



INDEPENDENT AUDITORS' REPORT

The Stockholders and the Board of Directors
Sterling Bank of Asia Inc. (A Savings Bank)
Sterling Bank Corporate Center
8004 Ortigas Avenue
Greenhills, 1500, San Juan
Metro Manila

Report on the Financial Statements

Opinion

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

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

Basis for Opinion

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

Other Information

Management is responsible for the other information. The other information comprises the information included in the Annual Report for the year ended December 31, 2021 but does not include the financial statements and our auditors' report thereon. The Annual Report for the year ended December 31, 2021 are expected to be made available to us after the date of this auditors' report.

Our opinion on the financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audits of the financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.



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

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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



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

Report on the Supplementary Information Required under the Bangko Sentral ng Pilipinas (BSP) Circular No. 1074, Series of 2020, Amendments to Regulations on Financial Audit of Banks

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information on Note 26 to the financial statements is presented for purposes of filing with the BSP and is not a required part of the basic financial statements. Such supplementary information is the responsibility of the management of Sterling Bank of Asia Inc. (A Savings Bank). The supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

REYES TACANDONG & Co.

BELINDA B. FERNANDO

Partner

CPA Certificate No. 81207

Tax Identification No. 102-086-538-000

BOA Accreditation No. 4782; Valid until April 13, 2024

SEC Accreditation No. 81207-SEC Group A

Issued January 30, 2020

Valid for Financial Periods 2019 to 2023

BIR Accreditation No. 08-005144-004-2019

Valid until October 16, 2022

PTR No. 8851706

Issued January 3, 2022, Makati City

March 22, 2022

Makati City, Metro Manila

STERLING BANK OF ASIA INC. (A Savings Bank)

STATEMENTS OF FINANCIAL POSITION

		December 31	
	Note	2021	2020
ASSETS			
Cash and other cash items		₱627,826,383	₱642,606,701
Due from Bangko Sentral ng Pilipinas	13	6,346,319,599	2,569,444,094
Due from other banks		2,598,830,302	2,993,935,298
Interbank loans receivable	6	–	932,575,517
Investment securities	7	3,356,310,923	835,785,653
Loans and receivables	8	30,960,274,303	31,272,845,363
Foreclosed assets	9	429,076,410	525,014,291
Property and equipment	10	515,596,592	588,952,352
Intangible assets	11	307,589,792	325,705,037
Net deferred tax assets	21	19,747,293	75,953,688
Other assets	12	108,283,327	97,781,416
		₱45,269,854,924	₱40,860,599,410
LIABILITIES AND EQUITY			
Liabilities			
Deposit liabilities	13	₱38,242,950,951	₱34,926,162,386
Accrued interest, taxes and other expenses	14	160,898,404	177,752,502
Manager's checks		98,191,696	77,074,219
Unsecured subordinated debt	15	1,300,000,000	1,300,000,000
Lease liabilities	18	175,603,805	220,606,697
Retirement liability	19	51,531,945	46,014,962
Income tax payable		16,884,778	18,340,154
Other liabilities	16	1,599,853,264	732,088,376
Total Liabilities		41,645,914,843	37,498,039,296
Equity			
Perpetual preferred stock	22	300,000,000	300,000,000
Common stock	22	2,170,000,000	2,170,000,000
Other equity reserves		18,338,414	31,168,066
Retained earnings		1,135,601,667	861,392,048
Total Equity		3,623,940,081	3,362,560,114
		₱45,269,854,924	₱40,860,599,410

See accompanying Notes to Financial Statements.

STERLING BANK OF ASIA INC. (A Savings Bank)

STATEMENTS OF INCOME

		Years Ended December 31	
	Note	2021	2020
INTEREST INCOME ON:			
Loans and receivables	8	₱2,204,037,050	₱2,812,471,594
Due from Bangko Sentral ng Pilipinas and other banks		61,995,372	36,433,350
Investment securities	7	37,107,920	53,911,811
Interbank loans receivable	6	19,665,887	32,280,731
		2,322,806,229	2,935,097,486
INTEREST EXPENSE ON DEPOSIT AND OTHER FINANCIAL LIABILITIES			
	13	410,116,664	654,932,341
NET INTEREST INCOME		1,912,689,565	2,280,165,145
OTHER INCOME (CHARGES)			
Service charges, fees and commissions		235,939,671	175,407,804
Net losses from assets sold or acquired	9	(156,419,114)	(82,099,070)
Net trading and securities gains (losses) from investment securities	7	(30,951,480)	21,494,857
Net foreign exchange gains		2,040,897	20,856,090
Loss on extinguishment of loans and receivables	8	–	(14,582,969)
Others - net		6,950,547	10,691,465
		57,560,521	131,768,177
MODIFICATION LOSS ON LOANS AND RECEIVABLES		8	–
			418,796,166
PROVISIONS FOR (REVERSAL OF) CREDIT AND IMPAIRMENT LOSSES			
Loans and receivables	8	86,282,074	200,524,247
Foreclosed assets	9	(22,060,376)	10,635,409
		64,221,698	211,159,656
OPERATING EXPENSES		20	1,509,304,427
			1,571,885,838
INCOME BEFORE INCOME TAX			396,723,961
			210,091,662
INCOME TAX EXPENSE (BENEFIT)			
Current	21	64,031,000	154,906,680
Deferred		58,483,342	(47,599,104)
		122,514,342	107,307,576
NET INCOME		₱274,209,619	₱102,784,086

See accompanying Notes to Financial Statements.

STERLING BANK OF ASIA INC. (A Savings Bank)**STATEMENTS OF COMPREHENSIVE INCOME**

		Years Ended December 31	
	Note	2021	2020
NET INCOME		₱274,209,619	₱102,784,086
OTHER COMPREHENSIVE INCOME (LOSS)			
<i>Items to be reclassified to profit or loss:</i>			
Net unrealized gains (losses) on fair value changes of investment securities	7	(8,648,340)	71,878,020
Translation adjustment		(1,033,269)	6,457,801
<i>Item not to be reclassified to profit or loss -</i>			
Remeasurement gain (loss) on retirement liability, net of deferred tax	19	(4,068,742)	432,602
Effect of change in tax rates		920,699	–
		(12,829,652)	78,768,423
TOTAL COMPREHENSIVE INCOME		₱261,379,967	₱181,552,509

See accompanying Notes to Financial Statements.

STERLING BANK OF ASIA INC. (A Savings Bank)

STATEMENTS OF CHANGES IN EQUITY

	Note	Years Ended December 31	
		2021	2020
PERPETUAL PREFERRED STOCK	22	₱300,000,000	₱300,000,000
COMMON STOCK	22		
Balance at beginning of year		2,170,000,000	2,070,000,000
Issuances		–	100,000,000
Balance at end of year		2,170,000,000	2,170,000,000
OTHER EQUITY RESERVES			
Cumulative Unrealized Gains (Losses) on Fair Value			
Changes of Investment Securities	7		
Balance at beginning of year		9,558,339	(62,319,681)
Net unrealized gains (losses)		(8,648,340)	71,878,020
Balance at end of year		909,999	9,558,339
Cumulative Remeasurement Gains			
on Retirement Liability	19		
Balance at beginning of year		12,390,630	11,958,028
Net remeasurement gain (loss)		(4,068,742)	432,602
Effect of change in tax rate		920,699	–
Balance at end of year		9,242,587	12,390,630
Cumulative Translation Adjustment			
Balance at beginning of year		9,219,097	2,761,296
Translation adjustment		(1,033,269)	6,457,801
Balance at end of year		8,185,828	9,219,097
		18,338,414	31,168,066
RETAINED EARNINGS			
Balance at beginning of year		861,392,048	758,607,962
Net income		274,209,619	102,784,086
Balance at end of year		1,135,601,667	861,392,048
		₱3,623,940,081	₱3,362,560,114

See accompanying Notes to Financial Statements.

STERLING BANK OF ASIA INC. (A Savings Bank)

STATEMENTS OF CASH FLOWS

		Years Ended December 31	
	Note	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax		₱396,723,961	₱210,091,662
Adjustments for:			
Interest income from accretion of:	8		
Modification loss on loans and receivables		(169,340,088)	(249,456,079)
Loss on extinguishment of loans and receivables		(12,587,582)	(1,995,390)
Net losses from assets sold or acquired	9	156,419,114	82,099,070
Depreciation and amortization	10	155,310,895	159,275,433
Provisions (reversal) for credit and impairment losses on:			
Loans and receivables	8	86,282,074	200,524,247
Foreclosed assets	9	(22,060,376)	10,635,409
Retirement benefits	19	17,916,949	18,314,164
Interest expense on lease liabilities	18	13,333,542	17,543,969
Net amortization of discount (premium) of investment securities	7	(696,060)	189,783,732
Modification loss on loans and receivables	8	-	418,796,166
Loss on extinguishment of loans and receivables	8	-	14,582,969
Net gain on sale of investment securities	7	-	(13,065,192)
Unrealized gains on fair value changes of investment securities	7	-	(126,624)
Operating income before working capital changes		621,302,429	1,057,003,536
Changes in operating assets and liabilities:			
Decrease (increase) in the amounts of:			
Financial assets at fair value through profit or loss		-	899,765,318
Loans and receivables		20,783,783	703,548,668
Other assets		(10,501,911)	20,173,770
Increase (decrease) in the amounts of:			
Deposit liabilities		3,316,788,565	(4,024,973,461)
Manager's checks		21,117,477	(96,702,969)
Accrued interest, taxes and other expenses		(16,854,098)	(69,221,420)
Other liabilities		867,764,888	(195,153,612)
Net cash generated from (used for) operations		4,820,401,133	(1,705,560,170)
Income tax paid		(65,486,377)	(159,716,573)
Retirement contributions	19	(17,000,000)	(30,000,000)
Retirement benefits paid	19	(824,955)	(3,952,656)
Net cash flows provided by (used in) operating activities		4,737,089,801	(1,899,229,399)
CASH FLOWS FROM INVESTING ACTIVITIES			
Additions to:			
Investment securities	7	(10,734,719,523)	(2,711,100,911)
Property and equipment	10	(19,896,715)	(35,107,952)
Computer software	11	(6,304,243)	(23,275,182)
Maturity of investment securities	7	8,206,241,973	2,839,474,910
Proceeds from sale of:			
Assets held for sale	9	333,311,723	202,207,035
Investment properties	9	11,958,000	-
Property and equipment	10	3,813,714	2,197,130
Investment securities	7	-	654,159,832
Net cash flows provided by (used in) investing activities		(2,205,595,071)	928,554,862

(Forward)

		Years Ended December 31	
	Note	2021	2020
CASH FLOWS FROM FINANCING ACTIVITIES			
Payments of lease liabilities	18	(P96,046,787)	(P93,587,966)
Proceeds from issuance of:			
Unsecured subordinated debt	15	-	300,000,000
Capital stock	22	-	100,000,000
Net cash flows provided by (used in) financing activities		(96,046,787)	306,412,034
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS			
		(1,033,269)	6,457,801
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		2,434,414,674	(657,804,702)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR			
Cash and other cash items		642,606,701	675,319,948
Due from Bangko Sentral ng Pilipinas		2,569,444,094	3,174,324,418
Due from other banks		2,993,935,298	3,413,981,051
Interbank loans receivable	6	932,575,517	532,740,895
		7,138,561,610	7,796,366,312
CASH AND CASH EQUIVALENTS AT END OF THE YEAR			
Cash and other cash items		627,826,383	642,606,701
Due from Bangko Sentral ng Pilipinas		6,346,319,599	2,569,444,094
Due from other banks		2,598,830,302	2,993,935,298
Interbank loans receivable	6	-	932,575,517
		P9,572,976,284	P7,138,561,610
OPERATING CASH FLOWS FROM INTEREST			
Interest received		P2,283,299,241	P2,028,408,650
Interest paid		410,040,521	747,354,003
NONCASH INFORMATION			
Foreclosure of assets held for sale	9	P351,657,423	P331,012,480
Recognition of:			
Right-of-use assets	10	37,710,353	19,588,108
Lease liabilities	18	37,710,353	19,588,108

See accompanying Notes to Financial Statements.

STERLING BANK OF ASIA INC. (A Savings Bank)

NOTES TO FINANCIAL STATEMENTS

1. General Information

Sterling Bank of Asia Inc. (A Savings Bank) (the Bank) was incorporated in the Philippines and registered with the Securities and Exchange Commission (SEC) and the Bangko Sentral ng Pilipinas (BSP). The Bank was formerly known as Far East Savings Bank (FESB) and was originally issued with a Certificate of Incorporation by the SEC on January 20, 1998. The Bank is primarily engaged in the general business of savings and mortgage banking. The Bank offers a wide range of products and services such as deposit products, loans, treasury and trust functions.

The Bank was granted authority to engage in trust operations in 2008 and to issue foreign letters of credit in 2010.

As at December 31, 2021 and 2020, the Bank operates a total of 47 branches.

In 2006, JTKC Equities, Inc. (JEI), Surewell Equities, Inc. (SEI) and Star Equities, Inc. acquired all the outstanding shares of stock of FESB from the Bank of the Philippine Islands. In 2007, the Bank changed its corporate name from FESB to Sterling Bank of Asia Inc. (A Savings Bank) as approved by the BSP and the SEC.

In 2009, the BSP approved the Bank's application to acquire 100% of the shares of stock of Centennial Savings Bank (CSB). In 2010, as approved by the BSP and the SEC, the Bank, as the surviving entity, merged with CSB.

As at December 31, 2021 and 2020, the ultimate parent company of the Bank is JEI, through a direct equity interest of 32.75% and indirect equity interest of 5.22%, through Star Equities, Inc., a wholly owned subsidiary of JEI.

The registered office address of the Bank is Sterling Bank Corporate Center, 8004 Ortigas Avenue, Greenhills, 1500, San Juan, Metro Manila.

The financial statements of the Bank as at and for the years ended December 31, 2021 and 2020 have been approved and authorized for issue by the Board of Directors (BOD) on March 22, 2022 as recommended for approval by the Audit Committee on March 15, 2022.

2. Summary of Significant Accounting Policies

Basis of Preparation and Compliance

The financial statements have been prepared in compliance with the Philippine Financial Reporting Standards (PFRS) issued by the Financial Reporting Standards Council and adopted by the SEC. This financial reporting framework includes PFRS, Philippine Accounting Standards (PAS), Philippine Interpretations from International Financial Reporting Interpretations Committee (IFRIC), and the SEC provisions.

Measurement Bases

The financial statements have been prepared under the historical cost basis, except for:

- investment securities measured at fair value;
- assets held for sale that are measured at the lower of carrying amount of loans and receivables and fair value less cost-to-sell;
- retirement liability that is carried at the present value of defined benefit obligation less the fair value of plan assets; and
- lease liabilities that are carried at initial recognition at the present value of remaining lease payments, discounted using an appropriate discount rate.

Historical cost is generally based on the fair value of the consideration given in exchange for an asset and the fair value of consideration received in exchange for incurring a liability. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the transaction date.

The Bank uses market observable data as far as possible when measuring the fair value of an asset or a liability. Fair values are categorized into different levels in a fair value hierarchy based on inputs used in the valuation techniques as follows:

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

If the inputs used to measure the fair value of an asset or a liability might be categorized in different levels of the fair value hierarchy, then the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Bank recognizes transfers between levels of the fair value hierarchy at the end of the reporting year during which the change has occurred.

Information about the assumptions made in measuring fair values is included in Note 5, *Fair Value Measurement*.

Functional and Presentation Currency

The financial statements of the Bank include the accounts maintained in the Regular Banking Unit (RBU) and Foreign Currency Deposit Unit (FCDU). The functional currency of the RBU and FCDU is the Philippine Peso and United States Dollar (USD), respectively. For financial reporting purposes, the FCDU accounts and foreign currency-denominated accounts in the RBU are translated into Philippine Peso equivalent amounts, which is the functional and presentation currency of the Bank. The financial statements of RBU and FCDU are combined after eliminating inter-unit accounts.

Adoption of Amendment to PFRS

The accounting policies adopted are consistent with those of the previous financial year, except for the adoption of amendment to PFRS 16 effective January 1, 2021.

- Amendment to PFRS 16, *Leases – Corona Virus Disease (COVID-19)-Related Rent Concessions beyond June 30, 2021* – In 2020, PFRS 16 was amended to provide practical expedient to lessees from applying the requirements on lease modifications for eligible rent concessions that is a direct consequence of COVID-19 pandemic. A lessee may elect not to assess whether eligible rent concessions from a lessor is a lease modification. A lessee that makes this election account for any change in lease payments resulting from the COVID-19 related rent concession the same way it would account for a change that is not a lease modification, e.g., as a variable lease payment. This amendment is effective for annual reporting periods beginning on or after June 1, 2020, with earlier application permitted, and covers eligible rent concessions until June 30, 2021. The Bank applied the practical expedient in its financial statements for the year ended December 31, 2020.

Due to continuing impact of the pandemic, another amendment to PFRS 16 was issued in 2021, which allows lessees to extend the application of the practical expedient regarding COVID-19-related rent concessions to reduction in lease payments that are due on or before June 30, 2022. The 2021 amendment is mandatory for entities that elected to apply the previous amendment. Accordingly, the Bank has applied the amendment in the 2021 financial statements.

The adoption of the amendment to PFRS 16 did not materially affect the financial statements of the Bank. Additional disclosures were included in the financial statements, as applicable.

Amendments to PFRS Issued but Not yet Effective

Relevant amendments to PFRS, which are not yet effective and have not been applied in preparing the financial statements, are summarized below.

Effective for annual periods beginning on or after January 1, 2022:

- Amendments to PFRS 3, *Reference to Conceptual Framework* – The amendments replace the reference of PFRS 3 from the 1989 Framework to the current 2018 Conceptual Framework. The amendment included an exception that specifies that, for some types of liabilities and contingent liabilities, an entity applying PFRS 3 should refer to PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, or IFRIC 21, *Levies*, instead of the Conceptual Framework. The requirement would ensure that the liabilities recognized in a business combination would remain the same as those recognized applying the current requirements in PFRS 3. The amendment also added an explicit statement that contingent assets acquired in a business combination should not be recognized by an acquirer. The amendments should be applied prospectively.
- Amendments to PAS 16, *Property, Plant and Equipment - Proceeds Before Intended Use* – The amendments prohibit deducting from the cost of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for its intended use. Instead, the proceeds and related costs from such items shall be recognized in profit or loss. The amendments must be applied retrospectively to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented when an entity first applies the amendment.

- Amendments to PAS 37, *Onerous Contracts - Cost of Fulfilling a Contract* – The amendments clarify that for the purpose of assessing whether a contract is onerous, the cost of fulfilling a contract comprises both the incremental costs of fulfilling that contract and an allocation of costs directly related to contract activities. The amendments apply to contracts existing at the date when the amendments are first applied. At the date of initial application, the cumulative effect of applying the amendments is recognized as an opening balance adjustment to retained earnings or other components of equity. Accordingly, the comparatives are not restated. Earlier application is permitted.
- Annual Improvements to PFRS 2018 to 2020 Cycle:
 - Amendment to PFRS 9, *Financial Instruments* – The amendment clarifies which fees an entity includes when it applies the “10% test” in assessing whether to derecognize a financial liability. An entity includes only fees paid or received between the entity (the borrower) and the lender, including fees paid or received by either the entity or the lender on the other’s behalf.
 - Amendment to PFRS 16 - *Lease Incentives* – The amendment to Illustrative Example 13 accompanying PFRS 16 removes from the example the illustration of the reimbursement of leasehold improvements by the lessor in order to resolve any potential confusion regarding the treatment of lease incentives that might arise because of how lease incentives are illustrated in that example.

Effective for annual periods beginning on or after January 1, 2023:

- Amendments to PAS 1, *Classification of Liabilities as Current or Noncurrent* – The amendments clarify the requirements for an entity to have the right to defer settlement of the liability for at least 12 months after the reporting period. The amendments also specify and clarify the following: (i) an entity’s right to defer settlement must exist at the end of the reporting period, (ii) the classification is unaffected by management’s intentions or expectations about whether the entity will exercise its right to defer settlement, (iii) how lending conditions affect classification, and (iv) requirements for classifying liabilities where an entity will or may settle by issuing its own equity instruments. The amendments must be applied retrospectively. Earlier application is permitted.
- Amendments to PAS 1 and PFRS Practice Statement 2, *Disclosure Initiative – Accounting Policies* – The amendments require an entity to disclose its material accounting policies, instead of its significant accounting policies and provide guidance on how an entity applies the concept of materiality in making decisions about accounting policy disclosures. In assessing the materiality of accounting policy information, entities need to consider both the size of the transactions, other events or conditions and its nature. The amendments clarify (1) that accounting policy information may be material because of its nature, even if the related amounts are immaterial, (2) that accounting policy information is material if users of an entity’s financial statements would need it to understand other material information in the financial statements, and (3) if an entity discloses immaterial accounting policy information, such information should not obscure material accounting policy information. In addition, PFRS Practice Statement 2, *Making Materiality Judgements*, is amended by adding guidance and examples to explain and demonstrate the application of the ‘four-step materiality process’ to accounting policy information. The amendments should be applied prospectively. Earlier application is permitted.

- Amendments to PAS 8, *Definition of Accounting Estimates* – The amendments clarify the distinction between changes in accounting estimates and changes in accounting policies, and the correction of errors. Under the new definition, accounting estimates are “monetary amounts in financial statements that are subject to measurement uncertainty”. An entity develops an accounting estimate if an accounting policy requires an item in the financial statements to be measured in a way that involves measurement uncertainty. The amendments clarify that a change in accounting estimate that results from new information or new developments is not a correction of an error, and that the effects of a change in an input or a measurement technique used to develop an accounting estimate are changes in accounting estimates if they do not result from the correction of prior period errors. A change in an accounting estimate may affect only the profit or loss in the current period, or the profit or loss of both the current and future periods. Earlier application is permitted.
- Amendments to PAS 12, *Deferred Tax Related Assets and Liabilities from a Single Transaction* – The amendments require companies to recognize deferred tax on transactions that, on initial recognition, give rise to equal amounts of taxable and deductible temporary differences. Earlier application is permitted.

