2021 Fair Values	2020 Carrying Amounts	2020 Fair Values
Financial Liabilities					
At amortized cost:					
Deposit liabilities	15	**P 3,761,441,345**	**P 3,761,466,959**	P 3,694,620,673	P 3,681,317,917
Other liabilities	16	**110,873,009**	**110,873,009**	654,294,742	654,294,742
		P 3,872,314,354	**P 3,872,314,354**	P 4,348,915,415	P 4,335,612,659

See Note 2.3 for the description of the accounting policies for each category of financial instruments. A description of the Bank's risk management objectives and policies for financial instruments is provided in Note 4.

5.2 Offsetting of Financial Assets and Financial Liabilities

The following financial assets presented in the statements of financial position at gross amounts are covered by enforceable master netting arrangements and similar arrangements:

	Gross amounts recognized in the statements of financial position	Related amounts not set off in the statements of financial position: Financial Instruments	Related amounts not set off in the statements of financial position: Collateral received	Net amount
Loans and receivables – Receivables from customers				
December 31, 2021	**P 2,189,779,269**	**(P 90,675,595)**	**P -**	**P 2,099,103,673**
December 31, 2020	P 2,118,217,307	(P **13,380,000**)	P -	P 2,104,837,307

The following financial liabilities presented in the statements of financial position at gross amounts are covered by enforceable master netting arrangements and similar agreements:

	Gross amounts recognized in the statements of financial position	Related amounts not set off in the statements of financial position: Financial Instruments	Related amounts not set off in the statements of financial position: Collateral received	Net amount
Deposit liabilities –				
December 31, 2021	**P 3,761,441,345**	**(P 90,675,595)**	**P -**	**P 3,670,765,750**
December 31, 2020	P 3,694,620,673	(P 13,380,000)	P -	P 3,681,240,673

For financial assets and financial liabilities (i.e., receivable from customers and their corresponding hold-out deposits) subject to enforceable master netting agreements or similar arrangements, each agreement between the Bank and counterparties allows for net settlement of the relevant financial assets and liabilities when both elect to settle on a net basis. In the absence of such an election, financial assets and financial liabilities will be settled on a gross basis; however, each party to the master netting agreement or similar agreement will have the option to settle all such amounts on a net basis in the event of default of the other party.

6. FAIR VALUE MEASUREMENT AND DISCLOSURES

6.1 Fair Value Hierarchy

In accordance with PFRS 13, 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 value of another instrument which is substantially the same after taking into account the related credit risk of counterparties, or is calculated based on the expected cash flows of the underlying net asset base of the instrument.

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

6.2 Financial Instruments Measurement at Fair Value

The table below and in the succeeding page shows the fair value hierarchy of the Bank's classes of financial assets measured at fair value in the statements of financial position on a recurring basis as of December 31, 2021 and 2020.

	Level 1	Level 2	Level 3	Total
December 31, 2021				
Financial assets at FVOCI:				
Debt securities –				
Corporate bonds	P347,652,828	P -	P -	P 347,652,828
Government securities	50,479,348	-	-	50,479,348
Equity securities	273,946,708	-	-	273,946,708
	P672,078,884	**P -**	**P -**	**P 672,078,884**

	Level 1	Level 2	Level 3	Total
December 31, 2020				
Financial assets at FVOCI:				
Debt securities –				
Corporate bonds	P146,395,396	P -	P -	P 146,395,396
Government securities	7,997,329	-	-	7,997,329
Equity securities	149,369,749	-	-	149,369,749
Proprietary club shares	-	37,500,000	-	37,500,000
	P303,762,474	P 37,500,000	P -	P 341,262,474

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

There were neither transfers between Levels 1 and 2 nor changes in Level 3 instruments in both years.

Described below are the information about how the fair values of the Bank's Financial assets at FVOCI are determined.

(a) *Equity Securities*

The fair values quoted equity securities included in Level 1 were valued based on their market prices quoted in the Philippine Stock Exchange at the end of each reporting period while the fair value of unquoted equity security under Level 3 represents the discounted amount of estimated future cash flow expected to be received.

(b) *Debt Securities*

The fair value of the Bank's debt securities which consist of government bonds categorized within Level 1 is determined directly based on published closing prices available from the electronic financial data service providers which had been based or referenced on price quoted or actually dealt in an active market (i.e., BVAL reference rates) at the end of each reporting period.

The fair value of actively traded corporate debt securities are determined based on their market prices quoted in the PDS or based on the direct reference price per Bloomberg at the end of each reporting period, hence, categorized within Level 1.

(c) *Propriety Club Shares*

Proprietary golf club shares are included in Level 2 as their prices are not derived from market considered as active due to lack of trading activities among market participants at the end or close to the end of each reporting period.

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

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

	Level 1	Level 2	Level 3	Total
December 31, 2021				
Financial assets:				
At amortized cost:				
Cash and other cash items	P 61,873,023	P -	P -	P 61,873,023
Due from BSP	597,269,563	-	-	597,269,563
Due from other banks	168,642,433	-	-	168,642,433
Loans and receivables arising from reverse repurchase agreement	173,285,446	-	-	173,285,446
Loans and receivables - net	-	-	2,422,174,557	2,422,174,557
HTC financial assets – net	486,363,117	-	-	486,363,117
Other resources - net	-	-	16,348,148	16,348,148
	P 1,487,433,582	**P -**	**P 2,438,522,705**	**P 3,925,956,287**
Financial liabilities:				
At amortized cost:				
Deposit liabilities	P -	P -	P 3,761,441,346	P 3,761,441,346
Other liabilities	-	-	110,873,009	110,873,009
	P -	**P -**	**P 3,782,339,968**	**P 3,782,339,968**
December 31, 2020				
Financial assets:				
At amortized cost:				
Cash and other cash items	P 49,951,152	P -	P -	P 49,951,152
Due from BSP	1,163,199,509	-	-	1,163,199,509
Due from other banks	178,847,788	-	-	178,847,788
Loans and receivables arising from reverse repurchase agreement	188,534,619	-	-	188,534,619
Loans and receivables - net	-	-	3,907,467,009	3,907,467,009
HTC financial assets – net	312,036,218	-	10,300,000	322,336,218
Other resources - net	-	-	13,359,181	13,359,181
	P 1,892,569,286	P -	P 3,931,126,190	P 5,823,695,476
Financial liabilities:				
At amortized cost:				
Deposit liabilities	P -	P -	P 3,681,317,917	P 3,681,317,917
Other liabilities	-	-	654,294,742	654,294,742
	P -	P -	P 4,335,612,659	P 4,335,612,659

Fair values of the foregoing financial assets and financial liabilities measured and presented in the statements of financial position at amortized cost are estimated as follows:

(a) Due from BSP and Other Banks, and Loans and Receivables Arising from Reverse Repurchase Agreement

Due from BSP pertains to deposits made by the Bank to the BSP for clearing and reserve requirements, overnight and term deposit facilities, while loans and receivables arising from reverse repurchase agreement pertain to loans and receivables from BSP arising from overnight lending from excess liquidity. Due from other banks includes items in the course of collection. The fair value of floating rate placements and overnight deposits is their carrying amount. The estimated fair value of fixed interest-bearing deposits is based on the discounted cash flows using prevailing money market interest rates for debt with similar credit risk and remaining maturity, which for short-term deposits approximate the nominal value.

(b) Loans and Receivables and Other Resources

Loans and receivables and certain accounts under other resources are net of any impairment losses. The estimated fair value of loans and receivables and other resources represents the discounted amount of estimated future cash flows expected to be received for instruments with maturities of beyond one year. Expected cash flows are discounted at current market rates to determine fair value.

(c) Held-to-Collect Financial Assets

HTC financial assets consist of government and corporate bonds. The fair value of these investment securities is determined by direct reference to published price quoted in an active market for traded securities (i.e., BVAL reference rates for 2021 and 2020).

(d) Deposit Liabilities

The estimated fair value of demand deposits with no stated maturity, which includes noninterest-bearing deposits, is the amount repayable on demand. The estimated fair value of interest-bearing deposits without quoted market price is based on discounted cash flows using interest rates for new debts with similar remaining maturity. The carrying amounts of deposits which are generally short-term in nature approximate their fair values.

(e) Other Liabilities

Other liabilities are recognized initially at their fair value and subsequently measured at amounts to which they are to be paid. Fair value of these short-term liabilities approximates their carrying values.

6.4 Fair Value Disclosures for Investment Properties and Assets Held for Sale

The total estimated fair values of the Bank's investment properties and assets held for sale amounted to P214.8 million and P220.2 million as of December 31, 2021 and 2020, respectively. The fair value hierarchy of those properties categorized as Level 3, are shown below.

	2021	2020
Investment properties:		
Land	**P 148,999,266**	P 137,216,149
Buildings	**77,337,094**	78,732,540
	210,523,943	215,948,689
Assets held for sale:		
Jewelry items	**4,087,466**	3,530,274
Motor vehicles	**181,964**	751,220
	4,269,430	4,281,494
	P 214,793,373	P 220,230,183

The fair value disclosed for the Bank's investment properties as of December 31, 2021 and 2020 was based on the appraisals performed by the Bank's in-house and independent and qualified appraisers having appropriate and recent experience in the fair value measurement of similar properties in the relevant locations. To some extent, the valuation process was conducted by the appraisers in discussion with the Bank's management with respect to the determination of the inputs such as the size, age, and condition of the land and building, and the comparable prices in the corresponding property location. In estimating the fair values of the investment properties, management takes into account the market participant's ability to generate economic benefits by using the assets in their highest and best use. Based on management assessment, the best use of the Bank's investment properties is their current use.

The fair values of the Bank's investment properties were determined based on the following approaches:

(a) Fair Value Measurement for Land

The Level 3 fair value of land was derived using the observable recent prices of the reference properties and was 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 meter; hence, the higher the price per square meter, the higher the fair value of the properties.

(b) Fair Value Measurement for Buildings

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

(c) Fair Value Measurement for Assets Held-for-Sale

The Level 3 fair value of the motor vehicle presented as part of Asset held-for-sale was derived using the observable recent prices of the reference the motor vehicle brand, year model and variant. This was adjusted for differences in the condition of the motor vehicle at the date of foreclosure.

The Level 3 fair value of the jewelry items presented as part of Asset Held-for-Sale was determined by the Bank's appraiser using the observable recent prices of the such jewelry item or the related the materials. This was adjusted for differences in the condition of the jewelry item at the date loan availment.

There has been no change to the valuation techniques used in 2021 and 2020. Also, there were no transfers into or out of Level 3 fair value hierarchy in 2021 and 2020.

