Yuanta Savings Bank Philippines, Inc.

ANNUAL REPORT
AS OF DECEMBER 31, 2021

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I. CORPORATE POLICY

Corporate Profile

Yuanta Savings Bank Philippines, Inc. (the Bank) was formerly known as TongYang Savings Bank, Inc. It was formally registered in the Securities and Exchange Commission (SEC) on 1 August 1997 and was granted its thrift bank license by the Bangko Sentral ng Pilipinas on 24 October 1997. The Bank started its commercial operations on 5 November 1997.

On 5 August 2015, the Bank became a wholly owned subsidiary of Yuanta Commercial Bank in Taiwan, a company under the umbrella of Yuanta Financial Holdings (a publicly listed in Taiwan) due to its acquisition of the 100% equity shares of the Bank from Yuanta Securities Korea Co., Ltd (formerly: TONGYANG Securities, Inc.).

On 18 July 2016, the SEC approved the change of its name from TongYang Savings Bank, Inc. to Yuanta Savings Bank Philippines, Inc.

To further expand its banking operations, the Bangko Sentral ng Pilipinas granted the Bank its Foreign Currency Deposit Unit (FCDU) License on 14 June 2007 giving the Bank the authority to accept foreign currency deposits.

The Bank caters traditional products and services such as deposits, loans, remittance, and foreign exchange. Its existing business model focuses on both corporate and retail banking for its lending and deposit operation.

It offers banking services not only to Filipinos but as well as to foreigners such as Taiwanese and Koreans residing in Metro Manila and nearby provinces. Its existing parent Company is one of best managed bank in Taiwan. Subsequently, the expertise of its parent company in the marketing and risk management system can be relayed to the Bank with the objectives of providing value to its stakeholders and customers.

Vision

Being part of the Yuanta Financial Holdings group in Taiwan, Yuanta Savings Bank Philippines adopts the core values of the conglomerate and is aspired to become a mid-tiered thrift bank in the Philippines in terms of asset scale through sound risk management and operational efficiency, serving primarily Filipinos, Koreans, and Taiwanese customers, driven by good corporate governance, integrity, professionalism and excellent customer service.

Mission

To become a mid-tiered thrift bank in the Philippines and to create value for our clients, employees, and shareholders by:

1. Providing a broad range of excellent and value-added financial products and services to

our customers;
2. Creating an environment of hardworking, competent, highly motivated and honest individuals by providing excellent career opportunities and professional development;
3. Maximizing shareholders value, taking advantages of its market niche to assist its stakeholders in creating wealth and achieving their financial dreams.

Corporate Values

1. Seize opportunities and build client wealth
2. Enhance performance and promote employee welfare
3. Create value and increase shareholders return
4. Encourage teamwork and discipline in achieving our goals

II. CORPORATE INFORMATION

a. Ownership Structure

The Bank has an authorized capital stock of PHP3,000,000,000.00 of which PHP2,400,000,000.00 is subscribed and paid up. Par value per share is PHP1.00.

As of 31 December 2021, the following is the distribution of the subscribed and paid-up capital stocks:

Name	Nationality	Amt. Subscribed/ % of Stockholdings	Voting Status
Yuanta Commercial Bank Co., Ltd.	Taiwanese	P2,399,999,995.00/ 99.99%	Voting shares
Jin-Tang Wu	Taiwanese	1.00	Voting share
Regina V. Saga	Filipino	1.00	Voting share
Arturo E. Manuel Jr.	Filipino	1.00	Voting share
Celia Mojica Escareal-Sandejas	Filipino	1.00	Voting share
Senen L. Matoto	Filipino	1.00	Voting share
TOTAL		P2,400,000,000.00	

b. Organizational Structure

i. Board of Directors, Executive Officer, and Corporate Officers

Jin-Tang Wu	-	Chairman of the Board
Regina V. Saga	-	Executive Director / President and CEO
Arturo E. Manuel Jr.	-	Independent Director
Celia Mojica Escareal-Sandejas	-	Independent Director
Senen L. Matoto	-	Independent Director
Romel Barrera	-	Corporate Secretary
Belen E. Asuncion	-	Treasurer

Michael B. Samson/	-	Acting Chief Compliance Officer
Ronald T. Verzosa	-	Internal Auditor

ii. Department Heads

Morena V. Abadilla	-	Branch Banking Department Head
Belen E. Asuncion	-	Head, Treasury Dept.
Michael B. Samson	-	Acting Chief Compliance Officer
Edmond J. Mallari	-	OIC, Collection Dept.
Roslyn L. Agustin	-	Head, Loans and Credit Dept.
Ronald T. Verzosa	-	Internal Audit Head
Chona G. Boyles	-	Head, HR and Admin Dept./ Acting Bank Security Officer
Carla Jean L. Pinili	-	Head of Information Technology Dept.
Romel Barrera	-	Head, Legal Dept.
Mark Jason Tan	-	OIC, Accounting Department
Melody Delos Santos	-	OIC, Marketing Dept.
Frederick Labog[1/]	-	Chief Risk Officer
Alwin Ungson[2/]	-	Chief Information Security Officer/Data Protection Officer

Each Department Head is directly reporting to the Bank's President and CEO, except for Internal Audit Head, Chief Compliance Officer, and Chief Risk Officer who are functionally reporting to the Audit Committee/Board of Directors and administratively to the President and CEO.

1/ - Resigned effective on 06 May 2022.
3/ - Appointed as Chief Information Security Officer/Data Protection Officer effective on 01 June 2022.

iii. Manpower Composition

Total Number of Employees[1/]	-	54
Officers	-	14
Rank and File	-	40

1/- As of 31 December 2021

c. Products and Services

Deposit Products
Demand Deposit
Savings Account (Peso and US Dollar)
Special Savings Account (SSA) – Regular SSA (Peso and US Dollar)

Consumer Loans
Personal loan Secured
Condominium Loan

Commercial Loans
Corporate Loan
Credit Line
SME Loan

Other Services
Payroll Services
Automated Teller Machine (ATM)
Overseas and Local Remittance
US Dollar-Peso Exchanges

d. Bank Directory and Website

Head Office
Ground Floor, Chatham House Building,
116 Valero corner Rufino Streets, Salcedo Village, Makati City
Tel. No. 8845 3838

Bank Website
http://www.yuanta.com.ph/

III. FINANCIAL HIGHLIGHTS

Amounts in Million PHP	Consolidated		Inc/(Dec)
	2021	**2020**	
Profitability			
Total Net Interest Income	83.6	96.2	(12.6)
Total Non-Interest Income	14.1	9.5	4.6
Total Non-Interest Expense	135.1	149.1	(14.0)
Pre-Provision Profit (Loss)	(37.4)	(43.4)	6.0
Allowance for Credit Losses	(1.1)	11.1	(12.2)
Net Loss	(55.1)	(65.5)	10.4
Selected Balance Sheet Data			
Liquid Assets	2,528	2,773	(245)
Gross Loans	364	489	(125)
Total Assets	3,050	3,420	(370)
Deposits	925	1,204	(279)
Total Equity	2,093	970	1,123
Selected Ratios			

Capital Adequacy Ratio	145.44%	126.98%	18.46%
Non-Performing Loans Ratio	9.95%	1.85%	8.10%
Return on average equity	-3.60%	-6.56%	2.96%
Return on average assets	-1.70%	-1.77%	0.07%
Others			
Cash Dividend Declared	-	-	-
Total Headcount	54	59	(5)
Officers	14	14	-
Staff	40	45	(5)

The Bank's net loss for the year decreased by P10.4M mainly due to decreased of non-interest expense and allowance for credit losses amounting to P14.0M and P12.2M, respectively. Meanwhile, net interest income decreased by P12.6M due to decreased in the Bank's liquid assets by P245M and gross loans by P125M caused by the dropped in the Bank's deposit liabilities due to the pandemic and the ongoing transfer of the existing Philippine Retirement Authority (PRA) Special Savings Account to other banks. On 14 May 2021, the Bank was de-accredited with PRA for its Special Resident Retiree's Visa (SRRV) program as part of the Bank's strategic objectives to reduced its existing cost of funds for the US dollar deposits.

For the year 2021, the Bank reported a total interest income of P84.2M, interest expense of P0.6M, and a net interest income of P83.6M. During the said period, the reported total other income was P14.1M, while the operating expenses & provision for impairment losses was P134M.

On 09 December 2021, the Securities and Exchange Commission (SEC) approved the increase in authorized capital stock of the Bank from P1.2 billion divided into 1.2 billion shares to P3.0 billion divided into 3.0 billion shares with a par value of P1 per share. Out of the 1.8 billion shares representing increase in the authorized capital stock of the Bank, the amount of Php1.2 billion has been subscribed and actually paid in cash resulting to the increased in the Bank's equity by Php1.123 billion from 2020 to 2021.

The Bank has maintained its strong capital position. Its solo basis capital adequacy ratio (CAR) and Tier 1 ratio were 145.44% and 145.22% as of 31 December 2021 respectively, which are significantly higher than the required 10%. Total qualifying capital was P2,070.212M. This comprised of P2,067.039M net tier 1 capital and P3.173M net tier 2 capital (pertains to general loan loss provision and reduced by the net unrealized gains on available for sale equity securities purchased, subject to a 55% discount)

Net tier 1 capital comprised of the following:

Tier 1 Capital	**Amount (In Million PHP)**
Paid up common stock	2,400.000
Additional paid-in capital	9.000
Retained earnings and undivided profits	(332.748)
Sub-total	**2,076.252**
Deductions from Core Tier 1 Capital	
Net unrealized losses on available for sale equity securities purchased	0.099
Total outstanding unsecured credit accommodations, both direct and indirect, to DOSRI, net of allowance for credit losses	0.178
Deferred tax asset, net of deferred tax liability	8.936
Total Deductions	**9,213**
Total Core Tier 1 Capital	**2,067.039**

The Bank's credit risk-weighted asset was P1,256.000M while its operational risk-weighted asset was P167.416M (computed using the Basic Indicator Approach), with minimum capital requirements of P125.600M and P16.742M, respectively (computed based on the required 10% of the total credit and operational risk-weighted assets). No market risk weighted assets and market risk capital requirements were computed as of December 31, 2021.

The year 2021 was quite tough due to the ongoing COVID-19 Pandemic but the Bank is still optimistic that it will be able to generate profits for the next two to three years. With the re-launch its condominium loan product in 2021 and given the improvements in the Bank's capitalization, operational efficiency, and the re-opening of economic activities in the Philippines, the Bank is highly positive that it will be more ready to embrace business opportunities and face uncertainties so as to improve its financial performance for the succeeding years.

IV. CHAIRMAN'S MESSAGE

Striving to Get Back to Normal

The year 2021 was the second consecutive year significantly impacted by the COVID-19 pandemic. Yuanta Savings Bank (Philippines) nevertheless has striven hard to get back to normal and coexist with the virus. We have paid attention to the impact of COVID-19 on the society and customers, and given assistance and mitigation from all angles, so that all can live normal lives as much as possible.

Geopolitical volatilities have caused concerns for inflation and interest rate escalation. As a result, investment and lending are even more uncertain. However, banking is a long-term mission. We have continued to base our operations on sustainability, not only to strive to get back to normal, but also to outlast all hardships.

Furthermore, despite of COVID-19 and year of lockdown and restrictions, we are still dedicated to enhancing our care for our employees and fair treatment of customers in order to continue our sustainable operation for years to come.

In summary, 2021 was another year of great uncertainty. We nonetheless have demonstrated we are committed to maintaining the highest standards of excellence in financial services based on sustainable growth and development. We enter 2022 coexisting with the virus and striving to get back to normal.

Allen Wu
Chairman

V. PRESIDENT'S REPORT

Dear shareholders and other stakeholders,

The world's economy in 2021 was still facing headwinds due to new variants of the COVID-19 virus and geo-political tensions. However, the Bank is optimistic that the economy will start to recover in 2022 due to robust vaccine rollout in several countries, including the Philippines, allowing further economic reopening. Domestically, the ongoing "Build, Build, Build" projects of the government are expected to drive the country's economic recovery and will result into a more efficient delivery of goods and services once the projects are completed and provide further foreign investment opportunities.

The Bank's total resources decreased by P370M, from P3.420B in 2020 to P3.050B in 2021, mainly due to the decrease in deposit liabilities by P279M, which was attributable to the ongoing COVID-19 pandemic and the planned transfer of the Philippines Retirement Authority (PRA) accounts to other accredited banks after terminating our Memorandum of Agreement with the PRA as part of the Bank's strategic move to ensure efficient use of funding.

Despite the pandemic and corresponding restrictions imposed in 2021, the Bank was still committed and able to provide continuous services to its customers, focusing on the welfare and safety of its customers and employees and ensuring financial soundness in times of crisis.

With the re-launch of its condominium loan product in 2021 and through a more proactive utilization of existing funds for investment in government securities and corporate bonds, the Bank was able to generate a new profit stream while awaiting the loan volume to pick up.

In addition, the Bank has concentrated its efforts in enhancing its operational efficiency, risk management and compliance systems in order to remain resilient in the coming years. The Bank has recently completed the automation of its Financial Reporting Package (FRP) reports for submission to the BSP. The automation of other regulatory reports is currently on-going. These initiatives will ensure the accuracy and timeliness of the submission of reports to regulators.

On December 9, 2021, the SEC approved the Bank's application for the increase in authorized capital stock from P1.2B to P3.0B, thereby increasing its paid-up capital stock from P1.2B in 2020 to P2.4B in 2021, further strengthening its capital adequacy.

Given the improvements in the Bank's capitalization, operational efficiency, and the re-opening of economic activities in the Philippines, the Bank is highly positive that it will be more ready to embrace business opportunities and face uncertainties so as to improve its financial performance for the succeeding years.