Under prevailing circumstances, the adoption of the foregoing amendments to PFRS is not expected to have any material effect on the financial statements of the Bank. Additional disclosures will be included in the notes to financial statements, as applicable.

Financial Instruments

Date of Recognition. The Bank recognizes a financial asset or liability in the statement of financial position when the Bank becomes a party to the contractual provisions of a financial instrument. In the case of a regular way purchase or sale of financial assets, recognition and derecognition, as applicable, is done using settlement date accounting.

Initial Recognition and Measurement. Financial instruments are recognized initially at fair value, which is the fair value of the consideration given (in case of an asset) or received (in case of a liability). The initial measurement of financial instruments, except for those designated at fair value through profit or loss (FVPL), includes transaction cost.

“Day 1” Difference. Where the transaction in a non-active market is different from the fair value of other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Bank recognizes the difference between the transaction price and the fair value (a “Day 1” difference) in profit or loss. In cases where there is no observable data on inception, the Bank deems the transaction price as the best estimate of fair value and recognizes “Day 1” difference in profit or loss when the inputs become observable or when the instrument is derecognized. For each transaction, the Bank determines the appropriate method of recognizing the “Day 1” difference.

Financial Assets

Classification. The Bank classifies its financial assets at initial recognition under the following categories: (a) financial assets at FVPL, (b) financial assets at fair value through other comprehensive income (FVOCI) and (c) financial assets at amortized cost. The classification of a financial instrument largely depends on the Bank’s business model and its contractual cash flow characteristics.

Financial Assets at FVPL. Financial assets that do not meet the criteria for being measured at amortized cost or FVOCI are classified under this category. Specifically, financial assets at FVPL include financial assets that are (a) held for trading, (b) designated upon initial recognition at FVPL, or (c) mandatorily required to be measured at fair value.

Financial assets are classified as held for trading if these are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless these are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at FVPL, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortized cost or at FVOCI, debt instruments may be designated as FVPL on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Financial assets at FVPL are measured at fair value at each reporting year, with any fair value gains or losses, including foreign exchange gains or losses, recognized in profit or loss to the extent that these are not part of a designated hedging relationship. Interest income (calculated using the effective interest rate method) is recognized directly in profit or loss.

As at December 31, 2021 and 2020, there are no financial assets at FVPL. However, the Bank enters into transactions during the year involving certain investments in government securities and private bonds, which are included in this category.

Financial Assets at FVOCI. For debt instruments that are not designated at FVPL under the fair value option, the financial assets should be measured at FVOCI if both of the following conditions are met:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and selling the financial assets; and
- the contractual terms of the financial asset give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Debt instruments are initially measured at fair value plus transaction costs. Interest income (calculated using the effective interest rate method) and foreign currency gains or losses on debt instruments measured at FVOCI are recognized directly in profit or loss. After initial recognition, debt instruments are carried at fair value. Unrealized gains or losses from changes in fair values are recognized in other comprehensive income and presented in the equity section of the statements of financial position. When the financial asset is derecognized, the cumulative unrealized gains or losses previously recognized in other comprehensive income are reclassified from equity to profit or loss.

Equity instruments that are not held for trading may be irrevocably designated as a financial asset to be measured at FVOCI on initial recognition. Dividends from equity instruments held at FVOCI are recognized in profit or loss when the right to receive payment is established, unless the dividend clearly represents a recovery of part of the cost of the investment. After initial recognition, equity instruments are carried at fair value. Foreign currency gains or losses and unrealized gains or losses from changes in fair values are recognized in other comprehensive income and presented in the equity section of the statements of financial position. These fair value changes are recognized in equity and are not reclassified to profit or loss in subsequent years.

In limited circumstances, cost may be an appropriate estimate of fair value of equity securities designated as financial asset measured at FVOCI, such as if insufficient more recent information is available to measure fair value, or if there is a wide range of possible fair value measurements and cost represents the best estimate of fair value within that range.

Certain investments in government securities, private bonds and unquoted equity securities are included in this category (presented under “Investment Securities” account).

Financial Assets at Amortized Cost. Financial assets should be measured at amortized cost if both of the following conditions are met:

- it is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- its contractual terms give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortized cost are subsequently measured at amortized cost using the effective interest method, less any allowance for impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. Gains and losses are recognized in profit or loss when the financial assets are derecognized and through amortization process.

Cash and other cash items, due from BSP and other banks, interbank loans receivable, loans and receivables, government securities at amortized cost (presented under “Investment Securities” account), refundable deposits, and returned checks and other cash items (RCOCI) (included under “Other Assets” account) are classified under this category.

Reclassification. The Bank reclassifies its financial assets when, and only when, the Bank changes its business model for managing those financial assets. The reclassification is applied prospectively from the first day of the first reporting year following the change in the business model (reclassification date).

For a financial asset reclassified out of the financial assets at amortized cost category to financial assets at FVPL, any gain or loss arising from the difference between the previous amortized cost of the financial asset and fair value is recognized in profit or loss.

For a financial asset reclassified out of the financial assets at amortized cost category to financial assets at FVOCI, any gain or loss arising from a difference between the previous amortized cost of the financial asset and fair value is recognized in other comprehensive income.

For a financial asset reclassified out of the financial assets at FVPL category to financial assets at amortized cost, its fair value at the reclassification date becomes its new gross carrying amount.

For a financial asset reclassified out of the financial assets at FVOCI category to financial assets at amortized cost, the financial asset is reclassified at its fair value at the reclassification date, and the cumulative gain or loss previously recognized in other comprehensive income is removed from equity and adjusted against the fair value of the financial asset at the reclassification date.

For a financial asset reclassified out of the financial assets at FVPL category to financial assets at FVOCI, its fair value at the reclassification date becomes its new gross carrying amount. Meanwhile, for a financial asset reclassified out of the financial assets at FVOCI category to financial assets at

FVPL, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment at the reclassification date.

Equity securities designated to be measured at FVOCI may no longer be reclassified to other category.

Impairment. The Bank recognizes credit and impairment losses based on expected credit loss (ECL) which is the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Bank expects to receive. The difference is then discounted at an approximation to the asset's original effective interest rate and adjusted for forward-looking estimates, as appropriate.

The Bank recognizes impairment loss based on either the 12-month or lifetime ECL. The 12-month ECL is the portion of ECL that results from default events on a financial instrument that are possible within 12 months after the reporting year. The Bank measures impairment loss at an amount equivalent to the 12-month ECL for financial assets that are determined to have low credit risk and those financial assets for which credit risk has not increased significantly since initial recognition. Financial instruments for which a 12-month ECL is determined are referred to as "Stage 1 financial assets."

However, when there has been a significant increase in credit risk since initial recognition, the allowance for credit and impairment losses will be based on the lifetime ECL. The lifetime ECL is the ECL that results from all possible default events over the expected life of the financial asset. A financial asset for which a lifetime ECL are determined but which are not credit-impaired are referred to as "Stage 2 financial assets".

When determining whether the credit risk of a financial asset has increased significantly since initial recognition, the Bank compares the risk of a default occurring on the financial asset as at the reporting year with the risk of a default occurring on the financial asset as at the date of initial recognition and consider reasonable and supportable information, that is available without undue cost or effort, that is indicative of significant increases in credit risk since initial recognition. The Bank also considers downgrade of credit risk rating or changes in the computed probabilities of default to determine whether significant increase in credit risk has occurred subsequent to initial recognition date. As a backstop indicator, the Bank considers that there has been a significant increase in credit risk when contractual payments are more than 30 days past due.

At each reporting date, the Bank assesses whether the financial assets at amortised cost are credit-impaired (referred to as "Stage 3 financial assets"). A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults. ECL for credit-impaired financial assets is based on the difference between the gross carrying amount and present value of estimated future cash flows. The Bank transfers credit exposures from Stage 3 (non-performing) to Stage 1 (performing) when there is sufficient evidence to support their full collection. Such exposures should exhibit both the quantitative and qualitative indicators of probable collection prior to the transfer. The quantitative indicator is characterized by payments made within an observation period. The qualitative indicator pertains to the results of

assessment of the borrower's financial capacity. As a general rule, full collection is probable when payments of interest and/or principal are received for at least six period.

Financial assets at amortized cost are written off when there is no reasonable expectation of recovering the financial asset in its entirety or a portion thereof. This is generally the case when the Bank determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. This assessment is carried out at the individual asset level.

Modification or Restructuring. The Bank may modify the original terms and conditions of an existing loan, which may include, but not limited to, change in interest rate and terms, principal amount, maturity date and repayment schedule.

If modifications are considered substantial based on the assessment of the Bank, the loan is derecognized. Generally, a modification is considered substantial if the present value of the cash flows under the new terms, including net fees paid or received and discounted using the original effective interest rate, is different by at least 10% from the discounted present value of remaining cash flows of the original asset.

On the other hand, if a loan has been renegotiated or modified without resulting in a derecognition, the Bank records a modification gain or loss, to the extent that an impairment loss has not been already recorded, based on the change in cash flows discounted at the loan's original effective interest rate.

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

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

When the Bank has transferred its right to receive cash flows from a financial asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of ownership of the financial asset nor transferred control of the financial asset, the financial asset is recognized to the extent of the Bank's continuing involvement in the financial asset. Continuing involvement that takes the form of a guarantee over the transferred financial asset is measured at the lower of the original carrying amount of the financial asset and the maximum amount of consideration that the Bank could be required to repay.

Financial Liabilities

Classification. The Bank classifies its financial liabilities at initial recognition under the following categories: (a) financial liabilities at amortized cost and (b) financial liabilities at FVPL.

The Bank does not have financial liabilities measured at FVPL as at December 31, 2021 and 2020.

Financial Liabilities at Amortized Cost. Financial liabilities are categorized as financial liabilities at amortized cost when the substance of the contractual arrangement results in the Bank having an obligation either to deliver cash or another financial asset to the holder, or to settle the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of its own equity instruments.

These financial liabilities are initially recognized at fair value less any directly attributable transaction costs. After initial recognition, these financial liabilities are subsequently measured at amortized cost using the effective interest method. Amortized cost is calculated by taking into account any discount or premium on the issue and fees that are an integral part of the effective interest rate. Gains and losses are recognized in profit or loss when the liabilities are derecognized or through the amortization process.

Deposit liabilities, accrued interest and other expenses, manager's checks, unsecured subordinated debt, lease liabilities, and other liabilities (excluding due to Philippine Deposit Insurance Corporation - PDIC, withholding taxes and statutory obligations) are included under this category.

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

Classification of Financial Instrument between Liability and Equity. A financial instrument is classified as liability if it provides for a contractual obligation to:

- Deliver cash or another financial asset to another entity;
- Exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the Bank; or
- Satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.

If the Bank does not have an unconditional right to avoid delivering cash or another financial asset to settle its contractual obligation, the obligation meets the definition of a financial liability.

Offsetting of Financial Assets and Liabilities

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, and the related assets and liabilities are presented gross in the statement of financial position.

Foreclosed Assets

Foreclosed assets are composed of assets held for sale, investment properties and other foreclosed assets.

Assets Held for Sale. Foreclosed assets are classified as held for sale if the carrying amount will be recovered principally through a sale transaction rather than continuing use. Assets held for sale are accounted for at the lower of cost and fair value less cost to sell. The cost of foreclosed assets includes the carrying amount of the related loan, less any allowance for credit and impairment losses, at the time of foreclosure. Impairment loss is recognized in profit or loss for any subsequent write-down of the asset to fair value less cost to sell. Gain on any subsequent increase in fair value less costs to sell of an asset is recognized in profit or loss to the extent of the cumulative impairment loss.

Assets held for sale that cease to be classified as such is measured at the lower of (a) carrying amount before the assets were classified as held for sale, adjusted for any depreciation, amortization or revaluations that would have been recognized had the assets not been classified as held for sale, and (b) recoverable amount at the date of the subsequent decision not to sell. Any adjustment on the carrying amount of assets held for sale that cease to be classified as held for sale is recognized in profit or loss.

Investment Properties. Foreclosed assets are classified as investment properties if these are foreclosed real estate properties. The investment property acquired in settlement of loans is initially measured at fair value of the asset acquired unless the fair value of the asset cannot be measured, in which case the investment property acquired is measured at the carrying amount of the settled loan amount. Any difference between the fair value of an investment property acquired and the carrying amount of the loan upon foreclosure is recognized in profit or loss. Subsequent to initial recognition, depreciable investment properties are carried at cost less accumulated depreciation and any impairment in value. Depreciation is computed on a straight-line basis over the ten years. Land that is classified as investment property, is carried at cost and any impairment in value.

An investment property is derecognized when it has been disposed. Any gain or loss on the derecognition of an investment property is recognized in profit or loss in the year of derecognition.

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

Other Foreclosed Assets. Foreclosed assets are classified as other foreclosed assets if these will not be recovered principally through a sale transaction rather than continuing use and are not real estate properties. Other foreclosed assets are initially measured at the fair value of the asset acquired. Any difference between the fair value and the carrying amount of the loan upon foreclosure is recognized in profit or loss. Subsequent to initial recognition, other foreclosed assets are carried at cost less accumulated depreciation and any impairment in value. Depreciation is computed on a straight-line basis over the three years.

Other foreclosed assets are derecognized upon disposal. Any gain or loss on the derecognition of other foreclosed asset is recognized in profit or loss in the year of derecognition.

Property and Equipment

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

The initial cost of property and equipment consists of its purchase price, including import duties, nonrefundable taxes and any directly attributable costs in bringing the asset to its working condition and location for its intended use.

Expenditures incurred after the property and equipment have been put into operations, such as repairs and maintenance, are normally charged to profit or loss in the year when the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as additional costs of property and equipment.

The cost of replacing a part of the property and equipment is capitalized when that cost is incurred and all the relevant asset recognition criteria are met. The carrying amount of a part of an item of property and equipment that has been replaced is derecognized.

Depreciation and amortization are computed on a straight-line basis over the estimated useful lives of the assets. The estimated useful lives of the property and equipment are as follows:

<u>Asset Category</u>	<u>Number of Years</u>
Building and condominium units	30
Right-of-use (ROU) assets	3 to 10 or the related lease term, whichever is shorter
Furniture, fixtures and equipment	5
Leasehold rights and improvements	10 or the related lease term, whichever is shorter

The estimated useful lives and depreciation and amortization method are reviewed periodically to ensure that the years and method of depreciation and amortization are consistent with the expected pattern of economic benefits from items of property and equipment.

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

Fully depreciated items are retained as property and equipment until these are no longer being used in the operations.

When assets are retired or otherwise disposed of, the cost and the related accumulated depreciation, amortization and any impairment loss are removed from the accounts, any resulting gain or loss is recognized in profit or loss.

Intangible Assets

Branch Licenses. Branch licenses are capitalized on the basis of the costs incurred to acquire and of bringing the asset to its use in the operations. Branch licenses are not amortized and deemed to have an indefinite economic life as there is no foreseeable limit to the period over which these are expected to generate net cash inflows for the Bank.

Branch licenses are reviewed annually to determine whether events and circumstances continue to support an indefinite economic life assessment. Any change in assessment from indefinite to finite life will be accounted prospectively.

Computer Software. Computer software is measured on initial recognition at cost. Subsequently, computer software is measured at cost less accumulated amortization and any impairment losses. Internally-generated computer software, excluding capitalized development costs, is not capitalized and expenditures are recognized in profit or loss in the year in which the related expenditures are incurred.

Computer software is amortized using straight-line method over the estimated useful life of five years and assessed for impairment whenever there is an indication that the computer software may be impaired. The amortization period and method used for computer software are reviewed annually. Changes in the estimated useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimate. The amortization on computer software is recognized in profit or loss.

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

Prepaid Expenses

Prepaid expenses are expenses paid in advance and recorded as asset before these are utilized. Prepaid expenses are apportioned over the period covered by the payment and charged to appropriate accounts in profit or loss when incurred.

Impairment of Non-financial Assets

Property and equipment and computer software are reviewed for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. Branch licenses are assessed for impairment annually, either individually or at the cash generating unit (CGU) level, as appropriate. The Bank assesses at the end of the reporting year whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Bank makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or CGU's fair value less costs of disposal and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or group of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of the time value of money and the risks specific to the asset. Impairment losses are recognized in profit or loss.

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation and amortization, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in profit or loss. After such reversal, the depreciation and amortization are adjusted in future years to allocate the asset's revised carrying amount on a systematic basis over its remaining useful life.

Equity

Capital Stock. Capital stock is measured at par value per share issued. Incremental costs directly attributable to the issuance of new shares are recognized as deduction from equity, net of tax.

Perpetual preferred stock is classified as equity if it is non-redeemable, or redeemable only at the Bank's option, and any dividends thereon are discretionary. Perpetual preferred stock is classified as a liability if this is redeemable on a specific date or at the option of the stockholders, or if dividend payments are not discretionary. Dividends thereon are recognized as interest expense in profit or loss as accrued.

Retained Earnings. Retained earnings represent the cumulative balance of net income or loss, effects of the changes in accounting policy and other capital adjustments.

Other Equity Reserves. Other equity reserves comprise items of income and expenses that are not recognized in profit or loss. These pertain to cumulative unrealized gains (losses) on fair value changes of investment securities classified as financial assets at FVOCI, cumulative remeasurement gains on retirement liability and cumulative translation adjustment.

Revenue Recognition

Revenue from contracts with customers is recognized when the customer obtains control of the services at an amount that reflects the consideration to which the Bank expects to be entitled in exchange for those services. Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Bank and the revenue can be measured reliably.

The Bank also assesses its revenue arrangements to determine if it is acting as a principal or as an agent. The Bank has assessed that it acts as a principal in all of its revenue sources.

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

Interest Income. Interest income is recognized in profit or loss as the interest accrues, taking into account the effective yield of the asset.

When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective rate, transaction costs and all other premiums or discounts.

For Stage 3 financial assets, interest income continues to be recognized using the original effective interest rate applied to the new carrying amount, provided that the Bank determines that the collection of interest income is reasonably assured.

Service Charges, Fees and Commissions. Service charges and penalties are recognized upon collection or being accrued when there is reasonable degree of certainty as to its collectability. Fees and commissions arising from providing transaction services are recognized upon completion of the transaction. Fees or components of the fees that are linked to a certain performance of a service or a condition are recognized after performing the service or fulfilling the condition.

Gains (Losses) from Assets Sold or Acquired. Income or loss from sale of properties acquired is recognized upon completion of the earning process and the collectability of the sales price is

reasonably assured. Gain or loss on foreclosure of properties is determined as the difference between the fair value upon foreclosure and the carrying amount of the loan. Gain or loss on foreclosure of properties is recognized when the risks and rewards of the property have been transferred to the Bank.

Trading and Securities Gains (Losses). Trading and securities gains or losses represent gains and losses from changes in fair value of financial assets at FVPL and sale of investment securities.

Foreign Exchange Gains (Losses). Foreign exchange gains (losses) arising from the settlement of such transactions or from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized when earned.

Costs and Expense Recognition

Costs and expenses are recognized in profit or loss when a decrease in future economic benefit related to a decrease in an asset or an increase of a liability has arisen that can be measured reliably. Costs and expenses are recognized upon receipt of goods, utilization of services or when the costs and expenses are incurred.

Interest Expense. Interest expense is recognized in profit or loss using the effective interest rate of the financial liabilities to which these relate.

Operating Expenses. Operating expenses constitute costs which arise in the normal business operations and are recognized when incurred.

Employee Benefits

Short-term Benefits. Short-term employee benefits given by the Bank to its employees include salaries and wages, social security contributions, short-term compensated absences, bonuses and non-monetary benefits. The Bank recognizes a liability, net of amounts already paid, and an expense for services rendered by employees during the year.

Short-term employee benefits are measured on an undiscounted basis and are expensed as the related service is provided.

Retirement Benefits. Retirement benefit costs are actuarially determined using the projected unit credit method, which reflects services rendered by employees to the date of valuation and incorporates assumptions concerning employees' projected salaries.

The Bank recognizes service costs, comprising of current service costs, past service costs, gains and losses on curtailments and non-routine settlements, and net interest expense or income in profit or loss. Net interest expense or income is calculated by applying the discount rate to the net retirement liability or asset.

Past service costs are recognized in profit or loss on the earlier of the date of the plan amendment or curtailment and the date that the Bank recognizes restructuring-related costs.

Remeasurements comprising of actuarial gains and losses, return on plan assets and any change in the effect of the asset ceiling (excluding net interest on defined benefit obligation) are recognized immediately in other comprehensive income in the year in which these arise. Remeasurements are not reclassified to profit or loss in subsequent years.

The retirement liability is the difference of the present value of the defined benefit obligation and the fair value of plan assets out of which the obligations are to be settled directly. The present value of the retirement liability is determined by discounting the estimated future cash outflows using interest rate on government bonds that have terms to maturity approximating the terms of the related retirement liability.

Actuarial valuations are made with sufficient regularity so that the amounts recognized in the financial statements do not differ materially from the amounts that would be determined at the reporting year.

The Bank contributes to the retirement fund based on the actuarial valuation report. The contributions to the retirement plan consist of annual normal cost and amortization of any unfunded past service liability. The Bank is not required to contribute when the fair value of plan assets exceeds the present value of retirement liability.

Leases

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

The Bank as a Lessee

At commencement date of the lease, the Bank recognizes ROU assets and corresponding lease liabilities on the statements of financial position.

ROU Assets. ROU assets are initially measured at cost, which comprises the initial amount of lease liability adjusted for any lease payments made at or before commencement date, plus any initial direct costs incurred, less any incentives received. ROU assets are subsequently amortized using the straight-line method from the commencement date to the end of the lease term. In addition, ROU assets are periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of lease liabilities. The Bank presents the ROU asset as part of "Property and equipment" account in the statements of financial position.

Lease Liabilities. Lease liabilities are initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Bank's incremental borrowing rate. Generally, the Bank uses its incremental borrowing rate as the discount rate.

The Bank determines its incremental borrowing rate by obtaining interest rates from various external financing sources and makes certain adjustments to reflect the terms of the lease and type of the asset leased.