7. DUE FROM BANGKO SENTRAL NG PILIPINAS

The balance of this account consists of the following:

	2022	2021
Demand deposit	**P 16,705,805**	P 10,269,563
Term deposit facility	**150,000,000**	100,000,000
Overnight deposit liability	**267,000,000**	487,000,000
	P 433,705,805	P597,269,563

The aggregate balance of noninterest-bearing Demand Deposit Account, and interest-bearing Overnight Deposit Facility and Special Deposit Accounts, all denominated in local currency, are maintained with the BSP primarily to meet a portion of the reserve requirements and to serve as a clearing account for interbank claims.

Interest-bearing deposits with the BSP bear annual interest at rates ranging from 1.50% to 1.95% in 2021, 1.50% to 5.08% in 2020 and 2.50% to 5.20% in 2019. Total interest earned from these deposits amounted to P11.1 million, P11.4 million and P3.9 million in 2021, 2020, and 2019, respectively, and is shown as part of the Interest Income on Due from BSP, Other Banks and Loans and Receivables Arising from Reverse Repurchase Agreement account in the statements of profit or loss.

8. DUE FROM OTHER BANKS

This account represents deposits with local banks which are composed of the following:

	2022	2021
Time deposits	**P 120,582,578**	P 101,519,142
Savings deposits	**63,235,094**	65,882,731
Demand deposits	**55,208**	1,240,560
	184,372,880	168,642,433

Savings deposits represent clearing and other depository accounts with other banks, which bear annual interest rates ranging from 0.05% to 0.13% in both 2021 and 2020 and 0.13% to 0.50% in 2019.

Time deposits include special savings deposits, which bear annual effective interest rates ranging from 0.38% to 1.13% both in 2021 and 2020 and 1.00% to 1.80% in 2019 and have average maturities of one to 12 months.

Interest income earned from these savings and time deposits amounted to P0.6 million in 2021, P2.4 million in 2020 and P8.1 million in 2019, and is shown as part of Interest Income on Due from BSP, Other Banks and Loans and Receivables Arising from Reverse Repurchase Agreement account in the statements of profit or loss.

The breakdown of this account by currency is as follows:

	2022	2021
Philippine peso	**P 66,275,050**	P 75,620,939
United States dollar	**118,097,830**	101,139,070
	P 184,372,880	P 176,760,009

For statements of cash flows purposes, deposits amounting to P20.9 million and P19.7 million as of December 31, 2021 and 2020, respectively, are not considered as cash and cash equivalents since these have maturities of more than three months (see Note 25).

9. LOANS AND RECEIVABLES ARISING FROM REVERSE REPURCHASE AGREEMENT

The Bank has repurchase agreements with BSP as of December 31, 2021 and 2020 from overnight lending from excess liquidity, which earn annual effective interest of 2.00% in both 2021 and 2020 and 4.75% in 2019. These loans normally mature within 30 days. Interest income earned from these financial assets amounted to P3.1 million in 2021, P3.8 million in 2020 and P6.8 million in 2019, are shown as part of Interest Income on Due from BSP, Other Banks and Loans and Receivables Arising from Reverse Repurchase Agreement account in the statements of profit or loss.

10. INVESTMENT SECURITIES

10.1 Held-to-Collect Financial Assets

This account consists of:

	2022	2021
Government debt securities:		
Quoted	**P** 749,377,068	P 486,455,082
Unquoted	**-**	0
	749,377,068	486,455,082
Allowance for impairment	**(86,856)**	(86,856)
	P 749,290,212	P 486,368,226

Quoted government debt securities represent debt securities issued by the Republic of the Philippines, which earn annual effective interests ranging from 1.58% to 4.63% in 2021, 1.68% to 3.89% in 2020 and 3.50% to 6.00% in 2019. These securities will mature in various dates within 2022.

Unquoted government debt securities is composed of 10-year debt securities issued by the local government of Infanta, Quezon which already matured in 2021. These securities earn an annual effective interest rate of 4.59% in both 2021 and 2020 and 13.7% in 2019.

The interest income earned by the Bank from HTC financial assets amounted to P12.9 million, P3.3 million and P5.7 million in 2021, 2020 and 2019, respectively, and is presented as part of Interest Income on Investment Securities in statements of profit or loss.

Changes in the Bank's holdings of HTC financial assets in 2021 and 2020 are summarized below.

	2022	2021
Balance at beginning of year	**P 486,368,226**	P 321,846,565
Additions	**1,662,710,785**	485,909,092
Maturities	**(1,400,723,953)**	(321,971,796)
Amortization of discount	**935,154**	545,990
Reversal of impairment	**0**	38,375
Balance at end of year	**P 749,290,212**	P 486,368,226

Certain government securities amounting to P10.0 million were earmarked for trust duties and tagged as non-tradable by the Bureau of Treasury (see Note 21).

10.2 Financial Assets at Fair Value Through Other Comprehensive Income

Financial assets at FVOCI as of December 31 consist of:

	2022	2021
Quoted:		
Corporate debt securities	**P 414,026,474**	P 398,132,176
Equity securities	268,999,810	273,946,708
Proprietary club shares	**-**	0
	P 683,026,284	P 672,078,884

The fair value gains and losses in the Bank's financial assets at FVOCI amounted to P5.1 million, P6.9 million and P10.2 million in 2021, 2020 and 2019, respectively, 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.

Quoted corporate bonds are marketable debt securities issued by top corporations in the Philippines. These debt securities earn annual effective interests ranging from 3.48% to 6.81% in 2021, from 3.68% to 6.80% in 2020 and from 4.25% to 6.80% in 2019.

Quoted equity securities pertain to shares of stock of domestic corporations whose shares of stock are publicly traded in the PSE. These securities earned dividend amounting to P13.6 million, P8.0 million and P7.9 million in 2021, 2020 and 2019, respectively, and is presented as part of Dividends under Miscellaneous income in the statements of profit or loss (see Note 18.1).

Proprietary club shares consist of golf shares of Wack Wack Golf & Country Club. Unquoted equity securities in 2018 pertain to non-marketable preference shares issued by a private corporation. No dividend income was received both in 2020 and 2019. In 2021, the Bank disposed the proprietary club shares amounting to P37.5 million. The realized gain from this disposal amounted to P32.3 million, net of tax. The unrealized gains and losses in relation to these securities are directly reclassified from Revaluation Reserves to Retained Earnings both under Equity section in the statements of financial position (see Note 17.2).

The interest income earned by the Bank from FVOCI financial assets amounted to P10.9 million, P6.5 million and P9.5 million in 2021, 2020 and 2019, respectively, and is presented as part of Interest Income on Investment Securities in statements of profit or loss.

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

	2021	2021
Balance at the beginning of year	**P 672,078,884**	P 341,262,474
Additions	**25,000,000**	413,350,000
Disposals/maturities	**(0)**	(77,606,009)
Fair value gains (losses) – net	**(14,052,600)**	(4,927,581)
Balance at end of year	**P 683,026,284**	P 672,078,884

The Bank's financial assets at FVOCI, which are subject to credit risk exposure (see Note 4.1.4), have been reviewed for indications of impairment. Based on such review, the management determines that the related losses are immaterial to the financial statements. Accordingly, the Bank did not recognize any impairment losses on these financial assets in both years.

The fair values of quoted government debt securities and equity securities have been determined under Level 1 hierarchy, while proprietary club shares have been determined under Level 2 hierarchy (see Note 6.2).

11. LOANS AND RECEIVABLES

The details of this account follows:

	2022	2021
Receivables from customers	**P1,932,316,925**	P2,189,779,269
Sales contract receivables	**113,732,505**	134,874,045
Other receivables	**49,847,441**	97,521,244
	2,095,896,871	2,422,174,558
Unearned interests, discounts and other charges	**(10,845,127)**	(**1,157,806**)
Allowance for impairment	**(28,456,558)**	**(75,556,928)**
	P 2,056,595,186	P2,345,459,824

Included in receivables from customers are non-accruing loans amounting to P230.9 million and P164.2 million as of December 31, 2021 and 2020, respectively.

Receivables from customers are composed of the following:

	2022	2021
Time loans	**P1,348,246,822**	P1,518,328,848
Bills discounted	**91,175,595**	90,675,595
Past due loans	**175,030,180**	131,873,353
Items in litigation	**122,515,511**	99,039,701
Restructured loans	**195,348,817**	349,861,772
	P1,932,316,925	P 2,189,779,269

Receivables from customers bear annual effective interest rates ranging from 4.65% to 24.00% in 2021, 2020 and 2019. The total interest earned amounted to P212.6 million, P212.0 million, and P194.9 million in 2021, 2020 and 2019, respectively, and are presented as Interest Income on Loans and Receivables in the statements of profit and loss.

The breakdown of total receivables from customers as to type of interest rate follows:

	2022	2021
Variable interest rates	**P1,634,771,234**	P1,870,329,871
Fixed interest rates	**297,545,691**	319,449,398
	P2,010,368,663	P2,189,779,269

Sales contract receivables represent the outstanding balance related to the sale of investment properties (see Note 13). The terms of payment ranges from 2 to 25 years in 2021 and 2020, and annual interest rates on these receivables range from 6.00% to 16.84% in 2021, 2020 and 2019.

Changes in the amounts of allowance for impairment of loans and receivables are summarized below.

	2021	2020
Balance at beginning of year	**P 88,071,448**	P 89,047,209
Impairment losses (reversals) – net	**(15,224,935)**	119,758
Reclassification	**2,710,415**	1,095,519)
Balance at end of year	**P 75,556,928**	P 88,071,448

The breakdown of allowance for impairment on loans and receivables is shown below.