Regina V. Saga
President and CEO

VI. CORPORATE GOVERNANCE

a. Overall Governance Framework

The business and operations of the Bank shall be conducted in accordance with the principles and best practices of good corporate governance, and exercising accountability, fairness and transparency across all operations and dealings. The Board of Directors, Management and staff members of the Bank commit themselves to these principles and policies, and acknowledge that the same will guide the Bank in attaining its corporate objectives.

The objectives of the Bank's corporate governance are as follows:

- Promoting appropriate ethics and values within the organization;
- Ensuring effective organizational performance management and accountability;
- Communicating risk and control information to appropriate areas of the organization; and
- Coordinating the activities of and communicating information among the board, external and internal auditors, and management.

The Board of Directors and shareholders, management and employees believe that corporate governance is a necessary component of sound strategic business management and for long-term shareholder value. The Board of Directors believes that compliance with the principles of good governance emanates at the Board level. The Board considers it as their primary responsibility to foster the long-term success of the Bank and secure its sustained competitiveness in a manner consistent with the fiduciary responsibility, which it shall exercise in the best interest of the Bank and its shareholders. The Bank has formulated the following policies and procedures to ensure observance of good corporate governance: (a) corporate governance manual (b) policy on related party transactions (c) guidelines on the prevention of conflict of interest and unsafe and unsound business practices, (d) financial consumer protection manual, (e) whistle blowing policy, and (f) Sustainable Finance Framework,

b. Selection Process for the Board of Directors and Senior Management

Cognizant that a Director and Senior Management is a position of trust and confidence, the Bank adheres to a selection process that ensures a mix of competent individuals at the controls of the Bank. The Director and Senior Management must be fit and proper for the said position with consideration on the following matters: integrity/probity, physical/mental fitness, competence, relevant education/financial literacy/training, possession of competencies relevant to the job, such as knowledge and experience, skills, diligence and independence of mind, and sufficiency of time to fully carry out responsibilities. The screening process is being conducted by the Bank's Board of Directors, Senior Management, and its parent company.

c. Board of Directors Responsibility

The Board of Directors leads in establishing the tone of good governance from the top and in setting corporate values, codes of conduct and other standards of appropriate behavior for itself, the Senior Management and Bank employees. It is primarily responsible for approving and overseeing the implementation of the Bank's strategic objectives, risk strategy, corporate governance and corporate values. The Board ensures expeditious resolution of compliance issues and consistent adoption of corporate governance policies and procedures. The Board is also responsible for monitoring and overseeing the performance of Senior Management.

The Board of Directors is responsible for approving the Bank's objectives and strategies, including long-term financial interests, its level of risk tolerance, and ability to manage risks effectively, and in overseeing management's implementation through a system for measuring performance against plans which includes the conduct of monthly business performance review and board meeting.

The Board also defines the Bank's corporate culture and values and establish a code of conduct and ethical standards in the Bank, and institutionalizes a system that will allow reporting of concerns or violations to an appropriate body though its present whistle blowing policy. The Board conducts the affairs of the Bank with a high degree of integrity and plays a leading role in establishing the Bank's corporate culture and values. It establishes, actively promotes, and communicates a culture of strong governance in the Bank, through adopted policies and displayed practices, ensuring that the Senior Management champion the desired values and conducts, and actively supports the Bank's Senior Management in its initiatives to enhance its corporate governance, risk management, and control processes through providing adequate resources and necessary trainings to its employees, and ensuring that the internal and external issues noted have been immediately acted upon.

The Chairperson of the Board of Directors provides leadership in the Board and ensure its effective functioning as a body, including maintaining a relationship of trust with members of the Board. He ensures that the meeting agenda focuses on strategic matters including discussion on risk appetites, and key governance concerns and ensures a sound decision making process.

d. Composition of the Board of Directors

The Bank has five (5) members on its Board of Directors as follows:

Name	Type of Directorship	No. of Years Served as Director	No. of Direct Shares Held	% of Direct Shares Held
Jin-Tang Wu	Non-Executive /Chairman	5	1	0.0000001%
Regina V. Saga	Executive Director	5	1	0.0000001%
Arturo E. Manuel Jr.	Ind. Director	3	1	0.0000001%
Senen L. Matoto	Ind. Director	3	1	0.0000001%
Celia Mojica	Ind. Director	2	1	0.0000001%

Escareal-Sandejas				

e. Profile of Directors and Executive Officer:

Name	Age	Nationality	Summary of Qualification
Jin-Tang Wu, Chairman	61	Taiwanese	**Educational Background:** Bachelor of Science in Chemistry (Soochow University, Taiwan), Master in Business Administration (University of Mississippi, USA)
			Work Experience: With more than 20 years of experience in banking and securities businesses. Present Executive Vice President of Yuanta Commercial Bank, Senior Vice President of Yuanta Financial Holdings Co., Ltd.
Regina V. Saga, Director/President and CEO	47	Filipino	**Educational Background:** LLB and LLM (University of Buckingham – UK), Master of Studies in Legal Research and obtained units in Doctor of Philosophy in law (University of Oxford - UK)
			Work Experience: With more than 15 years of experience in legal fields, banking, and financial services. Current President of Yuanta Savings Bank Philippines, Inc.
Senen L. Matoto Independent Director	74	Filipino	**Educational Background:** Bachelor of Science in Business Administration (University of the Philippines), Master in Business Administration (Asian Institute of Management)
			Work Experience: With more than 30 years of experience in banking, finance and investment management and a Fellow of Institute of Corporate Directors
Arturo E. Manuel Jr. Independent Director	64	Filipino	**Educational Background:** AB-BSC Major in Management of Financial Institutions (De La Salle University), Strategic Business Economics (University of Asia and Pacific)
			Work Experience: With more than 30 years of experience in banking and management consultancy and a Fellow of Institute of Corporate Directors
Celia Mojica Escareal-Sandejas Independent Director	70	Filipino	**Educational Background:** BS Hotel & Restaurant Administration (University of the Philippines), Bachelor of Laws (Doctor of Jurisprudence) - University of the Philippines. Member of Integrated Bar of the Philippines
			Work Experience: With more than 30 years of experience in legal fields with specialization on Anti-Money Laundering Laws and Regulations

f. Board Level Committees

Since the Bank is currently categorized as simple or non-complex banks, only audit committee and related party transaction committee are the constituted board level committees.

Mr. Senen L. Matoto, Mr. Arturo E. Manuel Jr. and Atty. Celia Mojica Escareal-Sandejas are the members of the audit committee and related party transaction committee.

The audit committee is chaired by Mr. Senen L. Matoto. The audit committee oversees the Bank's financial reporting framework, monitors and evaluates the adequacy and effectiveness of the internal control system, oversee the internal and external audit function, oversees the implementation of corrective actions, investigates significant issues/concerns raised, and establishes a whistleblowing mechanism.

The related party transaction (RPT) committee is chaired by Mr. Arturo E. Manuel Jr. The RPT committee is in charge of the evaluation on an ongoing basis existing relation between and among businesses and counterparties to ensure that all related parties are continuously identified, related party transactions (RPTs) are monitored, and subsequent changes in relationships with counterparties are captured. This committee is also in charge of evaluating all material RPTs under the approving authority of the board of directors to ensure that these are not undertaken on more favourable economic terms.

g. Board and Board Level Committee Meetings

In 2021, a total of 13 Board meetings, 12 Audit Committee meetings, and 1 Related Party Transaction (RPT) Committee meeting were held. The attendance of the Board and Board level committee meetings were shown below:

Name of Directors	**Board** Number of Meetings Attended	% of Attendance	**Audit Committee** Number of Meetings Attended	% of Attendance	**RPT Committee** Number of Meetings Attended	%
Jin-Tang Wu	13	100%				
Regina V. Saga	13	100%				
Arturo E. Manuel Jr.	13	100%	11	92%	1	100%
Senen L. Matoto	13	100%	12	100%	1	100%
Celia Mojica Escareal-Sandejas	13	100%	12	100%	1	100%

h. Performance Assessment Program

The Bank conducts a semi-annual and annual performance appraisal for its Senior Management. The results of the established key performance indicators (KPI) for each department formed part of the Bank's performance appraisal system.

Likewise, the Board of Directors, Board level Committees, and various Management Committees conducts an annual self-assessment to ensure the effectiveness in carrying out of their respective functions. The results are reported to the Board of Directors as the basis for improvement moving forward.

i. Orientation and Education Program

The duties and responsibilities of the Board of Directors have been discussed and duly acknowledged by the concerned directors prior to his/her appointment. All directors are required to undergo a one-day training on corporate governance conducted by an institution duly accredited by the BSP.

The Bank ensures to conduct employee orientation program within 15 days upon boarding of the employees which includes discussion of the following matters: institutional overview, responsibilities of all employees, employment requirements, senior management, process of employee regularization, work-related tips, fringe benefit program, employees code of conduct and the corresponding sanction for its violation, bank products and services, anti-money laundering, data privacy, and information security awareness.

The Senior Management Committee (SRMANCOM) approved the Bank's annual training program. This includes in-house seminar on topics such as anti-money laundering, sound credit risk management, fraud risk and control awareness, information security, business continuity management, bank security, financial consumer protection, data privacy, signature verification, customer service, cash operation training, fair debt collection practices, problem solving and conflict resolution, and pandemic awareness and wellness seminar.

Specific external training program to enhance the knowledge of the concerned employee in their respective field is also in place.

The following are the trainings attended by the directors and executive management for the year 2021:

<u>Regina V. Saga, Director and President and CEO</u>

Title of Training	Conducted by	Date Taken
Capital Markets and Fixed Income Securities Course	Financial Executives Institute of the Philippines (FINEX) Academy	3 December 2021
Sound Credit Risk Management	Bankers Institute of the Philippines (Baiphil)	15 to 16 October 2021
The Philippines' FATF Journey: From Technical Compliance to Effectiveness	Association of Bank Compliance Officers, Inc. (ABCOMP)	27 September 2021
Targeted Financial Sanctions (TFS) Framework Implementation	Bangko Sentral ng Pilipinas (BSP)	15 September 2021

CTB-BSP Virtual Training Program on AML/CFT/ Laws, Rules and Regulations	Chamber of Thrift Banks (CTB)	28 May 2021
Money Laundering/Terrorist Financing (ML/TF) Risk Assessment System (MRAS) and Overview of the Results of the 3rd Sectoral Risk Assessment (SRA)	Bangko Sentral ng Pilipinas (BSP)	15 March 2021
The Business of Treasury: Banking Perspective	Ateneo De Manila University Graduate School of Business	20 February 2021, 27 February 2021, & 1 March 2021

Senen L. Matoto, Independent Director

Title of Training	Conducted by	Date Taken
2021 Annual Conference: Climate Change Mitigation and Green Finance	Asian Development Bank (ADB)	3 December 2021
Sales Governance	Institute of Corporate Directors (ICD)	26 November 2021
Future-Proofing Business with Sustainable Practices	Institute of Corporate Directors (ICD)	24 November 2021
8th PSE- SEC Corporate Governance Forum	Securities and Exchange Commission and Philippine Stock Exchange	19 November 2021
Discussion on World Economy	Management Association of the Philippines	17 to 19 November 2021
International CEO Web Conference	Management Association of the Philippines	16 November 2021
Double Your Valuation	Institute of Corporate Directors (ICD)	22 October 2021
Rise of Challenger Banks	Management Association of the Philippines	28 September 2021
The Philippines' FATF Journey: From Technical Compliance to Effectiveness	Association of Bank Compliance Officers, Inc. (ABCOMP)	27 September 2021
Distinguished Corporate Governance Speaker Series	Institute of Corporate Directors (ICD)	17 September 2021
Technology Governance for Directors	Institute of Corporate Directors (ICD)	16 August 2021
Mid-year Economic Briefing	Financial Executives Institute of the Philippines (FINEX)	13 August 2021
Corporate Governance in a Nutshell: What Effective Boards Focus on Before Everything Else	Institute of Corporate Directors (ICD)	23 July 2021

Revised Corporation Code	Financial Executives Institute of the Philippines (FINEX)	28 June 2021
CTB-BSP Virtual Training Program on AML/CFT/ Laws, Rules and Regulations	Chamber of Thrift Banks (CTB)	28 May 2021
Advanced Corporate Governance Training of Fintech Alliance	Institute of Corporate Directors (ICD)	14 May 2021
CREATE Law	Financial Executives Institute of the Philippines (FINEX)	29 March 2021

Arturo E. Manuel Jr. Independent Director

Title of Training	Conducted by	Date Taken
The Philippines' FATF Journey: From Technical Compliance to Effectiveness	Association of Bank Compliance Officers, Inc. (ABCOMP)	27 September 2021
Distinguished Corporate Governance Speaker Series	Institute of Corporate Directors - Zimbabwe	19 September 2021
Distinguished Corporate Governance Speaker Series	Institute of Corporate Directors - Malaysia	10 September 2021
Personal Governance	Institute of Corporate Directors (ICD)	27 August 2021
Corporate Governance in a Nutshell: What Effective Boards Focus on Before Everything Else	Institute of Corporate Directors (ICD)	23 July 2021
Complain, Explain, or Sanction? Latest Updates on Corporate Governance Provisions of the Revised Corporation Code	Financial Executives Institute of the Philippines (FINEX)	28 June 2021
AMLA Compliance in the Age of the Digital World	Institute of Corporate Directors (ICD)	17 June 2021
Governance that Speaks: ASEAN Corporate Governance Scorecard Orientation	Institute of Corporate Directors (ICD)	27 May 2021
Green Social Sustainable Bonds Series: Role of Financial Institutions in Supporting Sustainable Development	Asian Development Bank	24 May 2021
Finance for Directors Course	Institute of Corporate Directors (ICD)	20 May 2021

Risk Management in the Age of Covid-19	Institute of Corporate Directors (ICD)	14 May 2021
Distinguished Corporate Governance Speaker Series	Institute of Corporate Directors (ICD)	11, 18 & 25 March 2021

Celia Mojica Escareal-Sandejas Independent Director

Title of Training	Conducted by	Date Taken
Crypto's Evolution: Enforcement Risks, Asset Recovery and Best Practices	Fintelekt and American Bankers Association (ABA)	15 December 2021
The Philippines' FATF Journey: From Technical Compliance to Effectiveness	Association of Bank Compliance Officers, Inc. (ABCOMP)	27 September 2021
AML/CFT Webinar for Designated Non-Financial Businesses and Profession (DNFBPs)	Anti-Money Laundering Council	20 August 2021
Financial Analysis for Lawyers, Understanding Audited Financial Statements	IBP Makati City Chapter and Fortun Narvasa & Salazar	30 July 2021
Complain, Explain, or Sanction? Latest Updates on Corporate Governance Provisions of the Revised Corporation Code	Financial Executives Institute of the Philippines (FINEX)	28 June 2021
CTB-BSP Virtual Training Program on AML/CFT/ Laws, Rules and Regulations	Chamber of Thrift Banks (CTB)	28 May 2021
Supreme Court's Mandatory Continuing Legal Education	UP Institute of Administration of Justice, UP Law Center	18 to 21 May 2021
Green Social Sustainable Bonds Series: Role of Financial Institutions in Supporting Sustainable Development	Asian Development Bank	24 May 2021
Anti-Money Laundering/Countering Terrorism Financing (AML/CTF) webinar for Real Estate Stakeholders	Anti-Money Laundering Council	20 April 2021
Money Laundering and Terrorist Financing (ML/TF) Risk Assessment of Legal Persons and Beneficial Ownership (BO) Transparency Guidelines	Securities and Exchange Commission	12 March 2021

j. Retirement and Succession Policy

An employee may be retired upon reaching the retirement age of 60 years old or unless sooner offered by the Bank. The Bank offers retirement pay for its employees who have worked for at least five (5) consecutive years.