Lease payments included in the measurement of lease liabilities comprise the fixed payments, including in-substance fixed payments, and if applicable:

- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Bank is reasonably certain to exercise, lease payments in an optional renewal period if the Bank is reasonably certain to exercise an extension

option, and penalties for early termination of a lease unless the Bank is reasonably certain not to terminate early.

Lease liabilities are measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Bank's estimate of the amount expected to be payable under a residual value guarantee, if the Bank changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When lease liabilities are remeasured, a corresponding adjustment is made to the carrying amount of the ROU assets, or is recorded in profit or loss if the carrying amount of the ROU assets has been reduced to zero.

Short-term Leases. The Bank applies the short-term lease recognition exemption to its short-term leases (i.e., leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). Lease payments on short-term leases are recognized as expense on a straight-line basis over the lease term.

Income Taxes

Current Tax. Current tax assets and liabilities for the current and prior years are measured at the amount expected to be recovered from or paid to the tax authorities. The tax rate and the tax laws used to compute the amount are those that are enacted or substantively enacted at the end of the reporting year.

Deferred Tax. Deferred tax is provided on all temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognized for all taxable temporary differences. Deferred tax assets are recognized for all deductible temporary differences, and carry forward benefits of the excess of minimum corporate income tax (MCIT) over the regular corporate income tax (RCIT) and net operating loss carryover (NOLCO), to the extent that it is probable that future taxable profit will be available against which the deductible temporary differences, excess MCIT and NOLCO can be utilized. Deferred tax, however, is not recognized when it arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit or loss nor taxable profit or loss.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced 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. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

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

Deferred tax is recognized in profit or loss except to the extent that it relates to items recognized directly in equity as other comprehensive income.

Offsetting. Current tax assets and current tax liabilities are offset, or deferred tax assets and deferred tax liabilities are offset if, and only if, an enforceable right exists to set off the amounts and it can be demonstrated without undue cost or effort that the Bank plans either to settle on a net basis or to realize the asset and settle the liability simultaneously.

Fiduciary Activities

The Bank excludes from these financial statements the assets and income arising from fiduciary activities, together with related undertakings to return such assets to customer, where the Bank acts in a fiduciary capacity such as a nominee, trustee or agent.

Foreign Currency Transactions

RBU. Transactions in currencies other than Philippine Peso are recorded at the rate of exchange prevailing on the date of the transaction. At each reporting date, monetary assets and liabilities denominated in foreign currencies are translated at the rates prevailing on the reporting date. Foreign exchange gains or losses are recognized in profit or loss in the year in which these are incurred.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

FCDU. As at the reporting date, the assets and liabilities of the FCDU are translated into the Bank's functional and presentation currency at the Banking Association of the Philippines (BAP) closing rate, and its income and expenses are translated at the BAP weighted average rate for the year. Exchange differences arising from translation to foreign currency are recognized as other comprehensive income under "Cumulative translation adjustment." Upon disposal of the FCDU or actual remittance of FCDU profits to RBU, the deferred cumulative amount recognized as "Cumulative translation adjustment" in other comprehensive income is recognized in profit or loss.

Related Party Relationship and Transactions

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

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

Related party transactions consist of transfer of resources, services or obligations between the Bank and its related parties.

Provisions

Provisions, if any, are recognized when the Bank has a present obligation (legal or constructive) as a result of a past event it is probable that an outflow of economic resources will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

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 year, 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 assessment and the risks specific to the obligation. Provisions are reviewed at the end of each reporting year and adjusted to reflect the current best estimate.

Contingencies

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

Events after the Reporting Year

Subsequent events that provide additional information about the Bank's financial position at the reporting year are reflected in the financial statements when material. Subsequent events that are non-adjusting events are disclosed in the notes to financial statements when material.

3. Significant Judgments, Accounting Estimates and Assumptions

The preparation of the financial statements requires management to exercise judgment, make estimates, and use assumptions that affect amounts of assets, liabilities, income and expenses reported in the financial statements and related disclosures. The judgments, estimates and assumptions used in preparing the financial statements are based upon management's evaluation of relevant facts and circumstances as at the date of the financial statements. While management believes that the assumptions are reasonable and appropriate, significant differences in the actual experience or significant changes in the assumptions may materially affect the estimated amounts. Actual results could differ from such estimates.

Judgments

In the process of applying the Bank's accounting policies, management has made the following judgments, which have the most significant effect on the amounts recognized in the financial statements.

Determining the Classification of Financial Assets. Classification of financial assets depends on the results of the business model test and sole payment of principal and interest test performed by the Bank.

The Bank exercises judgment in determining the business model to be used in managing its financial instruments to achieve their business objectives. The following are the factors considered by the Bank in its business model assessment:

- Specific business objectives in holding the financial assets,
- Whether income that can be generated from the financial assets can cover the cost of deposits,
- Policies in managing the risks of the financial assets,
- Expected frequency, value and timing of sales, and
- Key performance indicators of the financial assets.

The Bank also determines whether the contractual terms of debt instruments classified and measured as financial assets at amortized cost give rise to specified dates to cash flows that are solely payments for principal and interest, with interest representing time value of money and credit risk associated with the outstanding principal amount. Any other contractual term that changes the timing or amount of cash flows does not meet the “solely payments of principal and interest” test.

Determining the Fair Values of Financial Instruments. Certain financial assets and liabilities are carried at fair value and whose fair values are disclosed, which requires extensive use of accounting estimates. While significant components of fair value measurement were determined using verifiable objective evidence, the amount of changes in fair value would differ if the Bank utilized different valuation methodologies. Any changes in fair value of these financial assets and liabilities would affect profit and loss and equity.

When the fair values of financial assets and liabilities recognized or disclosed in the financial statements cannot be derived from the active market, the fair values are determined using internal valuation techniques that include the use of mathematical models. The inputs to these models are taken from observable market where possible, but where this is not feasible, a degree of judgment is required in establishing fair values.

The fair values of the Bank’s financial instruments are disclosed in Note 5.

Determining the Functional Currency. The Bank uses its judgment to determine the functional currency such that it most faithfully represents the economic effects of the underlying transactions, events and conditions that are relevant to the entity. In making this judgment, the Bank considers the following:

- the currency that mainly influences sales price for financial instruments and services or the currency in which sales prices for its financial instruments and services are denominated and settled;
- the currency in which funds from financing activities are generated; and
- the currency in which receipts from operating activities are usually retained.

Based on the foregoing and the economic substance of the underlying circumstances relevant to the Bank, the functional currency of the Bank has been determined to be the Philippine Peso, which is the currency of the primary economic environment in which the Bank operates.

Determining the Classification of Lease Arrangements and Appropriate Lease Term and Discount Rates. The Bank, as a lessee, has existing lease agreements with related parties and third parties for its branches.

The Bank recognizes ROU assets and lease liabilities measured at the present value of lease payments to be made over the lease term using the Bank’s incremental borrowing rate, except for its short-term leases.

The Bank has exercised significant judgment in determining the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or in any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Bank has lease contracts that include extension and termination options. The Bank applies judgment in evaluating whether it is reasonably certain whether or not to exercise the option to renew or terminate the lease. It considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination. After the commencement, the Bank reassess the lease term if there is a significant event or change in circumstances that is within its control that affects the ability to exercise or not to exercise the option to renew or terminate such as construction of a significant leasehold improvement or significant customization of the leased asset.

The Bank elected not to recognize ROU assets and lease liabilities for short-term leases. The Bank recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

Significant management judgment was likewise exercised by the Bank in determining the discount rate, whether implicit rate, if readily available or incremental rate, to be used in calculating the present value of ROU assets and lease liabilities. The discount rate ranging from 4.84% to 7.78% are incremental borrowing rates based on the Bloomberg Valuation Service (BVAL) rates adjusted by credit spread of the Bank.

Reassessments are made on a continuing basis whether changes should be reflected in the amount of lease liabilities due to circumstances affecting lease payments.

The amounts recognized in the financial statements in relation to the Bank's lease agreements are as follows (see Note 18):

	2021	2020
ROU assets	₱152,921,954	₱196,065,570
Lease liabilities	175,603,805	220,606,697
Amortization of ROU assets	80,853,969	82,375,225
Rent expense	23,396,381	21,032,427
Interest expense on lease liabilities	13,333,542	17,543,969

Classifying the Acquired Assets. The Bank classifies its acquired assets as property and equipment if these are properties expected to be used in operations, investment properties if these assets are properties held for currently undetermined future use and is regarded as held for capital appreciation or for sale but the disposal is expected not to materialize within one year, or assets held for sale if the Bank expects that these assets will be recovered through sale rather than use or the Bank remains committed to sell the assets through active marketing and disposal program if the sale will not materialize within one year. Foreclosed assets, other than real estate properties, that Bank expects to sell for a period longer than one year are classified as other foreclosed assets.

Evaluating Contingencies. The Bank is currently involved in some legal proceedings mainly pertaining to collectability of its loans and receivables. The estimate of the probable costs for the resolution of these claims has been developed in consultation with outside counsels handling the Bank's defense in these matters and is based on an analysis of potential results. Based on the opinion of its legal counsels, the Bank is in a good position to secure a favorable judgment in most of these cases. Management therefore believes that the ultimate outcome of these proceedings will not have a material adverse effect on the Bank's financial position and performance (see Note 25).

Estimates and Assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the financial reporting year, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Estimating the Credit and Impairment Losses on Financial Assets. Credit and impairment losses on financial assets are based on ECL. In assessing the ECL, the Bank uses historical credit loss experience adjusted for forward-looking factors, as appropriate.

The Bank measures impairment loss based on the 12-month ECL for the following:

- Receivables from customers and other financial instruments on which credit risk has not increased significantly since initial recognition.
- Investment securities and other debt instruments that are determined to have credit risk rating equivalent to “investment grade”, and thus, have a low credit risk at the reporting date.

The Bank measures impairment loss based on the lifetime ECL for receivables from customers for which credit risk has increased significantly since initial recognition, or when:

- The account is considered as loans especially mentioned based on the BSP guidelines.
- The account has a missed payment for more than 30 days for consumer loans or seven days for commercial loans.
- The account is downgraded by two risk ratings based on the Bank’s Internal Credit Risk Ratings (ICRR).

In estimating impairment loss of receivables from customers, the Bank estimates the amounts and timing of future cash flows, collateral values and the assessment of a significant increase in credit risk. Below are the components considered in the calculation of ECL.

- Net flow and default rates of receivables from customers based on historical experience of the Bank.
- ICRR and certain qualitative factors in determining whether there has been a significant increase in credit risk to determine when to measure lifetime credit losses.
- Latest fair values of collaterals and historical recovery rates of foreclosed assets for loss given default calculations.
- Segmentation of financial assets for collective assessment of ECL.
- Use of regression analysis in determining macroeconomic factors that affect non-performing status of loan accounts.

Evidence that a financial asset is credit-impaired includes observable data about the following events:

- Significant financial difficulty of the issuer or the borrower.
- A breach of contract, such as a default or past due event.
- The lenders of the borrower, for economic or contractual reasons relating to the borrower’s financial difficulty, having granted to the borrower concessions that the lenders would not otherwise consider.

- It is becoming probable that the borrower will enter bankruptcy or other financial reorganization.
- The disappearance of an active market for that financial asset because of financial difficulties.
- The purchase or origination of a financial asset at a deep discount that reflects the incurred credit losses.

It may not be possible to identify a single discrete event - instead, the combined effect of several events may have caused financial assets to become credit-impaired.

Loans and Receivables

Provision for credit and impairment losses on loans and receivables amounted ₱86.3 million and ₱200.5 million in 2021 and 2020, respectively. Loans and receivables written-off amounted to ₱43.3 million in 2020 (see Note 8).

The carrying amounts of loans and receivables as at December 31 are as follows (see Note 8):

	2021	2020
Gross amount	₱31,886,301,650	₱32,112,590,636
Allowance for credit and impairment losses	(926,027,347)	(839,745,273)
Carrying amount	₱30,960,274,303	₱31,272,845,363

Investment Securities - Debt Instruments not Measured at FVPL

No impairment loss was recognized on the Bank's investment securities in 2021 and 2020. The carrying amount of financial assets at FVOCI (excluding unquoted equity security) and investment securities at amortized cost amounted to ₱3,340.2 million and ₱819.7 million as at December 31, 2021 and 2020, respectively (see Note 7).

Other Financial Assets at Amortized Cost

No impairment loss on the Bank's cash and other cash items, due from BSP and other banks, interbank loans and receivables, refundable deposits, and RCOI because these are placements or receivables with reputable counterparties that possess good ratings. The carrying amount of these financial assets at amortized cost aggregated to ₱9,604.6 million and ₱7,168.1 million as at December 31, 2021 and 2020, respectively (see Notes 6 and 12).

Assessing the Impairment of Branch Licenses. Branch license is determined to be an intangible asset with an indefinite economic life because there is no foreseeable limit to the period on which the branch license is expected to generate net cash inflows for the Bank. The branch license is required to be assessed for impairment annually by comparing its carrying amount with its recoverable amount, irrespective of whether there is any indication that it may be impaired.

The branches have been identified as the CGU for purposes of impairment assessment of branch licenses.

When the branch license's fair value less cost of disposal is lower than its carrying amount, the recoverable amount is based on value in use calculations that use a discounted cash flow model. The cash flows are derived from the projection for the next five years and do not include restructuring activities that the Bank is not yet committed to or significant future investments that will enhance the asset base of the branch being tested. The recoverable amount is most sensitive to the discount rate as well as the expected future cash inflows and the growth rate used for extrapolation purposes.

No impairment losses were recognized in 2021 and 2020. As at December 31, 2021 and 2020, the carrying amount of the branch licenses amounted to ₱225.4 million (see Note 11).

Assessing the Impairment of Foreclosed Assets, Property and Equipment and Computer Software. The Bank assesses impairment of foreclosed assets, property and equipment and computer software whenever events or changes in circumstances indicate that the carrying amounts of these assets may not be recoverable.

The relevant factors that the Bank considers whether to perform an asset impairment review include, among others, the following:

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

There is no indication that property and equipment and computer software may be impaired. Accordingly, no impairment losses on property and equipment and computer software were recognized in 2021 and 2020.

Reversal of impairment losses on foreclosed assets amounted to ₱25.1 million in 2021. Impairment losses on foreclosed assets amounted to ₱3.1 million and ₱10.6 million in 2021 and 2020, respectively. Allowance for impairment losses on foreclosed assets amounted to ₱7.7 million and ₱29.7 million as at December 31, 2021 and 2020, respectively (see Note 9).

The carrying amounts of foreclosed assets, property and equipment and computer software are as follows:

	Note	2021	2020
Foreclosed assets	9	₱429,076,410	₱525,014,291
Property and equipment	10	515,596,592	588,952,352
Computer software	11	82,199,792	100,315,037
		₱1,026,872,794	₱1,214,281,680

Estimating the Useful Lives of Property and Equipment, Foreclosed Assets and Computer Software. The Bank estimates the useful lives of property and equipment, investment properties and other foreclosed assets (presented under “Foreclosed Assets”), and computer software based on the year over which the assets are expected to be available for use. The estimated useful lives are reviewed annually and changed 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 property and equipment and computer software. However, it is possible that future results of operations could be materially affected by changes in factors mentioned in the foregoing. The amounts and timing of recorded expenses for any year would be affected by changes in these factors and circumstances. A reduction in the estimated useful lives of the foregoing would increase the recorded expenses and decrease assets.

There was no change in the estimated useful lives of the property and equipment, depreciable foreclosed assets and computer software in 2021 and 2020.

The carrying amounts of depreciable assets of the Bank are as follows:

	Note	2021	2020
Property and equipment	10	₱351,252,092	₱424,607,852
Foreclosed assets:	9		
Investment properties		153,304,933	–
Other foreclosed assets		12,088,197	–
Computer software	11	82,199,792	100,315,037
		₱598,845,014	₱524,922,889

Determining the Retirement Liability. The determination of the obligation and cost of retirement benefits is dependent on selection of certain assumptions determined by management and used by the actuary in calculating such amounts. These assumptions include, among others, discount rate and salary increase rate. Actual results that differ from the assumptions are accumulated and amortized over future periods and therefore, generally affect the recognized expense and recorded obligations in such future years.

In determining the appropriate discount rate, management considers the interest rate of government bonds that are denominated in the currency in which the benefits will be paid, with extrapolated maturities corresponding to the expected duration of the defined benefit obligation. Further details about the assumptions used are provided in Note 19 to financial statements.

Retirement liability amounted to ₱51.5 million and ₱46.0 million as at December 31, 2021 and 2020, respectively (see Note 19).

Assessing the Realizability of Deferred Tax Assets. The Bank reviews the carrying amount of deferred tax assets at each reporting year and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the deferred tax assets to be utilized. Unrecognized deferred tax assets are reassessed at each reporting year and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

The estimates of future taxable income indicate that deferred tax assets on certain temporary differences may be utilized in the future.

As at December 31, 2021 and 2020, deferred tax assets recognized by the Bank amounted to ₱55.0 million and ₱119.9 million, respectively (see Note 21).

As at December 31, 2021 and 2020, deferred tax assets on certain temporary differences aggregating ₱891.8 million and ₱977.3 million, respectively, were not recognized (see Note 21). Management assessed that it is not probable that sufficient future taxable profit will be available to allow the deferred tax assets to be utilized.

4. Financial Risk Management Objectives and Policies

The Bank has exposure to the following major risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market and interest rate risk

Risk Governance

The Bank's BOD has overall responsibility for the oversight of the Bank's risk management process. The established risk governance framework together with the supporting structure provides for the mechanism to ensure oversight and accountability for risk at various levels in the organization. Various board and management committees, which are responsible for developing, managing and monitoring specific risks that the Bank is exposed to, are as follows.

Board Level:

1. Risk Management Committee (RMC)
2. Audit Committee (AC)
3. Corporate Governance Committee (CorGov)
4. Related Party Transaction (RPT)
5. Loan Committee (LOANCOM)
6. Bids & Awards Committee (BAC)
7. IT Committee (ITCOM)
8. Trust Committee (TRUSTCOM)
9. Executive Committee (EXCOM)

Management Level:

1. Senior Management Committee (SMC)
2. Credit Committee (CRECOM)
3. Fraud Committee (FRAUDCOM)
4. Anti-Money Laundering Committee (AMLCOM)
5. Data Protection Committee (DPC)
6. Asset-Liability Committee (ALCO)
7. Senior Management Oversight Committee for Outsourced Services (SMOC)

RMC is responsible for developing the Bank's risk strategy and the supporting risk management policies, ensuring the soundness of risk management practices in relation to the risks faced by the Bank.

RMC is supported by the Risk Management Group (RMG) in the exercise of its risk oversight functions. RMG, which is independent of the business units and is directly reporting to the RMC, performs daily market risk analyses to measure market risk exposures and ensure compliance with the Bank's policies, procedures and limit structures, and makes recommendations based on such analyses. RMG, likewise, monitors credit risk exposures and portfolio movements. They also take the lead in the development of the Bank's credit acceptance policies, risk classification and profiling through the administration of the internal credit rating system and the determination of appropriate levels of allowances for credit losses.

AC is responsible for monitoring the Bank's compliance with the risk management policies and procedures, and for reviewing the adequacy of risk management framework in relation to the risks being faced by the Bank. AC is assisted by the Internal Audit (IA) Department. IA undertakes both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the AC.

CorGov assists the board in fulfilling its corporate governance responsibilities and oversees periodic assessment of board performance, as well as the various Board Committees and Executive Management.

RPT is responsible for screening related party accounts for board approval.

LOANCOM is a Board Committee that acts as the highest approving body for loan and other credit related matters, except for directors, officers, stockholders and related interest (DOSRI) loans. It ensures that the credit approval or endorsement of credit facilities is based on a diligent, sound and prudent evaluation of the risks involved and is aligned with the Bank's strategic objectives in terms of asset quality.

BAC oversees the Bank's procurement processes and the implementation of procurement contracts as part of the Bank's operational risk management, while also ensuring transparency and good governance in the process.

ITCOM oversees the development of the Bank's information Technology System and Infrastructure. It ensures that systems are embedded with multi-layered controls in order to protect bank information and technical infrastructure.

TRUSTCOM is responsible for overseeing the investment activities of the Bank's Trust unit.

EXCOM assists the board in the general supervision, administration and management of the Bank's affairs, and is actively engaged in overseeing the development and execution of the Bank's business strategies.

SMC exercises general supervision, administration and management of the bank's operations, and as such oversees the operational and strategic risk management.

CRECOM is the management level committee that evaluates and screens all credit proposals that requires the approval of the President, LOANCOM or the BOD, and likewise monitors credit underwriting activities performed at management level. It ensures that credit risk is within the BOD established risk tolerance levels and that proposals comply with the credit underwriting standards as established in the Bank's policies and procedures.

FRAUDCOM addresses the increasing threat landscape for fraud incidents committed against the Bank and its clients. The primary responsibility of the FRAUDCOM is to determine actions to be taken when a fraud incident is reported and recommend changes in the processes, procedures and policies of the Bank whenever applicable.

AMLCOM was established assists the BOD in fulfilling its oversight responsibility over AML activities to ensure that the Bank complies with the provisions of the Anti-Money Laundering Act (AMLA), as amended, its Implementing Rules and Regulations (IRR), and BSP regulations.

DPC task is to oversee the implementation of the Data Privacy Act (DPA). The Bank adopted a committee approach to DPA compliance with Data Protection officers representing the different areas namely, Compliance Risk, Legal, Information Technology and Security.

ALCO is responsible for ensuring that the Bank maintains adequate liquidity, sufficient capital and the appropriate funding to meet business requirements and comply with regulatory requisites. It is also responsible for building a stable funding structure by managing the Bank's asset and liability profile. Moreover, it manages the Bank's financial position and ensures that the Bank's liquidity, capital and funding structure support the business strategies. It likewise establishes the Bank's asset-liability pricing policies.

SMOC is tasked to oversee the outsourcing arrangements with third party business partners.

Credit Risk

Credit risk is the risk of financial loss to the Bank when a customer or counterparty fails to meet its contractual obligations. The Bank's credit risk exposure arises largely from the lending, trade finance and investment activities. The Bank manages credit risk through an established risk control framework that provides for policies and guidelines to the business units together with a system of limits reflective of the Bank's risk tolerance and capacity. A monitoring mechanism is also in place to ensure that exposures to individual counterparties, related accounts, countries and industries are within BOD established and approved limits and that any credit concentration is within acceptable levels.