	2021	2020
Receivables from customers	**P 61,029,269**	P 76,103,862
Sales contract receivables	**298,240**	298,240
Other receivables	**14,229,419**	11,669,346
	P 75,556,928	P 88,071,448

12. BANK PREMISES, FURNITURE, FIXTURES AND EQUIPMENT

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

	Land	Bank Premises	Office Furniture, Fixtures and Equipment	Leasehold Improvements	Right-of-Use Assets	Total
March 31, 2022						
Cost	P 71,375,102	P 140,018,684	P 149,693,008	P 44,433,462	P 105,850,933	P 511,371,188
Accumulated depreciation and amortization	-	(68,408,177)	(137,170,116)	(41,382,538)	(64,208,790)	(311,169,622)
Net carrying amount	**P 71,375,102**	**P 71,610,507**	**P 11,789,114**	**P 3,728,073**	**P 46,495,992**	**P 206,110,608**
December 31, 2021						
Cost	P 71,375,102	P 140,018,684	P 147,655,479	P 44,409,822	P 111,629,254	P 515,088,341
Accumulated depreciation and amortization	-	(67,296,357)	(135,866,365)	(40,681,749)	(65,133,262)	(308,977,733)
Net carrying amount	P 71,375,102	P 72,722,327	P 11,789,114	P 3,728,073	P 46,495,992	P206,110,608
January 1, 2020						
Cost	P 71,375,102	P 137,587,349	P 175,401,178	P 44,357,386	P 92,889,702	P 521,864,837
Accumulated depreciation and amortization	-	(59,089,541)	(159,598,531)	(33,356,559)	19,750,389	(271,795,020)
Net carrying amount	P 71,375,102	P 78,751,928	P 15,802,647	P 11,000,827	P 73,139,313	P 250,069,817

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

	Land	Bank Premises	Office Furniture, Fixtures and Equipment	Leasehold Improvements	Right-of-use Assets	Total
Balance at January 1, 2021, net of accumulated depreciation and amortization	P 71,375,102	P 74,753,502	P 11,745,812	P 6,695,192	P 63,702,116	P 228,271,724
Additions	-	2,121,492	6,320,929	52,436	5,778,322	14,273,179
Depreciation and amortization charges for the year	-	(4,152,666)	(6,277,627)	(3,019,555)	(22,984,446)	(36,434,294)
Balance at December 31, 2021, net of accumulated depreciation and amortization	**P 71,375,102**	**P 72,722,327**	**P 11,789,114**	**P 3,728,073**	**P 46,495,992**	**P 206,110,608**
Balance at January 1, 2020, net of accumulated depreciation and amortization	P 71,375,102	P 78,751,928	P 15,802,647	P 11,000,827	P 73,139,313	P 250,069,817
Additions	-	55,723	3,432,595	-	12,961,230	16,449,548
Depreciation and amortization charges for the year	-	(4,054,149)	(7,489,430)	(4,305,635)	(22,398,427)	(38,247,641)
Balance at December 31, 2020, net of accumulated depreciation and amortization	P 71,375,102	P 74,753,502	P 11,745,812	P 6,695,192	P 63,702,116	P 228,271,724

In 2021 and 2020, the Bank wrote-off certain fully-depreciated furniture, fixtures and equipment with total cost of P24.9 million and P10.6 million, respectively.

In 2021 and 2019, the Bank disposed certain fully depreciated furniture, fixtures and equipment with total cost of P2.0 million and P0.6 million, respectively. The related gains on disposal amounting to 0.7 million in both 2021 and 2019 is presented as Gain on sale of bank premises under Miscellaneous Income in the statements of profit or loss (see Note 18.1). No similar transaction in 2020.

Depreciation and amortization expenses amounting to P36.4 million, P38.2 million and P41.1 million in 2021, 2020 and 2019, respectively, are shown as part of the Depreciation and Amortization in the statements of profit or loss.

As of December 31, 2021 and 2020, the gross carrying amount of the Bank's fully-depreciated assets that are still used in operations amounts to P166.7 million and P168.7 million, respectively.

The BSP requires that investments in fixed assets do not exceed 50% of the Bank's unimpaired capital. As of December 31, 2021 and 2020, the Bank has satisfactorily complied with this BSP requirement.

The Bank leases office space for its various branches. With the exception of short-term leases, each lease, in respect of right-of-use asset, is presented in the statement of financial position as part of Bank Premises, Furniture, Fixtures, and Equipment and in respect of the related obligation as lease liability under Other Liabilities. The Bank has 24 right-of-use assets leased in both 2021 and 2020, respectively, with terms ranging from one to 20 years with renewal options and annual escalation rates from 5.0% to 10.0% in both 2021 and 2020.

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

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

13. INVESTMENT PROPERTIES

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

	Land	Buildings	Total
March 31, 2022			
Cost	P 444,859,670	157,216,530 P	330,132,448
Accumulated depreciation	-	(15,177,476)	(15,177,476)
Allowance for impairment	-	(0)	(0)
Net carrying amount	**P 217,874,379**	**P 97,080,585**	**P 314.954.964**
December 31, 2021			
Cost	P 149,017,174	P 77,319,186	P 226,336,360
Accumulated depreciation	-	(14,134,442)	(14,134,442)
Allowance for impairment	-	(1,677,975)	(1,677,975)
Net carrying amount	P 137,216,149	P 61,506,769	P 210,523,943
January 1, 2020			
Cost	P 142,065,689	P 79,450,797	P 221,516,486
Accumulated depreciation	-	(11,764,314)	(11,764,314)
Allowance for impairment	-	(1,677,975)	(1,677,975)
Net carrying amount	P 142,065,689	P 66,008,508	P 208,074,197

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

	Land	Buildings	Total
Balance at January 1, 2021, net of accumulated depreciation and impairment	P 137,216,149	P 64,927,229	P 202,143,378
Additions	19,038,532	7,655,870	26,694,402
Disposals	(7,237,507)	(2,677,703)	(9,915,210)
Depreciation charges for the year	-	(8,398,627)	(8,398,627)
Balance at December 31, 2021, net of accumulated depreciation and impairment	**P 149,017,174**	**P 61,506,769**	**P 210,523,943**
Balance at January 1, 2020, net of accumulated depreciation and impairment	P 142,065,689	P 66,008,508	P 208,074,197
Additions	25,531,000	19,555,088	45,086,088
Disposals	(30,380,540)	(12,812,479)	(43,193,019)
Depreciation charges for the year	-	(7,823,888)	(7,823,888)
Balance at December 31, 2020, net of accumulated depreciation and impairment	P 137,216,149	P 64,927,229	P 202,143,378

Additions in 2021 and 2020 include real and other properties acquired through foreclosure of assets value based on the carrying amount of the related loan and receivable (see Note 11).

The Bank disposed of certain investment properties which resulted in a gain of P8.9 million, P24.6 million, and P49.8 million in 2021, 2020 and 2019, respectively, and is presented as part of Net gain from assets acquired or exchanged in Miscellaneous account under Other Operating Income section in the statements of profit or loss (see Note 18.1).

Income earned by the Bank from its investment properties leased to third parties under operating lease agreements amounted to P1.2 million, P1.5 million, and P2.1 million in 2021, 2020 and 2019, respectively, and is presented as Rental income under the Miscellaneous Income account in the statements of profit or loss (see Notes 18.1 and 24.1).

Direct operating expenses, other than depreciation expense, incurred on these investment properties amounted to P2.0 million, P2.8 million, and P8.0 million for the years ended December 31, 2021, 2020 and 2019, respectively, and are presented as Litigation and Asset Acquired Expenses in the statements of profit or loss.

The total fair values of investment properties as of December 31, 2021 and 2020 amounted to P210.5 million and P215.9 million, respectively, as determined by the Bank's in-house and independent appraisers (see Note 6.4).

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.

14. OTHER RESOURCES

The details of this account follows:

	Notes	2022	2021
Computer software – net	14.2	**P 34,366,523**	P 37,857,220
Branch licenses	14.3	**32,500,000**	32,500,000
Deferred tax assets – net	20	**9,028,547**	19,028,547
Security deposits	14.5, 22.4	**7,863,092**	7,462,496
Deposit with Bancnet		**7,000,000**	5,000,000
Stationery and supplies on hand		**5,112,708**	4,641,251
Assets held-for-sale – net	14.1	**5,073,824**	4,269,430
Deposit with Philippine Clearing House Corp. (PCHC)		**2,500,000**	2,500,000
Sundry debits	14.4	**2,485,664**	2,463,339
Creditable withholding tax		**785,041**	488,938
Documentary stamps		**920,279**	951,984
Utility deposit		**834,319**	834,319
Prepaid expenses		**5,640,294**	563,796
Other investments		**453,333**	453,333
Petty cash fund		**63,000**	98,000
Miscellaneous		**2,822,041**	3,224,958
		P 117,448,665	P 112,337,611

14.1 Assets Held-for-Sale

Non-financial assets include vehicles and jewelry items foreclosed from borrowers. Certain jewelries were subsequently sold in 2021, 2020 and 2019 and recognized gain on sale amounting to P2.6 million, P10.0 million and P2.2 million, respectively, and is presented as part of Net gain from assets acquired or exchanged in Miscellaneous account under Other Operating Income section in the statements of profit or loss (see Note 8.1).

The breakdown of this account is as follows:

	2022	2021
Jewelry items	**P 5,019,630**	P 4,087,466
Motor vehicles – net	**54,194**	181,964
	P 5,073,824	P 4,269,430

Changes in the carrying amounts of jewelry items are summarized below.

	2021	2020
Balance at beginning of year	**P 3,530,274**	P 21,300,559
Foreclosures	**12,517,880**	12,731,924
Disposals	**(11,960,688)**	(30,502,209)
Balance at end of year	**P 4,087,466**	P 3,530,274

Changes in the carrying amounts of motor vehicles are summarized below.

	2021	2020
Net carrying amount at beginning of year	**P 751,220**	P 1,308,041
Additions	**-**	130,067
Depreciation	**(542,677)**	(686,888)
Disposal	**(26,579)**	-
Net carrying amount at end of year	**P 181,964**	P 751,220

14.2 Computer Software

Computer software pertains to the cost of system software and other expenditures related to software upgrade which is amortized by the Bank over a period of five to ten years.

The movements in the computer software account follow:

	2022	2021
Balance at beginning of year	**P 37,857,220**	P 33,008,184
Additions	**3,476,360**	15,929,689
Amortization charges for the year	**(1,144,426)**	(11,080,653)
Balance at end of year	**P 40,189,154**	P 37,857,220

Amortization of computer software amounting to P11.1 million in 2021, P12.1 million in 2020 and P11.2 million in 2019 are shown as part of the Depreciation and Amortization account in the statements of profit or loss.

14.3 Branch License

Branch licenses pertain to the cost of licenses acquired by the Bank in 2004 and in 2006 for a consideration of P11.0 million and P20.0 million, respectively. The Bank also incurred P1.5 million representing relocation costs of the branches acquired in 2004. The Bank has utilized the branch license by establishing the branch banking operations on which the Bank will continuously operate. Accordingly, no impairment loss is required to be recognized in 2021, 2020 and 2019.

14.4 Sundry Debits

Sundry debits and sundry credits mainly pertain to ATM deposit and withdrawal transactions, including fees and charges thereon, which are yet to be classified, cleared and applied against proper customers' accounts within one month from date of entry (see Note 16).