There is no retirement age set for the Bank's Board of Directors for as long as he/she is still fit and proper for the said position.

The Board of Directors shall be elected during annual meeting of stockholders and shall hold office for one (1) year and until their qualified successors are elected. There is no limit set for the term of the members of the Board, except in the case of Independent Directors who may only serve as such for a maximum cumulative term of nine (9) years. After which, the Independent Director shall be perpetually barred from serving as Independent Director in the Bank, but may continue to serve as regular Director. The nine (9) year maximum cumulative term for independent directors shall be reckoned from year 2012.

The Bank maintains a succession management plan for each department which is being updated at least every year or as needed, with primary consideration on the qualification, knowledge, skills, and experience of the employee.

k. Remuneration Policy

The Bank pays salaries commensurate to the individual's qualifications and experience, nature of the job, employee performance, role, and level of responsibilities and activities with reference to an approved salary scale.

The Bank ensures that its compensation package for non-officers or rank and file employees are linked to both performance and the Bank's obligation under the law.

The remuneration of the Executive Director, President and CEO, and its Department Head has been determined and approved by the Bank's Parent Company and Board of Directors.

The independent directors shall receive a reasonable per diem allowance for his/her attendance at each regular meeting actually attended in such reasonable amount as may from time to time be fixed and approved by at least a majority of the Board of Directors during its regular or special meeting. The Directors may also receive compensation other than per diems by the vote of the stockholders representing at least a majority of the outstanding capital stock at a regular or special stockholders' meeting. In no case shall the total yearly compensation of Directors, as such Directors, exceed ten (10%) percent of the net income before income tax of the Corporation during the preceding year.

l. Related Party Transaction

The Bank has a Board approved Related Party Transactions (RPT) Policy. Under the said Policy, the Bank may enter into related party transactions provided, that these are done on an arm's length basis. The Bank shall exercise appropriate oversight and implement effective control systems for managing said exposures as these may potentially lead to abuses that are disadvantageous to the Bank and its depositors, creditors, fiduciary clients, and other stakeholders.

The Bank has a board-level Related Party Transactions Committee whose main function includes evaluation on an ongoing basis, existing relations between and among businesses and counterparties to ensure that all related parties are continuously identified, RPTs are monitored, and subsequent changes in relationships with counterparties (from non-related to related and vice versa) are captured; evaluation of all material RPTs under the approving authority of the Board of Directors to ensure that these are not undertaken on more favorable economic terms and that no corporate or business resources of the bank are misappropriated or misapplied, to determine any potential reputational risk issues that may arise as a result of or in connection with the transactions; and to conduct periodic review and/or revision of RPT Policy to ensure its effectiveness and compliance with existing regulations. The Committee is composed of three (3) members of the Board of Directors, all are Independent Directors.

The Bank's RPT Policy captures a broader spectrum of transactions, covering not only those that give rise to credit and/or counterparty risks but also those that could pose material/special risk or potential abuse to the Bank and its stakeholders. Transactions that were entered into with an unrelated party that subsequently becomes a related party may be excluded from the limits and approval process required in Bank's RPT Policy, but still subject for evaluation to ensure that said transactions are still in an arm's length terms. However, any alteration to the terms and conditions, or increase in exposure level, related to these transactions after the non-related party becomes a related party shall subject the RPT to the requirements of the Bank's RPT policy.

The Management and Board of Directors shall ensure that RPTs are conducted in the regular course of business and not undertaken on more favourable economic terms (e.g., price, commissions, interest rates, fees, tenor, collateral requirement) to such related parties than similar transactions with non-related parties under similar circumstances. In this regard, an effective price discovery mechanism to ensure that transactions are engaged into at terms that promote the best interest of the Bank and its stakeholders shall be observed. The price discovery mechanism may include, but not limited to the following:

- Acquiring the services of an external expert;
- Opening the transaction to a bidding process. The minimum bid price shall be based on its market value;
- Publication of available property for sale;
- Determining the market value of the securities based on its market price;
- Conducting independent or internal appraisal as basis for the value of the personal and real properties. If the RPT transaction involves at least PHP3 Million pesos or if the property involved is not usual or a technical one such as machineries and equipment, independent appraisal is a must.

The Management and the Board shall also ensure the proper identification, prevention or management of potential or actual conflicts of interest which may arise. The members of the board, stockholders, and management shall disclose to the board whether they directly, indirectly or on behalf of third parties, have a financial interest in any transaction or matter affecting the Bank. Directors and officers with personal interest in the transaction shall abstain from the discussion, approval and management of such transaction or matter affecting the Bank.

All Bank officers and directors shall execute an Oath of Office to ensure proper identification, prevention or management of conflict of interest. All members of the Credit Committee shall also execute an Oath of Office to avoid conflict of interest in any loan transactions which they approved. The Bank's employee code of conduct also includes provisions for conflict of interest which incorporates the corresponding employee disciplinary action in case of violation.

The Bank did not enter into related party transactions from January 2021 to December 2021. There were no outstanding balances, including off-balance sheet commitments to related parties as of 31 December 2021.

m. Self-Assessment Functions

The Bank has an independent audit and compliance functions, through which the Bank's Board of Directors, Senior Management, and Stockholders may be provided with reasonable assurance that its risk management, control, governance, and compliance processes are effective, appropriate, and in compliance with the prescribed internal and external regulations.

The Board of Directors and Senior Management are responsible for promoting high ethical and integrity standards; establishing the appropriate culture that emphasizes, demonstrates and promotes the importance of internal control; and designing and implementing processes for the prevention and detection of fraud.

The internal audit function is being headed by the Internal Audit Head who is currently reporting to the Audit Committee and the Board, and has unrestricted access to all functions, records, property, and personnel, and have full and free access to the Audit Committee. Its main function is to provide independent, objective assurance and consulting services designed to add value and improve the Bank's operations. It helps the organization accomplish its objectives by bringing systematic and disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

The Bank's Board of Directors is ultimately responsible for ensuring that Senior Management establishes and maintains an adequate, effective, and efficient internal control framework commensurate with the size, risk profile and complexity of operations of the

Bank. The Board of Director ensures that the Bank's independent audit function has an appropriate stature and authority within the Bank and is provided with adequate resources to enable it to effectively carryout its assignments with objectivity.

Based on the results of the risk assessment, the internal audit function conducts periodic review of the effectiveness of the Bank's system and internal controls to assess consistency with the board-approved policies and procedures. The resulting audit reports, including exceptions or breaches in limits, are communicated directly to the Audit Committee on a monthly basis to ensure the timeliness, accuracy, and relevance of reporting systems and internal controls in general. The regular report includes: (a) Exception reporting; (b) The target date, action plan and the root cause of the exception noted; (c) The status and/or effectiveness of actions taken; (d) The critical operational risks facing, or potentially facing, the bank (e.g., as shown in KRIs and their trend data, changes in risk and control self-assessments, comments in audit/compliance review reports, etc.); and (e) Major risk events/loss experience, issues identified and intended remedial actions.
In addition to the traditional reliance on internal and third-party audit functions, the Board performs self-assessments on an annual basis to gauge performance which often lead to early identification of emerging or changing risks requiring policy changes and updates."

The Bank also has its compliance function headed by the Chief Compliance Officer who is directly reporting to the Audit Committee and the Board. Its main task is to oversee and coordinate the implementation of the Bank's compliance system, which includes the identification, monitoring and controlling of the Bank's business and compliance risk. It also has unrestricted access to all functions, records, property, and personnel and have full and free access to the Board.

The Bank has a robust compliance system focused on the enforcement of the Anti-Money Laundering Act (AMLA), Money Laundering and Terrorist Financing Prevention Program (MTPP), Compliance Manual, Corporate Governance Manual, Code of Conduct, and other regulatory requirements. The Bank has articulated in its MTPP the regulatory issuances such as guidelines and circulars on anti-money laundering (AML) and combating the financing of terrorism (CFT).

The Bank adheres to, among others, the KYC rules and customer due diligence requirements of the law and regulations from the start of customer relationship until its termination. Furthermore, the Bank takes note of bulletins and watch lists of individuals and entities engaged in illegal activities or terrorist-related activities. The watchlist files of Anti-Money Laundering Council (AMLC), and other international entities or organizations such as the Financial Action Task Force (FATF), Office of Foreign Assets Control (OFAC) of the U.S. Department of Treasury, and other agencies or organizations duly competent and recognized to create public watch lists are all incorporated in the Bank's AML system (Integral 360).

The Bank's Compliance Department is responsible for overseeing, coordinating, monitoring and ensuring compliance with existing laws, rules and regulations through the implementation of its compliance system in accordance with the requirements of the Bangko Sentral ng Pilipinas (BSP) and other regulatory agencies which include, among others, the identification and control of compliance risks, prudential reporting as well as compliance training.

The Bank's Audit Committee exercises oversight functions on the Bank's adherence to rules and regulations especially those issued by the Bangko Sentral ng Pilipinas (BSP), Securities and Exchange Commission (SEC), Philippine Deposit Insurance Corporation (PDIC), Anti-Money Laundering Council (AMLC), and other regulatory bodies and agencies. The Audit Committee also conducts oversight functions over the Bank's Anti-Money Laundering Committee (AMLCOM) through regular reporting of matters taken during its meetings. The AMLCOM review and decide on the disposition of AML/CFT issues referred by branches/business units (BUs).

The Compliance Department coordinates with regulators on their examinations and reports significant compliance issues and regulatory findings to Senior Management, Audit Committee, and the Board. The department is headed by a Chief Compliance Officer (CCO) who was appointed by the Board. The CCO reports directly to the Audit Committee and Board of Directors.

n. Dividend Policy

Dividends shall be declared and paid out of the unrestricted retained earnings which shall be payable in cash, property, or stock to all stockholders on the basis of outstanding stock held by them, as often and at such times as the Board of Directors may determine and in accordance with law and applicable rules and regulations, and results of the Bank's operation. Since the Bank incurred a loss for the year 2021, there was no dividend declared for the said year.

o. Corporate Social Responsibility

The Bank continuously provide banking services to its customers during the recent COVID-19 pandemic, at the same time put a high priority on COVID-19 prevention and safety of its customers and employees. It provides a shuttle service to its employees as a measure to prevent the spread of COVID-19 in the workplace.

On 27 October 2020, the Board approved the Bank's Sustainable Finance Framework, including its Transition Plan in compliance with BSP Circular 1085 with a view to implement the spirit of Corporate Social Responsibility into business planning and corporate operation, actively managing environmental and social risks and incorporating them into consideration for transaction decision-making through the framework and guidance of principles, and to promote values of Environment, Social and Governance in line with the international sustainable development trend, and to support the UN Sustainable Development Goals and fulfill the responsibilities of citizens of the world.

On 06 January 2022, the Board also approved the Bank's Environmental and Social Risk Management Policy in compliance with BSP Circular 1128. The said policy shall govern the integration of environmental and social (E&S) risks in the Bank's enterprise-wide risk management framework, particularly on credit and operational risks.

p. Consumer Protection Practices

The Bank value the right of its customer as a consumer of financial products and services. For this reason, the Bank aims to provide them with the highest level of satisfaction.

The Board and Senior Management are responsible for developing the Bank's consumer protection strategy and establishing an effective oversight over the Bank's consumer protection program.

The Board of Directors are responsible for approving and overseeing the implementation of the Bank's consumer protection policies as well as mechanism to ensure compliance with said policies, and for monitoring and overseeing the performance of Senior Management in managing the day-to-day consumer protection activities of the Bank. Likewise, Senior Management are responsible for the implementation of the consumer protection policies approved by the Board, overseeing the implementation of the Bank's consumer protection policies, as well as mechanism to ensure compliance with said policies.