While the Credit Risk Control Department of RMG (CRC-RMG) provides for an independent risk monitoring and control of credit exposures, each business unit is responsible for the quality and performance of its credit portfolio. As the first line of defense, business units are responsible for monitoring and controlling the credit risks in its portfolio. The CRC-RMG, meanwhile, provides an independent evaluation of the Bank's credit risk exposure through review of loan proposals and credit processes, borrower risk assessments and credit administration. This is complemented by regular audits of business units and credit processes undertaken by IA that provide for assurance and feedback mechanisms to determine sufficiency and effectiveness of established risk controls.

The Bank extends various types of loans, several on clean/unsecured basis, and others against hard collaterals and other form of securities. Personal and salary loans are generally granted on a clean/unsecured basis. Other consumer lending products are largely asset-backed financing with auto loans secured by chattel mortgage on the vehicles and real estate loans secured by first real estate mortgage on residential or commercial properties. The Bank's commercial/small-medium enterprise loans cover a mix of clean/unsecured (which includes those under personal guarantees) as well as secured credit facilities (i.e., those supported by real estate and chattel mortgages, guarantees and other registered securities). Estimates of fair value are based on the value of the collateral assessed at the time of the borrowing.

All loan applications, covering the different types of loans, undergo strict credit evaluation in accordance with established risk acceptance criteria. The essential elements that the Bank considers for all its credit dealings and account relationships are: favorable credit checking; good credit standing and track record with other counterparties, banks and trade partners alike; financial strength and cash generating capabilities (fund sourcing), which translate into determination of paying capacity that establishes repayment expectations; and acceptable collateral/security, if applicable. Furthermore, credit underwriting is performed within a framework of delegated credit authorities that take into account facility risks and magnitudes of potential exposures.

Management of Credit Risk

The BOD, through RMC and LOANCOM, is assisted in the monitoring and management of credit risk by the CRC-RMG, which continuously implements its risk control programs, in line with its oversight function over the Bank's lending activities. CRC-RMG is principally tasked with identifying, monitoring, reporting and controlling the Bank's credit risk. The specific functions of CRC-RMG are as follows:

- Takes charge of administering the Bank's lending policies, ensuring compliance by those concerned with continuous issuance of updates on policies and process guidelines for bank-wide implementation and compliance.
- Facilitates the activities of the CRECOM, whose main objective is to evaluate and screen loan proposals requiring approvals beyond line management levels.
- Classifies borrowing accounts according to several levels of risk, based on the ICRR system and loan portfolio assessments, to regularly determine loan impairments for the purpose of determining the appropriate loan loss reserves.
- Conducts credit stress testing and regularly evaluates and monitors the quality of the Bank's loan portfolio via the Portfolio Profile Report, as part of the scheme of controlling large concentration and Bank exposures.

Maximum Exposure to Credit Risk after Collateral Held or Other Credit Enhancements

The Bank's maximum exposure to the credit risk is equal to the carrying amount of the financial assets, except for the following loans and receivables:

	2021			Maximum Exposure to Credit Risk
	Carrying Amount	Fair Value of Collaterals or Credit Enhancements	Financial Effects of Collaterals or Credit Enhancements	
Loans and receivables:				
Receivables from customers:				
Consumer loans ¹	₱8,698,893,772	₱9,068,986,051	₱8,210,754,534	₱488,139,238
Corporate loans ²	21,418,696,003	8,591,084,230	5,154,650,538	16,264,045,465
	30,117,589,775	17,660,070,281	13,365,405,072	16,752,184,703
Sales contracts receivable ³	18,594,457	32,256,046	18,594,457	–
	₱30,136,184,232	₱ 17,692,326,327	₱13,383,999,529	₱16,752,184,703

¹Net of allowance for credit and impairment losses amounting to ₱555.0 million.

²Net of allowance for credit and impairment losses and unearned discounts and capitalized interest amounting to ₱370.3 million and ₱634,864, respectively.

³Net of allowance for credit and impairment losses amounting to ₱696,811.

	2020			Maximum Exposure to Credit Risk
	Carrying Amount	Fair Value of Collaterals or Credit Enhancements	Financial Effects of Collaterals or Credit Enhancements	
Loans and receivables:				
Receivables from customers:				
Consumer loans ¹	₱12,286,000,020	₱12,177,834,574	₱11,345,538,508	₱940,461,512
Corporate loans ²	18,344,463,244	4,397,432,484	2,638,459,490	15,706,003,754
	30,630,463,264	16,575,267,058	13,983,997,998	16,646,465,266
Sales contracts receivable ³	18,274,094	23,859,000	18,274,094	–
	₱30,648,737,358	₱16,599,126,058	₱14,002,272,092	₱16,646,465,266

¹Net of allowance for credit and impairment losses amounting to ₱545.2 million.

²Net of allowance for credit and impairment losses and unearned discounts and capitalized interest amounting to ₱293.5 million and ₱2.7 million, respectively.

³Net of allowance for credit and impairment losses amounting to ₱1.0 million.

Concentration of Credit Risk Exposure of Financial Assets

The Bank monitors concentration of credit risk by industry. The distribution of the Bank's financial assets and off-balance sheet items by industry sector, before taking into account collaterals held or other credit enhancements (maximum exposure) are as follows:

	2021				
	Loans and Receivables ¹	Loans and Advances to Banks ²	Investment Securities ³	Others ⁴	Total
Financial intermediaries	₱3,407,368,295	₱8,945,149,901	₱669,101,367	₱-	₱13,021,619,563
Other community, social and personal activities	8,268,566,450	-	-	16,409,889	8,284,976,339
Wholesale and retail trade	6,260,856,772	-	-	9,846,889	6,270,703,661
Real estate	6,136,091,441	-	-	30,947,936	6,167,039,377
Manufacturing	3,337,762,053	-	-	-	3,337,762,053
Philippine government	-	-	2,671,136,093	-	2,671,136,093
Transportation, storage and communication	2,447,117,509	-	-	1,274,975	2,448,392,484
Mining and quarrying	944,241,024	-	-	-	944,241,024
Hotel and restaurant	153,057,500	-	-	-	153,057,500
Agricultural, hunting and forestry	83,573,188	-	-	-	83,573,188
Electricity, gas and water supply	9,164,330	-	-	-	9,164,330
Construction	5,201,349	-	-	-	5,201,349
	31,052,999,911	8,945,149,901	3,340,237,460	58,479,689	43,396,866,961
Allowance for credit and impairment losses	925,330,536	-	-	-	925,330,536
	₱30,127,669,375	₱8,945,149,901	₱3,340,237,460	₱58,479,689	₱42,471,536,425

¹Comprised of receivables from customers, gross of unearned discounts and capitalized interests.

²Comprised of due from BSP, due from other banks and interbank loans receivable.

³Comprised of financial assets at FVOCI (excluding unquoted equity security) and investment securities at amortized cost.

⁴Comprised of RCOCI, refundable deposits and contingencies relating to outstanding guarantees and domestic letters of credit.

	2020				
	Loans and Receivables ¹	Loans and Advances to Banks ²	Investment Securities ³	Others ⁴	Total
Other community, social and personal activities	₱13,148,734,632	₱-	₱-	₱15,743,036	₱13,164,477,668
Financial intermediaries	2,532,642,370	6,495,954,909	312,792,672	-	9,341,389,951
Wholesale and retail trade	6,487,610,746	-	-	35,207,480	6,522,818,226
Real estate	4,766,435,861	-	-	28,448,289	4,794,884,150
Manufacturing	3,185,362,155	-	-	-	3,185,362,155
Transportation, storage and communication	824,688,880	-	-	-	824,688,880
Philippine government	-	-	506,919,518	-	506,919,518
Construction	279,318,614	-	-	-	279,318,614
Mining and quarrying	153,654,532	-	-	-	153,654,532
Hotel and restaurant	76,575,199	-	-	-	76,575,199
Agricultural, hunting and forestry	25,336,085	-	-	-	25,336,085
Electricity, gas and water supply	3,021,366	-	-	-	3,021,366
	31,483,380,440	6,495,954,909	819,712,190	79,398,805	38,878,446,344
Allowance for credit and impairment losses	838,713,637	-	-	-	838,713,637
	₱30,644,666,803	₱6,495,954,909	₱819,712,190	₱79,398,805	₱38,039,732,707

¹Comprised of receivables from customers, gross of unearned discounts and capitalized interests.

²Comprised of due from BSP, due from other banks and interbank loans receivable.

³Comprised of financial assets at FVOCI (excluding unquoted equity security and investment securities at amortized cost).

⁴Comprised of RCOCI, refundable deposits and contingencies relating to outstanding guarantees and domestic letters of credit.

The Bank regularly assesses impairment losses on its financial assets (except those held for trading) based on historical loss experience and adjusted for appropriate forward-looking estimates. The Bank addresses impairment assessment in two areas: individual or specific assessment and collective assessment.

Individual or Specific Assessment. The Bank determines the credit and impairment loss appropriate for each individually significant loan or receivable on an individual account basis. Factors considered in determining the appropriate amounts of impairment loss include an account's age, payment and collection history, short and medium-term prospects in the industry, timing of expected cash flows, realizable value of collateral and forward looking factors such as inflation and interest rates, and consumer price index.

The Bank establishes criteria for specific loan impairment testing and uses the discounted cash flow method to compute for impairment loss.

Collective Assessment. Collective assessment for loan impairment losses are performed on loans and receivables that are not individually significant. Generally, the Bank applies the probability of loss method in determining the collective impairment loss, where such probability is derived from the product of default rate, and loss rate and adjusted using forward looking factors such as interest rates, and consumer price index.

Significant Increase in Credit Risk. When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Bank considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Bank's historical experience and expert credit assessment and including forward-looking information. A significant increase in credit risk can be measured by comparing the probability of default of the borrower from the initial recognition and the result of the current probability of default.

Other indications may include, among others, indications that a borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in principal and/or interest payments, probability that the borrower will enter bankruptcy or other financial reorganization/restructuring, and other observable data indicating measurable decrease in the estimated future cash flows, such as changes in business or economic conditions that correlate with defaults.

Definition of Default. The Bank considers a financial asset to be in default when a borrower fails to pay the loan in full within 90 days after contractual due date.

Credit Quality per Class of Financial Assets

The Bank has developed and continually reviews and calibrates its internal risk rating system for large exposures aimed at uniformly assessing its credit portfolio in terms of risk profile.

The following table provides the analysis of credit quality of the of the Bank's financial assets (gross of allowance for credit and impairment losses) classified as Stage 1, 2 or 3 as at December 31, 2021 and 2020.

<i>Amounts in Thousands</i>	2021			Total
	Stage 1	Stage 2	Stage 3	
Financial assets at FVOCI				
Government securities				
High grade	₱2,671,136	₱-	₱-	₱2,671,136
Private bonds				
High grade	553,872	-	-	553,872
Financial assets at amortized cost				
Due from BSP				
High grade	6,346,320	-	-	6,346,320
Due from other banks				
High grade	2,598,830	-	-	2,598,830
Government securities				
High grade	115,229	-	-	115,229
Consumer loans				
High grade	6,205,853	-	-	6,205,853
Standard grade	32,906	151,840	2,886	187,632
Past due but not individually impaired	-	292,756	689,432	982,188
Individually impaired	923,446	230,289	724,510	1,878,245
Corporate loans				
High grade	3,356,911	-	-	3,356,911
Standard grade	16,058,409	-	-	16,058,409
Individually impaired	-	829,490	1,544,191	2,373,681
Bills purchased				
High grade	100	-	-	100
Individually impaired	-	-	9,171	9,171
Accrued interest income				
High grade	270,834	-	-	270,834
Standard grade	369,459	4,005	35	373,499
Past due but not individually impaired	-	6,873	19,397	26,270
Individually impaired	-	1,207	103,731	104,938
Accounts receivable				
High grade	39,104	-	-	39,104
Sales contracts receivables				
High grade	7,786	-	-	7,786
Past due but not individually impaired	-	-	11,505	11,505
Other assets*				
High grade	31,650	-	-	31,650
	₱39,581,845	₱1,516,460	₱3,104,858	₱44,203,163

*Includes refundable deposits and RCOI.

<i>Amounts in Thousands</i>	2020			Total
	Stage 1	Stage 2	Stage 3	
Financial assets at FVOCI				
Government securities				
High grade	₱394,129	₱–	₱–	₱394,129
Private bonds				
High grade	312,793	–	–	312,793
Financial assets at amortized cost				
Due from BSP				
High grade	2,569,444	–	–	2,569,444
Due from other banks				
High grade	2,993,935	–	–	2,993,935
Interbank loans receivables				
High grade	932,576	–	–	932,576
Government securities				
High grade	112,790	–	–	112,790
Consumer loans				
High grade	7,975,861	–	–	7,975,861
Standard grade	29,567	717,115	–	746,682
Past due but not individually impaired	–	249,963	1,420,593	1,670,556
Individually impaired	1,800,783	187,528	449,822	2,438,133
Corporate loans				
High grade	4,315,023	–	–	4,315,023
Standard grade	12,643,390	–	–	12,643,390
Individually impaired	–	1,050,299	631,956	1,682,255
Bills purchased				
High grade	1,500	–	–	1,500
Individually impaired	–	–	9,980	9,980
Accrued interest income				
High grade	73,957	–	–	73,957
Standard grade	54,799	1,796	–	56,595
Past due but not individually impaired	–	3,370	8,498	11,868
Individually impaired	13,749	1,607	20,165	35,521
Accounts receivable				
High grade	45,934	–	–	45,934
Sales contracts receivables				
High grade	6,654	–	–	6,654
Past due but not individually impaired	–	12,652	–	12,652
Other assets*				
High grade	29,520	–	–	29,520
	₱34,306,404	₱2,224,330	₱2,541,014	₱39,071,749

*Includes refundable deposits and RCOCI.

The Bank classifies its neither past due nor impaired financial assets subject to credit risk into the following credit grades:

- High Grade – This pertains to accounts with very low probability of default because of the borrower's/counterparty's established ability to tap its liquid resources to fully service its obligations as they become due. The borrower/counterparty has no history of default and uses leverage sparingly.
- Standard Grade – This pertains to accounts with an acceptable probability of default. Nevertheless, the borrower/counterparty has a strong debt service record and has demonstrated the ability to readily service its debts. Collateral cover, if applicable, should be adequate.
- Substandard Grade – Risk of default is higher than normal. The borrower/counterparty is expected to be able to service its debt under normal economic and business conditions. Any prolonged economic or business downturn would however ostensibly create liquidity issues for the borrower/counterparty. The borrower/counterparty may have a history of default but have regularized its debt service performance as at reporting year.

The credit quality of trading and investment securities is generally monitored through the external ratings of eligible external credit rating institutions.

Presented below is the mapping of the credit risk rating from external rating agencies with the Bank's internal risk rating for investment securities:

A. Moody's Rating

Credit Quality	Rating				
	Long-term				Short-term
High Grade	Aaa	Aa	A	Baa	Prime
Standard Grade	Ba	B			Not Prime
Substandard Grade	Caa	Ca			
Impaired	C				

B. Standard & Poors (S&P) Rating

Credit Quality	Rating				
	Long-term				Short-term
High Grade	AAA	AA	A	BBB	A
Standard Grade	BB	B			B
Substandard Grade	CCC	CC	C		C
Impaired	D				D

C. Fitch Rating

Credit Quality	Rating				
	Long-term				Short-term
High Grade	AAA	AA	A	BBB	A
Standard Grade	BB	B			B
Substandard Grade	CCC				C
Impaired	DDD	DD	D		D

D. Philratings

Credit Quality	Rating				
	Long-term				Short-term
High Grade	Philippine Rating Service (PRS) Aaa	PRS Aa	PRS A	PRS Baa	PRS 1
					PRS 2
					PRS 3
Standard Grade	PRS Ba	PRS B			PRS 4
Substandard Grade	PRS Caa	PRS Ca			PRS 5
Impaired	PRS C				PRS 6

For debt securities not rated by any rating agency, the Bank performs the credit rating review for the issuers of the debt securities based on quantitative and qualitative analyses, the data of which are provided by the Treasury/Trust Group. Below is the guidance in evaluation if the investment is impaired or not.

Credit Quality	Rating	Assessment
High Grade	1 and 2	Not Impaired
Standard Grade	3	Not Impaired
Substandard Grade	4	Impaired
Impaired	5	Impaired

For loans, the credit quality is generally monitored using the Bank's internal rating system. It is the Bank's policy to maintain accurate and consistent risk ratings across the credit portfolio. This facilitates management to focus on major potential risk and the comparison of credit exposures across all lines of business, demographics and products. The rating system has two parts, namely: the borrower's risk rating and the facility risk rating. It is supported by a variety of financial analytics, combined with an assessment of management and market information to provide the main inputs for the measurement of credit risk.

The Bank uses ICRR to classify the credit quality of its receivables portfolio. This is being upgraded, as needed, to enhance credit evaluation parameters across different market segments and achieve a more sound and robust credit risk assessment.

Descriptions of the loan grades used by the Bank for receivables from customers are as follows:

Risk Rating	Classification	Credit Quality
1	Excellent	High Grade
2	Strong	High Grade
3	Good	High Grade
4	Satisfactory	Standard Grade
5	Acceptable	Standard Grade
6	Weak	Standard Grade
7	Poor	Impaired
8	Substandard	Impaired
9	Doubtful	Impaired
10	Loss	Impaired

Risk Rating 1 – Excellent. The borrower's ability to meet its financial commitments is extremely strong and there is a very low probability that it will default on payments due in the coming year. The borrower has a high degree of stability, substance and diversity.

A borrower in this category has access to substantial amounts of funds through the public capital market at any time. It has a strong debt service capacity and has conservative balance sheet leverage (the industry in which the borrower operates). The track record in profit terms is very good. The borrower is of the highest quality, operating reliably under virtually any and all economic conditions.

Risk Rating 2 – Strong. The borrower's ability to meet its financial commitments is very strong and there is a low probability that it will default on payments due in the coming year. The borrower normally has a comfortable degree of stability, substance and diversity. Under normal market conditions, borrowers in this category have good access to public capital market to raise funds.

Borrower has a strong market and financial position with a history of successful performance. The overall debt service capacity as measured by cash flow to total debt service is very strong; the critical balance sheet ratios (vis-à-vis applicable industry) are conservative.

These borrowers herein categorized are described as quality corporations or enterprises, which are adequately capitalized and operating profitably.

Risk Rating 3 – Good. The borrower's ability to meet its financial commitments is strong. It may be described as a big or small corporation whose access to public capital market or to alternative financial market is easy, may be limited to periods of favorable economic and/or market conditions.

A borrower in this category usually exhibits characteristics of some degree of stability and substance and the probability of default is still quite low. However, it may still be susceptible to the negative effects of cyclical business changes.

Typical traits include a combination of comfortable asset protection and an acceptable balance sheet structure (vis-à-vis that industry). The debt service capacity as measured by cash flow analysis is strong.

Risk Rating 4 – Satisfactory. The borrower has adequate capacity to meet its financial commitments. Borrower operates in an environment where clear risk elements exist and the probability of default is somewhat greater. This probability is reflected in volatility of earnings and overall performance. A borrower in this category normally has limited access to public financial market. It should be able to withstand normal business cycles, but any prolonged unfavorable economic climate may create gradual deterioration in its financial health.

Typical for this kind of borrower is the combination of reasonably sound asset and cash flow protection. The debt service capacity as measured by cash flow is deemed adequate. The borrower has reported profit for the past fiscal year and is expected to report a profit in the current year.

Risk Rating 5 – Acceptable. The borrower is less vulnerable but faces major ongoing uncertainties and exposure to adverse business, financial or economic conditions that could lead to its inadequate capacity to meet its financial commitments.

This category represents borrowers who may still be able to withstand normal business cycles. However, any prolonged unfavorable economic and/or market condition would create an immediate deterioration beyond acceptable level.

This category will apply where the risk is still acceptable for the following reasons:

- There is sufficient cash flow either historically or expected for the future, in spite of an economic downturn combined with asset protection; or
- There is a new business or project finance transaction.

Risk Rating 6 – Weak. The borrower is more vulnerable but currently has the capacity to meet its financial commitments. Adverse business, financial, or economic conditions will likely impair the borrower's capacity or willingness to meet its financial requirements.

This category represents the type of borrower for which unfavorable industry or Bank-specific risk factors represent a concern. Operating performance and financial strength may be marginal and it is uncertain whether the borrower can attract alternative sources of financing. Typically, the borrower will find it very hard to cope with any significant economic downturn and a default in such a case is more than a possibility.

Generally, a borrower in this category incurs net losses for one or more years. Normally, there is an expectation that conditions will improve and the rating may be upgraded. Any deterioration, however, will almost certainly result in an automatic downgrade.

In summary, this category includes those borrowers where the credit exposure is not at risk of loss at the moment, but wherein performance has weakened, and unless present trends are reversed, could lead to losses.

Risk Rating 7 – Poor. The borrower is currently vulnerable and is dependent on favorable business, financial and economic conditions to meet its financial obligations.

A borrower in this category is characterized by some probability of default, manifested by some or all of the following:

- Evidence of weakness in the borrower's financial condition or creditworthiness.
- Unacceptable risk generated by potential or emerging weaknesses as far as asset protection and/or cash flow is concerned. Concerns center on the potential for a continuation of unfavorable economic, market, or borrower specific conditions or trends, which may affect future debt service capacity.
- Indications that the borrower's ability or willingness to service debt are in doubt.
- Necessity or strong likelihood for rescheduling of the loan.
- Decline in values of, or adverse developments on, collaterals securing the loan.

Risk Rating 8 – Substandard. The borrower is currently highly vulnerable and is in a state of default. Substandard loans are loans or portions thereof which appear to involve a substantial and unreasonable degree of risk to the Bank because of unfavorable or unsatisfactory characteristics. These well-defined adverse elements exist in such loans where there is a possibility of future loss to the institution unless given closer supervision. Such may include adverse trends or development of a financial, managerial, economic or political nature or significant weakness in collateral.