14.5 Security Deposits

Security deposits include refundable deposits for the lease of the various branches of the Bank from several parties. Refundable security deposits are remeasured at amortized cost using the effective interest rates ranging from 5.76% to 7.42% determined at the inception of the lease contracts. The fair values on initial recognition of the security deposits were determined by calculating the present value of the future cash flows anticipated until the end of the lease term using discount rates determined by reference to market interest rate of comparable financial instrument.

15. DEPOSIT LIABILITIES

Savings deposits have interest rate of 0.13% per annum in 2021, 2020 and 2019. Peso term deposits have annual interest rates ranging from 0.16% to 5.00% in 2021, from 0.125% to 6.00% in 2020 and from 0.25% to 6.00% in 2019. US dollar term deposits have annual interest rates ranging from 0.14% to 0.19% in 2021, from 0.20% to 0.80% in 2020 and from 0.50% to 1.32% in 2019.

The breakdown of the interest expense incurred related to each type of deposit liabilities is shown below.

	2022	2021	2019
Savings:			
Philippine peso	**P 4,037,220**	P 10,541,964	P 33,942,763
US dollar	21,156	31.331	22,322
Time:			
Philippine peso	4,101,352	8,738,667	6,952,490
US dollar	53,904	109,698	3,461,636
Demand	547,665	833,876	1,198,779
	P 8,761,297	P 20,255,536	P 45,577,990

The breakdown of deposit liabilities as to currency is shown below.

	2022	2021
Philippine peso	**P 8,686,237**	P 3,602,131,095
US dollar	75,060	92,489,578
	P8,761,297	P3,694,620,673

Under existing BSP regulations, deposit liabilities are subject to regular and liquidity reserve of 3.00% in 2021 and 3.00% in 2020. The Bank has reserves from its balance in Due from BSP account amounting to P150.5 million and P147.8 million as of December 31, 2021 and 2020, respectively (see Note 7). The Bank is in compliance with these BSP regulations as of the end of reporting period.

16. OTHER LIABILITIES

This account consists of the following:

	Notes	2022	2021
Lease liabilities	16.1	**P 50,150,130**	P 54,764,604
Accrued expenses	16.3	**26,324,295**	20,751,212
Accounts payable	16.2	**43,600,872**	25,883,416
Cashiers and manager's checks		**20,342,225**	8,807,155
Post-employment benefit obligation	19.2	0	1,919,247
Security deposits		**634,342**	634,342
Sundry credits	14.4	**3,268,595**	32,280
Income tax payable		**0**	313
Deposit on future stock subscription	17.4	**-**	**0**
Miscellaneous	4.1.7(c)	**3,077,140**	37,996
		P 147,397,599	P 112,830,565

16.1 Lease Liabilities

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

	2022	2021
Balance at beginning of year	**P 54,764,604**	P 71,645,299
Addition	0	5,778,322
Repayments of lease liability	**(4,614,474)**	(22,659,017)
Balance as of end of year	**P 50,150,130**	P 54,764,604

The total interest expense incurred on the lease liability amounted to P5.3 million, P6.3 million and 7.2 million in 2021, 2020 and 2019, respectively, and is presented as part of Others under Interest Expense in the statements of profit or loss.

As at December 31, 2021 and 2020, the Bank has no committed leases which had not yet commenced.

The Bank has elected not to recognize lease liabilities for short-term leases. Payments made under such leases are expensed on a straight-line basis. The expenses relating to short-term leases amounted to P4.1 million, P4.6 million and 8.7 million in 2021, 2020 and 2019, respectively, and is presented as Occupancy under Other Operating Expenses in the statements of profit or loss.

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

	Within One Year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	More than Five Years	Total
December 31, 2021							
Lease payments	P 21,185,772	P20,890,836	P 7,829,561	P 3,175,332	P 3,444,118	P 18,773,466	P75,299,085
Finance charges	(3,415,958)	(3,565,230)	(2,572,513)	(2,480,878)	(2,320,725)	(6,179,177)	(20,534,481)
Net present value	**P 17,769,814**	**P17,325,606**	**P 5,257,048**	**P 694,454**	**P 1,123,393**	**P 12,594,289**	**P 54,764,604**
December 31, 2020							
Lease payments	P 25,419,091	P20,892,046	P18,627,898	P 4,014,319	P 1,466,746	P 26,896,894	P97,316,994
Finance charges	(4,904,298)	(3,510,588)	(2,230,421)	(1,411,991)	(1,299,020)	(12,315,377)	(25,671,695)
Net present value	P 20,514,793	P17,381,458	P16,397,477	P 2,602,328	P 167,726	P 14,581,517	P 71,645,299

16.2 Accounts Payable

Accounts payable is mainly composed of collections of Philhealth contributions from various clients of the Bank, which are remitted to Philhealth daily, advance collections from borrowers and payable to third party vendors and contractors for purchases of goods and services.

16.3 Accrued Expenses

Accrued expenses are composed mainly of gross receipts taxes, insurance premium to PDIC, and various accruals for utilities, security and janitorial services.

17. EQUITY

17.1 Capital Stock

As of December 31, 2021 and 2020, the Bank has total authorized capital stock of P1.5 billion and P1.0 billion, respectively, at P10 par value per share. As of those dates, total issued and outstanding shares consisted of 150,600,000 and 100,000,000 shares, respectively, amounting to P1.5 billion and P1.0 billion, respectively.

On November 28, 2001, the SEC approved the listing of the Bank's shares totaling 44,100,000. The shares were initially listed at an offer price of P11.55 per share. There are 49 holders in 2021 and 58 holders in 2020 and 2019 of the Bank's total outstanding shares. Such listed shares closed at P8.48 and P8.50 per share as of December 31, 2021 and 2020, respectively. As of December 31, 2021 and 2020, the approved listing of the Bank's shares by the SEC and PSE is 100,000,000.

In 2019 and 2018, the Bank's BOD approved and confirmed the issuance of additional shares from unsubscribed portion of the authorized capital stock in the amount of P2,000 and P14,348,020, respectively, divided into 200 and 1,434,802 shares, respectively.

In 2020 and 2018, the Bank also received P502,800,000 and P3,200,000, respectively, from its existing stockholders as part of Deposit on future stock subscription which is presented under Other Liabilities in the statements of financial position since the Bank is still in the process of applying for the increase in authorized capital stock (see Notes 2.18 and 16).

The BOD in its meeting dated November 25, 2020, approved the proposed increase the authorized capital stock from 100,000,000 shares at P10 par value or P1.0 billion to 180,000,000 shares at P10 par value or P1.8 billion amending its previous approval dated June 26, 2018 and May 16, 2019. This was then approved by the stockholders on December 18, 2020 (see Note 17.4).

On May 7, 2021, the Monetary Board of the BSP approved the issuance of the additional shares totaling to P506.0 million. Subsequently, the SEC approved the application on October 20, 2021. Accordingly, the Bank reclassified the Deposit on future stock subscription to Capital Stock in the 2021 statement of financial position.

17.2 Revaluation Reserves

The components and reconciliation of items of other comprehensive income presented in the statements of changes in equity at their aggregate amount under Revaluation Reserves account, are shown below.

	Financial assets at FVOCI	Defined Benefit Plan	Total
Balance as of January 1, 2021	P 38,398,422	(P 2,022,899)	P 36,375,523
Remeasurements of defined benefit post-employment plan (see Note 19.2)	-	13,528,909	13,528,909
Fair value losses on financial assets at FVOCI (see Note 10.2)	(5,075,576)	-	(5,075,576)
Other comprehensive income before tax	(5,075,576)	13,528,909	8,453,333
Tax expense	(188,703)	-	(188,703)
Other comprehensive income after tax	(5,264,279)	13,528,909	8,264,630
Realized gain on sale of equity securities at FVOCI	(38,019,568)	-	(38,019,568)
Tax expense	5,703,954	-	5,703,954
Transfer to Retained Earnings (see Note 10.2)	(32,315,614)	-	(32,315,614)
Balance as of December 31, 2021	**P 818,529**	**P 11,506,010**	**P 12,324,539**
Balance as of January 1, 2020	P 31,041,188	P 2,954,480	P 33,995,668
Remeasurements of defined benefit post-employment plan (see Note 19.2)	-	(4,977,379)	(4,977,379)
Fair value gain on financial asset at FVOCI (see Note 10.2)	6,915,805	-	6,915,805
Other comprehensive income before tax	6,915,805	(4,977,379)	1,938,426
Tax income	441,429	-	441,429
Other comprehensive income after tax	7,357,234	(4,977,379)	2,379,855
Balance as of December 31, 2020	P 38,398,422	(P 2,022,899)	P 36,375,523
Balance as of January 1, 2019	P 20,443,943	P 9,415,629	P 29,859,572
Remeasurements of defined benefit post-employment plan (see Note 19.2)	-	(6,461,149)	(6,461,149)
Fair value gain on financial asset at FVOCI (see Note 10.2)	10,155,816	-	10,155,816
Other comprehensive income before tax	10,155,816	(6,461,149)	3,694,667
Tax income	441,429	-	441,429
Other comprehensive income after tax	10,597,245	(6,461,149)	4,136,096
Balance as of December 31, 2019	P 31,041,188	P 2,954,480	P 33,995,668

17.3 Capital Management and Regulatory Capital

The BSP, as a lead regulator, sets and monitors capital requirements for the Bank. In implementing current capital requirements, the BSP requires the Bank to maintain a prescribed ratio of qualifying capital to risk-weighted assets.

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

(a) unbooked valuation reserves and other capital adjustments as may be required by the BSP;

(b) total outstanding unsecured credit accommodations to directors, officers, stockholders and related interests;

(c) deferred tax asset or liability;

(d) goodwill;

(e) accumulated equity in earnings of investee where the Bank holds 50% or less but where the equity method of accounting has been applied; and,

(f) appraisal increment on bank premises, furniture, fixtures and equipment other than those allowed to be recognized in connection with a merger or acquisition.