The Bank's consumer protection risk management system form part of the corporate-wide risk management system which includes the following process.

a. Risk Identification

Each consumer assistance officer identifies the consumer protection risk inherent in its operations. These include both risks to the financial consumer and to the Bank. This procedure form part of the Bank's annual Risk and Control Self-Assessment (RCSA). There is also a separate RCSA for consumer protection.

b. Risk Measurement

The consumer protection risk identified is being measured in terms of its likelihood and impact based on the Bank's existing RCSA Guidelines.

c. Risk Monitoring and Control

The Bank records and monitors the disposition of complaints received from its customer for reporting to Senior Management and Board of Directors, which includes the necessary actions to resolve the case and to prevent its recurrence.

The Bank ensures to provide accessible, affordable, independent, fair, accountable, timely and efficient means of resolving customer complaints. The Bank has appointed consumer assistance officer for various units headed by the Head Consumer Assistance Officer. It has a Consumer Assistance Mechanism which is posted on the Bank's website and at its premises to guide customers on how they can file their respective complaints and how cases are resolved. The Bank classifies the customer complaints received as either simple or complex. In case of a simple complaint, immediate explanation or action will be rendered. A resolution must be achieved within a 7-day period. However, for complex complaint that needs assessment, verification, or investigation with third party intervention, the resolution thereof is targeted to be achieved within a 30-day period, unless further investigation is warranted.

VII. RISK MANAGEMENT FRAMEWORK

a. Overall Risk Management Culture and Philosophy

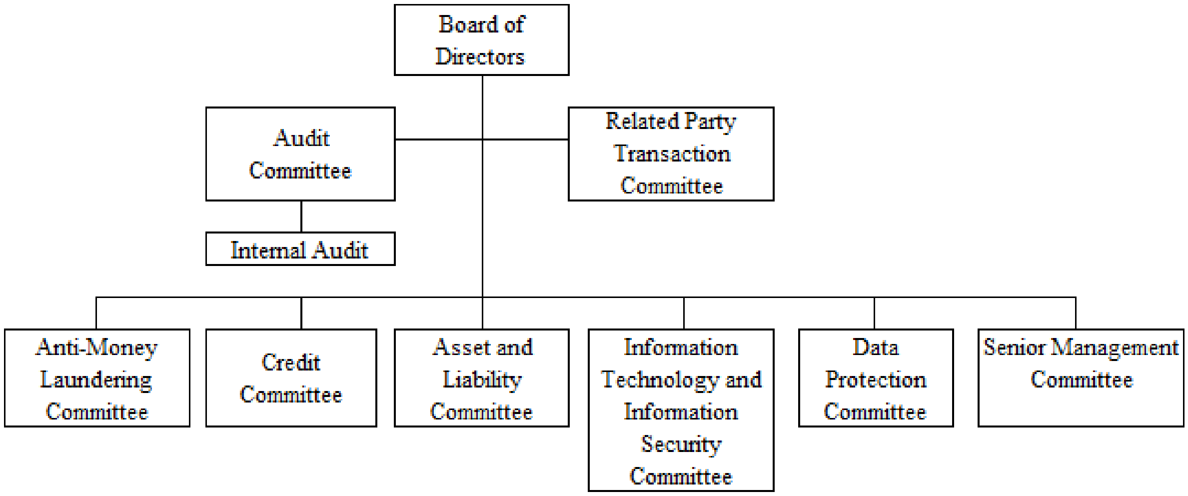
The underlying philosophy of the Bank's risk management system is that the Bank exists to provide value for its stakeholders. The Bank faces uncertainty, and the challenge for management is to determine how much uncertainty to accept as it strives to grow stakeholder value. Uncertainty presents both risk and opportunity, with the potential to erode or enhance value. The Bank's overall risk management objective is to effectively deal with uncertainty and associated risk and opportunities, with the ultimate objective of enhancing the capacity to build value.

The Bank's risk management system helps management to achieve its performance and profitability targets and prevent loss of resources. It helps to ensure effective reporting and compliance with laws and regulations, and helps avoid damage to the Bank's reputation and associated consequences. In essence, risk management system helps the Bank to get to achieve its goals while avoiding pitfalls and surprises along the way.

The Bank has established various risk management policies, limits, manual, and guidelines that lays down sound risk management practices and to guide the Bank's management and Board of Directors to understand, measure, monitor and control the risk assumed, adopt risk management practices whose sophistication and effectiveness are commensurate to the risk being monitored and controlled, and maintains capital commensurate with the risk exposure assumed.

b. Risk Governance Structure and Risk Management Process

The Bank's risk governance structure is shown below:



The Board is responsible for setting and monitoring the risk appetite for the Bank when pursuing its strategic objectives.

The Board and Senior Management of the Bank are ultimately responsible for the oversight of the Bank's risk management process. Effective Board and Senior Management oversight of the Bank's risk activities is critical to a sound risk management process. The Board is responsible for understanding the nature and the level of risks taken by the Bank and directly in-charge of the implementation of the risk management process which includes, among others, the development of various risk strategies and principles, control guidelines policies and procedures, implementation of risk measurement tools, monitoring of key risk indicators, and the imposition and monitoring of risk limits. Likewise, the Senior Management is responsible for ensuring that risks are adequately managed both on a long-term and day-to-day basis.

Currently, the Bank has two (2) board level committee as follows: (1) Audit Committee and Related Party Transaction (RPT) committee. The Audit Committee oversees the Bank's financial reporting framework, monitors and evaluates the adequacy and effectiveness of the internal control system, oversee the internal and external audit function, oversees the implementation of corrective actions, investigates significant issues/concerns raised, and establishes a whistleblowing mechanism. Meanwhile, the related party transaction (RPT) is in charge of the evaluation on an ongoing basis existing relation between and among businesses and counterparties to ensure that all related parties are continuously identified, related party transactions (RPTs) are monitored, and subsequent changes in relationships with counterparties are captured. This committee is also in charge of evaluating all material RPTs under the approving authority of the board of directors to ensure that these are not undertaken on more favourable economic terms and to properly monitor and manage the Bank's exposure to related party transaction risk.

Various management committees are also tasked to implement the risk culture that the Board sets as follows:

Committee Membership	Risk Area
Senior Management Committee	Strategic, Operational, Reputational, Legal, Environmental & Social Risks
Asset and Liability Committee	Liquidity & Market Risk
Credit Committee	Credit Risk
Information Technology and Information Security Committee	Information Technology and Information Security Risk
Data Protection Committee	Privacy Risk and Information Security Risk
Anti-Money Laundering Committee	Money Laundering / Terrorist Financing / Proliferation Financing Risks

The Senior Management Committee is an avenue in which the Department Heads interact with each other whereby their plans, issues, matters, status or activities are discussed on a regular basis, in order that the day-to-day functions of the different departments are monitored and reported to the Board as part of the latter's governance over the operations of the Bank.

The Asset and Liability Committee ensures the proper implementation of the Bank's liquidity and market risk management practices. These includes ensuring that the Bank is able to maintain a level of liquidity sufficient to meet its financial obligations in a timely manner and fulfil its legitimate funding needs, and uunderstands, measures, monitors and controls the Bank's liquidity and market risk exposure.

The Credit Committee implements the Bank's credit risk management policies and systems. It is responsible for establishing an appropriate credit risk environment, ensuring that the Bank is operating under a sound credit granting process, and maintaining appropriate credit administration, measurement, monitoring process and control over credit risk.

The Information Technology and Information Security Committee (ITCOM), together with the Board of Directors set the overall tone and strategic direction for the Bank's information technology and information security by providing leadership, effective information security governance and oversight. It leads in establishing an information security culture that regards security as an intrinsic part of the Bank's core business and operations. It oversees the Bank's information technology projects and development of an information security strategic plan to clearly articulate security strategies and objectives aligned with business plans.

The Anti-Money Laundering Committee is created to ensure that the Bank is protected against money laundering / terrorist financing / proliferation financing. It ensures effective implementation of the Bank's Money Laundering and Terrorist Financing Prevention Program approved by the Board, timely reporting of covered and suspicious transactions to the AMLC, and providing adequate oversight function on the Bank's AML compliance.

The Bank implemented the Three Lines of Defense model. The Business Lines and Support Units are the first line of defense in risk management, the Risk Management and Compliance Department are the second line of defense, and the Internal Audit Department is the third. Each of these three lines plays a distinct role within the Bank's risks governance framework.

The Business Lines and Support Units own the risks and are responsible for identifying, monitoring, and controlling them to stay within the Bank's risk appetite; and are responsible for promoting a culture of compliance and control.

The Compliance Department manages and monitors the implementation of the Bank's compliance risk management system designed to specifically identify and mitigate risks that may erode the franchise value of the Bank such as risks of legal or regulatory sanctions, material financial loss, or loss to reputation. Compliance risk management is also the responsibility and shared accountability of all personnel, officers, and the Board of Directors.

The Risk Management Department is responsible for overseeing the risk-taking activities across the Bank, as well as in evaluating whether these remain consistent with the Bank's risk-appetite and strategic direction. It ensures that the risk governance framework remain appropriate relative to the complexity of risk-taking activities of the Bank. It is also responsible for identifying, measuring, monitoring, and reporting risk on an enterprise-wide basis as part of the second line of defense.

Internal Audit Department provides independent objective assurance and consulting function established to examine, evaluate and improve the effectiveness of internal control, risk management and governance systems and processes of the Bank, which helps management and the Board of Directors in protecting the Bank and its reputation. It both assess and complement the Bank's operational management, risk management, compliance and other control function.

c. Risk Appetite, Strategies and Exposure

The Bank's risk appetite, strategies and exposures are summarized below:

Strategic Risk

The Bank recognizes the importance of embedding risk into strategy setting. Better understanding of risks and uncertainties provides a strong foundation in setting key assumptions for strategic planning and during the development of new products and services. The Board and Senior Management of the Bank are ultimately responsible for setting the

Bank’s strategies after evaluation of its threats and vulnerabilities, costs vs. potential benefits, its economic, political, social, and technological dimensions, complemented by an assessment of the Bank’s core competencies, strengths, and business opportunities in order to provide sound basis for the Bank’s strategic and business plans.

Operational Risk

Operational risk is the current and prospective risk to earnings or capital arising from fraud, error, and the inability to deliver products or services, maintain a competitive position, and manage information. Risk is inherent in efforts to gain strategic advantage, and in the failure to keep pace with changes in the financial services marketplace.

Operational risk is being managed for each product and service offered by the Bank. It is being observed during product development and delivery, operational processing, systems development, computing systems, complexity of products and services, and the internal control environment.

Bank’s exposure to operational risk is controlled by having an adequate and effective internal control to manage risk and to increase the likelihood that established objectives and goals will be achieved. Management regularly monitors its compliance with control policies and procedures and exposure to operational risk through ongoing management activities, separate evaluations (i.e. independent examination by Internal Auditor and/or Compliance Officer) or both. The Bank has created a Risk Management Department who will monitor and report the Bank’s operational risk exposure to Senior Management and the Board. The Bank also maintains an operational loss and customer complaints database in order to immediately address control lapses and weaknesses which resulted to losses or customer complaints.

An Annual Risk and Control Self Assessment (RCSA) is conducted by each department, in order to identify, assess and manage the Bank’s risk exposure. The Internal Audit Department validates the RCSA conducted by each department. The result of the RCSA is being discussed to the Senior Management and Board of Directors as part of their oversight function. Each department head is in charge in disseminating the results of the assessment with their employees. The Bank is also conducting risk and control seminar for all employees.

As of 31 December 2021, the Bank’s operational risk-weighted asset was P167.416 (computed using the Basic Indicator Approach).

Credit Risk

The Bank has maintained credit risk management system. Its credit risk strategy is aligned with the Bank’s profitability, deposits and loan portfolio growth targets, target customer, credit risk tolerance, and overall business goals. The Bank also considers its existing liquidity profile while granting loans to customer.

The following were performed by the Bank in order to manage credit risk:

- The Bank offers loan products to qualified individuals or business entities based on sound and prudent bank practices and in accordance with its existing policies.
- Extending loan facilities to qualified individuals or business entities, by taking into consideration the cash flow, character, capacity, collateral and financial condition of each borrower.
- For loans that are secured by collaterals, the Bank ensures that it can annotate its mortgage and therefore, protect its legal interest thereto.
- The Bank ensures compliance with internal single borrower's limit of (PHP500 million or 24% of the Bank's net worth whichever is lower, including group exposure).
- The Bank ensures that loans are approved by the Credit Committee (CRECOM) or Board of Directors based on set limits.

The Bank has a credit risk management structure that clearly delineates lines of authority, and establishes the accountabilities and responsibilities of individuals involved in the different phases of the credit risk management process.

The Bank has a Credit Department, independent of the Marketing Department who is in charge of the credit underwriting procedures. This includes the analysis and verification of the applicant's background, integrity, cash flow/financial capacity, character and collateral offered for the loan. The evaluation and approval of the loan is being made by the Credit Committee (CRECOM), provided it is within the CRECOM's approving authority. The CRECOM also serves as the oversight function for the Bank's credit underwriting procedures, reviews the Bank's Credit Policies and Procedures, and informs the Board of Directors on accounts approved by CRECOM despite deviation from credit policies and procedures. The Board of Directors is the final approver of credit policy, credit limits, credit risk management policy and loan beyond the approving authority of the CRECOM.

The Risk Management Departments is in charge of preparing monthly credit risk management report in order to inform the Bank's Senior Management and Board of Directors on its present credit risk exposure and results of stress testing. This also serves as a tool in monitoring the effectiveness of the Bank's existing credit policies and procedures.