Basic characteristics are:

- Past due loan for which there is an imminent possibility of foreclosure or acquisition of the collateral because of failure of all collection efforts;
- Past due loans to borrowers whose properties securing the loan have declined in value materially or have been found with defects as to ownership or other adverse information;

- Current loans to borrowers whose financial statements audited by the SEC-accredited external auditors show impaired/negative net worth, except for startup firms which should be evaluated on a case-to-case basis;
- Renewed loans of borrowers with declining trend in operations, illiquidity, or increasing leverage trend in the borrower's financial statements without at least 20.0% repayment of the principal before renewal or extension;
- Current loans of borrowers with unfavorable results of operations for two consecutive years or with impaired/negative net worth, except for startup firms which should be evaluated on a case-to-case basis;
- Loans under litigation; and
- Past due loans for more than 90 days.

Risk Rating 9 – Doubtful. Borrower is in a state of default, where any of the following factors are present:

- Account is already in “non-performing loan” (NPL) status;
- Any portion of any principal and/or interest repayment is in arrears for more than 90 days;
- The borrower is unable or unwilling to service debt over an extended period of time and near future prospects of orderly debt service is doubtful; and
- Overdue loans wherein the prospects of fully applying the collaterals are impaired due to material declines in market value, or subject of adverse claim.

The extent of probability of loss cannot be exactly quantified at this time. Although the possibility of loss is significant, there may be certain important and reasonably specific pending factors that can work to the advantage of the Bank and result in a strengthening of assets of the borrower. Pending factors include merger, acquisition, capital injection and additional cover.

Risk Rating 10 – Loss. Borrower is in a state of default and the prospect for re-establishment of creditworthiness and debt service is remote.

This category also applies where the Bank will take or has taken title to the assets of the borrower and is preparing a foreclosure and/or liquidation of the Bank.

These are loans, 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 neither practical nor desirable to defer writing off these basically worthless assets even though partial recovery may be obtained in the future.

Basic characteristics are:

- Past due clean loans, the interest of which has remained unpaid for a period of six months;
- Loans payable in installments where amortization applicable to interest is past due for a period of six months, unless the loan is fully secured;
- When the borrower's whereabouts are unknown, or he is insolvent, or his earning power is permanently impaired and his co-makers or guarantors are insolvent or that their guarantee is not financially supported;

- Where the collaterals securing the loans are considered worthless and the borrower and/or his co-makers are insolvent; and
- Loan considered as absolutely uncollectible.

Collateral and Other Credit Risk Mitigation

The amount and type of collateral required depends on an assessment of the credit risk of the obligor. The Bank implements certain requirements regarding the acceptability of types of collateral and valuation.

Collateral comes in the form of financial or nonfinancial assets. The main types of collateral obtained include cash or securities, charges over real estate or chattel properties, inventory and trade receivables and mortgages over residential properties. The Bank also obtains guarantees from parent companies for loans of borrowing entities belonging to a group of companies.

The Bank monitors the market value of collateral, and request for additional collateral in accordance with the underlying agreement.

The following table shows the fair value of collaterals held against the loans and receivables that are neither past due nor impaired:

	2021	2020
Properties	₱12,842,897,809	₱13,853,197,903
Deposits	3,259,116,230	1,547,922,484
	₱16,102,014,039	₱15,401,120,387

It is the Bank's policy to sell foreclosed assets through public bidding (only after the assets are appraised anew to determine current market value, and duly bid based on the approved minimum bid price).

Liquidity Risk

Liquidity risk is generally defined as the current and prospective risk to earnings or capital arising from the Bank's inability to meet its obligations when these become due, without incurring unacceptable losses or costs. Specifically, this pertains to events that may necessitate the Bank to enter into transactions that would realize significant losses or costs in order to meet its obligations when these fall due.

ALCO is responsible for formulating the Bank's liquidity risk management policies, whereas the RMG is responsible for monitoring such risks. Liquidity management is among the most important activities conducted within the Bank. The Bank manages its liquidity risk through analyzing net funding requirements under alternative scenarios, diversification of funding sources and contingency planning. The Bank utilizes a diverse range of sources of funds, although short-term deposits made with the Bank's network of domestic branches comprise the majority of such funding.

The Bank's liquidity risk is managed by holding sufficient liquid assets of appropriate quality to ensure short-term funding requirements are met with minimum sacrifice to market price and by maintaining a balanced loan portfolio, which is re-priced on a regular basis. Deposits with banks are made on a short-term basis with almost all being available on demand within three months.

The Bank's Treasury Department uses liquidity forecast models that estimate the Bank's cash flow requirements based on the Bank's actual contractual obligations under normal circumstances and extraordinary circumstances. RMG prepares a monthly maximum cumulative outflow report, which is an analysis of maturity gaps of the Bank's assets and liabilities.

Aging of Financial Assets and Liabilities by Remaining Contractual Maturities

The tables below summarize the maturity profile of the Bank's financial assets and liabilities used for liquidity management based on contractual undiscounted payments and receipts as at December 31, 2021 and 2020:

	2021						Total
	On Demand	Within 30 Days	31 to 60 Days	61 to 180 Days	181 to 360 Days	Over 360 Days	
Financial Assets							
Financial assets at FVOCI	P--	P2,498,790,482	P--	P59,742,816	P78,830,217	P603,718,509	P3,241,082,024
Financial assets at amortized cost:							
Cash and other cash items	627,826,383	-	-	-	-	-	627,826,383
Due from BSP	-	6,346,319,599	-	-	-	-	6,346,319,599
Due from other banks	-	2,598,830,302	-	-	-	-	2,598,830,302
Government securities	-	-	-	-	-	115,228,899	115,228,899
Loans and receivables:							
Receivables from customers	-	14,658,761,947	1,325,541,527	4,933,844,388	2,028,760,660	8,105,456,525	31,052,365,047
Accrued interest income	-	775,541,414	-	-	-	-	775,541,414
Accounts receivable	-	39,103,921	-	-	-	-	39,103,921
Sales contracts receivable	-	-	-	-	-	19,291,268	19,291,268
Other assets*	-	-	-	-	702,711	30,947,936	31,650,647
	P627,826,383	P26,917,347,665	P1,325,541,527	P4,993,587,204	P2,108,293,588	P8,874,643,137	P44,847,239,504
Financial Liabilities							
Deposit liabilities:							
Demand	P14,610,052,563	P--	P--	P--	P--	P--	P14,610,052,563
Savings	-	13,107,465,802	2,269,438	-	-	-	13,109,735,240
Time	-	5,165,289,699	1,481,593,651	1,603,226,377	23,883,889	2,249,169,532	10,523,163,148
	14,610,052,563	18,272,755,501	1,483,863,089	1,603,226,377	23,883,889	2,249,169,532	38,242,950,951
Manager's checks	-	98,191,696	-	-	-	-	98,191,696
Accrued interest and other expenses**	-	150,374,591	-	-	-	-	150,374,591
Unsecured subordinated debt	-	-	-	17,812,500	32,062,500	1,300,000,000	1,349,875,000
Lease liabilities	-	8,097,925	7,434,043	26,408,409	33,276,057	117,283,285	192,499,719
Other liabilities***	-	1,546,150,739	-	-	-	-	1,546,150,739
	P14,610,052,563	P20,075,570,452	P1,491,297,132	P1,647,447,286	P89,222,446	P3,666,452,817	P41,580,042,696

*Comprised of refundable deposits and RCOCI.

**Excluding accrued gross receipts tax

***Comprised of accounts payable, payment orders, bills purchased-contra and marginal deposit and other liabilities.

	2020						Total
	On Demand	Within 30 Days	31 to 60 Days	61 to 180 Days	181 to 360 Days	Over 360 Days	
Financial Assets							
Financial assets at FVOCI	P--	P291,634,496	P--	P59,680,404	P54,114,790	P317,565,469	P722,995,159
Financial assets at amortized cost:							
Cash and other cash items	642,606,701	-	-	-	-	-	642,606,701
Due from BSP	-	2,569,444,094	-	-	-	-	2,569,444,094
Due from other banks	-	2,993,935,298	-	-	-	-	2,993,935,298
Interbank loans receivable	-	932,575,517	-	-	-	-	932,575,517
Government securities	-	211,749	-	-	-	112,578,745	112,790,494
Loans and receivables:							
Receivables from customers	-	5,023,649,189	2,305,090,027	2,526,077,465	9,103,452,234	12,353,047,499	31,311,316,414
Accrued interest income	-	45,158,591	29,922,738	85,373,027	159,306,245	416,273,825	736,034,426
Accounts receivable	-	24,918,150	1,075,273	2,047,145	3,361,719	14,531,779	45,934,066
Sales contracts receivable	-	-	-	-	-	19,305,730	19,305,730
Other assets*	-	-	-	-	1,072,376	28,448,289	29,520,665
	P642,606,701	P11,881,527,084	P2,336,088,038	P2,673,178,041	P9,321,307,364	P13,261,751,336	P40,116,458,564

	2020						Total
	On Demand	Within 30 Days	31 to 60 Days	61 to 180 Days	181 to 360 Days	Over 360 Days	
Financial Liabilities							
Deposit liabilities:							
Demand	P10,518,952,595	P-	P-	P-	P-	P-	P10,518,952,595
Savings	-	5,903,976,951	2,259,329	-	-	-	5,906,236,280
Time	-	11,271,428,478	3,007,949,788	1,879,063,178	445,831,594	1,896,700,473	18,500,973,511
	10,518,952,595	17,175,405,429	3,010,209,117	1,879,063,178	445,831,594	1,896,700,473	34,926,162,386
Manager's checks	-	77,074,219	-	-	-	-	77,074,219
Accrued interest and other expenses**	49,444,848	83,366,634	14,435,804	9,011,264	2,616,589	8,617,293	167,492,432
Unsecured subordinated debt	-	14,250,000	-	17,812,500	32,062,500	1,300,000,000	1,364,125,000
Lease liabilities	-	6,693,922	6,735,880	25,880,438	58,581,853	153,365,601	251,257,694
Other liabilities***	-	681,203,918	-	-	-	-	681,203,918
	P10,568,397,443	P18,037,994,122	P3,031,380,801	P1,931,767,380	P539,092,536	P3,358,683,367	P37,467,315,649

*Comprised of refundable deposits and RCOCI.

**Excluding accrued gross receipts tax

***Comprised of accounts payable, payment orders, bills purchased-contra and marginal deposit and other liabilities.

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

Minimum Liquidity Ratio (MLR)

Under the BSP Circular No. 996, *Amendments to the Liquidity Coverage Ratio Framework and minimum Prudential Liquidity Requirements*, issued on February 8, 2018, all thrift banks, rural/cooperative banks (RBs and Coop Banks), and quasi-banks (QBs) that are not subsidiaries of universal or commercial banks (UBs/KBs) are required to maintain a prudential Minimum Liquidity Ratio (MLR) of 20% daily to promote short-term resilience to liquidity shocks. MLR is expressed as a percentage of eligible stock of liquid assets to its total qualifying liabilities. The stock of liquid assets is required to be unencumbered and readily liquefiable, while the qualifying liabilities include both on-balance sheet and off-balance sheet commitments.

On April 7, 2020, the BSP reduced MLR down to 16% until December 31, 2020 to help banks cope with the impact of the COVID-19 pandemic. This provision has been extended for an additional one year effective until December 31, 2022 under the BSP Memorandum M-2022-004 dated January 17, 2022.

The Bank is in compliance with the requirement with MLR at 32.31% and 21.05% as at December 31, 2021 and 2020, respectively.

Market Risk

Market risk is the risk of loss of future earnings, fair values or future cash flows as a result of changes in interest rate, foreign exchange rate, commodity prices, equity prices and other market changes. The Bank's market risk originates from its holdings of debt securities.

ALCO, chaired by the Head of Treasury, is the management level committee responsible for review and management of market risk. In managing market risk, the Bank uses a framework of policies and procedures, measurement tools, controls and limits. The Bank's Treasury Group manages asset/liability risks arising from both normal banking operations and from trading operations in financial market. Daily monitoring of compliance with the policies, procedures and limits is performed by the Market Risk Department under RMG. The limits are annually reviewed by the ALCO and RMG and approved by RMC. RMG performs regular reporting to ALCO and to the RMC, which is a sub-committee of the BOD.

Interest Rate Risk

The Bank follows a prudent policy on managing its assets and liabilities so as to ensure that exposure to fluctuations in interest rate, is kept within acceptable limits.

The Bank measures the sensitivity of its assets and liabilities to interest rate fluctuations by way of Earnings-at-Risk (EaR). EaR is a measure of likely earnings volatility for accrual portfolios. It is calculated as the change in income over the next 12 months, given current exposures that will result from one-year standard deviation change in interest rate, updated monthly. EaR is calculated based on 99.00% confidence level. It is accomplished monthly, with quarterly stress test.

The following tables demonstrate the sensitivity to a reasonable possible change in interest rate of the Bank's net interest income and equity with all other variables held constant:

Amounts in Millions	2021				2020			
	Increase (Decrease) in Basis Points				Increase (Decrease) in Basis Points			
	50	50	50	50	50	50	50	50
Changes in net interest income:								
Loans and receivables	₱9.41	₱18.82	(₱9.41)	(₱18.82)	₱8.84	₱17.69	(₱8.84)	(₱17.69)
Investment securities at amortized cost	(2.13)	(2.88)	(0.63)	0.51	(0.80)	(1.54)	0.72	1.46
Deposit liabilities	(15.93)	(31.87)	15.93	31.87	(14.56)	(29.12)	12.81	25.63
As a percentage of the net interest income for the year	(0.3%)	(0.7%)	0.3%	0.7%	(0.3%)	(0.6%)	0.2%	0.4%
Changes in equity* -								
Financial assets at FVOCI	(59.9)	(81.0)	(17.8)	14.4	(5.15)	(9.89)	4.60	9.39

*The impact on the Bank's equity already excludes the impact of transactions affecting the profit or loss.

Foreign Currency Risk

Foreign currency risk is the risk of an investment's value erosion due to an adverse movement in foreign exchange rate. It arises due to a mismatch in the Bank's foreign currency-denominated assets and liabilities.

Foreign currency-denominated deposits are generally used to fund the Bank's foreign currency-denominated loan and investment portfolio in the FCDU. Banks are required by the BSP to match the foreign currency-denominated liabilities with the foreign currency-denominated assets held under the FCDU books. In addition, the BSP requires 100% asset coverage for its FCDU liabilities, 30% of which should be in the form of liquid assets. As at December 31, 2021 and 2020, the Bank is in compliance with the said regulation.

The Bank's policy is to maintain foreign currency exposure within acceptable limits and within existing regulatory guidelines.

The following table summarizes the Bank's foreign currency-denominated financial assets and liabilities as at December 31, 2021 and 2020. Included in the table are assets and liabilities at carrying amounts in Philippine Peso equivalent, categorized by currency.

	2021			2020		
	USD	Others*	Total	USD	Others*	Total
Financial Assets						
Cash and other cash items	₱50,573,120	₱-	₱50,573,120	₱48,204,255	₱3,672	₱48,207,927
Due from other banks	2,498,632,091	31,194,787	2,529,826,878	2,855,612,370	38,938,598	2,894,550,968
Interbank loans receivable	-	-	-	-	75,715,263	75,715,263
Investment securities	669,101,366	-	669,101,366	717,005,912	-	717,005,912
Loans and receivables	468,170,820	-	468,170,820	521,049,550	-	521,049,550
	3,686,477,397	31,194,787	3,717,672,184	4,141,872,087	114,657,533	4,256,529,620
Financial Liabilities						
Deposit liabilities	3,603,519,113	21,121,305	3,624,640,418	4,177,390,207	6,678,702	4,184,068,909
Net Exposure	₱82,958,284	₱10,073,482	₱93,031,766	(₱35,518,120)	₱107,978,831	₱72,460,711

*Consist of Euro, United Kingdom Pound, Canadian Dollar, Australian Dollar, Hong Kong Dollar, New Zealand Dollar, Singapore Dollar, Japanese Yen, Swiss Franc and Chinese Yuan.

The following table sets forth the impact of reasonably possible changes in the USD exchange rate on the Bank's net income:

Amounts in Millions	Increase (Decrease) in Currency			
	5.0%	10.0%	(5.0%)	(10.0%)
USD				
2021	₱0.16	₱0.32	(₱0.16)	(₱0.32)
2020	₱0.13	₱0.27	(₱0.13)	(₱0.27)

The increase in USD exchange rate represents depreciation of Philippine Peso while the decrease in USD exchange rate represents an appreciation of Philippine Peso. The increase or decrease in exchange rate of other currencies is not significant.

There is no other impact in the Bank's equity other than those already affecting the net income.

Market Risk in the Trading Book

The Bank is exposed to the potential loss in its trading portfolio because the value of its trading positions is sensitive to changes in market prices and rate. The trading activities of the Bank include investments in fixed income securities and foreign exchange trading, which exposes the Bank to interest rate and foreign exchange risks. In the trading book, market risk is controlled by a daily analysis of the Value-at-Risk (VaR) of financial instruments under normal market conditions.

Objectives and Limitations of the VaR Methodology

The Bank uses the VaR approach in assessing possible changes in the market value of the trading portfolio based on historical data for a rolling one year period. The Bank employs the use of historical methodology in calculating the VaR. This model assumes that the exact distribution of past returns does not apply during sudden changes in market condition. The use of historical VaR model has limitations and requires a significant amount of risk factor history. It does not capture probabilities that have not yet occurred while it captures irregularities present in the historical database.

The VaR figures are backtested to validate the robustness of the VaR model. The Bank performs the hypothetical and actual backtesting procedures for both RBU and FCDO securities. Likewise, to complement VaR measurement, the Bank performs stress tests wherein the trading portfolios are valued under extreme market scenarios.

VaR Assumptions/Parameters

The VaR that the Bank measures is an estimate that uses actual historical rates and revalues positions for any changes in the market. It is appropriate for all types of instruments, linear and non-linear, with stable risk factors for which there is a rich historical database. Since VaR is an integral part of the Bank's market risk management, VaR limits have been established annually for all financial trading activities and exposures against the limits are monitored on a daily basis. Limits are based on the tolerable risk appetite of the Bank.

The Market Risk Officer of the Bank prepares a daily VaR report containing details on the VaR amount, VaR limit utilization, and VaR limit breaches, if any. This report is submitted to the traders concerned, the Treasury Head, Chief Risk Officer, Treasury Operations Head, and the President. Moreover, the VaR results are discussed and reported in the monthly Risk Management Committee meetings.

The following table provides the VaR summary of the Bank for the years ended December 31, 2021 and 2020:

<i>Amounts in Thousands</i>	2021		2020	
	Foreign Exchange	Fixed Income	Foreign Exchange	Fixed Income
December 28	₱799	₱-	₱271	₱-
Average Daily	704	8,656	373	4,685
Highest	2,352	14,373	1,946	15,393
Lowest	188	484	11	227

Fixed income VaR includes value-at-risk for investment securities denominated in currencies other than Philippine Peso. VaR, being a measure of risk in the trading book, only includes held for trading portfolio.

The Bank's trading in fixed income securities is exposed to movements in interest rate. The high and low of the total portfolio may not equal to the sum of the individual components as the high and low of the individual portfolios may have occurred on different trading days. The VaR of foreign exchange is the foreign exchange risk throughout the Bank. The Bank, when aggregating the foreign exchange VaR and interest VaR, does not consider the correlation effects between the two risks.

Capital Management

The primary objectives of the Bank's capital management are to ensure that it complies with externally-imposed capital requirements and maintains strong credit ratings and healthy capital ratios in order to support its business and to maximize shareholders' value.

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

Regulatory Qualifying Capital

Under Appendix 59, *Risk-based Capital Adequacy Framework for the Philippine Banking System*, of the Manual of Regulations for Banks (MORB), the determination of compliance with regulatory requirements and ratios is based on the amount of the “qualifying capital” (regulatory net worth) as reported to the BSP, which is determined on the basis of regulatory accounting policies that differ from PFRS in some respects.

The risk-based capital ratio of a bank, expressed as a percentage of qualifying capital to risk-weighted assets, should not be less than 10%. Qualifying capital and risk-weighted assets (RWA) are computed based on the BSP regulations. RWA consist of total assets less cash on hand, due from BSP, loans covered by hold-out on or assignment of deposits, loans or acceptances under letter of credit to the extent covered by margin deposits and other non-risk items determined by the Monetary Board (MB) of the BSP. RWA is the sum of credit RWA, market RWA, and operational RWA, as defined under Appendix 59 of MORB.

The details of CAR as at December 31, as reported to the BSP are as follows:

<i>Amounts in Thousands</i>	2021	2020
Common Equity Tier 1 (CET1) capital	₱3,202,194	₱3,029,919
Additional Tier 1 (AT1) capital	–	–
Tier 1 capital	3,202,194	3,029,919
Required deductions	153,339	61,227
	3,048,855	2,968,692
Excess from Tier 2 deducted from Tier 1 Capital*	–	–
Net Tier 1 Capital	3,048,855	2,968,692
Tier 2 capital	1,826,444	1,873,992
Required deductions	–	–
	1,826,444	1,873,992
Excess of Tier 2 deducted from Tier 1 Capital*	–	–
Net Tier 2 Capital	1,826,444	1,873,992
Total Qualifying Capital	₱4,875,299	₱4,842,684

**Deductions to Tier 2 Capital are capped at its total gross amount and any excess shall be deducted from Tier 1 Capital.*

	2021	2020
Credit RWA	₱31,516,770	₱32,292,548
Market RWA	10,068	71,199
Operational RWA	3,172,147	2,923,013
Total RWA	₱34,698,985	₱35,286,760
CET1/Tier 1 capital ratio	8.79%	8.41%
Total capital ratio	14.05%	13.72%

The Bank’s regulatory qualifying capital consists of Tier 1 (core) capital, which comprises paid-up common stock, surplus including current year profit, and cumulative foreign currency translation less required deductions such as unsecured credit accommodations to DOSRI and deferred income tax. Certain adjustments are made to results and reserves based on PFRS, as prescribed by the BSP. The other component of regulatory capital is Tier 2 (supplementary) capital, which includes paid-up preferred stock, unsecured subordinated debt and general loan loss provision (GLLP).