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

The Bank's regulatory capital position at the end of each reporting period follows:

	2021	2020	2019
Tier 1 Capital	**P 996,531,344**	P 461,124,248	P 518,744,944
Tier 2 Capital	**10,429,208**	15,729,082	8,331,532
Total Qualifying Capital	**P1,006,960,552**	P 476,853,330	P 527,076,476
Total Risk Weighted Assets	**P3,763,114,856**	P3,490,163,986	P3,904,428,503
Total qualifying capital expressed as a percentage of total risk weighted assets	**26.76%**	13.66%	13.50%
Tier 1 Capital Adequacy Ratio (CAR)	**26.48%**	13.21%	13.29%

** The regulatory capital for 2020 includes the booking of additional allowance for credit losses amounting to P110.4 million computed as of December 31, 2018 pursuant to Appendix 15 of the Manual of Regulations for Banks (MORB) as directed by the BSP.*

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

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

17.4 Compliance with the Minimum Capital Regulatory Requirement

On October 9, 2014, the Monetary Board of the BSP issued Circular No. 854 increasing the minimum capital requirement for all bank categories: universal, commercial, thrift, rural, and cooperative banks. As mandated by this new circular, the revised capitalization requirement applicable to the Bank is P1.0 billion since it has a head office in Metro Manila, which should be complied with on or before 2019. The Bank has developed a feasible capital build-up program that it will implement within the five-year period required by the BSP to meet this new minimum capital requirements.

In view of the foregoing, the BOD has implemented various measures to improve the Bank's financial condition within a reasonable period. These measures include formulation of a capital build up plan in compliance with BSP Circular No. 854 and implementation of business improvement plan.

On May 16, 2019, the BOD approved to amend the Bank's Articles of Incorporation increasing the authorized capital stock from P1.0 billion to P1.5 billion. The approval thereof by the BOD was confirmed by the stockholders last May 28, 2019. The Bank plans to accept new investors or infuse capital from the existing shareholders. Accordingly, to execute the plan and complete the necessary documentations, the Bank requested BSP for an extension to infuse capital. On December 13, 2019, the Monetary Board of the BSP granted the Bank a 120 days extension (reckoned from the date of Bank's receipt of BSP approval on December 23, 2019) of the Bank's compliance to infuse capital of P500.0 million and address the minimum capital requirement of the Bank. Further on April 29, 2020, the Bank requested for an additional extension to infuse capital which was approved by the Monetary Board of the BSP up to July 30, 2020 or a period of 60 days after the Enhanced Community Quarantine (ECQ) is lifted. ECQ in Metro Manila was lifted on June 1, 2020.

On July 10, 2020, the BOD approved the additional subscriptions of certain existing stockholders in the total amount of P496.8 million.

On July 13, 2020, the Bank entered into a subscription agreement with such stockholders and received the actual deposit totalling P496.8 million in the form of cash. On December 7, 2020, the Bank received an additional deposit on future stock subscription from one of the stockholders amounting to P6.0 million. The subscription deposits are included in Deposit on future stock subscription which is presented under Other Liabilities in the statements of financial position since the Bank is still in the process of applying for the increase in authorized capital stock and awaiting regulatory approvals (i.e., BSP and SEC) as of December 31, 2020 (see Note 17.1).

To fully comply with the regulatory requirements, it was discussed in the BOD meeting that the Bank's authorized capital stock of P1.0 billon previously approved by the SEC should be increased to P1.8 billion. Hence, the BOD in its meeting dated November 25, 2020, approved to increase the authorized capital stock to P1.8 billion amending their previous approval dated June 26, 2018 and May 16, 2019. This was then approved by the stockholders on December 18, 2020 (see Note 17.1). The application for the said increase was approved by the BSP on May 7, 2021 and subsequently approved by SEC on October 20, 2021.

In addition, the Bank implemented the following:

- monitoring of capital level to ensure compliance with minimum capital requirements;
- implemented programs and policy to strengthen the Bank's marketing strategy on its deposits and loan products;
- strengthening the risk management oversight through regular meetings; and,
- rationalization and review of the Bank's business relationship and opportunities with its related parties.

17.5 Minimum Liquidity Ratio

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

The minimum liquidity ratio (MLR) of 20% shall be complied with on an ongoing basis absent a period of financial stress effective January 1, 2019. However, the Bank was only able to comply with the MLR requirement starting June 2019.

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

	2021	2020
Eligible stock of liquid assets	**P1,487,438,691**	P 1,910,377
Total qualifying liabilities	**3,902,546,501**	4,446,950
MLR	**38.11%**	42.96%

17.6 Appropriations

In compliance with the requirements of the BSP, Circular No. 1011, which requires financial institutions to set up GLLP equivalent to 1% of all outstanding 'Stage 1' on-balance sheet loan accounts, the Bank appropriated P10.4 million and P15.7 million in 2021 and 2020, respectively, and were recognized as part of Surplus Reserves account which pertains to GLLP.

18. MISCELLANEOUS INCOME AND MISCELLANEOUS EXPENSES

Presented below are the details of these accounts:

18.1 Miscellaneous Income

	Notes	**2022**	2021	2020
Dividends	10	**P 0**	P 13,560,606	P 7,985,385
Net gain from assets acquired or exchanged	13, 14	**10,154,604**	11,482,426	34,603,714
Penalty on loans		**9,473,594**	**8,492,198**	7,820,770
Income from trust department	21	**3,371,691**	7,893,658	9,621,372
Legal and appraisal fees		**1,555,117**	2,564,681	1,159,734
Penalty charges on returned checks and other cash items		0	**2,084,828**	2,927,127
Interbank ATM transactions		**1,459,189**	1,775,751	131,184)
Rental income	13, 24.1	**377,799**	**1,195,998**	1,505,895
Income from re-ordered and pre-encoded checks		**237,319**	1,019,815	643,991
Gain on sale of bank premises	12	**0**	747,662	
Unrealized foreign exchange gains (losses) – net		**211,976**	282,672	(235,396)
Trading gain	10	**-**	-	0
Others	13, 14	**514,179**	3,992,731	349,772
		P27,355,468	P 55,093,025	P 66,513,548

Net gains from assets acquired or exchanged represent gains arising from the disposal of investment properties and other non-financial assets foreclosed from defaulting borrowers.

18.2 Miscellaneous Expenses

	Note	**2022**	2021	2020
Management and professional fees		**5,120,164**	5,684,255	2,565,789
BSP supervision fees		**907,407**	1,673,156	1,600,311
Office supplies		**442,995**	1,531,615	5,181,759
Fines and penalties		**1,104,886**	1,452,514	1.870.300
Interest expense on post-employment defined benefit obligation	19.2	**0**	1,399,407	684,825
Meals and other incentives		**287,840**	1,188,799	682,702
Representation and entertainment		**525,000**	1,133,942	1,081,416
Association dues		**1,464,939**	555,892	1,088,261
PCHC charges		**176,015**	416,172	439,937
Annual fees for PSE and SEC,		**706,720**	**261,707**	629,355
Bancnet		**50,000**	246,701	150,000
Transportation and travel		**271,709**	171,245	228,721
Advertising and publicity		**25,000**	85.192	65,192
Rental fee on motor vehicles		**6,621**	8.600	8,760
Others		**3,860,819**	7.722.794	8,074,013
		P 14,950,115	P 23,619,804	P 24,351,341

Others includes seminar and training expense, penalty on BSP's Agri-Agra loan compliance, Bank giveaways and other branch related expenses.

19. EMPLOYEE BENEFITS

19.1 Salaries and Employee Benefit Expense

Expenses recognized for salaries and other employee benefits are presented below.

	2021	2020	2019
Short-term employee benefits	**P107,907,536**	P 83,140,552	P 95,123,761
Post-employment defined benefits	**5,381,619**	4,452,192	3,193,978
	P113,289,155	P 87,592,744	P 98,317,739

19.2 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 the Bank's Trust Department. The post-employment plan covers all regular full-time employees.

The normal retirement age is 60 with a minimum of five years of credited service. The plan also provides for an early retirement at age 50 with a minimum of five years of credited service and late retirement after age 60, both subject to the approval of the Bank's BOD. Normal retirement benefit is an amount equivalent to 100% of the final monthly covered compensation (average monthly basic salary during the last 12 months of credited service) for every year of credited service.

(b) *Explanation of Amounts Presented in the Financial Statements*

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

The amounts of post-employment benefit obligation recognized in the statements of financial position (as part of Other Liabilities account – see Note 16) are determined as follows:

	2021	2020
Present value of the obligation	**P 27,443,311**	P 35,338,569
Fair value of plan assets	**(25,524,064)**	(18,948,257)
	P 1,919,247	P 16,390,312

The movements in the present value of the defined benefit post-employment obligation are as follows:

	2021	2020
Balance at beginning of year	**P 35,338,569**	P 27,462,372
Current service cost	**4,732,563**	3,767,367
Interest expense	**1,399,407**	1,452,759
Remeasurements – actuarial losses (gains) arising from:		
changes in financial assumptions	**(9,321,903)**	9,189,798
experience adjustments	**(4,516,925)**	(5,275,636)
Benefits paid	**(188,400)**	(1,258,091)
Balance at end of year	**P 27,443,311**	P 35,338,569

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

	2021	2020
Balance at beginning of year	**P 18,948,257**	P 14,516,703
Contributions to the plan	**6,323,775**	5,984,928
Benefits paid	**(188,400)**	(1,258,091)
Interest income	**750,351**	767,934
Return on plan assets (excluding amounts included in net interest)	**(309,919)**	(1,063,217)
Balance at end of year	**P 25,524,064**	P 18,948,257

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

	2021	2020
Cash and cash equivalents	**P 11,683,367**	P 5,670,575
Debt securities:		
Corporate bonds	**8,715,701**	11,580,611
Government securities	**2,540,000**	-
Quoted equity securities – Holding firms	**2,571,111**	1,625,076
Miscellaneous receivable	**13,885**	71,995
	P 25,524,064	P 18,948,257

The fair value of th e above equity securities (categorized under Level 1) are determined based on quoted market prices in an active market, while the fair value of corporate debt securities (categorized under Level 2) are derived from benchmark government bonds with similar maturities.

The plan assets earned returns of P0.3 million in 2021, P1.1 million in 2020 and P0.6 million in 2019.

Plan assets of the post-employment plan include cash deposits of P11.7 million and P5.6 million maintained in the Bank as of December 31, 2021 and 2020, respectively.

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	2019
Reported in profit or loss:			
Current service cost	**P 4,732,563**	P 3,767,367	P 2,514,812
Net interest expense	**649,056**	684,825	679,166
	P 5,381,619	P 4,452,192	P 3,193,978
Reported in other comprehensive income (loss):			
Actuarial gains (losses) arising from changes in:			
financial assumptions	**P 9,321,903**	(P 9,189,798)	(P 5,167,530)
experience adjustments	**4,516,925**	5,275,636	(697,383)
Return on plan assets (excluding amounts included in net interest expense)	**(309,919)**	(1,063,217)	(596,236)
	P13,528,909	(P 4,977,379)	(P 6,461,149)

Current service cost is presented in the statements of profit or loss as part of Salaries and Employee Benefits under the Other Operating Expenses account.