The Bank adopted its internal credit scoring model for individual and corporate borrowers. The following factors are considered in the internal credit rating for individual borrowers: credit history, capacity to pay, loan exposures, adverse findings, and demography such as employment status, employment industry, home ownership, marital status, age, and gender. The scoring model is subject for periodic validation by the internal auditor. Likewise, the following factors are considered in the internal credit rating for corporate borrowers: cash flow and profitability, financial leverage, guarantor, management/character, and collection history.

In order to reduce the Bank's non-performing loan (NPL) levels, past due loans are regularly monitored by the Bank's Collection and Legal Department. Collection activities are reported to the Credit Committee and Board of Directors on a monthly basis, including progress report for borrowers with substantial loan balance. The Bank has implemented a more stringent credit policies and procedures, with the objectives of improving the level of its current/good quality loan portfolio.

Internal NPL ratio limit has also been set for each type of loan and any breach has been monitored and reported to Senior Management and the Board.

The Bank also conducted a quarterly credit stress testing to determine the impact on the Bank's capital upon the occurrence of certain scenarios which was developed based on the Bank' present loan portfolio level and past experiences.

Independent credit review function is being done by the Compliance and Internal Audit Departments in order to assess the quality of individual credits and compliance with regulatory and internal policies and procedures.

As of 31 December 2021 the Bank's balance sheet credit risk exposure and credit risk weighted assets are shown as follows:

Nature of Item (Amounts in Million PHP)	Credit Risk Exposure (Net Carrying Amount)	Credit Risk Weighted Assets
a. Loans to individuals for housing purpose, fully secured by first mortgage on residential property that is or will be occupied by the borrower, which are not classified as non-performing – 50% risk weight	7.700	3.850
b. Foreign currency denominated claims on or portions of claims guaranteed by or collateralized by foreign currency denominated securities issued by the Philippine National Government & the BSP - 50% risk weight	74.106	37.053
c. All non-performing loans (except non-performing loans to individuals for housing purpose, fully secured by first mortgage on residential property that is or will be occupied by the borrower), all non-performing sales contract receivables, and all non-performing debt securities – 150%	36.263	54.395
d. Real and other properties acquired and Non-current assets held for sale, net of allowance for losses – 150%	0.906	1.359
e. Net Other Assets - 100% risk weight	1,159.343	1,159.343
Total	1,278.318	1,256.000

Market Risk

The Bank's exposure to market risk is relatively low since it does not engage in any trading activities and derivatives operations. Interest rate movements and the level of foreign exchange risk have minimal impact on the Bank's earnings and capital. It follows a prudent policy in managing its assets and liabilities in order to ensure that its exposure to fluctuations in interest rates and foreign exchange fluctuations is kept within reasonable limits.

The Bank has a Board-approved Market Risk Management Policy and market risk limits for the effective discharge of market risk management function. The Bank measures its market risk exposure through monthly monitoring of various limits and re-pricing gap analysis, and quarterly stress testing on changes in interest and foreign exchange rate which is being done and monitored by the Treasury and Risk Management Department. A monthly report on the Bank's market risk exposure and limit breaches, if any, are being discussed during the Asset and Liability Committee (ALCO) and Board of Directors meeting.

The Bank's Market Risk Limits include Exposure Limit (Greeks Limit), VaR Limit, and Loss Ratio Limits including individual and overall unrealized loss ratio of related product including bonds.

(a) VaR limit :
VaR is measured by one-day holding horizon using historical simulation method at 99% confidence level.

(b) Exposure Limit:
Exposure Limit for Market Risk could be Delta limit and set as Long and short position limits that each of them should be measured by aggregating long and short position on overall and net base separately. Delta is defined as the amount of change in market value of an asset due to specific amount change in market price, in case of interest rate delta, the change is 100 bps in interest rate and in case of equity or FX delta, the change is 1% of price.

Independent market risk review function is being done by the Internal Audit Department in order to assess the level of compliance with prescribed regulatory and internal policies and procedures.

Interest Rate Risk in the Banking Book (IRRBB)

IRRBB refers to the current or prospective risk to the bank's capital and earnings arising from adverse movements in interest rates that affect the bank's banking book positions, the future Net Interest Income (NII), or the Economic Value of Equity (EVE). With reference to the guidance of BCBS papers and the management practice across banks, the management framework and the governance structure are formulated and listed below.

The Board of Directors is responsible for reviewing IRRBB policy, framework and execution regularly. Asset and Liability Management Committee (ALCO) is authorized by the Board to formulate and execute the IRRBB management strategies, policies and practices.

Management Process of IRRBB:

a. Risk Identification: IRRBB risk factors, including repricing risk, yield curve risk, basis risk and option risk are identified and captured through daily operations of all business units.
b. Risk measurement: The methodology of the measurement includes but not limited to the impact analysis of economic value and earnings perspective under the stress scenario of interest rate shock. The methodology should be reviewed regularly for the reasonableness.
c. Risk monitoring and control: The Bank should evaluate and adopt the risk tolerance, transfer, mitigation and avoidance. The interest rate shock scenarios, as well as the modelling and parametric assumptions used in IRRBB measurement are formulated based on BCBS standards and the rules of the regulator.
d. Risk Reporting: Risk reporting should include the analysis on interest rate sensitivities, stress test results and the root cause of over-limit. Risk management department should monitor the impact of change in interest rate on earning and capital and report to the BOD and ALCO quarterly.

The above framework may be enhanced or revised once there is any new release of IRRBB related rule or guidance from the regulator.

Liquidity Risk

The Bank manages liquidity risk by holding sufficient liquid assets of appropriate quality to ensure that short-term statutory and liquidity funding requirements are met and by maintaining a balanced loan portfolio which is repriced on a regular basis. The Bank's level of liquidity is aligned on its present deposits and loans volume. The Bank has enough liquidity level and ensures that the required deposit reserve has been met.

There is a Board approved Liquidity Risk Management Manual for the effective discharge of liquidity risk management function. The Bank's Treasury and Risk Management Department measures its liquidity risk exposure through the preparation of monthly maturity matching report, quarterly stress testing, and computation of various liquidity ratios. The Bank sets a liquid asset to deposit ratio limits of at least 30%.

Periodic reports on the Bank's liquidity risk exposure are being discussed during the monthly Asset and Liability Committee (ALCO) and Board of Directors meeting.

Independent review of the liquidity risk management function is being done by the Internal Audit Department in order to assess the level of compliance with prescribed regulatory and internal policies and procedures.

As of 31 December 2021, the Bank's liquid assets stand at P2,528M. This comprises mainly of cash and due from other banks – P458.3M, due from BSP – P425.2M, and investment securities – P1,644.3M. During the same period, the Bank's minimum liquidity ratio of 239% is significantly higher than the required 20%.

The Bank has an existing liquidity contingency plan and regularly conducts stress testing exercise. On the Bank's liquidity stress testing as 31 December 2021 with an assumption of 50% decrease in its deposit liabilities, the Bank will be able to satisfy its liquidity needs at a minimal amount of projected cost of financing/amount of loss revenue amounting to P1.735M.

Legal Risk

The Management believes that, liabilities or losses, if any, arising from the Bank's currently identified legal risk, would not have a material effect on the financial position and results of operations of the Bank. The Bank's risk management system covers policies and procedures in handling legal risk which are strictly implemented. The Bank has a Legal Department who is in charge of the management and prevention of legal risk and has retainer services agreement with a law firm to provide legal services.

Compliance Risk

The Bank's exposures to compliance risk are properly addressed. The Bank adopted a compliance risk management system and its Board of Directors generally addresses key aspects of compliance risk. Appropriate actions have been undertaken to comply with banking laws, BSP rules and regulations, and other regulatory requirements. The Board of Directors appointed Chief Compliance Officer to oversee the implementation of compliance function. Likewise, the Bank's Compliance Program was formulated and it adequately and generally covers compliance issues and concerns.

The Chief Compliance Officer is responsible in cascading compliance matters to the concerned personnel. Each department also has their respective compliance coordinator to disseminate/circulate all relevant regulations in a timely and efficient manner. Reporting of compliance matters is being reported by the Chief Compliance Officer to Senior Management and Board of Directors on a monthly basis.

The Senior Management and Board of Directors are responsible in setting the tone at the top focusing on ethical climate and compliance culture among all personnel.

Reputational Risk

Reputational risk is the current and prospective impact on earnings or capital arising from negative public opinion. This affects the Bank's ability to establish new relationships or services or continue servicing existing relationships.

In the banking sector where business relationships are based on trust and confidence, the management of reputational risk is crucial. Given that reputational risk issues generally are an outcome of operational lapses and concerns, reputational risk management is largely centered on strengthening banking service delivery. It is the Bank objective to always provide reliable, professional, efficient and customer-oriented services. The Bank also has a Consumer Assistance Mechanism to address client concerns and customer complaints, and has a proactive solicitation of customer feedback. Significant issues are required to be immediately reported to Senior Management, Board of Directors, and parent company for timely and proper management of the issues.

Information Technology Risk, Information Security Risk and Privacy Risk

The Bank has Information Technology Department who is responsible for managing information technology risk or threat to the Bank's business data, systems and business processes. The Board of Directors appointed a Chief Information Security Officer (CISO) who is responsible for overseeing all information security activities of the Bank, and for establishing policies, standards, and guidelines in safeguarding its information assets to ensure protection against loss or misuse of information. The Board of Directors likewise appointed a Data Protection Officer who is responsible for monitoring compliance with the Data Privacy Act, its implementing rules and regulations, issuances by the National Privacy Commission (NPC) and other applicable laws and Bank policies and procedures pertaining to data privacy.

d. AML Governance and Culture

The Bank has its Money Laundering and Terrorist Financing Prevention Program (MTPP) approved by the Board which needs to be observed by all concerned personnel. The Board and Senior Management exercise its oversight function in the effective implementation of the Bank's MTPP which is being managed by the Bank's Compliance Department. It also provides for appropriate monitoring, management information system, and effective implementation to ensure that the Bank is not being use as a medium to legitimize proceeds of unlawful activity or to facilitate or finance terrorism. AML internal controls and audit is also in place to ensure adequate and effective implementation of the Bank's MTPP. The Bank also conducted an annual AML training program for its employees as well as AML orientation program to all newly hired employees. The Bank recently acquired a new AML system to enhance the implementation and monitoring of all AML-related concerns especially to analyze customer data and detect suspicious transactions.

Independent Auditors’ Report and
Audited Financial Statements
As at December 31, 2021 and December 31, 2020 and for period ended December 31, 2021 and December 31, 2020

Statement of Management's Responsibility for Financial Statements

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

In preparing the financial statements, management is responsible for assessing the Company'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 Company or to ceased the operations, or has no realistic alternative but to do so.

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

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

Isla Lipana & Co., a member firm of PricewaterhouseCoopers, the independent auditor appointed by the stockholders, has audited the financial statements of the Company in accordance with Philippine Standards on Auditing, and in its report to the stockholders, has expressed its opinion on the fairness of presentation upon completion of such audit.

Jin-Tang Wu
Chairman of the Board

Regina V. Saga
Chief Executive Officer

Belen E. Asuncion
Treasurer

Signed this 29th day of April 2022.

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Yuanta Savings Bank Philippines, Inc.

(A wholly-owned subsidiary of Yuanta Commercial Bank Co., Ltd.)

Financial Statements
As at and for the years ended December 31, 2021 and 2020

Isla Lipana & Co.

Isla Lipana & Co.

Independent Auditor's Report

To the Board of Directors and Shareholder of
Yuanta Savings Bank Philippines, Inc.
(A wholly-owned subsidiary of Yuanta Commercial Bank Co., Ltd.)
G-1A/B, Chatham House Condominium
116 Valero cor. V.A. Rufino Streets
Salcedo Village, Makati City 1227
Philippines

Report on the Audits of the Financial Statements

Our Opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Yuanta Savings Bank Philippines, Inc. (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).

What we have audited

The financial statements of the Bank comprise:

- the statements of financial position as a t December 31, 2021 and 2020;
- the statements of comprehensive income for the years ended December 31, 2021 and 2020;
- the statements of changes in equity for the years ended December 31, 2021 and 2020;
- the statements of cash flows for the years ended December 31, 2021 and 2020; and
- the notes to the financial statements, which include a summary of significant accounting policies.

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 Auditor's Responsibilities for the Audit of the Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Bank in accordance with the Code of Ethics for Professional Accountants in the Philippines (Code of Ethics), together with the ethical requirements that are relevant to our audit of the financial statements in the Philippines, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics.

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.

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

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

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

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

Isla Lipana & Co.

Report on Other Legal and Regulatory Requirements

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information for the year ended December 31, 2021 required by the Bangko Sentral ng Pilipinas (BSP) under Circular No. 1074 and by the Bureau of Internal Revenue (BIR) under Revenue Regulations No. 15-2010 and 34-2020 as disclosed in Notes 23 and 24, respectively, to the financial statements is presented for purposes of fling with the BSP and BIR and is not a required part of the basic financial statements. Such information is the responsibility of management of the Bank. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Isla Lipana & Co.

Zaldy D. Aguirre
Partner
CPA Cert No. 0105660
P.T.R. No. 0024447, issued on January 6, 2022, Makati City
SEC A.N. (individual) as general auditors 105660-SEC, Category A, valid to audit 2020 to 2024 financial statements
SEC A.N. (firm) as general auditors 0142-SEC, Category A; valid to audit 2020 to 2024 financial statements
TIN 221-755-698
BIR A.N. 08-000745-77-2020, issued on December 14,2020; effective until December 13, 2023
BOA/PRC Reg. No. 0142, effective until January 21, 2023

Makati City
April 29, 2022

Yuanta Savings Bank Philippines, Inc.
(A wholly-owned subsidiary of Yuanta Commercial Bank Co., Ltd.)