Standardized credit risk weights were used in the credit assessment of asset exposures. Third party credit assessments were based on the ratings by S&P, Moody’s, Fitch and Philratings on exposures to sovereigns, multilateral development banks, banks, local government units, government corporations and corporates.

The Bank has complied with all externally imposed capital requirements in 2021 and 2020.

Under the existing BSP regulations, the Bank set up GLLP equivalent to 1% of all current loans (after excluding accounts considered as credit risk-free under existing regulations). In cases when the computed allowance for ECL on current loans is less than the 1% GLLP required by the BSP, the difference should be appropriated from the retained earnings using the account “Retained earnings - general provision” for prudential reporting.

Appropriation of retained earnings for the excess of 1% GLLP over ECL amounted to ₱34.2 million and ₱69.0 million as at December 31, 2021 and 2020, respectively.

5. Fair Value Measurement

The following table presents the carrying amounts and fair values of the Bank’s assets measured at fair value and for which fair values are disclosed, and the corresponding hierarchy.

	2021			
	Carrying Amount	Fair Value		
		Quoted Prices in Active Market (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets Measured at Fair Value				
Financial assets at FVOCI:				
Government securities	₱2,671,136,093	₱2,671,136,093	₱–	₱–
Private bonds	553,872,468	553,872,468	–	–
	3,225,008,561	3,225,008,561	–	–
Assets for which Fair Values are Disclosed				
Loans and receivables:				
Receivable from customers:				
Consumer loans	8,698,893,772	–	–	9,953,567,355
Corporate loans	21,418,061,139	–	–	22,292,034,942
Sales contracts receivable	18,594,457	–	–	15,650,554
	30,135,549,368	–	–	32,261,252,851
Foreclosed assets:				
Assets held for sale	263,683,280	–	517,904,873	–
Investment properties	153,304,933	–	256,102,564	–
Refundable deposits	30,947,936	–	30,947,936	–
Total Assets	₱33,808,494,078	₱3,225,008,561	₱804,955,373	₱32,261,252,851
Liabilities for which Fair Values are Disclosed				
Time deposits	₱10,523,163,148	₱–	₱10,523,163,148	₱–
Unsecured subordinated debt	1,300,000,000	–	1,300,000,000	–
Lease liabilities	175,603,805	–	–	175,603,805
Total Liabilities	₱11,998,766,953	₱–	₱11,823,163,148	₱175,603,805

	2020			
	Carrying Amount	Fair Value		
		Quoted Prices in Active Market (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets Measured at Fair Value				
Financial assets at FVOCI:				
Government securities	₱394,129,024	₱394,129,024	₱-	₱-
Private bonds	312,792,672	312,792,672	-	-
	706,921,696	706,921,696	-	-
Assets for which Fair Values are Disclosed				
Loans and receivables:				
Receivable from customers:				
Consumer loans	12,286,000,020	-	-	14,187,627,478
Corporate loans	18,175,123,157	-	-	18,919,463,902
Sales contracts receivable	18,274,094	-	-	17,223,292
	30,479,397,271	-	-	33,124,314,672
Foreclosed assets -				
Assets held for sale	525,014,291	-	583,270,147	-
Refundable deposits	28,448,289	-	28,448,289	-
Total Assets	₱31,739,781,547	₱706,921,696	₱611,718,436	₱33,124,314,672
Liabilities for which Fair Values are Disclosed				
Time deposits	₱18,500,973,511	₱-	₱18,500,973,511	₱-
Unsecured subordinated debt	1,300,000,000	-	1,300,000,000	-
Lease liabilities	220,606,697	-	-	220,606,697
Total Liabilities	₱20,021,580,208	₱-	₱19,800,973,511	₱220,606,697

There were no transfers between levels/hierarchies of fair value measurements in 2021 and 2020.

The methods and assumptions used by the Bank in estimating the fair value of the assets and liabilities of the Bank that are carried at fair value and those whose fair values are disclosed are as follows.

Investments in Debt Securities. Fair values are generally based upon quoted market prices, if available. If the market prices are not readily available, fair values are estimated by either using values obtained from adjusted quoted market prices of comparable investments.

Loans and Receivables. Fair values are estimated using the discounted cash flow methodology, using the Bank's current incremental lending rate for similar types of loans.

Significant Unobservable Inputs	Range (weighted average)	
	2021	2020
Transfer pool rate	2.45% - 3.27%	2.60% - 5.10%
Credit spread	3.90% - 4.60%	3.71% - 5.11%

Certain loans are subject to quarterly repricing. Hence, the carrying amounts of these loans approximate fair values.

Sensitivity Analysis. Generally, significant increases (decreases) in rate would result in a significantly (lower) higher fair value measurement. Significant increases (decreases) in effective interest rate would result in a significantly lower (higher) fair value measurement.

Foreclosed Assets. Fair value is based on valuation using the market data approach, as determined by an independent and/or in-house appraiser.

Refundable Deposits. Fair value is based on discounted cash flows using the prevailing credit-adjusted interest rate.

Time Deposits and Unquoted Debt Obligations. Fair values of these instruments are estimated using the discounted cash flow methodology using the Bank's current incremental borrowing rates for similar borrowings with maturities consistent with the remaining liabilities being valued.

Lease Liabilities. Fair values are estimated using the discounted cash flow methodology, using the Bank's incremental borrowing rates upon commencement of leases.

Sensitivity Analysis. Generally, significant increases (decreases) in rate would result in a significantly (lower) higher fair value measurement.

The table below presents the financial assets and liabilities of the Bank, whose carrying amounts approximate fair values due to the short-term nature or demand feature of the transactions:

	2021	2020
Financial Assets		
Cash and other cash items	₱627,826,383	₱642,606,701
Due from BSP	6,346,319,599	2,569,444,094
Due from other banks	2,598,830,302	2,993,935,298
Interbank loans receivable	-	932,575,517
Loans and receivables:		
Bills purchased	100,000	1,500,000
Accrued interest income	775,541,414	736,034,426
Accounts receivable	39,103,921	45,934,066
	₱10,387,721,619	₱7,922,030,102
Financial Liabilities		
Deposit liabilities		
Demand	₱14,610,052,563	₱10,518,952,595
Savings	13,109,735,240	5,906,236,280
	27,719,787,803	16,425,188,875
Accrued interest expense	23,177,719	35,938,106
Other liabilities*	1,510,115,284	648,249,010
	₱29,253,080,806	₱17,109,375,991

*Comprised of accounts payable, payment orders, bills payable, bills purchased-contra and marginal deposits.

6. Interbank Loans Receivable

This account pertains to short-term loans to local and foreign banks maturing up to three months. Interbank loans receivable amounted to nil and ₱932.6 million as at December 31, 2021 and 2020, respectively.

Interbank loans receivables bear interest rates as follows:

	2021	2020
Local banks	1.66% to 2.00%	2.00%
Foreign banks	0.00% to 0.20%	0.00%

Interest income on interbank loans receivable amounted to ₱19.7 million and ₱32.3 million in 2021 and 2020, respectively.

7. Investment Securities

This account consists of:

	2021			
	Financial assets at			Total
	FVPL	FVOCI	Amortized cost	
Balances at beginning of year	₱-	₱722,995,159	₱112,790,494	₱835,785,653
Additions	16,339,037,970	10,728,767,523	5,952,000	27,073,757,493
Disposals	(16,339,037,970)	-	-	(16,339,037,970)
Matured investments	-	(8,206,037,079)	(204,894)	(8,206,241,973)
Net unrealized fair value loss	-	(8,648,340)	-	(8,648,340)
Amortization of premium and discount	-	4,004,761	(3,308,701)	696,060
	₱-	₱3,241,082,024	₱115,228,899	₱3,356,310,923

	2020			
	Financial assets at			Total
	FVPL	FVOCI	Amortized cost	
Balances at beginning of year	₱899,638,694	₱1,721,125,391	₱2,139,973	₱2,622,904,058
Additions	30,806,874,941	2,615,054,911	96,046,000	33,517,975,852
Disposals	(31,706,640,259)	(641,200,000)	-	(32,347,840,259)
Matured investments	-	(2,837,597,000)	(1,877,910)	(2,839,474,910)
Net unrealized fair value gain	126,624	71,878,020	-	72,004,644
Amortization of premium and discount	-	(206,266,163)	16,482,431	(189,783,732)
	₱-	₱722,995,159	₱112,790,494	₱835,785,653

Financial Assets at FVPL

Financial assets at FVPL primarily consist of government securities held by the Bank for trading.

Financial Assets at FVOCI

Financial assets at FVOCI are comprised of the following:

	2021	2020
Government securities	₱2,671,136,093	₱394,129,024
Private bonds	553,872,468	312,792,672
Unquoted equity security	16,073,463	16,073,463
	₱3,241,082,024	₱722,995,159

Financial assets at FVOCI bear annual effective interest rates as follows:

	2021	2020
Philippine Peso-denominated	1.10% to 4.95%	1.31% to 3.80%
Foreign currency-denominated	1.04% to 1.76%	0.90% to 1.70%

In 2020, total consideration for the sale of financial assets at FVOCI amounted to ₱654.1 million resulting to gain on disposal amounting to ₱13.1 million.

Movements in cumulative unrealized gains on fair value changes of financial assets at FVOCI are as follows:

	2021	2020
Balance at beginning of year	₱9,558,339	(₱62,319,681)
Net unrealized gains (losses)	(8,648,340)	71,878,020
Balance at end of year	₱909,999	₱9,558,339

The unquoted equity security pertains to the Bank's investment in shares of stock of Bancnet, Inc. (Bancnet), which the Bank intends to hold for long-term. Dividend income amounted to ₱1.9 million and ₱8.2 million in 2021 and 2020, respectively.

Financial Assets at Amortized Cost

Financial assets at amortized cost consist of ₱115.2 million and ₱112.8 million government securities, bearing annual effective interest rate ranging from 0.93% to 1.00% and 0.40% to 0.99% as at December 31, 2021 and 2020, respectively.

Interest income on investment securities are as follows:

	2021	2020
Financial assets at:		
FVOCI	₱21,905,548	₱37,799,378
FVPL	12,085,828	13,845,164
Amortized cost	3,116,544	2,267,269
	₱37,107,920	₱53,911,811

Net trading and securities gains (losses) from investment securities are as follows:

	2021	2020
Financial assets at FVPL:		
Realized trading gains (losses)	(₱30,951,480)	₱8,303,041
Unrealized fair value gains (losses)	-	126,624
	(30,951,480)	8,429,665
Financial assets at FVOCI -		
Realized trading gains	-	13,065,192
	(₱30,951,480)	₱21,494,857

8. Loans and Receivables

This account consists of:

	2021	2020
Receivables from customers	₱31,052,365,047	₱31,311,316,414
Accrued interest	775,541,414	736,034,426
Accounts receivable	39,103,921	45,934,066
Sales contracts receivable	19,291,268	19,305,730
	31,886,301,650	32,112,590,636
Allowance for credit and impairment losses	(926,027,347)	(839,745,273)
	₱30,960,274,303	₱31,272,845,363

Receivables from customers consist of:

	Note	2021	2020
Loans and discounts:			
Corporate loans		₱21,789,001,739	₱18,640,668,091
Consumer loans		9,253,918,572	12,831,232,749
Bills purchased	16	10,079,600	11,479,600
		31,052,999,911	31,483,380,440
Unearned discounts and capitalized interest		(634,864)	(2,723,939)
Unearned income		–	(169,340,087)
		₱31,052,365,047	₱31,311,316,414

Accounts receivable include receivables from officers relating to the car lease amounting to ₱32.4 million and ₱34.3 million as at December 31, 2021 and 2020, respectively, and withdrawals made by depositors of other banks to the Bank's Automated Teller Machines (ATM) (see Note 23).

Sales contracts receivable pertain to receivables from buyers of real properties classified as assets held for sale, bearing 10% nominal interest, with terms of ten or 15 years.

In 2020, as a result of the modification of the terms of receivables from customers pursuant to the grace periods allowed by the the Republic Act (R.A.) No. 11469, also known as the "Bayanihan to Heal as One Act" and R.A. No. 11494 or the "Bayanihan to Recover as One Act", the Bank incurred modification loss amounting to ₱418.8 million and loss on extinguishment amounting to ₱14.6 million.

Subsequently, the Bank recognized an interest income from the accretion of modification loss amounting to ₱169.3 million and ₱249.5 million in 2021 and 2020, respectively, and from the loss on extinguishment amounting to ₱12.6 million and ₱2.0 million in 2021 and 2020, respectively.

The details of interest income on loans and receivables are as follows:

	2021	2020
Consumer loans	₱927,307,148	₱1,329,815,234
Corporate loans	1,266,533,022	1,447,089,223
Bills discounted	9,271,281	34,636,215
Sales contracts receivable	925,599	930,922
	₱2,204,037,050	₱2,812,471,594

Of the total loans and receivables as at December 31, 2021 and 2020, 79.85% and 67.65%, respectively, are subject to periodic interest repricing. The remaining peso-denominated loans have annual fixed interest ranging from 1.40% to 24.00% in 2021 and 3.64% to 24.00% in 2020.

The movements in the allowance for credit and impairment losses on loans and receivables are as follows:

	2021			
	Consumer Loans	Corporate Loans	Sales Contract Receivable	Total
Balances at beginning of year	₱545,232,729	₱293,480,908	₱1,031,636	₱839,745,273
Provision (reversal)	9,792,071	76,824,828	(334,825)	86,282,074
Balances at end of year	₱555,024,800	₱370,305,736	₱696,811	₱926,027,347

	2020			Total
	Consumer Loans	Corporate Loans	Sales Contract Receivable	
Balances at beginning of year	₱444,050,931	₱237,451,404	₱1,031,636	₱682,533,971
Provision	131,292,059	69,232,188	–	200,524,247
Write-offs	(30,110,261)	(13,202,684)	–	(43,312,945)
Balances at end of year	₱545,232,729	₱293,480,908	₱1,031,636	₱839,745,273

Below is the analysis of movements of consumer loans.

	2021			Total
	Stage 1	Stage 2	Stage 3	
Gross Amount				
Balances at beginning of year	₱9,806,211,199	₱1,154,606,066	₱1,870,415,484	₱12,831,232,749
Payments or reclassifications upon foreclosure	(3,927,985,985)	(482,476,230)	(553,635,709)	(4,964,097,924)
Loan releases	1,201,829,992	170,666,593	14,287,162	1,386,783,747
Transfers to stage 1	424,607,517	(343,512,325)	(81,095,192)	–
Transfers to stage 2	(223,351,040)	305,625,373	(82,274,333)	–
Transfers to stage 3	(119,106,381)	(130,024,580)	249,130,961	–
Balances at end of year	7,162,205,302	674,884,897	1,416,828,373	9,253,918,572
Allowance for Credit and Impairment Losses				
Balances at beginning of year	16,305,666	17,186,488	511,740,575	545,232,729
Provisions (reversals)	8,248,575	9,841,766	(8,298,270)	9,792,071
Transfers to stage 1	394,643	(359,579)	(35,064)	–
Transfers to stage 2	(742,548)	889,249	(146,701)	–
Transfers to stage 3	(16,188,164)	(19,745,652)	35,933,816	–
Balances at end of year	8,018,172	7,812,272	539,194,356	555,024,800
Carrying Amount	₱7,154,187,130	₱667,072,625	₱877,634,017	₱8,698,893,772

	2020			Total
	Stage 1	Stage 2	Stage 3	
Gross Amount				
Balances at beginning of year	₱14,147,291,746	₱675,698,874	₱857,141,484	₱15,680,132,104
Payments or reclassifications upon foreclosure	(4,025,592,391)	(197,000,293)	(84,588,317)	(4,307,181,001)
Loan releases	1,215,508,674	151,944,251	120,938,982	1,488,391,907
Transfers to stage 1	244,187,992	(230,241,274)	(13,946,718)	–
Transfers to stage 2	(921,962,357)	926,433,158	(4,470,801)	–
Transfers to stage 3	(853,222,465)	(172,228,650)	1,025,451,115	–
Write-offs	–	–	(30,110,261)	(30,110,261)
Balances at end of year	9,806,211,199	1,154,606,066	1,870,415,484	12,831,232,749
Allowance for Credit and Impairment Losses				
Balances at beginning of year	69,048,095	6,987,404	368,015,432	444,050,931
Provisions (reversals)	86,983,820	21,209,138	23,099,101	131,292,059
Transfers to stage 1	89,573	(86,993)	(2,580)	–
Transfers to stage 2	(13,441,481)	13,451,516	(10,035)	–
Transfers to stage 3	(126,374,341)	(24,374,577)	150,748,918	–
Write-offs	–	–	(30,110,261)	(30,110,261)
Balances at end of year	16,305,666	17,186,488	511,740,575	545,232,729
Carrying Amount	₱9,789,905,533	₱1,137,419,578	₱1,358,674,909	₱12,286,000,020

Below is the analysis of corporate loans.

	2021			
	Stage 1	Stage 2	Stage 3	Total
Gross Amount				
Balances at beginning of year	₱16,958,413,227	₱1,050,299,312	₱631,955,552	₱18,640,668,091
Loan releases	3,966,810,433	–	–	3,966,810,433
Payments or reclassifications upon foreclosure	(789,425,376)	(27,023,409)	(2,028,000)	(818,476,785)
Transfers to stage 1	4,227,799	(4,227,799)	–	–
Transfers to stage 2	(416,991,835)	416,991,835	–	–
Transfers to stage 3	(307,713,804)	(606,550,000)	914,263,804	–
Balances at end of year	19,415,320,444	829,489,939	1,544,191,356	21,789,001,739
Allowance for Credit and Impairment Losses				
Balances at beginning of year	54,607,737	72,296,068	166,577,103	293,480,908
Provisions (reversals)	56,360,713	21,051,601	(587,486)	76,824,828
Transfers to stage 1	72,874	(72,874)	–	–
Transfers to stage 2	(4,671,176)	4,671,176	–	–
Balances at end of year	106,370,148	97,945,971	165,989,617	370,305,736
Carrying Amount	₱19,308,950,296	₱731,543,968	₱1,378,201,739	₱21,418,696,003

	2020			
	Stage 1	Stage 2	Stage 3	Total
Gross Amount				
Balances at beginning of year	₱16,798,447,945	₱–	₱606,713,615	₱17,405,161,560
Loan releases	2,823,042,396	520,000,000	137,480,642	3,480,523,038
Payments or reclassifications upon foreclosure	(2,055,567,184)	–	(163,659,057)	(2,219,226,241)
Transfers to stage 2	(538,436,061)	538,436,061	–	–
Transfers to stage 3	(64,623,036)	–	64,623,036	–
Write-offs	–	–	(13,202,684)	(13,202,684)
Modification loss	(4,450,833)	(8,136,749)	–	(12,587,582)
Balances at end of year	16,958,413,227	1,050,299,312	631,955,552	18,640,668,091
Allowance for Credit and Impairment Losses				
Balances at beginning of year	70,875,804	–	166,575,600	237,451,404
Provisions (reversals)	44,696,510	13,361,344	11,174,334	69,232,188
Transfers to stage 2	(58,934,724)	58,934,724	–	–
Transfers to stage 3	(2,029,853)	–	2,029,853	–
Write-offs	–	–	(13,202,684)	(13,202,684)
Balances at end of year	54,607,737	72,296,068	166,577,103	293,480,908
Carrying Amount	₱16,903,805,490	₱978,003,244	₱465,378,449	₱18,347,187,183

Below is the analysis of sales contract receivable.

	2021			
	Stage 1	Stage 2	Stage 3	Total
Gross Amount				
Balances at beginning of year	₱8,805,014	₱10,500,716	₱–	₱19,305,730
Loan releases	844,800	–	–	844,800
Payments or reclassifications upon foreclosure	(495,275)	(363,987)	–	(859,262)
Transfers to stage 1	987,940	(987,940)	–	–
Transfers to stage 3	(2,356,329)	(9,148,789)	11,505,118	–
Balances at end of year	7,786,150	–	11,505,118	19,291,268
Allowance for Credit and Impairment Losses				
Balances at beginning of year	–	1,031,636	–	1,031,636
Reversal	–	(334,825)	–	(334,825)
Transfers to stage 3	–	(696,811)	696,811	–
Balances at end of year	–	–	696,811	696,811
Carrying Amount	₱7,786,150	₱–	₱10,808,307	₱18,594,457

	2020		Total
	Stage 1	Stage 2	
Gross Amount			
Balances at beginning of year	₱6,654,237	₱12,134,376	₱18,788,613
Additions	1,568,362	–	1,568,362
Payments	(366,052)	(685,193)	(1,051,245)
Transfers to stage 1	948,467	(948,467)	–
Balances at end of year	8,805,014	10,500,716	19,305,730
Allowance for Credit and Impairment Losses			
Balances at beginning and end of year	–	1,031,636	1,031,636
Carrying Amount	₱8,805,014	₱9,469,080	₱18,274,094

9. Foreclosed Assets

This account consists of properties foreclosed in settlement of loans and receivables aggregating ₱429.1 million and ₱525.0 million, net of allowance for impairment losses, as at December 31, 2021 and 2020, respectively.

In 2021 and 2020, loans with an aggregate carrying amount of ₱351.7 million and ₱331.0 million, respectively, were derecognized in exchange for foreclosed properties.

Foreclosed assets are classified as follows:

	2021	2020
Assets held for sale	₱263,683,280	₱525,014,291
Investment properties	153,304,933	–
Other foreclosed assets	12,088,197	–
	₱429,076,410	₱525,014,291

Assets Held for Sale

This account amounted to ₱263.7 million and ₱525.0 million, net of allowance for impairment losses, as at December 31, 2021 and 2020, respectively.

Assets held for sale are measured at the lower of carrying amount or fair value less cost to sell.

In 2021, the Bank revisited the classification of its foreclosed assets. Accordingly, assets held for sale with a carrying amount of ₱241.7 million was reclassified to investment properties and other foreclosed assets. The reclassification resulted to a loss on reclassification amounting to ₱71.9 million, which mainly represents the catch-up depreciation of the reclassified assets that would have been recognized had the asset not been classified as held for sale.