The net interest expense is presented in Interest expense on post-employment defined benefit obligation under Other Operating Expenses account (see Note 18.2).

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	**3.96%**	3.96%
Expected rate of salary increases	**5.00%**	5.00%

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 25 years.

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 to the terms of the retirement 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 Rate 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. As of end of 2021, the plan investments are 44% placed in corporate and government debt securities with the remaining assets invested in cash, equity securities and miscellaneous. Due to the long-term nature of the plan obligation, a level of continuing equity investments is still 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 during 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 and in the succeeding page.

(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 2020 are as follows:

	Impact on Post-employment Defined Benefit Obligation		
	Change in Assumption	**Increase in Assumption**	**Decrease in Assumption**
December 31, 2021			
Discount rate	**+/-1.0%**	**(P 2,377,769)**	**P 2,936,044**
Salary growth rate	**+/-2.0%**	**6,393,364**	**(4,311,463)**
December 31, 2020			
Discount rate	+/-1.0%	(P 5,634,361)	P 4,315,639
Salary growth rate	+/-2.0%	11,878,739	(7,445,151)

The sensitivity analysis is based on a change in an assumption while holding all other assumptions constant. This analysis may not be representative of the actual change in the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated. Furthermore, in presenting the sensitivity analysis, 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 ensure 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 or corporate bonds) with maturities that match the benefit payments as they fall due and in the appropriate currency. The Bank monitors how the duration and the expected yield of the investments are matching the expected cash outflows arising from the retirement obligations. In view of this, investments are made in reasonably diversified portfolio, such that the failure of any single investment would not have a material impact on the overall level of assets.

A larger portion of the plan assets as of December 31, 2021 and 2020 are invested in corporate debt and equity securities. In view of the long-term nature of the plan obligation, the Bank may re-allocate its plan assets and increase the level of its investments in equity and debt securities. The Bank believes that a combination of corporate debt securities and equity securities offer the best returns over the long term with an acceptable level of risk. Corporate debt securities and equities included in the plan assets are investments in a diversified portfolio of local blue-chip entities.

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

(iii) Funding Arrangements and Expected Contributions

The plan is currently underfunded by P1.9 million based on the latest actuarial valuation. While there are no minimum funding requirement in the country, the size of the underfunding may pose a cash flow risk in about ten years' time when a significant number of employees is expected to retire.

The Bank expects to make contribution of P6.7 million to the plan during the next reporting period.

The maturity profile of undiscounted expected benefit payments from the plan follows:

	2021	2020
Within one year	**P 3,555,360**	P 4,244,938
More than one year to five years	**7,523,062**	6,878,349
More than five years to ten years	**16,734,088**	13,462,286
More than 10 years to 15 years	**40,730,980**	32,799,574
More than 15 years to 20 years	**52,919,420**	39,688,300
More than 20 years	**313,205,867**	427,241,485
	P 434,668,777	P 524,314,932

The weighted average duration of the defined benefit obligation at the end of the reporting period is 20 years.

20. CURRENT AND DEFERRED TAXES

On March 26, 2021, Republic Act (R.A.) No. 11534, *Corporate Recovery and Tax Incentives for Enterprises (CREATE) Act*, as amended, was signed into law and shall be effective beginning July 1, 2020. The following are the major changes brought about by the CREATE Act that are relevant to and considered by the Company:

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

As a result of the application of the lower RCIT rate of 25% starting July 1, 2020, the current income tax expense and income tax payable, as presented in the 2020 annual income tax return of the Bank, would be lower by P0.9 million than the amount presented in the 2020 financial statements and such amount was charged to 2021 profit or loss.

In 2021, the recognized net deferred tax assets as of December 31, 2020 was remeasured to 25%. This resulted in a decline in the recognized deferred tax asset in 2020 and such was recognized in the 2021 profit or loss and in other comprehensive.

The components of tax expense (income) relating to profit or loss and other comprehensive income are as follows:

	2021	2020	2019
Reported in the statements of profit or loss:			
Current tax expense:			
Final tax at 20%, 15% and 7.5%	**P 7,345,795**	P 4,990,850	P 5,289,108
MCIT at 1% in 2021 and 2% in 2020 and 2019 – RBU	**1,477,789**	3,501,570	3,498,918
RCIT at 25% in 2021 and 30% in 2020 and 2019 – FCDU	**75,632**	340,395	877,166
Adjustment in 2020 income taxes due to change in income tax rate	**(899,932)**	-	-
	7,999,284	8,832,815	9,665,192
Deferred tax expense (income) arising from:			
Origination and reversal of temporary differences	**(82,284)**	(844,938)	(5,174,005)
Effect of the change in income tax rate	**1,622,625**	-	-
	1,538,341	(844,938)	(5,174,005)
	P 9,537,625	P 7,987,877	P 4,491,187
Reported in the statements of other comprehensive income:			
Deferred tax (income) expense relating to:			
Fair valuation of financial assets at FVOCI	**(P 336,698)**	(P 441,429)	(P 441,429)
Effect of the change in income tax rate	**147,995**	-	-
	(P 188,703)	(P 441,429)	(P 441,429)

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

	2021	2020	2019
Tax on pretax income (loss) at 25% in 2021 and 30% in 2020 and 2019	**P 2,841,031**	P 3,993,516	(P 5,475,310)
Adjustments for income subjected to lower income tax rates	**(4,247,025)**	(2,559,889)	(3,139,933)
Effect of the change in income tax rate	**722,693**	-	-
Tax effects of:			
Unrecognized deferred tax assets	**8,061,606**	4,068,122	10,812,938
Non-deductible interests and other expenses	**2,318,564**	3,052,834	3,582,653
Non-taxable income	**(109,030)**	(340,793)	(705,406)
Tax exempt income	**(50,214)**	(225,913)	(583,755)
Tax expense	**P 9,537,625**	P 7,987,877	P 4,491,187

The net deferred tax assets presented under Other Resources account as of December 31 relate to the following (see Note 14):

	2021	2020
Deferred tax assets:		
Lease liability	**P 4,326,486**	P 16,271,016
Allowance for impairment	**8,026,146**	8,026,146
Defined benefit post-employment obligation	**2,716,663**	2,716,663
	15,069,295	27,013,825
Deferred tax liabilities:		
Right-of-use assets	**(4,964,074)**	(15,222,268)
Fair value gains on financial assets at FVOCI	**(1,076,674)**	(887,971)
	(6,040,748)	(16,110,239)
Net deferred tax assets	**P 9,028,547**	P 10,903,586

Deferred tax expense (income) charged to profit or loss and other comprehensive income for the years ended December 31 are as follows.

	Profit or Loss			Other Comprehensive Income		
	2021	2020	2019	**2021**	2020	2019
Lease liability	**P 8,719,853**	P 5,874,589	P 22,145,605	**P -**	P -	P -
Right-of-use assets	**(10,258,194)**	(6,719,527)	(21,941,795)	**-**	-	-
Profit on assets sold under installment method	**-**	-	(5,174,005)	**-**	-	-
Accrued rent	**-**	-	(203,810)	**-**	-	-
Defined benefit post-employment obligation	**-**	-	-	**-**	-	-
Past-service cost amortization	**-**	-	-	**-**	-	-
Fair value gains on financial assets at FVOCI	**-**	-	-	**188,703**	(441,429)	(441,429)
Net deferred tax expense (income)	**(P 1,538,341)**	(P 884,938)	P 2,120,064	**P 188,703**	(P 441,429)	(P 441,429)

The Bank is subject to the MCIT, which is computed at 1% in 2021 and 2% in 2020 and 2019 of gross income, respectively, as defined under the tax regulations, or RCIT, whichever is higher. For the years ended December 31, 2021, 2020 and 2019, the Bank is liable for MCIT of P1.5 million, P3.5 million and P3.5 million, respectively, since it is in taxable loss position in those years.

Based on the financial and operating forecasts of the Bank, management believes that it may not be able to generate taxable income in the near future, enough to utilize in full the benefits of certain temporary differences, MCIT and net operating loss carry over (NOLCO) after it has applied the remaining and available MCIT and NOLCO incurred in prior years. Accordingly, the Bank has not recognized the corresponding deferred tax assets as of December 31, 2021 and 2020 as follows:

	2021		2020	
	Tax Base	**Tax Effect**	Tax Base	Tax Effect
NOLCO	**P 87,291,486**	**P 21,822,872**	P 136,221,571	P 40,866,471
Allowance for impairment	**85,795,206**	**21,448,801**	81,071,763	24,321,529
MCIT	**8,478,277**	**8,478,277**	9,393,220	9,393,220
	P 181,564,969	**P 51,749,950**	P 226,686,554	P 74,601,220

The details of the Bank's MCIT and the period until which they can be applied against RCIT are as follows:

Year Incurred	**Amount**	**Expired**	**Balance**	**Year of Expiry**
2021	P 1,477,789	P -	P 1,477,789	2024
2020	2,601,638*	-	2,601,638	2023
2019	3,498,918	-	3,498,918	2022
2018	2,392,732	2,392,732	-	2021
	P 9,971,077	**P 2,392,732**	**P 7,578,345**	

**based on the provision of Corporate Recovery and Tax Incentives for Enterprises (CREATE) Law (see Note 26.2). The MCIT in 2020 for financial reporting is P3,501,570.*

The NOLCO incurred by the Company can be claimed as deductions from their respective future taxable profits within three to five years after the tax loss was incurred. Specifically, the NOLCO incurred in 2020 can be claimed as deduction within five years after the year it was incurred, pursuant to Section 4 (bbbb) of Republic Act (R.A.) No. 11494, *Bayanihan to Recover as One Act* (otherwise known as Bayanihan II) and as implemented through Revenue Regulations (RR) No. 25-2020. The breakdown of NOLCO is shown below.

Year Incurred	**Original Amount**	**Expired**	**Remaining Balance**	**Year of Expiry**
2021	P 45,532,648	P -	P 45,532,648	2026
2020	8,573,162*	-	8,573,162	2025
2019	34,821,669	-	34,821,669	2022
2018	94,462,733	94,462,733	-	2021
	P 183,390,212	**(P 94,462,733)**	**P 88,927,479**	

**based on the provision of CREATE Law. The NOLCO in 2020 for financial reporting is P6,937,169.*

The Bank claimed itemized deductions in all years presented.

21. TRUST OPERATIONS

Investments amounting to P1.4 billion held by the Bank as of December 31, 2021 and 2020 in fiduciary or agency capacity (for a fee) for its customers are not included in the statements of financial position since these are not resources of the Bank (see Note 24.2).