Statements of Financial Position
December 31, 2021 and 2020
(All amounts in Philippine Peso)

	Notes	2021	2020
ASSETS			
Cash and other cash items	2	12,104,048	20,874,402
Due from Bangko Sentral ng Pilipinas (BSP)	2	425,196,121	1,119,311,500
Due from other banks	2,3	446,163,108	711,688,726
Investment securities at fair value through other comprehensive income (FVOCI)	4	1,476,800,417	744,146,900
Investment securities at amortized cost	4	167,473,394	176,936,464
Loans and receivables, net	5	365,827,903	486,841,276
Bank premises, furniture, fixtures and equipment, net	6	100,420,802	108,228,706
Deferred tax assets, net	15	7,967,285	2,661,329
Other assets, net	7	47,616,044	48,985,618
TOTAL ASSETS		3,049,569,122	3,419,674,921
LIABILITIES AND EQUITY			
LIABILITIES			
Deposit liabilities	8	925,093,684	1,204,077,885
Manager's checks		1,328,109	1,837,410
Accrued interest and other expenses	9	13,311,755	13,424,255
Income tax payable		3,809,947	99,758
Deposit for future stock subscription	10	-	1,200,000,000
Retirement benefit obligation	16	6,775,574	8,446,055
Other liabilities	10	6,351,550	21,930,369
Total liabilities		956,670,619	2,449,815,732
EQUITY			
Share capital	11	2,400,000,000	1,200,000,000
Additional paid-in capital	11	9,000,000	9,000,000
Accumulated deficit		(304,602,111)	(249,495,605)
Accumulated other comprehensive (loss) income, net	12	(11,499,386)	10,354,794
Total equity		2,092,898,503	969,859,189
TOTAL LIABILITIES AND EQUITY		3,049,569,122	3,419,674,921

(The notes on pages 1 to 54 are integral part of these financial statements)

Yuanta Savings Bank Philippines, Inc.
(A wholly-owned subsidiary of Yuanta Commercial Bank Co., Ltd.)

Statements of Comprehensive Income
For the years ended December 31, 2021 and 2020
(All amounts in Philippine Peso)

	Notes	2021	2020
INTEREST INCOME			
Due from BSP and other banks	2,3	17,140,398	41,614,202
Loans and receivables	5	24,060,240	30,772,283
Investment securities at FVOCI, net	4	35,540,885	19,723,926
Investment securities at amortized cost	4	7,455,238	8,335,670
		84,196,761	100,446,081
INTEREST EXPENSE	8	597,211	4,286,892
NET INTEREST INCOME		83,599,550	96,159,189
(REVERSAL OF) PROVISION FOR CREDIT LOSSES			
Loans and receivables	5	(1,176,924)	10,905,774
Investment securities at FVOCI	4	150,199	67,565
Investment securities at amortized cost	4	(47,947)	167,500
NET INTEREST INCOME AFTER CREDIT LOSSES		84,674,222	85,018,350
OTHER INCOME			
Service charges and fees	13	4,216,999	4,792,947
Foreign exchange gain, net		5,588,850	2,002,172
Miscellaneous income, net		4,315,508	2,727,108
		14,121,357	9,522,227
OPERATING EXPENSES			
Compensation and employee benefits	16	45,577,358	57,140,702
Depreciation and amortization	6,7	26,561,268	34,757,106
Taxes and licenses		11,916,494	6,964,108
Other expenses	14	51,025,938	50,230,665
		135,081,058	149,092,581
LOSS BEFORE INCOME TAX		(36,285,479)	(54,552,004)
INCOME TAX EXPENSE	15	(18,821,027)	(10,925,876)
NET LOSS FOR THE YEAR		(55,106,506)	(65,477,880)
OTHER COMPREHENSIVE (LOSS) INCOME			
Items subsequently reclassified to profit or loss			
Unrealized fair value (loss) gain on investment in debt securities measured at FVOCI, net of tax	4	(23,382,216)	10,776,967
Items not reclassified to profit or loss			
Unrealized fair value gain (loss) on investments in equity securities measured at FVOCI, net of tax	4	155,720	(283,900)
Remeasurement gain (loss) on retirement benefits, net of tax	16	1,372,316	(111,506)
Total other comprehensive (loss) income		(21,854,180)	10,381,561
TOTAL COMPREHENSIVE LOSS FOR THE YEAR		(76,960,686)	(55,096,319)

(The notes on pages 1 to 54 are integral part of these financial statements)

Yuanta Savings Bank Philippines, Inc.
(A wholly-owned subsidiary of Yuanta Commercial Bank Co., Ltd.)

Statements of Changes in Equity
For the years ended December 31, 2021 and 2020
(All amounts in Philippine Peso)

	Share capital (Note 11)	Additional paid-in capital (Note 11)	Accumulated deficit	Accumulated other comprehensive (loss) income, net (Note 12)	Total
Balance at January 1, 2020	1,200,000,000	9,000,000	(184,017,725)	(26,767)	1,024,955,508
Total comprehensive loss					
Net loss for the year	-	-	(65,477,880)	-	(65,477,880)
Other comprehensive income	-	-	-	10,381,561	10,381,561
Total comprehensive loss for the year	-	-	(65,477,880)	10,381,561	(55,096,319)
Balance at December 31, 2020	1,200,000,000	9,000,000	(249,495,605)	10,354,794	969,859,189
Total comprehensive loss					
Net loss for the year	-	-	(55,106,506)	-	(55,106,506)
Other comprehensive loss	-	-	-	(21,854,180)	(21,854,180)
Total comprehensive loss for the year	-	-	(55,106,506)	(21,854,180)	(76,960,686)
Transaction with owner					
Issuance of capital stock	1,200,000,000	-	-	-	1,200,000,000
Balance at December 31, 2021	2,400,000,000	9,000,000	(304,602,111)	(11,499,386)	2,092,898,503

(The notes on pages 1 to 54 are integral part of these financial statements)

Yuanta Savings Bank Philippines, Inc.
(A wholly-owned subsidiary of Yuanta Commercial Bank Co., Ltd.)

Statements of Cash Flows
For the years ended December 31, 2021 and 2020
(All amounts in Philippine Peso)

	Notes	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before income tax		(36,285,479)	(54,552,004)
Adjustments for:			
Interest received		82,164,290	103,500,630
Interest income	2,3,4,5	(84,196,761)	(100,446,081)
Depreciation and amortization	6,7	26,561,268	34,757,106
Interest paid		(3,243,470)	(3,466,371)
Interest expense	8,18	597,211	4,294,562
(Reversal of) provision for credit losses	4,5	(1,074,672)	11,140,842
Net unrealized foreign exchange (gain) loss	21	(3,364,727)	2,539,603
Retirement benefits expense	16	1,995,402	2,285,979
(Gain) loss on disposal of bank premises, furniture, fixtures and equipment and intangible assets	6,7	(80,000)	1,647,012
Operating (loss) income before changes in operating assets and liabilities		(16,926,938)	1,701,278
Changes in operating assets and liabilities			
Decrease (increase) in:			
Loans and receivables		129,779,851	196,321,201
Due from other banks		215,034,554	128,487,976
Other assets		(8,453,736)	3,809,455
(Decrease) increase in:			
Deposit liabilities		(306,423,748)	(483,622,025)
Manager's check		509,301	(3,359,808)
Lease liability			(2,574,489)
Accrued interest and other expenses		(112,806)	(1,959,523)
Other liabilities		(15,578,821)	1,475,709
Net cash absorbed by operations		(2,172,343)	(159,720,226)
Income taxes paid		(12,023,392)	(14,892,418)
Contribution paid to retirement plan	16	(1,636,594)	-
Net cash used in operating activities		(15,832,329)	(174,612,644)
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisitions of:			
Investment securities at FVOCI	4	(967,179,840)	(508,373,869)
Computer software	7	(4,663,263)	(4,064,574)
Bank premises, furniture, fixtures and equipment	6	(4,262,005)	(2,946,303)
Proceeds from:			
Maturities of investment securities at FVOCI	4	202,146,828	100,000,000
Maturities of investment security at amortized cost	4	11,896,938	12,218,679
Proceeds from sale of Bank premises, furniture, fixtures and equipment		80,000	-
Net cash used in investing activities		(761,981,342)	(403,166,067)
CASH FLOWS FROM FINANCING ACTIVITIES			
Payment of the principal portion of lease liability	18	-	(656,170)
Net cash used in financing activities		-	(656,170)
NET DECREASE IN CASH AND CASH EQUIVALENTS FOR THE YEAR		(777,813,671)	(578,434,881)
CASH AND CASH EQUIVALENTS, JANUARY 1		1,602,844,813	2,182,538,451
Effect of foreign exchange rate changes on cash and cash equivalents		90,922	(1,258,757)
CASH AND CASH EQUIVALENTS, DECEMBER 31	2	825,122,064	1,602,844,813

(The notes on pages 1 to 54 are integral part of these financial statements)

Yuanta Savings Bank Philippines, Inc.
(A wholly-owned subsidiary of Yuanta Commercial Bank Co., Ltd.)

Notes to Financial Statements
As at and for the years ended December 31, 2021 and 2020
(All amounts in Philippine Peso, unless otherwise stated)

Note 1 - General information

Yuanta Savings Bank Philippines, Inc. (the "Bank") was incorporated in the Philippines and registered with the Securities and Exchange Commission (SEC) on August 1, 1997. The Bank was authorized by the Bangko Sentral ng Pilipinas (BSP) to operate as a thrift bank on October 24, 1997 and started its commercial operations on November 5, 1997.

The Bank is engaged in the general business of savings and mortgage banking and exercises all the rights, attributes, powers and privileges, together with the assumption of all the duties and obligations of a savings and mortgage bank. As a banking institution, the Bank's operations are regulated and supervised by the BSP. On June 14, 2007, the Monetary Board of the BSP granted the Bank the authority to operate a Foreign Currency Deposit Unit (FCDU). On August 1, 2007, the Bank started its FCDU operations.

On November 26, 2019, the Bank applied for an increase in authorized capital stock with SEC and YCB invested additional capital to subscribe to 1.4 billion shares at P1 par. On December 9, 2021, SEC approved the Bank's application for increase in authorized shares. As at December 31, 2021 and 2020, the Bank is a wholly-owned subsidiary of YCB.

On May 15, 2020, the Board of Directors approved the plan to convert the Bank into a commercial bank. The management has yet to devise a concrete timetable as to the implementation of the conversion plan due to the impact and uncertainties posed by the ongoing COVID-19 pandemic (see discussion below).

The Bank's registered address is at G-1A/B, Chatham House Condominium, Rufino corner Valero Streets, Salcedo Village, Makati City. As at December 31, 2021, the Bank has 54 employees (2020 - 59).

Coronavirus disease (COVID-19) impact

The COVID-19 pandemic started to become widespread in the Philippines in early March 2020 and its impact has been continuing until the date of the approval of these financial statements. The measures taken by the government to contain the virus have adversely affected local economic conditions and the Bank's business operations. These include, but are not limited to, changes in the workforce arrangements and incurrence of additional administrative expenses to ensure health and safety of its employees and clients such as the frequent disinfection of facilities and COVID-19 testing for its employees. Despite the uncertainties of the effects of COVID-19, the Bank has adjusted with the pandemic because of its plans and implementation of safety guidelines for the protection of the employees and stakeholders. The Banks's asset quality remained better than initially expected and its robust capital and liquidity levels also serve as sufficient buffers for any adverse scenario during the ongoing pandemic.

The Bank has an in-placed business continuity plan on similar risk, including the lay out of the necessary steps that will help address or minimize the Bank's business exposures. However, considering the evolving nature of this outbreak, the Bank will continue to monitor the situation and adjust the steps it is currently implementing in subsequent periods.

Granting of grace periods on loan payments

Through Memorandum No. M-2020-017, the BSP implemented the provision of the Bayanihan Act providing grace period to loan payments. Among others, the Bayanihan Act mandated all BSP-supervised financial institutions (BSFIs) to implement a 30-day grace period to all loans with principal and/or interest falling due within the Enhanced Community Quarantine (ECQ) period without incurring additional interest on interest, penalties, fees and other charges.

The accrued interest for the 30-day grace period may be paid by the borrower on staggered basis over the remaining life of the loan. The 30-day grace period shall automatically be extended if the ECQ period extended by the President of the Republic of the Philippines. The Bayanihan Act however, expired in June 2020.

Grace period extended under Bayanihan 2

In September 2020, R.A. 11494, otherwise known as the "Bayanihan to Recover As One Act (or simply "Bayanihan 2") was enacted to extend the powers of the President granted under the first Bayanihan Act described above.

Under the Bayanihan 2, BSFIs implemented a non-extendible, one-time 60-day grace period for all existing, current and outstanding loans with principal and/or interest, including amortizations, falling due between September 15, 2020 and December 31, 2020 without incurring additional interest on interest, penalties, fees or other charges. The implementation of the mandatory one-time 60-day grace period will effectively extend the maturity of said loans. The BSP formally implemented these payment reliefs through its Memorandum No. M-2020-074.

BSP reporting reliefs

The BSP has also extended the following financial reporting reliefs to BSFIs effective for the 2020 financial reporting due to the COVID-19 situation:

a) Staggered booking of allowance for credit losses over a maximum period of five years;
b) Reclassification of debt securities measured at fair value to the amortized cost category; and
c) Exclusion of eligible loans from past and non-performing classification until December 31, 2021.

Consequently, the SEC also provided support to the BSP through SEC Memorandum Circular No. 32, Series of 2020, allowing the above BSP reporting reliefs for local statutory reporting purposes of BSFIs.

The Bank, however, has not availed of any of the reporting reliefs enumerated above.

As at report date, the pandemic remains the topmost concern of governments and businesses alike. The Philippine economy is gradually reopening with the imposition of less stringent community quarantine protocols. Likewise, the vaccination program of the government has commenced in 2021 favorably slowing down the spread of the virus and boosting confidence among businesses and consumers. While the pandemic still poses some risks and uncertainties, the Bank remains confident on its ability to absorb some conceivable financial shocks that may arise due to volatile economic conditions.