As at December 31, 2021 and 2020, cumulative unrealized losses on foreclosure amounted to ₱38.2 million and ₱24.6 million, respectively.

Proceeds from disposal of assets held for sale amounted to ₱333.1 million and ₱202.2 million in 2021 and 2020, respectively.

Movements of allowance for impairment losses of assets held for sale is as follows:

	2021	2020
Balance at beginning of year	₱29,728,793	₱26,362,902
Reversal	(25,120,906)	-
Provisions	-	10,635,409
Disposal	-	(7,269,518)
	₱4,607,887	₱29,728,793

Investment Properties

This account, which pertains to foreclosed real estate properties, amounted to ₱153.3 million as at December 31, 2021. In 2021, the Bank reclassified assets held for sale with a carrying amount of ₱156.2 million to investment properties. Loss on reclassification and provision for impairment losses on investment properties amounted to ₱71.9 million and ₱2.9 million, respectively.

Proceeds from disposal of investment properties amounted to ₱12.0 million in 2021.

No income was recognized related to the investment properties.

The aggregate fair values of the investment properties amounted to ₱256.1 million as at December 31, 2021. The fair value of the investment properties are determined using the Market Data Approach and is based on recent sale transactions involving properties within the same areas or vicinities taking into account the economic conditions prevailing at the time the valuations were made. The fair value measurement is categorized as Level 2.

Other Foreclosed Assets

This account, which pertains to foreclosed assets other than real estate properties, amounted to ₱12.1 million as at December 31, 2021. In 2021, the Bank reclassified assets held for sale with a carrying amount of ₱13.6 million to other foreclosed assets. In 2021, loss on reclassification, depreciation and provision for impairment losses on other foreclosed assets amounted to ₱12.7 million, ₱1.4 million and ₱134,530, respectively.

Details of net losses from assets sold or acquired are as follows:

	Note	2021	2020
Foreclosed properties:			
Loss on reclassification	20	(₱71,891,559)	₱-
Loss on sale		(51,141,328)	(70,856,384)
Loss on foreclosure		(35,775,449)	(11,267,478)
Gain on sale of property and equipment	10	2,389,222	24,792
		(₱156,419,114)	(₱82,099,070)

Provision (reversal) for impairment losses are as follows:

	2021	2020
Assets held for sale	(₱25,120,906)	₱10,635,409
Investment properties	2,926,000	-
Other foreclosed assets	134,530	-
	(₱22,060,376)	₱10,635,409

10. Property and Equipment

Movements in this account are as follows:

	2021					Total
	Land	Building and Condominium Units	ROU Assets (see Note 18)	Furniture, Fixtures and Equipment	Leasehold Rights and Improvements	
Cost						
Balances at beginning of year	₱164,344,500	₱249,385,860	₱351,544,632	₱419,807,707	₱278,906,028	₱1,463,988,727
Additions	–	–	37,710,353	16,634,218	3,262,497	57,607,068
Disposals	–	–	–	(29,659,861)	–	(29,659,861)
Balances at end of year	164,344,500	249,385,860	389,254,985	406,782,064	282,168,525	1,491,935,934
Accumulated Depreciation and Amortization						
Balances at beginning of year	–	120,098,495	155,479,062	331,533,212	267,925,606	875,036,375
Depreciation and amortization	–	6,773,440	80,853,969	33,875,335	8,035,592	129,538,336
Disposals	–	–	–	(28,235,369)	–	(28,235,369)
Balances at end of year	–	126,871,935	236,333,031	337,173,178	275,961,198	976,339,342
Carrying Amount	₱164,344,500	₱122,513,925	₱152,921,954	₱69,608,886	₱6,207,327	₱515,596,592

	2020					Total
	Land	Building and Condominium Units	ROU Assets (see Note 18)	Furniture, Fixtures and Equipment	Leasehold Rights and Improvements	
Cost						
Balances at beginning of year	₱164,344,500	₱249,385,860	₱331,956,524	₱401,884,911	₱278,906,028	₱1,426,477,823
Additions	–	–	19,588,108	35,107,952	–	54,696,060
Disposals	–	–	–	(17,185,156)	–	(17,185,156)
Balances at end of year	164,344,500	249,385,860	351,544,632	419,807,707	278,906,028	1,463,988,727
Accumulated Depreciation and Amortization						
Balances at beginning of year	–	113,325,054	73,103,837	310,220,549	258,640,769	755,290,209
Depreciation and amortization	–	6,773,441	82,375,225	36,325,482	9,284,837	134,758,985
Disposals	–	–	–	(15,012,819)	–	(15,012,819)
Balances at end of year	–	120,098,495	155,479,062	331,533,212	267,925,606	875,036,375
Carrying Amount	₱164,344,500	₱129,287,365	₱196,065,570	₱88,274,495	₱10,980,422	₱588,952,352

Gain on sale of property and equipment included under “Net losses from assets sold or acquired” in the statements of income amounted to ₱2.4 million and ₱24,793 in 2021 and 2020, respectively (see Note 9). Proceeds from sale amounted to ₱3.8 million and ₱2.2 million as at December 31, 2021 and 2020, respectively.

As at December 31, 2021 and 2020, the cost of fully depreciated assets, which are still being used in the operations, amounted to ₱508.6 million and ₱466.7 million, respectively.

Details of depreciation and amortization are as follows:

	Note	2021	2020
Property and equipment		₱129,538,336	₱134,758,985
Computer software	11	24,419,488	24,516,448
Other foreclosed assets	9	1,353,071	–
		₱155,310,895	₱159,275,433

11. Intangible Assets

This account consists of:

	2021	2020
Branch licenses	₱225,390,000	₱225,390,000
Computer software	82,199,792	100,315,037
	₱307,589,792	₱325,705,037

Branch licenses, recognized from business combination, include branch licenses from CSB amounting to ₱128.0 million, and licensing fees incurred in opening additional branches.

Of the total 47 branches of the Bank, 18 branches are in restricted areas, as determined by the BSP.

The impairment test on branch licenses is based on value-in-use calculations determined using a discounted cash flow model. The recoverable amount of the CGU has been determined based on cash flow projections from financial budgets approved by senior management covering a five-year period. The discount rates applied to cash flow projections are 4.20% and 2.50% in 2021 and 2020, respectively, and cash flows beyond the five year-period are extrapolated using a steady growth rate of 10% and 20% in 2021 and 2020, respectively, which does not exceed the long-term average growth rate for the industry.

The calculation of the value-in-use of the CGU is most sensitive to the following assumptions:

- Discount rate;
- Steady growth rate used to extrapolate cash flows beyond the projection period; and
- Local inflation rate.

The key assumptions are consistent with information from external sources. With regard to the assessment of value-in-use of the CGU, management believes that no reasonably possible change in any of the foregoing key assumptions would cause the carrying amount of the branch licenses to materially exceed its recoverable amount.

Movements of computer software are as follows:

	Note	2021	2020
Cost			
Balance at beginning of year		₱390,336,176	₱367,060,994
Additions		6,304,243	23,275,182
Balance at end of year		396,640,419	390,336,176
Accumulated Amortization			
Balance at beginning of year		290,021,139	265,504,691
Amortization	10	24,419,488	24,516,448
Balance at end of year		314,440,627	290,021,139
Carrying Amount		₱82,199,792	₱100,315,037

12. Other Assets

This account consists of:

	Note	2021	2020
Prepaid expenses		₱58,218,604	₱54,393,242
Refundable deposits	18	30,947,936	28,448,289
Documentary stamp taxes		7,811,017	2,607,525
Other investments		3,663,333	3,663,333
RCOCI		702,711	1,072,376
Deferred lease	18	478,243	6,248,046
Others		6,461,483	1,348,605
		₱108,283,327	₱97,781,416

Prepaid expenses include prepaid rentals, group life insurance and employee benefits related to the car plan for the officers of the Bank (see Note 23).

Other investments represent membership fees in Bancnet and Credit Management Association of the Philippines.

Others mainly consist of deposit with a health care agency for the Bank's employee health plan.

13. Deposit Liabilities

This account is consists of:

	2021	2020
Demand	₱14,610,052,563	₱10,518,952,595
Savings	13,109,735,240	5,906,236,280
Time	10,523,163,148	18,500,973,511
	₱38,242,950,951	₱34,926,162,386

In accordance with the BSP requirements, the reserve requirement for Philippine Peso deposit liabilities and deposit substitutes is 3% in 2021 and 2020.

As mandated by the BSP, only demand deposit accounts maintained by banks with the BSP are eligible for compliance with reserve requirements, thereby excluding government securities and cash in vault as eligible reserves. Further, deposits maintained with the BSP in compliance with the reserve requirements do not earn interest.

As at December 31, 2021 and 2020, the Bank is compliant with the foregoing BSP regulations. The available reserves, which form part of "Due from Bangko Sentral ng Pilipinas", amounted to ₱3,710.0 million and ₱1,870.0 million as at December 31, 2021 and 2020, respectively.

As at December 31, 2021 and 2020, 27.52% and 52.97% of the total deposit liabilities, respectively, are subject to periodic interest repricing. The remaining deposit liabilities bear annual fixed interest rates as follows:

	2021	2020
Philippine Peso-denominated	0.25% to 6.50%	0.25% to 6.50%
Foreign currency-denominated	0.125% to 0.625%	0.25% to 2.25%

Interest expense recognized in the financial statements arises from:

	Note	2021	2020
Deposit liabilities:			
Time		₱206,043,430	₱534,974,570
Demand		26,680,707	22,322,636
Savings		92,808,985	22,242,683
		325,533,122	579,539,889
Unsecured subordinated debt	15	71,250,000	57,831,250
Lease liabilities	18	13,333,542	17,543,969
Others		-	17,233
		₱410,116,664	₱654,932,341

14. Accrued Interest, Taxes and Other Expenses

This account consists of:

	2021	2020
Accrued expenses:		
Compensation and other benefits	₱47,657,639	₱40,777,986
Interest	33,352,563	46,609,962
Agri-agra penalties	22,942,487	35,102,681
Security, messengerial and janitorial	19,272,683	18,387,983
Utilities and leased line	3,472,088	5,799,536
ATM related expenses	1,276,630	990,999
Others	22,400,501	19,823,285
	150,374,591	167,492,432
Accrued gross receipts tax (GRT)	10,523,813	10,260,070
	₱160,898,404	₱177,752,502

Accrual for other expenses pertains to rent and insurance, publications, repairs and maintenance.

15. Unsecured Subordinated Debt

On January 23, 2020, the MB of the BSP, in its Resolution No. 124, approved the Bank's issuance of unsecured subordinated debt with principal amount aggregating ₱300.0 million, which was issued on December 10, 2020 and bears 4.75% interest per annum, payable quarterly. This unsecured subordinated debt will mature after 10 years and three months from issuance date but may be called by the Bank on any interest payment date after five years and three months from issuance at principal amount plus accrued interest.

On June 1, 2017, the MB of the BSP, in its Resolution No. 900, approved the Bank's issuance of unsecured subordinated debt with principal amount aggregating ₱1.0 billion, which was issued on July 18, 2017 and bears 5.70% interest per annum, payable quarterly. This unsecured subordinated debt will mature after ten years and three months from issuance date but may be called by the Bank on any interest payment date after the fifth year of issuance at principal amount plus accrued interest.

Interest expense on unsecured subordinated debt amounted to to ₱71.3 million and ₱57.8 million in 2021 and 2020, respectively (see Note 13).

16. Other Liabilities

This account consists of:

	Note	2021	2020
Accounts payable		₱1,504,556,042	₱636,553,662
Due to PDIC		37,370,996	35,275,474
Withholding taxes		12,776,711	12,326,440
Payment orders		5,459,242	5,085,400
Statutory obligations		3,554,818	3,282,544
Bills purchased – contra	8	100,000	1,500,000
Marginal deposits		–	5,109,948
Others		36,035,455	32,954,908
		₱1,599,853,264	₱732,088,376

Accounts payable pertain to payables for cash cards, chattel mortgage, insurance and loan service fees, Bancnet and VISA, stale checks, incoming dollar remittances to the Bank for payment to various payees as part of its intermediary services, settlement account for InstaPay transactions and remaining balances on purchases of property and equipment. Accounts payable are noninterest-bearing and normally settled within one year.

Due to PDIC pertains to the Bank's insurance premium on deposit liabilities payable one month after reporting year.

Marginal deposits are non interest-bearing deposits made by borrowers upon opening letters of credit.

Payment orders refer to inward and outward remittances of funds by telegraphic transfers, demand drafts, or mail transfer orders received by the Bank pending payment/disposition to designated beneficiaries or application/disposition to appropriate accounts.

Others mainly consist of dormant deposit accounts.

17. Maturity Analysis of Assets and Liabilities

The following tables present the assets and liabilities as at December 31, 2021 and 2020 analyzed according to whether these are expected to be recovered or settled within or over 12 months from the reporting year.

	Note	2021			2020		
		Within One Year	Over One Year	Total	Within One Year	Over One Year	Total
Financial Assets							
Financial assets at FVOCI	7	₱2,637,363,516	₱603,718,508	₱3,241,082,024	₱405,429,690	₱317,565,469	₱722,995,159
Financial assets at amortized cost:							
Cash and other cash items		627,826,383	–	627,826,383	642,606,701	–	642,606,701
Due from BSP		6,346,319,599	–	6,346,319,599	2,569,444,094	–	2,569,444,094
Due from other banks		2,598,830,302	–	2,598,830,302	2,993,935,298	–	2,993,935,298
Interbank loans receivable	6	–	–	–	932,575,517	–	932,575,517
Government securities	7	–	115,228,899	115,228,899	211,749	112,578,745	112,790,494
Loans and receivables - gross	8	23,781,479,989	8,105,456,525	31,886,936,514	19,309,431,804	12,805,882,771	32,115,314,575
Other assets ¹	12	702,711	30,947,936	31,650,647	1,072,376	28,448,289	29,520,665
		35,992,522,500	8,855,351,868	44,847,874,368	26,854,707,229	13,264,475,274	40,119,182,503
Nonfinancial Assets							
Foreclosed assets	9	271,351,696	168,453,660	439,805,356	554,743,084	–	554,743,084
Property and equipment	10	–	1,491,935,934	1,491,935,934	–	1,463,988,727	1,463,988,727
Intangible assets	11	–	622,030,419	622,030,419	–	615,726,176	615,726,176
Deferred tax assets	21	19,747,293	–	19,747,293	75,953,688	–	75,953,688
Other assets	12	55,406,043	21,226,637	76,632,680	44,153,106	24,107,645	68,260,751
		346,505,032	2,303,646,650	2,650,151,682	674,849,878	2,103,822,548	2,778,672,426
		36,339,027,532	11,158,998,518	47,498,026,050	27,529,557,107	15,368,297,822	42,897,854,929
Less:							
Allowance for credit and impairment losses on:							
Loans and receivables	8	–	926,027,347	926,027,347	–	839,745,273	839,745,273
Foreclosed assets	9	7,668,416	3,060,530	10,728,946	29,728,793	–	29,728,793
Accumulated depreciation and amortization of:							
Property and equipment	10	–	976,339,342	976,339,342	–	875,036,375	875,036,375
Computer software	11	–	314,440,627	314,440,627	–	290,021,139	290,021,139
Unearned discounts and capitalized interest	8	–	634,864	634,864	–	2,723,939	2,723,939
		7,668,416	2,220,502,710	2,228,171,126	29,728,793	2,007,526,726	2,037,255,519
		₱36,331,359,116	₱8,938,495,808	₱45,269,854,924	₱27,499,828,314	₱13,360,771,096	₱40,860,599,410
Financial Liabilities							
Deposit liabilities	13	₱35,993,781,419	₱2,249,169,532	₱38,242,950,951	₱33,029,461,913	₱1,896,700,473	₱34,926,162,386
Manager's checks		98,191,696	–	98,191,696	77,074,219	–	77,074,219
Accrued interest and other expenses	14	150,374,591	–	150,374,591	167,492,432	–	167,492,432
Unsecured subordinated debt	15	–	1,300,000,000	1,300,000,000	–	1,300,000,000	1,300,000,000
Lease liabilities	18	72,413,733	103,190,072	175,603,805	77,962,375	142,644,322	220,606,697
Other liabilities	16	1,546,150,739	–	1,546,150,739	681,203,918	–	681,203,918
		37,860,912,178	3,652,359,604	41,513,271,782	34,033,194,857	3,339,344,795	37,372,539,652
Nonfinancial Liabilities							
Accrued GRT	14	10,523,813	–	10,523,813	10,260,070	–	10,260,070
Retirement liability	19	–	51,531,945	51,531,945	–	46,014,962	46,014,962
Income tax payable		16,884,778	–	16,884,778	18,340,154	–	18,340,154
Other liabilities ²	16	53,702,525	–	53,702,525	50,884,458	–	50,884,458
		81,111,116	51,531,945	132,643,061	79,484,682	46,014,962	125,499,644
		₱37,942,023,294	₱3,703,891,549	₱41,645,914,843	₱34,112,679,539	₱3,385,359,757	₱37,498,039,296

¹ Other financial assets pertain to refundable deposits and RCOCI (see Note 12).

² Other non-financial liabilities pertain to due to PDIC, withholding taxes and statutory obligations (see Note 16).

18. Lease Commitments

The Bank has existing non-cancellable lease agreements for the lease of its branch premises for a period of one to ten years, renewable upon mutual agreement of both parties. The rentals are subject to annual escalation rates ranging from 2.5% to 8.0%.

Outstanding rental and security deposits on lease commitments, which are refundable in cash upon termination of lease agreements, amounted to ₱30.9 million and ₱28.4 million as at December 31, 2021 and 2020, respectively (see Note 12).

Deferred lease, which pertains to the difference between the nominal value of the refundable deposit and its fair value at inception of the lease that is amortized as expense on a straight-line basis over the lease term, amounted to ₱478,243 and ₱6.2 million as at December 31, 2021 and 2020, respectively (see Note 12).

ROU assets, presented as part of "Property and equipment" account, pertain to leased branch premises amounted to ₱152.9 million and ₱196.1 million as at December 31, 2021 and 2020, respectively (see Note 10).

Movements in the lease liabilities are as follows:

	2021	2020
Balance at beginning of year	₱220,606,697	₱277,062,586
Payments	(96,046,787)	(93,587,966)
Additions	37,710,353	19,588,108
Interest expense	13,333,542	17,543,969
	175,603,805	220,606,697
Current portion	72,413,733	77,962,375
Noncurrent portion	₱103,190,072	₱142,644,322

Lease-related expenses recognized in the financial statements consist of:

	Note	2021	2020
Amortization of ROU assets	10	₱80,853,969	₱82,375,225
Rent expense		23,396,381	21,032,427
Interest expense on lease liabilities	13	13,333,542	17,543,969
		₱117,583,892	₱120,951,621

Rent expense, which pertains to short-term leases of branch premises, is presented under "Occupancy" in the statements of income.

Lease commitments are as follows:

	2021	2020
Not later than one year	₱75,216,434	₱97,892,093
Later than one year but not later than five years	85,204,340	119,439,075
Later than five years	32,078,945	33,926,526
	₱192,499,719	₱251,257,694

19. Retirement Plan

The Bank has a funded, noncontributory defined benefit retirement plan covering all of its officers and regular employees. Under the retirement plan, all covered officers and employees are entitled to cash benefits after satisfying certain age and service requirements. An independent actuary, using the projected credit method, conducted an actuarial valuation of the retirement liability as at December 31, 2020. Management assessed that the retirement liability is adequate.

The retirement fund of the Bank is placed under the management of the Bank's Trust Group with oversight from the Bank's Retirement Fund Committee, as appointed by the BOD. The Retirement Plan Trustee, as appointed by the Bank, in the Trust Agreement, is responsible for the general administration of the Retirement Plan and the management of the Retirement Fund.

The retirement benefits recognized in the statements of income follow:

	2021	2020
Current service cost	₱16,033,500	₱17,379,130
Net interest cost	1,883,449	935,034
	₱17,916,949	₱18,314,164

Remeasurement gain (loss), net of related income tax amounted to ₱4.1 million and ₱432,602 in 2021 and 2020, respectively. Cumulative remeasurement gains on retirement liability recognized in the statements of financial position amounted to ₱9.2 million and ₱12.4 million as at December 31, 2021 and 2020, respectively.

Net retirement liability is as follows:

	2021	2020
Present value of retirement obligation	₱161,993,297	₱140,199,471
Fair value of plan assets	(110,461,352)	(94,184,509)
	₱51,531,945	₱46,014,962

Movements in the present value of retirement obligation follow:

	2021	2020
Balance at beginning of year	₱140,199,471	₱123,203,304
Current service cost	16,033,500	17,379,130
Interest cost	6,585,281	3,569,693
Benefits paid	(824,955)	(3,952,656)
Balance at end of year	₱161,993,297	₱140,199,471

Movements in the fair value of the plan assets follow:

	2021	2020
Balance at beginning of year	₱94,184,509	₱60,931,847
Contributions made	17,000,000	30,000,000
Interest income	4,701,832	2,634,659
Remeasurement gain (loss) (excluding amount included in net interest)	(5,424,989)	618,003
Balance at end of year	₱110,461,352	₱94,184,509

The plan assets are carried at fair value. All equity, debt instruments and investments of the pooled funds held have quoted prices in active market. The fair value of other assets and liabilities, which include deposits in banks, BSP's special deposit account, accrued interest and other receivables and trust fee payables, approximate carrying amount due to the short-term nature of these accounts.

The plan assets are diversified investments. Those in short-term placements will be further invested depending on the market direction.

The composition of plan assets by class as at December 31, 2021 and 2020 follows:

	2021	2020
Debt instruments:		
Government securities	95%	53%
Private bonds	-	35%
	95%	88%
Equity instruments	4%	11%
Receivables	1%	1%
Fair value of plan assets	100%	100%

The principal actuarial assumptions used in determining the net retirement liability are shown below:

	2021	2020
Discount rate	4.70%	2.90%
Salary increase rate	3.00%	3.00%

The sensitivity analysis below has been determined based on reasonably possible changes of each significant assumption on the defined benefit obligation as at December 31, 2021, assuming all other assumptions were held constant:

	Basis Points	Amount
Discount rate	5.94% (Actual+1.0%)	₱112,472,979
	4.94% (Actual)	122,795,913
	3.94% (Actual-1.0%)	134,880,272
Salary increase rate	4.00% (Actual+1.0%)	135,513,535
	3.00% (Actual)	122,795,913
	2.00% (Actual-1.0%)	111,776,140
Turn over rate	120% of Actual	116,698,418
	Actual	122,795,913
	80.00% of Actual	129,829,211

The average duration of the defined benefit obligation at the end of the reporting year is eight years.