In compliance with the requirements of the General Banking Act relative to the Bank's trust functions:

(a) Investment in government securities of P10.0 million deposited with BSP as security for the Bank's faithful compliance with its fiduciary obligations (see Note 10); and,

(b) A certain percentage of the Bank's trust income is transferred to surplus reserve. This yearly transfer is required until the surplus reserve for trust function is equivalent to 20% of the Bank's regulatory capital. As of December 31, 2021, 2020 and 2019, the reserve for trust operations amounted to P5.3 million, P4.5 million and P3.5 million, respectively, and is shown as part of Surplus Reserves in the statements of changes in equity.

Income from trust operations, net of the related expenses amounted to P7.9 million, P9.6 million and P9.5 million for the years ended December 31, 2021, 2020 and 2019, respectively, and are shown as part of Miscellaneous Income in the statements of profit or loss (see Note 18.1).

22. RELATED PARTY TRANSACTIONS

In the ordinary course of business, the Bank enters into varying transactions with its related parties, certain directors, officers, stockholders, and related interests (DOSRI), and with its funded retirement plan.

The summary of the Bank's transactions and the related outstanding balances with DOSRI and other related parties as of and for the years ended December 31, 2021 and 2020 are as follows (in thousands):

		Amounts of Transaction			**Outstanding Balance**	
Related Party Category	Notes	**2021**	2020	2019	**2021**	2020
Stockholders:	22.2					
Deposit liabilities		**P 73,487**	(P 229)	P 7,863	**P 82,821**	P 9,317
Interest expense		**16**	5	27	**-**	-
Related Parties Under Common Ownership:						
Lease transactions:						
Right-of-use assets	22.4	**(11,567)**	(3,231)	55,078	**40,280**	51,847
Lease liabilities	22.4	**19,688**	(1,064)	59,028	**38,276**	57,964
Interest expense	22.4	**3,710**	4,172	5,329	**-**	-
Rent expense	22.4	**724**	852	2,586	**-**	-
Rent income	22.4	**908**	795	1,055	**-**	-
Loans and receivables	22.1	**-**	(661)	(938)	**-**	13,975
Security services		**16,110**	15,818	17,162		
Insurance expense	22.5	**7,335**	7,597	8,456	**-**	-
Deposit liabilities	22.2	**(49,981)**	793,411	7,159	**2,009,653**	2,059,634
Medical, dental and hospitalization	22.6	**40**	646	3,418	**-**	-
Interest income	22.1	**-**	606	1,887	**-**	1,887
Interest expense	22.2	**1,750**	1,803	1,515	**-**	-

Related Party Category	Notes	Amounts of Transaction 2021	2020	2019	Outstanding Balance 2021	2020
Officers and Employees:						
Loans and receivables	22.1	**21**	(1,124)	763	**3,399**	3,043
Deposit liabilities	22.2	**5,236**	43	987	**6,421**	1,075
Interest expense	22.2	**2**	13	1	**-**	-
Key Management Personnel –						
Compensation	22.7	**18,495**	11,765	13,535	**-**	-

All of the Bank's loans and receivables from related parties have been reviewed for indications of impairment. Based on management's assessment, no impairment losses are required to be recognized on these financial assets at the end of each reporting period.

22.1 Loans to Related Parties/DOSRI

Under existing policies of the Bank, these loans are made equally with 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 a 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 unencumbered deposit and book value of the investment in the Bank. Generally, aggregate loans to DOSRI should not exceed the total equity or 15% of the total loan portfolio (net of loans secured by hold-out on deposits) of the Bank, whichever is lower.

DOSRI loans bear annual interest rates of 12.50% in 2021, and both 12.50% in 2020 and 2019. Existing loans are secured and are payable within 10 years.

In 2021, total loan releases and collections amounted to P0.5 million and P2.7 million, respectively, while in 2020, total loan releases and collections amounted to P1.0 million and P2.7 million, respectively.

22.2 Deposit Liabilities to Related Parties/DOSRI

As of December 31, 2021 and 2020, deposit liabilities to related parties amount to P2.1 billion in both years. The related interest expense incurred by the Bank from these deposits amounted to P1.8 million in 2021 and 2020, and P1.5 million in 2019.

22.3 Transactions with the Retirement Plan

The Bank's retirement fund for its defined benefit post-employment plan maintained for qualified employees, is administered and managed by the Bank's Trust Department under a trust agreement. The carrying amount and the composition of the plan assets as of December 31, 2021 and 2020 is disclosed in Note 19.2.

Total deposits of the retirement fund to the Bank amounted to P11.7 million, P13.4 million and P37.6 million in 2021, 2020 and 2019, respectively.

Equity securities of the retirement fund consist of investments in corporations listed in the PSE, which includes P13.8 million and P2.6 million investments in the shares of stock of the Bank as of December 31, 2021 and 2020, respectively, while debt securities is composed of investments in corporate bonds.

The retirement fund neither provides any guarantee or surety for any obligation of the Bank nor its investments in the Bank's shares of stock covered by any restriction and liens.

The contributions made by the Bank to the retirement plan amounted to P6.3 million and P6.0 million in 2021 and 2020, respectively (see Note 19.2).

22.4 Lease Transactions

The Bank, as a lessee, has lease agreements with related parties under common ownership. In relation to these lease agreements, the Bank made certain security deposits totaling P3.6 million as of December 31, 2021 and 2020, and are presented as part of the Other Resources account in the statements of financial position (see Note 14). Rent expense arising from these leases are presented as part of Occupancy in the statements of profit or loss.

Under PFRS 16, the Bank, as a lessee, recognized right-of-use assets related to lease of space from related parties amounting to P40.3 million and P51.8 million as of December 31, 2021 and 2020, respectively, which is presented as part of Bank Premises, Furniture, Fixtures and Equipment (see Note 12). Total interest expense on lease liability amounting to P3.7 million, P4.2 million and P5.3 million in 2021, 2020 and 2019, respectively, is included as part of Others under Interest expense in the statements of profit or loss. Outstanding balance arising from these transactions amounts to P38.3 million and P58.0 million as of December 31, 2021 and 2020, respectively, and is included as part of Lease liabilities under Other Liabilities (see Note 16).

The expenses relating to short-term leases amounted to P0.7 million, P0.9 million and P2.6 million as of December 31, 2021, 2020, and 2019, respectively, as part of Occupancy under Other Operating Expenses account in the statements of profit or loss.

The Bank also has lease agreements for the lease of its investment properties to certain related parties under common ownership. Rent income recognized on these leases are presented as Rental income under Miscellaneous Income account in the statements of profit or loss (see Notes 13, 18.1 and 24.1).

Lease agreements with related parties are either subject to fixed rental rate or 5% to 10% escalation rates. These are generally settled through cash payments with no interest charged on the outstanding balance, if any, at the end of each reporting period.

22.5 Insurance Expense

The Bank is covered by life and non-life insurance policies provided by its related parties under common ownership. These include group life insurance, fidelity insurance, money, securities and payroll robbery insurance, and commercial general liability. The related insurance expense incurred by the Bank is presented as part of Insurance in the statements of profit or loss. No related outstanding liability as of December 31, 2021 and 2020.

22.6 Medical, Dental and Hospitalization

The Bank has an existing agreement with a related party under common ownership to provide comprehensive health care for its employees. The related expense incurred by the Bank under this agreement is presented as part of Salaries and Employee Benefit Expense in the statements of profit or loss. No related outstanding liability as of December 31, 2021 and 2020.

22.7 Key Management Personnel Compensation

The compensation provided to key management personnel is broken down as follows:

	2021	2020	2019
Short-term employee benefits	**P 15,695,000**	P 10,694,742	P 12,812,242
Post-employment benefits	**2,800,000**	1,070,538	722,678
	P 18,495,000	P 11,765,280	P 13,534,920

23. EARNINGS (LOSSES) PER SHARE

Earnings (losses) per share is computed as follows:

	2022	2021	2020
Net income (loss)	**P 30,961,444**	P 1,678,505	P 5,323,843
Divided by the weighted average number of outstanding common shares	**100,000,000**	108,433,333	0,000,000
Earnings (loss) per share	**P 3.10**	P 0.02	(P 0.05)

The Bank has no potentially dilutive shares (i.e., options, warrants, convertible instruments, contingently issuable shares if the conditions are satisfied, etc.); hence, no information on diluted loss per share is presented as it is the same with the basic loss per share.

24. COMMITMENTS AND CONTINGENCIES

24.1 Operating Lease Commitments – Bank as Lessor

The Bank is a lessor under non-cancellable operating lease agreements for the lease of its certain investment properties. The leases have terms of five to ten years, with renewal options, and include annual escalation rate of 5% to 10%. The future minimum lease payments under these non-cancellable operating leases are as follows as of December 31, 2021 and 2020:

	2021	2020
Within one year	**P 1,099,076**	P 5,266,104
After one year but not more than five years	**6,491,054**	5,135,866
Balance as of end of year	**P 7,590,130**	P 10,401,970

The total rent income on investment properties amounted to P1.1 million, P1.5 million and P2.1 million in 2021, 2020 and 2019, respectively, and is presented as Rental income under Miscellaneous in the statements of profit or loss (see Notes 13, 18.1 and 22.4).

24.2 Others

In the normal course of the Bank's operations, there are other outstanding commitments and contingent liabilities such as guarantees and commitments to extend credit, which are not reflected in the financial statements. Management believes that as of December 31, 2021 and 2020, losses, if any, which may arise from these commitments and contingencies will not have a material effect on the Bank's financial statements.

25. NOTES TO STATEMENTS OF CASH FLOWS

The following information supplement those presented in the statements of cash flows for the periods presented with respect to the Bank's non-cash operating and investing activities:

	Notes	**2021**	2020	2019
Settlement of loans receivable arising from property/jewelry foreclosures	13, 14	**P 39,212,282**	P 57,948,078	P155,327,528
Unrealized fair value gains on FVOCI securities	10	**3,333,384**	7,357,234	10,597,245

For statements of cash flows purposes, the amount of due from other banks as of December 31, 2021 and 2020 considered as cash and cash equivalents follows:

	Note	**2021**	2020
Due from other banks	8	**P 168,642,433**	P 178,847,788
Due from other banks not considered as cash and cash equivalents	8	**(20,909,590)**	(19,689,430)
		P 147,732,843	P 159,158,358

26. CONTINUING IMPACT OF COVID-19 PANDEMIC

Different variants of the COVID-19 continue to ravage the country in 2021. While the effect on the over-all health of the banking industry was not as severe as the prior year due to the roll-out of vaccines and the gradual re-opening of the economy, other businesses continue to feel the pinch of the pandemic and are still unable to repay their loans. The expiration of the relief measures granted by financial institutions are also starting to affect their asset quality as evidenced by growth in the past due loans.