Approval of the financial statements

The financial statements of the Bank have been approved and authorized for issue by the Board of Directors (BOD) on April 29, 2022.

Note 2 - Cash and cash equivalents; Due from BSP

Details of cash and cash equivalents presented in the statement of cash flows as at December 31 follow:

	Note	2021	2020
Cash and other cash items		12,104,048	20,874,402
Due from BSP		425,196,121	1,119,311,500
Due from other banks	3	387,821,895	462,658,911
		825,122,064	1,602,844,813

Due from BSP as at December 31 consists of:

	2021	2020
Overnight deposit facility (ODF)	58,000,000	815,000,000
BSP - Reverse repurchase facility (RRP)	20,721,727	286,562,247
Demand deposit account (DDA)	16,474,394	17,749,253
BSP - Time deposit facility (TDF)	330,000,000	-
	425,196,121	1,119,311,500

ODF represents settlement account with an average maturity of seven (7) days.

RRP represents placement with the reverse repurchase facility of the BSP. With the implementation of the IRC, RRP was modified to a purely overnight RRP.

DDA represents reserve requirements as provided under Section 94 of Republic Act (RA) No. 7653. It also includes the Bank's respective working funds to settle transactions due to/from BSP and with other banks, which are subject to payment in legal tender upon demand, by the presentation of checks as provided under Section 58 of RA No. 7653.

TDF represents placement with the key liquidity absorption facility of the BSP with maturity ranging from 7 to 28 days.

For the year ended December 31, 2021, interest income from due from BSP amounts to P13,745,842 (2020 - P25,520,628).

Note 3 - Due from other banks

The account as at December 31 consists of:

	2021	2020
Placements	387,821,895	662,133,018
Deposit accounts	58,341,213	49,555,708
	446,163,108	711,688,726

Deposit accounts generally earn interest based on daily bank deposit rates.

The Bank's placements with other banks consist of time deposits with local banks denominated in US dollar for a period of one month to three years with interest at prevailing market rates. Investments which have maturities of three months or less from placement date as at December 31, 2021 amounting to P387,821,895 (2020 - P462,658,911) are considered as cash equivalents (Note 2) in the statement of cash flows.

For the year ended December 31, 2021, interest income with other banks amounts to P3,394,556 (2020 - P16,093,574).

Note 4 - Investment securities

a) Investment securities at fair value through other comprehensive income (FVOCI)

The account at December 31 consists of:

	2021	2020
Debt securities		
Government	1,314,237,000	673,252,000
Private	160,414,217	68,928,900
Proprietary shares - country club shares	2,149,200	1,966,000
	1,476,800,417	744,146,900

Government and private debt securities as of December 31, 2021 and 2020 will mature in various dates from 2022 to 2031. All private debt securities are non-current.

The movements in investment securities at FVOCI follow:

	2021	2020
At beginning of year	744,146,900	323,517,460
Additions	967,179,840	508,373,869
Disposal	(202,146,828)	-
Maturities	-	(100,000,000)
Amortization of (premium) discount, net	(3,355,177)	(2,792,324)
Impairment loss	(150,199)	(67,565)
Effect of foreign exchange rate changes	3,406,330	-
Fair value adjustment	(32,280,449)	15,115,460
At end of year	1,476,800,417	744,146,900

For the year ended December 31, 2021, interest income from these debt securities amounts to P35,540,885 (2020 - P19,723,926).

b) *Investment securities at amortized cost*

The account at December 31 consists of:

	2021	2020
Government debt securities		
Current (within 12 months)	11,618,048	11,896,938
Non-current (over 12 months)	105,375,097	114,467,944
	116,993,145	126,364,882
Corporate debt securities		
Non-current (over 12 months)	50,480,249	50,571,582
	167,473,394	176,936,464

Debt securities carry interest at rates ranging 4.75% to 8.60% as at December 31, 2021 and 2020, and mature in various dates from 2022 to 2027.

The movements in investment securities at amortized cost follow:

	2021	2020
At beginning of year	176,936,464	192,374,265
Maturities	(11,896,938)	(12,218,679)
Amortization of (premium) discount, net	(524,095)	(441,252)
Reversal of (provision for) impairment loss	47,947	(167,500)
Effect of foreign exchange rate changes	2,910,016	(2,610,370)
At end of year	167,473,394	176,936,464

For the year ended December 31, 2021, interest income from these investments amounts to P7,455,238 (2020 - P8,335,670).

As mandated by the BSP under Manual of Regulations for Banks (MORB) Section 341, all banks are required to set aside an amount equivalent to at least twenty five percent (25%) of their loanable funds for agricultural credit in general, of which an amount equivalent to at least ten percent (10%) of the loanable funds shall be available for agrarian reform credit. As an eligible alternative compliance, the Bank acquired Agrarian Reform Bonds of the Philippine Government with issue dates after April 20, 2010. As at December 31, 2021, the Bank holds bonds issued by Land Bank of the Philippines (LBP), as alternative compliance to agricultural credit, amounting to P40,141,004 (2020 - P52,037,942), presented as part of investment securities at amortized cost in the statement of financial position.

As at December 31, 2021, the amortized cost securities are net of unamortized discount of P1,717,626 (2020 - P2,527,018 discount).

Note 5 - Loans and receivables, net

The account as at December 31 consists of:

	2021	2020
Receivable from customers		
Commercial	341,650,240	447,123,853
Consumption	4,622,301	15,314,235
Real estate	18,075,217	27,028,701
	364,347,758	489,466,789
Other receivables		
Accrued interest receivables	13,012,471	10,980,000
Accounts receivables	1,237,453	341,190
	14,249,924	11,321,190
	378,597,682	500,787,979
Allowance for credit losses		
Stage 1	(5,183,660)	(3,446,284)
Stage 2	(3,969,354)	(6,491,921)
Stage 3	(3,616,765)	(4,008,498)
	(12,769,779)	(13,946,703)
	365,827,903	486,841,276

Interest income on loans and receivables for the years ended December 31 consists of:

	2021	2020
Receivables from customers		
Commercial	18,157,003	22,280,073
Consumption	4,808,275	7,132,047
Real estate	1,094,962	1,360,163
	24,060,240	30,772,283

Below is the breakdown of allowance for credit losses as December 31:

	2021	2020
Receivable from customers	12,627,516	13,697,273
Accrued interest receivables	142,263	249,430
	12,769,779	13,946,703

The allowance for credit losses recognized is impacted by a variety of factors, as described below:

- Transfers between Stage 1 and Stages 2 or 3 due to financial instruments experiencing significant increases (or decreases) of credit risk or becoming credit-impaired in the period, and the consequent “step up” (or “step down”) between 12-month and lifetime expected credit loss (ECL);
- Additional allowances for new financial instruments recognized during the period, as well as releases for financial instruments de-recognized in the period;
- Impact on the measurement of ECL due to changes in probability of default (PD), exposure at default (EAD) and loss given default (LGD) in the period;
- Foreign exchange translations for assets denominated in foreign currencies and other movements; and
- Financial assets derecognized during the period and write-offs of allowances related to assets that were written off during the period.

The following tables summarize the changes in the loss allowance for loans and receivables between the beginning and the end of the annual period:

Allowance for credit losses	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
At January 1, 2021	3,446,284	6,491,921	4,008,498	13,946,703
Provision for impairment for the year				
Transfers:				
Transfer in (out of) Stage 1	(418,780)	418,780	-	-
Transfer in (out of) Stage 2	-	(19,701)	19,701	-
Transfer in (out of) Stage 3	76,481		(76,481)	-
New financial assets originated	5,113,696	3,530,840	1,747,144	10,391,680
Financial assets derecognized during the period	(3,378,800)	(6,457,663)	(2,615,218)	(12,451,681)
Changes in PD, EAD and LGD	344,779	5,177	533,121	883,077
	1,737,376	(2,522,567)	(391,733)	(1,176,924)
At December 31, 2021	5,183,660	3,969,354	3,616,765	12,769,779

Allowance for credit losses	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
At January 1, 2020	1,126,729	82,258	1,831,942	3,040,929
Provision for impairment for the year				
Transfers:				
Transfer in (out of) Stage 1	(2,256,029)	488	2,255,541	-
Transfer in (out of) Stage 2	-	(259,961)	259,961	-
Transfer in (out of) Stage 3	-	33,279	(33,279)	-
New financial assets originated	1,789,001	6,423,897	-	8,212,898
Financial assets derecognized during the period	(9,135)	-	-	(9,135)
Changes in PD, EAD and LGD	2,795,718	211,960	(305,667)	2,702,011
	2,319,555	6,409,663	2,176,556	10,905,774
At December 31, 2020	3,446,284	6,491,921	4,008,498	13,946,703

With the foregoing level of allowance for credit losses, management believes that amount is sufficient to cover any losses that may be incurred from the non-collection or non-realization of its receivables and other risk assets.

Note 6 - Bank premises, furniture, fixtures and equipment, net

The movements and the components of the account follow:

	Bank premises	Leasehold improvement	Furniture, fixtures and equipment	Transportation equipment	Total
Cost					
Balance at beginning of year	151,993,584	-	61,382,329	1,900,100	215,276,013
Additions	-	-	4,262,005	-	4,262,005
Balance at end of year	151,993,584	-	65,644,334	1,900,100	219,538,018
Accumulated depreciation					
Balance at beginning of year	63,195,708	-	43,105,957	745,642	107,047,307
Depreciation	3,277,163	-	8,412,727	380,019	12,069,909
Balance at end of year	66,472,871	-	51,518,684	1,125,661	119,117,216
Net carrying amounts, December 31, 2021	85,520,713	-	14,125,650	774,439	100,420,802

	Bank premises	Leasehold improvement	Furniture, fixtures and equipment	Transportation equipment	Total
Cost					
Balance at beginning of year	157,280,314	3,765,166	58,818,526	1,900,100	221,764,106
Additions	-	-	2,946,303	-	2,946,303
Retirement/reclassification	(5,286,730)	(3,765,166)	(382,500)	-	(9,434,396)
Balance at end of year	151,993,584	-	61,382,329	1,900,100	215,276,013
Accumulated depreciation					
Balance at beginning of year	62,358,574	3,640,768	27,686,798	365,621	94,051,761
Depreciation	4,493,153	124,398	15,457,409	380,021	20,454,981
Retirement/reclassification	(3,656,019)	(3,765,166)	(38,250)	-	(7,459,435)
Balance at end of year	63,195,708	-	43,105,957	745,642	107,047,307
Net carrying amounts, December 31, 2020	88,797,876	-	18,276,372	1,154,458	108,228,706

Bank premises pertain to the Bank's head office in Makati, Alabang branch, and the right-of-use assets recognized for its leased Ortigas branch.

In 2020, the Bank closed its Alabang and Ortigas branches. Consequently, the Bank terminated its lease contracts and retired the right-of-use assets related to Ortigas branch. Loss on retirement amounting to P1,529,441 in 2020 is recognized under Other expenses in the statement of comprehensive income.

Management believes that there are no indications that the bank premises, furniture, fixture and equipment are impaired.

Note 7 - Other assets, net

The account as at December 31 consists of:

	2021	2020
Computer software, net	26,460,272	36,338,042
Prepaid expenses	5,435,172	3,210,157
Construction in progress	6,241,149	111,450
Miscellaneous deposits	5,760,299	5,909,099
Miscellaneous assets	2,813,289	2,923,349
Real and other properties acquired (ROPA)	905,863	493,521
	47,616,044	48,985,618

The movements of computer software follow:

	2021	2020
Cost		
At beginning of year	67,594,613	67,184,789
Additions	4,663,263	3,953,124
Reclassification	-	382,500
Retirement	(137,736)	(3,925,800)
At end of year	72,120,140	67,594,613
Accumulated amortization		
At beginning of year	31,256,571	20,787,444
Amortization during the year	14,433,417	14,302,125
Reclassification	(30,120)	38,250
Retirement	-	(3,871,248)
At end of year	45,659,868	31,256,571
Net carrying amount	26,460,272	36,338,042

In 2020, the Bank retired various expired software licenses. Loss on retirement amounting to P117,571 is recognized under other expenses in the statement of total comprehensive income.

Miscellaneous deposits pertain to rental deposits and other deposits to various suppliers.

Miscellaneous assets consist mainly of documentary stamp taxes and office supplies.

Note 8 - Deposit liabilities

The account as at December 31 consists of:

	Note	2021	2020
Demand		285,058,734	290,583,233
Savings		134,476,661	167,522,981
Special savings	19	505,558,289	745,971,671
		925,093,684	1,204,077,885

The Bank's deposits bear annual interest at rates ranging from 0% to 0.01% in 2021 (2020 - 0% to 3%).

As at December 31, 2021, the Bank has complied with the required statutory and legal reserves amounting to P27.75 million (2020 - P36.12 million) (Note 2).

The details of interest expense on deposit liabilities for the years ended December 31 are as follows:

	2021	2020
Savings	24,317	360,722
Special savings	572,894	3,926,170
	597,211	4,286,892

Note 9 - Accrued interest and other expenses

The account as December 31 consists of:

	2021	2020
Accrued interest	76,024	2,722,283
Accrued expenses		
Staff benefits	3,039,642	3,083,000
Taxes	3,044,155	2,480,399
Management and other professional fees	1,535,430	1,201,600
Others	5,616,504	3,936,973
	13,311,755	13,424,255

Others include accrual for general and administrative expenses.