Shown below is the maturity analysis of the undiscounted benefit payments within the next ten years as at December 31, 2021:

Less than one year	₱6,750,903
One to less than five years	45,560,696
Five to less than ten years	95,203,943

20. Operating Expenses

This account consists of:

	Note	2021	2020
Compensation and fringe benefits		₱553,024,095	₱581,826,091
Taxes and licenses		192,307,942	252,546,558
Depreciation and amortization	10	155,310,895	159,275,433
Representation and entertainment		103,061,085	103,096,687
Insurance		75,105,851	73,746,127
Security, messengerial and janitorial		65,928,539	65,580,698
Repairs and maintenance		63,307,465	66,188,044
Fees and commissions		54,208,283	43,102,003
Litigation cost		53,900,608	43,592,400
Postage		45,060,755	46,508,962
Occupancy		43,781,146	39,246,822
Fines and penalties		23,085,487	19,255,514
Appraisal fees		21,644,842	19,377,310
Supervision fees		15,228,985	15,273,308
Management and other professional fees		10,975,205	11,211,713
Transportation and travel		7,540,107	8,307,233
Promotions and advertising		1,619,873	1,294,125
Others		24,213,264	22,456,810
		₱1,509,304,427	₱1,571,885,838

Others include office supplies and membership fees and dues.

21. Income and Other Taxes

Current income tax expense consists of:

	2021	2020
RCIT	₱50,605,233	₱127,071,913
Final tax	13,425,767	27,816,384
MCIT	–	18,383
	₱64,031,000	₱154,906,680

On March 26, 2021, the Corporate Recovery and Tax Incentives for Enterprises (“CREATE”) was approved and signed into law by the country’s President. Under the CREATE, the RCIT of domestic corporations was revised from 30% to 25% or 20% depending on the amount of total assets and total amount of taxable income. In addition, the MCIT was changed from 2% to 1% of gross income for a period of three years. The changes in the income tax rates shall retrospectively become effective beginning July 1, 2020.

The change in tax rates used, however, for the year ended December 31, 2020 was not adopted because the passing of the law is considered as a non-adjusting event for financial reporting. The change in tax rates was recognized in 2021 in accordance with the standards. The impact of CREATE in the 2020 current income tax amounting to ₱10.6 million was recognized as a reduction in the 2021 current income tax.

Under Philippine tax laws, the Bank is subject to percentage and other taxes, presented as “Taxes and licenses” in the statements of income, as well as income taxes. Percentage and other taxes paid consist principally of GRT and documentary stamp tax.

RA No. 9294, *An Act Restoring the Tax Exemption of Offshore Banking Units (OBUs) and Foreign Currency Deposit Units*, which became effective in May 2004, provides that the income derived by the FCDU from foreign currency transactions with non-residents, offshore banking units (OBUs), and local commercial banks, including branches of foreign banks, is tax-exempt while interest income on foreign currency denominated loans from residents other than OBUs or other depository banks under the expanded system is subject to 10% onshore income tax.

The reconciliation between the income tax expense at statutory tax rate and income tax expense presented in the statements of income.

	2021	2020
Income tax expense at statutory tax rate	₱99,180,990	₱63,027,499
Tax effects of:		
Nontaxable income	(59,514,936)	(50,262,748)
Nondeductible expenses	52,290,584	47,796,275
Interest income subjected to final tax	(16,847,999)	(4,471,645)
Changes in unrecognized deferred tax assets	57,995,028	51,218,195
Effect of change in tax rate	(10,589,325)	–
	₱122,514,342	₱107,307,576

Net deferred tax asset is recognized as follows:

	2021	2020
Through:		
Profit or loss	₱22,994,539	₱81,477,880
Other comprehensive income	(3,247,246)	(5,524,192)
	₱19,747,293	₱75,953,688

Movements of net deferred tax benefit (expense) are recognized as follows:

	2021	2020
Through:		
Profit or loss	₱58,483,342	(₱47,599,104)
Other comprehensive income	(2,276,946)	185,401
	₱56,206,396	(₱47,413,703)

Deferred tax assets and liabilities consist of:

	2021	2020
Deferred tax assets on:		
Allowance for credit and impairment losses	₱37,854,438	₱45,425,325
Allowance for impairment losses on assets held for sale	1,917,104	8,918,638
Cumulative unrealized losses on foreclosure of acquired assets	9,552,535	7,369,553
Excess of amortization of ROU assets and interest expense on lease liabilities over lease payments	5,670,462	7,362,338
Unearned interest income on modification loss	-	50,802,026
	54,994,539	119,877,880
Deferred tax liabilities on:		
Fair value adjustment on branch licenses acquired in business combination	(32,000,000)	(38,400,000)
Cumulative rereasurement gains on retirement liability	(3,247,246)	(5,524,192)
	(35,247,246)	(43,924,192)
Net deferred tax assets	₱19,747,293	₱75,953,688

As at December 31, 2021 and 2020, the Bank has not recognized deferred tax assets relating to the following deductible temporary differences:

	2021	2020
Allowance for credit and impairment losses	₱774,611,295	₱688,327,523
Retirement liability	64,520,929	64,428,935
Unamortized past service cost	29,781,398	33,147,862
NOLCO	22,830,735	16,756,016
Excess of MCIT over RCIT	18,383	18,383
	₱891,762,740	₱802,678,719

Management assessed that it is not probable that sufficient future taxable profit will be available to allow the unrecognized deferred tax assets to be utilized.

The Bank's excess MCIT over RCIT and NOLCO are related to the FCDU.

Excess MCIT over RCIT incurred by FCDU amounting to ₱18,383 in 2020 can be applied against regular income tax due until 2023.

Details of NOLCO are as follows:

Year Incurred	Beginning Balance	Incurred	Ending Balance	Valid Until
2021	₱-	₱6,074,719	₱6,074,719	2026
2020	16,756,016	-	16,756,016	2025
	₱16,756,016	₱6,074,719	₱22,830,735	

Pursuant to the RA No. 11494, *Bayanihan Recover as One Act*, and Revenue Regulations No. 25-2020, entities which incurred net operating loss for taxable years 2020 and 2021 shall be allowed to carry over the same as a deduction from gross income for the next five consecutive taxable years immediately following the year of such loss.

22. Capital Stock

This account consists of:

	Number of Shares		Amount	
	2021	2020	2021	2020
Authorized - ₱10 par value				
Perpetual preferred stock	100,000,000	100,000,000	₱1,000,000,000	₱1,000,000,000
Common stock	300,000,000	300,000,000	3,000,000,000	3,000,000,000
Issued and outstanding:				
Perpetual preferred stock				
Balance at beginning and end of year	30,000,000	30,000,000	₱300,000,000	₱300,000,000
Common stock				
Balance at beginning of year	217,000,000	207,000,000	2,170,000,000	₱2,070,000,000
Issuances	–	10,000,000	–	100,000,000
Balance at end of year	217,000,000	217,000,000	2,170,000,000	₱2,170,000,000

The perpetual preferred stock, which has an annual dividend rate of 4.375%, is cumulative and has no voting rights. As at December 31, 2021 and 2020, cumulative preference dividends amounted to ₱99.2 million and ₱86.1 million, respectively.

23. Related Party Transactions and Balances

In the ordinary course of business, the Bank enters into loan and other transactions with its related parties and with certain DOSRI. Under the Bank's policy, these loans and other transactions are made substantially on the same terms as with other individuals and businesses of comparable risks.

The significant transactions and account balances with respect to related parties that are included in the financial statements follow:

Nature of Transactions	2021		2020	
	Transactions during the Year	Outstanding Balances	Transactions during the Year	Outstanding Balances
Key Management Personnel				
Loans and receivables	₱–	₱4,894,073	₱3,205,000	₱8,145,256
Interest income	527,633	–	524,402	–
Deposit liabilities	29,540,436	13,457,803	5,198,704	6,371,841
Interest expense	14,824	–	2,786	–
Accounts receivable	6,441,247	32,353,474	5,912,938	34,339,932
Subsidiaries of the Parent Company				
Loans and receivables	810,500,000	710,730,632	823,000,000	890,499,201
Accrued interest income	32,649,795	9,356,597	7,990,657	11,803,932
Deposit liabilities	2,667,135,360	27,819,016	2,854,099,943	11,081,489
Accrued interest expense	92,467	–	42,371	–
Unsecured subordinated debt	–	1,300,000,000	300,000,000	1,300,000,000
Interest expense	–	71,250,000	–	57,831,250
Trust fee	1,784,067	682,129	1,989,157	–

(Forward)

Nature of Transactions	2021		2020	
	Transactions during the Year	Outstanding Balances	Transactions during the Year	Outstanding Balances
Lease liabilities	₱8,991,406	₱24,657,565	₱28,968,976	₱33,732,063
Interest expense	1,155,576	–	1,325,908	–
ROU assets	12,162,450	21,569,613	28,968,976	33,648,971
Amortization	8,539,686	–	8,377,537	–
Parent Company				
Deposit liabilities	134,884,638	–	30,363,995	–
Interest expense	4,209	–	2,027	–
Stockholders				
Deposit liabilities	304,951,642	23,797,047	84,825,582	2,851,317
Accrued interest expense	266,415	–	8,198	–
Other Related Parties				
Loans and receivables	1,254,784,281	1,554,763,789	1,035,236,300	1,238,381,402
Interest income	66,125,588	21,753,671	45,496,529	19,519,898
Deposit liabilities	9,887,061	5,594,411	386,633,242	4,162,264
Accrued interest expense	2,595	–	3,421	–

Terms and Conditions

Loans and receivables are secured by chattel mortgages, deposits and real estate properties, having terms ranging from one to 18 years, and bearing interests from 5.00% to 10.68% in 2021 and 1.50% to 10.80% in 2020. Allowance for credit and impairment losses on receivables from related parties amounted to ₱9.5 million and ₱4.6 million as at December 31, 2021 and 2020, respectively.

Accounts receivable include receivables from officers relating to the car lease amounting to ₱32.4 million and ₱34.3 million as at December 31, 2021 and 2020, respectively (see Note 8). Prepaid expenses relating to the employee car lease amounted to ₱17.6 million and ₱20.4 million as at December 31, 2021 and 2020, respectively.

Deposits have interest ranging from 0.13 % to 1.5% for 2021 and 0.25% to 1.00% 2020.

Unsecured subordinated debt is a transaction with the the Trust Unit of the Bank, under the supervision of the Trust Committee (see Note 15).

Trust fees pertain to fees charged for trust operations. These are included under “Other expenses” in the statements of income.

Lease liabilities, ROU assets and rent expense pertain to leases of branch premises and ATM.

Compensation of key management personnel included under “Compensation and fringe benefits” in the statements of income follows:

	2021	2020
Short-term employee benefits	₱90,065,712	₱88,837,618
Post-employment retirement benefits	758,948	2,967,658
	₱90,824,660	₱91,805,276

Transactions with Retirement Plan

The retirement plan of the Bank is considered as a related party. The retirement plan is in the form of a trust administered by the Trust Unit under the supervision of the Retirement Fund Committee. The values of the assets of the fund are as follows (see Note 19):

	2021	2020
Investments in:		
Unit investment trust fund	₱1,505,348	₱53,528,264
Saving deposits	17,148	–
Debt instruments	104,424,744	36,271,445
Equity instruments	4,514,112	4,384,800
	₱110,461,352	₱94,184,509

24. Trust Operations

On May 21, 2008, the Bank was granted a license by the BSP to conduct its trust operations. The Bank started its trust operations on June 2, 2008.

Securities and other resources held by the Bank in fiduciary or agency capacity for its customers are not included in the accompanying statements of financial position since these are not assets of the Bank. Total assets held by the Bank's Trust Group amounted to ₱7,057.5 million and ₱8,201.7 million as at December 31, 2021 and 2020, respectively.

In compliance with current banking regulations relative to the Bank's trust operations, government securities included under financial assets at FVOCI with a total face value of ₱87.0 million as at December 31, 2021 and 2020, are deposited with the BSP. In addition, 10% of the Bank's net income realized from its trust operations is appropriated to surplus reserve until such reserve for trust operations amounts to 20% of the Bank's regulatory capital.

25. Commitments and Contingencies

In the normal course of the Bank's operations, there are some outstanding commitments and contingencies such as guarantees and commitments to extend credit, which are not reflected in the financial statements. The Bank does not anticipate significant losses as a result of these transactions.

As at December 31, 2021 and 2020, the Bank is involved in various legal proceedings relating to uncollected loans and acquired properties. Based on the opinion of its legal counsels, the Bank is in a good position to secure favorable judgment in most of these cases. Management therefore believes that the outcome of these proceedings will not have material adverse effect on the financial position and performance of the Bank.

The following is a summary of the commitments and contingencies at their equivalent contractual amounts:

	2021	2020
Investment management account	₱6,775,187,394	₱7,938,834,880
Spot exchange	550,879,978	193,525,029
Trust bank accounts	282,333,727	262,853,898
Derivatives	178,496,500	72,034,500
Outstanding guarantees issued - others	16,982,153	15,871,235
Sight/usance domestic letters of credit (LC)	9,846,889	27,006,905
Inward bills for collection	7,645,421	12,463,903
Sight/usance foreign LC	504,890	952,776
Items held for safekeeping	43,654	50,789
Items held as collateral	20,199	20,989
Domestic LC	-	7,000,000
Foreign LC	-	3,165,402
Late payment deposit/payment received	-	1,565,024

26. Supplementary Information Required under the BSP Circular No. 1074, Series of 2020, Amendments to Regulations on Financial Audit of Banks

The following supplementary information is required by Appendix 55 – Disclosure Requirements to the Audited Financial Statements to Section 174 of the Manual of Regulations for Banks (MORB) of the BSP, issued through the BSP Circular No. 1074.

A. Financial Performance Indicators

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

	2021	2020
Return on average equity	7.85%	3.19%
Return on average assets	0.64%	0.24%
Net interest margin on average earning assets	4.67%	5.60%

B. Details of Loans

The following table shows information relating to receivables from customers, gross of unearned discounts and capitalized interests, by collateral.

	2021		2020	
	Amount	%	Amount	%
Secured by:				
Chattel mortgage	₱5,301,468,466	17.07%	₱8,868,781,478	28.17%
Real estate mortgage	7,907,852,268	25.47%	6,265,427,177	19.90%
Deposits	1,078,797,500	3.47%	1,715,761,271	5.45%
Others	35,502,240	0.11%	52,040,048	0.17%
	14,323,620,474	46.13%	16,902,009,974	53.69%
Unsecured	16,729,379,437	53.87%	14,581,370,466	46.31%
	₱31,052,999,911	100.00%	₱31,483,380,440	100.00%

As at December 31, 2021 and 2020, information on the concentration of credit, gross of unearned discounts and capitalized interests, as to industry follows:

	2021		2020	
	Amount	%	Amount	%
Other community, social and personal activities	₱8,268,566,450	26.63%	₱13,148,734,632	41.76%
Wholesale and retail trade	6,260,856,772	20.16%	6,487,610,746	20.61%
Real estate	6,136,091,441	19.76%	4,766,435,861	15.14%
Manufacturing	3,337,762,053	10.75%	3,185,362,155	10.12%
Financial intermediaries	3,407,368,295	10.97%	2,532,642,370	8.04%
Transportation, storage and communication	2,447,117,509	7.88%	824,688,880	2.62%
Mining and quarrying	944,241,024	3.04%	153,654,532	0.49
Hotel and restaurants	153,057,500	0.49%	76,575,199	0.24
Agricultural, hunting and forestry	83,573,188	0.27%	25,336,085	0.08
Electricity, gas and water supply	9,164,330	0.03%	3,021,366	0.01
Construction	5,201,349	0.02%	279,318,614	0.89
	₱31,052,999,911	100.00%	₱ 31,483,380,440	100.00%

Exposures under the community, social and personal activities which exceeded the 30% concentration limit, as prescribed by the BSP, are mostly retail loan exposures which do not cover a specific industry. Hence, the Bank does not have a concentration of credit risk to particular industries as at December 31, 2021 and 2020.

NPL pertains to loan accounts even without any missed contractual payments, that are (a) deemed impaired under existing applicable accounting standards, (b) classified as doubtful or loss, (c) in litigation, and/or (d) there is evidence that full repayment of principal and interest is unlikely without foreclosure of collateral, in the case of secured accounts.

All other loan accounts, even if not considered impaired, should be considered non-performing if any contractual principal and/or interest are not paid for more than 90 days after contractual due date, or accrued interests for more than 90 days have been capitalized, refinanced, or delayed by agreement.

Details of the Bank's gross and net NPL follow:

	2021		2020	
	Amount	%	Amount	%
Gross	₱2,589,480,103	8.34%	₱2,063,557,707	6.37%
Net	1,799,156,244	5.80%	1,509,482,418	4.66%

As at December 31, 2021 and 2020, breakdown of the secured and unsecured NPL follows:

	2021	2020
Secured	₱1,353,509,928	₱797,996,866
Unsecured	1,235,970,174	1,265,560,841
	₱2,589,480,103	₱2,063,557,707

Status of of loans per product as at December 31, 2021 and 2020 are as follows:

	2021		
	Performing	NPL	Total
Corporate loans:			
Term loan	₱20,306,623,429	₱643,654,621	₱20,950,278,050
Bills discounted	48,652,294	110,182,467	158,834,761
Trust receipt	184,766,977	49,904,915	234,671,892
Others	412,681,485	42,615,151	455,296,636
	20,952,724,185	846,357,154	21,799,081,339
Consumer loans:			
Auto	4,016,781,946	994,559,856	5,011,341,802
Salary	136,643,804	463,668,329	600,312,133
Real estate	2,083,145,123	274,784,072	2,357,929,195
Contract to sell	1,191,018,833	-	1,191,018,833
Others	83,205,916	10,110,693	93,316,609
	7,510,795,622	1,743,122,950	9,253,918,572
	₱28,463,519,807	₱2,589,480,104	₱31,052,999,911

	2020		
	Performing	NPL	Total
Corporate loans:			
Term loan	₱17,118,807,721	₱441,904,621	₱17,560,712,342
Bills discounted	201,829,623	120,507,467	322,337,090
Trust receipt	224,449,584	70,637,059	295,086,643
Others	431,396,466	42,615,150	474,011,616
	17,976,483,394	675,664,297	18,652,147,691
Consumer loans:			
Auto	7,864,494,886	727,680,866	8,592,175,752
Salary	355,804,044	400,884,825	756,688,869
Real estate	1,936,583,529	240,933,433	2,177,516,962
Contract to sell	1,286,456,880	18,394,286	1,304,851,166
	11,443,339,339	1,387,893,410	12,831,232,749
	₱29,419,822,733	₱2,063,557,707	₱31,483,380,440

Restructured loans, which do not meet the requirements to be treated as performing receivables, are considered as NPL. Restructured loans amounted to ₱870.4 million and ₱652.1 million as at December 31, 2021 and 2020, respectively. Interest income on restructured receivables amounted to ₱38.7million and ₱2.0 million in 2021 and 2020, respectively.

C. DOSRI/Related Party Loans

The amount of individual loans to DOSRI, of which 70% must be secured, should not exceed the amount of their respective deposits and book value of their respective investments in the Bank. These limits do not apply to (a) loans and other credit accommodations secured by assets considered as non-risk as defined in the regulations; (b) loans and other credit accommodations in the form of fringe benefits; (c) loans and other credit accommodation extended by a Coop Bank to its cooperative shareholders; and (d) portion of loans and other credit accommodations covered by guarantees of the International Finance Corporation or the Asian Development Bank.

Moreover, the total outstanding loans to DOSRI, of which 70% must be secured, should not exceed 15% of the total loan portfolio of the Bank or 100% of net worth whichever is lower. These limits do not apply to (a) loans and other credit accommodations secured by assets considered as non-risk as defined in the regulations; (b) qualified credit accommodations to a corporate stockholder; (c) credit accommodations to government-owned or controlled corporations where any director, officer or stockholder of the Bank is not a representative with proprietary interest of such corporation; (d) loans and other credit accommodations to officers in the form of fringe benefits granted in accordance with existing regulations; (e) loans and other credit accommodation extended by a Coop Bank to its cooperative shareholders; and (f) portion of loans and other credit accommodations covered by guarantees of the International Finance Corporation or the Asian Development Bank.

On the other hand, the total outstanding loans to all of the Bank's subsidiaries and affiliates should not exceed 20% of the net worth of the Bank. These subsidiaries and affiliates are not related interest of any of the director, officer, and/or stockholder of the Bank.

The following table shows information relating to DOSRI and related party loans:

	DOSRI		Related Parties	
	2021	2020	2021	2020
Total outstanding DOSRI/related party loans	₱710,730,632	₱890,499,201	₱1,559,657,862	₱1,246,526,658
Percent of DOSRI/related party loans to total loan portfolio	2.29%	2.83%	5.02%	3.96%
Percent of unsecured DOSRI/related party loans to total DOSRI/related party loans	19.49%	4.83%	3.66%	2.61%
Percent of past due DOSRI/related party loans to total DOSRI/related party loans	0.00%	0.00%	1.89%	0.00%
Percent of non-performing DOSRI/related party loans to total DOSRI/related party loans	0.00%	0.00%	1.89%	0.00%

Total interest income on DOSRI accounts amounted to ₱98.8 million and ₱53.5 million in 2021 and 2020, respectively.

The effects of the foregoing transactions are shown under the appropriate accounts in the financial statements.

D. Assets Pledged to Secure Liabilities

No asset is pledged by the Bank to secure outstanding liabilities as at December 31, 2021 and 2020.

Other required information are disclosed in Notes 4, 8, 22 and 25 to the financial statements.