The following are the impact of the COVID-19 pandemic on the Bank's business:

- scaled-down branch operations and business units operating at less than full capacity due to mobility/quarantine restrictions;
- limited sales and marketing activity for businesses requiring face-to-face interaction due to social distancing; and,
- loan releases are still limited to existing borrowers with the exception of new fully secured loans.

The following were the actions undertaken by the Bank to mitigate such impact:

- ensure that new loans are fully secured by highly marketable collaterals;
- applied for staggered booking, a regulatory relief measure, of additional ECL accorded to 10 loan borrowers of the Bank;
- ensure a more rigorous discussion in Credit Committee before an account can be renewed, extended, or approved for new loan;
- adoption of a hybrid work schedule for all employees;
- all management and board level meetings were held digitally;
- emphasis on the roadmap for bank digitalization/automation activities; and,
- activated business continuity plan and implemented succession planning.

Based on the above actions and measures taken by management to mitigate the adverse effect of the pandemic, it projects that the Fund would continue to report positive results of operations and would remain liquid to meet current obligations as it falls due. Accordingly, management has not determined uncertainty that may cast significant doubt on the Fund's ability to continue as a going concern related to the pandemic.

27. SUPPLEMENTARY INFORMATION REQUIRED BY THE BSP

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

(a) Selected Financial Performance Indicators

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

	2021	2020	2019
Return on average capital			
Net profit / Average total capital accounts	**0.19%**	0.83%	-3.52%
Return on average resources			
Net profit / Average total resources	**0.03%**	0.12%	-0.58%
Net interest margin			
Net interest income / Average interest earning resources	**5.32%**	5.27%	6.09%

(b) Capital Instruments Issued

As of December 31, 2021 and 2020, the Bank has capital instruments considered in the computation of the Bank's regulatory and qualifying capital in accordance with Circular 781, *Basel III Implementing Guidelines on Minimum Capital Requirements,* which may include, instruments recorded as part of equity or a financial liability qualifying as Tier 2. As of December 31, 2021 and 2020, the Bank's equity amounts to P1,159.7 million and P643.6 million. In 2021 the Bank has complied the revised capitalization requirement of P1.0 billion as mandated by the BSP Circular No. 854.

(c) Significant Credit Exposures for Loans

The Bank's concentration of credit as to industry for its receivables from customers, gross of allowance for ECL, follows (amounts in thousands):

	2021			2020		
		Amount	**Percentage**		Amount	Percentage
Real estate, renting and other related activities	**P**	**1,117,244**	**46.12%**	P	1,052,065	44.84%
Consumption		**272,265**	**11.24%**		202,319	8.63%
Wholesale and retail trade		**167,860**	**6.93%**		146,959	6.26%
Other community, social and personal activities		**155,153**	**6.40%**		78,345	3.34%
Agriculture, forestry and fishing		**35,062**	**1.45%**		35,474	1.51%
Manufacturing (various industries)		**6,200**	**0.26%**		9,000	0.38%
Financial intermediaries		**-**	**0.00%**		794	0.04%
Others		**668,390**	**27.60%**		821,135	35.0%
	P	**2,422,175**	**100%**	P	2,346,091	100%

The BSP considers that loan concentration exists when the total loan exposure to a particular industry exceeds 30% of the total loan portfolio plus the outstanding interbank loans receivable or 10% of Tier 1 capital.

(d) Credit Status of Loans

The breakdown of receivables from customers (gross of unearned interests, discounts and other charges) as to status is shown below and in the succeeding page (in thousands).

	2021		
	Performing	**Non-performing**	**Total Loan Portfolio**
Gross carrying amount:			
Corporate	**P 537,023**	**P 78,343**	**P 615,366**
CTS	**399,134**	**-**	**239,062**
Individual	**174,314**	**64,747**	**399,134**
Housing	**157,627**	**4,581**	**162,207**
Auto loan	**82,303**	**15,168**	**97,470**
Salary	**6,234**	**6,416**	**12,649**
Others	**831,828**	**64,457**	**896,286**
	2,188,463	**233,712**	**2,422,175**
Allowance for ECL	**(29,006)**	**(46,551)**	**(76,167)**
Net carrying amount	**P 2,159,457**	**P 187,161**	**P 2,346,618**

	2020		
	Performing	Non-performing	Total Loan Portfolio
Gross carrying amount:			
Corporate	P 615,994	P 79,513	P 695,507
CTS	342,987	-	342,987
Individual	155,299	60,437	215,736
Housing	167,928	3,421	171,349
Auto loan	8,765	11,699	20,464
Salary	6,343	6,255	12,598
Others	884,538	2,912	887,450
	2,181,854	164,237	2,346,091
Allowance for ECL	(31,153)	(56,918)	(88,071)
Net carrying amount	P 2,150,701	P 107,319	P 2,258,020

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

	2021	2020
Gross NPLs	**P 233,712**	P 164,237
NPLs fully covered by allowance for impairment	**(46,551)**	(56,918)
	P 187,161	P 107,319

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

The breakdown of total receivables from customers as to secured and unsecured and the type of security for secured accounts is presented below.

	2021	2020
Secured:		
Real estate mortgage	**P1,682,892,690**	P1,763,594,631
Chattel mortgage	**107,020,365**	20,464,115
Hold-out deposit	**90,675,595**	13,380,000
Jewelries	**161,694,300**	176,968,250
Others	**101,680,043**	84,291,851
	2,143,962,993	2,058,698,847
Unsecured	**45,816,276**	59,518,460
	P2,189,779,269	P2,118,217,307

(f) *Information on Related Party Loans*

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

Under the current BSP regulations, the amount of individual loans to a DOSRI, 70% of which must be secured, should not exceed the amount of the encumbered deposit and book value of the investment in the Bank and/or any of its lending and nonbank financial subsidiaries. In the aggregate, loans to DOSRIs, generally, should not exceed the total equity or 15% of the total loan portfolio of the Bank. However, non-risk loans are excluded in both individual and aggregate ceiling computation.

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

	DOSRI Loans		Related Party Loans (inclusive of DOSRI)	
	2021	2020	**2021**	2020
Total outstanding loans	**P -**	P 13,975	**P 3,399**	P 17,018
% of loans to total loan portfolio	**-**	0.66%	**0.14%**	0.80%
% of unsecured loans to total DOSRI/related party loans	**-**	-	**-**	-
% of past due loans to total DOSRI/related party loans	**-**	-	**-**	-
% of non-performing loans to total DOSRI/ related party loans	**-**	-	**-**	-

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

(g) Secured Liabilities and Assets Pledged as Security

As at December 31, 2021 and 2020, the Bank has no secured liabilities and assets pledged as security.

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

The summary of the Bank's commitments and contingent accounts arising from transactions not given recognition in the statements of financial position, expressed at their equivalent peso contractual amounts as of December 31, 2021 and 2020 are as follows:

	Note	**2021**	2020
Trust department accounts	21	**P 841,349,585**	P1,374,170,790
Commitments		**52,000,000**	52,000,000
Others		**1,449,074**	1,474,446

28. SUPPLEMENTARY INFORMATION REQUIRED BY THE BUREAU OF INTERNAL REVENUE

The following supplementary information on taxes, duties and license fees paid or accrued during the taxable year which is required by the Bureau of Internal Revenue (BIR) under RR No. 15-2010 to be disclosed as part of the notes to financial statements. This supplementary information is not a required disclosure under PFRS.

(a) Gross Receipts Tax (GRT)

In lieu of value-added taxes, the Bank is subject to the GRT imposed on all banks and non-bank financial intermediaries pursuant to Sections 121 of the amended Tax Code.

In 2021, the Bank reported total GRT amounting to P4.8 million, which is included as part of taxes and licenses [see Note 28(f)].

(b) Documentary Stamp Tax (DST)

The Bank is enrolled under the Electronic DST System. In general, the Bank's DST transactions arise from the execution of debt instruments, security documents, and bills of exchange.

For the year ended December 31, 2021, DST affixed amounted to P14.3 million representing documentary stamps imposed mainly on debt instruments documents issued during the year, of which P1.4 million were charged to the Banks's clients, hence, not reported as part of taxes and licenses in 2021 [see Note 28(f)].

(c) Customs Duties and Tariff Taxes

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

(d) Excise Tax

The Bank did not have any transaction in 2021 which is subject to excise tax.

(e) Withholding Taxes

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

Final	P 2,346,642
Expanded	3,828,410
Compensation and employee benefits	5,020,305
	P 11,195,357

(f) Taxes and Licenses

The details of taxes and licenses follows:

	Note		
DST	28(b)	P	12,878,912
GRT	28(a)		4,770,777
Local taxes and business permits			1,824,382
Real property taxes			876,269
Capital gains tax			5,702,935
		P	**26,053,275**

(g) Deficiency Tax Assessments and Tax Cases

As of December 31, 2021, the Bank does not have any final deficiency tax assessment from the 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.

CITYSTATE SAVINGS BANK, INC.
AGING FOR ACCOUNTS RECEIVABLES
As of June 30, 2022

Accountee	Below 30 days	31 to 90 days	91 to 120 days	121 to 180 days	181 to 360 days	361 days or more	Total
Head Office	17,340,875.98	1,146,317.06	37,547.93	112,603.24	126,982.20	11,774,310.06	30,538,636.47
Head Office Branch	159.99					26,159.02	26,319.01
Chino Roces							-
Binondo							-
Panaderos	356.92						356.92
Paco							-
Guadalupe							-
Mabini							-
Baclaran	154.94		29.94				184.88
Pasay							-
Shaw							-
Cubao							-
Muntinlupa							-
Caloocan	604.82						604.82
Sta. Lucia							-
Blumentritt							-
Greenhills							-
Las Piñas							-
Perea							-
Antipolo	73.20						73.20
Katipunan							-
Taguig	5.00						5.00
Dagupan							-
Urdaneta							-
Baliuag	92,915.96						92,915.96
Meycauyan	9.97						9.97
Plaridel	5,000.00						5,000.00
Batangas	477.26	87.36	218.40				783.02
Palawan							-
Sta. Rosa	19,574.49						19,574.49
Cebu	29.97						29.97
TOTAL	**17,460,238.50**	**1,146,404.42**	**37,796.27**	**112,603.24**	**126,982.20**	**11,800,469.08**	**30,684,493.71**