Note 10 - Deposit for future stock subscription; Other liabilities

Deposit for future stock subscription

In 2019, the Bank received funds amounting to P1.4 billion from its Parent Company as an additional capital infusion. Of the said amount, P200 million had been covered by 200 million shares at P1 par value resulting in the Bank's authorized capital stock to be fully subscribed. On August 29, 2019, the Bank's Parent Company and the BOD concurred and approved the increase in authorized capital stock from P1.2 billion divided into 1.2 billion shares to P3 billion divided into 3 billion shares with a par value of P1 per share. The remaining consideration amounting to P1.2 billion was recognized as Deposit for future stock subscription which is classified as a liability (Note 22.11).

On December 9, 2021, the SEC already approved the Bank's application for the increase of capital stock as discussed above. Accordingly, the corresponding shares were issued on December 22, 2021, to cover the P1.2 billion Deposit for future stock subscription, resulting in an increase in the Bank's share capital.

Other liabilities

The account as at December 31 consists of:

	2021	2020
Accounts payable	3,539,797	18,829,615
Withholding tax	441,475	599,968
SSS, Philhealth, and Pag-ibig contributions payable	209,111	180,687
Others	2,161,167	2,320,099
	6,351,550	21,930,369

Accounts payable mainly include unpaid purchases from various suppliers.

The Bank does not have any secured liabilities nor assets pledged as security as at December 31, 2021 and 2020.

Note 11 - Share capital

The account as at December 31 consists of:

	2021	2020
Authorized capital stock	3,000,000,000	1,200,000,000
Issued and outstanding (at P1 par value per share)	2,400,000,000	1,200,000,000

Under MORB Section 111.1, the Bank has complied with the minimum capitalization set by the BSP which is P750 million for thrift banks with head office in Metro Manila with up to ten (10) branches.

Additional paid-in capital represents premium received from additional issuance of capital stock in excess of par.

Note 12 - Accumulated other comprehensive (loss) income, net

The account as at December 31 consists of:

	2021	2020
Cumulative actuarial losses on retirement	(722,789)	(2,095,105)
Unrealized fair value income on investment securities at FVOCI	(10,776,597)	12,449,899
	(11,499,386)	10,354,794

The amounts above are presented net of deferred tax effect.

Note 13 - Service charges and fees

Details of service charges and fees for the years ended December 31 are as follows:

	2021	2020
Penalties	1,659,522	767,462
Service charges and fees from:		
Remittances	1,504,756	1,860,713
Deposits	758,760	1,770,965
Loan issuances	173,650	393,807
Others	120,311	-
	4,216,999	4,792,947

Note 14 - Other expenses

Details of other expenses for the years ended December 31 are as follows:

	Note	2021	2020
Professional fees		12,924,754	13,420,883
Repairs and maintenance		10,459,065	8,624,094
Postage, telephone, cable and telegram		7,885,418	7,588,904
Insurance		3,139,937	3,782,047
Power, light and water		2,559,769	2,317,189
Security, messenger and janitorial		2,413,586	2,818,573
Director's fees		2,160,000	2,000,000
Banking fees		1,534,778	1,737,039
Fines and penalties		1,498,400	1,617,891
Membership fees and dues		1,276,223	1,515,955
Travel and representation		943,046	1,680,650
Interest expense on lease liability	18	-	7,670
Others		4,230,962	3,119,770
		51,025,938	50,230,665

Others consist mainly of trainings and seminar, stationery and supplies used, rental, supervision fee, inquiry and verification fees, and fuel.

Note 15 - Income tax expense; Deferred tax assets (DTA), net

The following are the components of income tax expense for the years ended December 31:

	2021	2020
Current	15,733,581	14,884,250
Deferred	3,087,446	(3,958,374)
	18,821,027	10,925,876

A reconciliation between the income tax expense at the statutory rates and income tax expense at effective tax rate follows:

	2021	2020
Loss before income tax	(36,285,479)	(54,552,004)
Tax benefit on pretax loss at 25% in 2021 and 30% in 2020	(9,071,370)	(16,365,601)
Tax effects of:		
Unrecognized NOLCO and MCIT	23,353,171	26,667,654
Non-deductible expenses	2,531,676	10,971,099
Income subjected to lower income tax rates	(3,157,487)	(6,643,521)
Tax exempt income	376,070	-
Adjustment in income tax rate due to CREATE	194,250	-
Others	4,594,717	(3,703,755)
Effective income tax expense	18,821,027	10,925,876

The components of the Bank's deferred tax assets and liabilities as at December 31 are as follows:

	2021	2020
Deferred tax assets		
Unrealized fair value loss on equity investments at FVOCI	71,250	98,730
Allowance for credit losses	3,278,219	4,254,531
Retirement liability	1,693,894	2,533,817
Unrealized foreign exchange loss	-	761,881
Unrealized fair value loss on bond investment at FVOCI	3,531,404	-
MCIT	233,700	558,840
	8,808,467	8,207,799
Deferred tax liabilities		
Unrealized fair value gain on bond investment at FVOCI	-	5,546,470
Unrealized foreign exchange gain	841,182	-
Deferred tax assets, net	7,967,285	2,661,329

Deferred income tax assets are recognized only to the extent that taxable income will be available against which the deferred income tax assets can be used. The Bank did not recognize deferred income tax assets on its NOLCO since the Bank does not expect that it will generate sufficient taxable income to allow all or part of its NOLCO to be utilized.

The details of the Bank's unexpired NOLCO are as follows:

Year of Incurrence	Year of Expiration	2021	2020
2021	2026	90,697,567	-
2020	2025	86,106,183	86,106,183
2019	2022	65,323,158	65,323,158
2018	2021	61,213,602	61,213,602
2017	2020	-	65,899,701
		303,340,510	278,542,644
Expired during the period		(61,213,602)	(65,899,701)
NOLCO not recognized		(242,126,908)	(212,642,943)
		-	-
Tax rate		25%	30%
Deferred income tax asset on NOLCO		-	-

The NOLCO incurred in 2021 and 2020 can be carried over as a deduction for the next five consecutive years pursuant to the provisions of RR. 25-2020 and Section 4 COVID-19 Response and Recovery Interventions of Bayanihan Act II. The NOLCO incurred in prior years can be carried over as a deduction for the next three consecutive years following the year the loss was incurred.

As at December 31, the Bank has MCIT that can be claimed as deduction from future income tax payable as follows:

Year of Incurrence	Year of Expiration	2021	2020
2021	2024	233,700	-
2020	2023	558,840	558,840
2019	2022	835,799	835,799
2018	2021	512,014	512,014
2017	2020	-	898,437
		2,140,353	2,805,090
Used portion/ expired during the year		(512,014)	(898,437)
MCIT not recognized		(1,394,639)	(1,347,813)
		233,700	558,840

Corporate Recovery and Tax Incentives for Enterprises Act (CREATE)

On March 26, 2021 (RA. No. 11534), otherwise known as Corporate Recovery and Tax Incentives for Enterprises Act (CREATE), was signed into law. Among the salient provisions of CREATE include changes to the Corporate Income Tax (CIT) rates as follows:

1. CIT rate shall be reduced to 25% beginning July 1, 2020 for domestic corporations and resident foreign corporations (RFCs) while January 1, 2021 for non-resident foreign corporations. Domestic corporations with net taxable income not exceeding P5 million and with total assets not exceeding P100 million, excluding land on which the particular business entity's office, plant and equipment are situated, are subject to 20% income tax.

2. Beginning July 1, 2020 until June 30, 2023, temporary reduction of the minimum corporate income tax rate to 1% for domestic corporations and RFCs.

Applying the provisions of CREATE law, the Bank is subjected to lower regular corporate income tax rate of 25% and MCIT of 1% effective July 1, 2020. The Bank recognized an adjustment in 2021 pertaining to the December 31, 2020 balances which resulted in an increase of P333,960 in deferred tax expense and a decrease of P139,710 in current income tax expense.

Note 16 - Employee benefits

Compensation and employee benefits

Compensation and employee benefits for the years ended December 31 consist of:

	2021	2020
Salaries and wages	27,870,920	33,180,276
Retirement benefits expense	1,995,402	2,285,979
Other employee benefits	15,711,036	21,674,447
	45,577,358	57,140,702

Other employee benefits mainly include fringe benefits and SSS, Pag-ibig and Philhealth contributions.

Retirement benefits

The Bank accrues retirement benefits based on an annual actuarial valuation report covering regular and qualified employees.

The Bank maintains a non-contributory defined benefit type plan which provides a retirement benefit equal to 100% of Plan Salary for every year of credited service. Benefits are paid in lump-sum upon retirement or separation in accordance with the terms of the Plan.

The Bank's latest actuarial valuation was performed as at December 31, 2021.

Details of the retirement benefits obligation recognized in the statement of financial position as at December 31 are as follows:

	2021	2020
Present value of benefit obligations	8,215,292	9,566,058
Fair value of plan assets	(1,439,718)	(1,120,003)
Retirement benefit obligation	6,775,574	8,446,055

Details of the retirement benefits expense recognized in profit or loss for the years ended December 31 are as follows:

	2021	2020
Current service cost	1,772,517	1,832,648
Net interest cost	222,885	453,331
	1,995,402	2,285,979

The movements in the present value of retirement benefits obligation are as follows:

	2021	2020
At beginning of year	9,566,058	11,536,880
Current service cost	1,772,517	1,832,648
Interest cost	257,327	639,143
Remeasurements		
(Gain) Loss from changes in financial assumptions	(351,960)	661,322
Gain from experience adjustments	(1,710,207)	(739,755)
Gain from changes in demographic assumptions	(2,593)	-
Benefits paid	(1,315,850)	(4,364,180)
At end of year	8,215,292	9,566,058

The movements in the fair value of plan assets are as follows:

	2021	2020
At beginning of year	1,120,003	5,536,098
Contributions	1,636,594	-
Interest income	34,442	185,812
Remeasurement loss on return on plan asset	(35,471)	(237,727)
Benefits paid	(1,315,850)	(4,364,180)
At end of year	1,439,718	1,120,003

Plan assets at December 31, 2021 and 2020 comprise mainly of investments in trust fund which the carrying amount approximates its fair value at said dates.

The actuarial assumptions used to determine retirement benefit obligation as at December 31 are as follows:

	2021	2020
Discount rate	4.51%	2.69%
Salary increase rate	3.00%	3.00%

The discount rate as at December 31, 2021 and 2020 was based on approximated zero-coupon yield of government bonds with remaining period to maturity approximating the estimated average duration of benefit payment. The salary increase rate assumption takes into consideration the prevailing inflation rate and Bank's policy.

Discount rate sensitivity

The following illustrates the sensitivity to a reasonably possible change in each key assumption, with all other variable held constant, of the Bank's accrued retirement benefits. The sensitivity analysis is prepared assuming the fair value of asset does not vary during the period. The methods and assumptions are the same in prior years. A 100 bps increase, or decrease is used when reporting this risk internally to key management personnel and represents management's assessment of the reasonably possible change in discount rate and salary increase. The impact on the Bank's retirement benefits obligation which affects the Bank's cash flow is as follows:

	Increase in assumption	Decrease in assumption
December 31, 2021		
Discount rate	(178,499)	188,815
Salary growth rate	189,768	(182,765)
December 31, 2020		
Discount rate	(235,709)	249,007
Salary growth rate	245,787	(237,261)

Expected maturity analysis of retirement obligation follow:

	Less than 1 year	Between 1-5 years	Over 5 years
December 31, 2021	6,446,941	2,246,989	11,787,881
December 31, 2020	5,557,168	5,529,437	9,663,935

The expected contribution to the retirement benefit plan in 2022 amounts to P2,000,000.

Except for the disclosure above and the preceding pages, no other transaction occurred with the retirement plan as at December 31, 2021 and 2020.

Note 17 - Related parties

The Bank, in the normal course of business, has transactions with related parties. The following are the specific relationships, amount of transactions, account balances, the terms and conditions and the nature of the consideration to be provided in the settlement.

a) *Loans and credit accommodations to directors, officers, stockholders and other related interests (DOSRI)*

The Bank, from time to time, provides financial assistance to officers and employees, as part of the Bank's benefit program, to meet housing, transportation, household and personal needs of officers and employees subject to the terms and conditions approved by the BSP. As at December 31, 2021, the Bank has unsecured and unimpaired outstanding loans with DOSRI amounting to P253,125 (2020 - P478,125). The Bank has fully complied with BSP rules on DOSRI loans.

b) *Remuneration of key management personnel*

The salaries and employee benefits given to the Bank's key management personnel for the year ended December 31, 2021 amount to P18,617,212 (2020 - P21,997,192). Key management personnel include managerial and higher-level positions.

Note 18 - Lease

The Bank has lease arrangements for its Ortigas branch for a term of five (5) years from March 1, 2016 to February 28, 2021. The lease is renewable upon mutual agreement of both parties and is subject to 7% escalation on the rental fees starting on the third year.

In 2020, the Bank terminated the lease in Ortigas branch simultaneous with the closure of the branch (Note 6). The security deposit and advance rental of P617,983 paid by the Bank, of which P175,718 is returned by the lessor, is presented in “Miscellaneous deposits” under Other assets in the statement of financial position (Note 7).

The movements in lease liability is presented below:

	2021	2020
January 1	-	3,230,659
Principal payments	-	(656,170)
Interest payments	-	(7,670)
Interest expense	-	7,670
Write-off	-	(2,574,489)
December 31	-	-

Note 19 - Significant contracts

On August 8, 2006, the Bank executed a memorandum of agreement with the Philippine Retirement Authority (PRA) which qualified the Bank as a depository or trustee for the requisite deposit of the retirees under the Retirement Program of the PRA. Under the program, the qualified retirees are required to open a time deposit, trust account or any other instrument that the Bank offers and will earn interest at a rate of 2% per annum. Upon maturity, unless otherwise directed by the retiree, the net interest earned will then become part of the principal.

As at December 31, 2021, total special savings deposits pertaining to this program amount to P482.7 million (2020 - P608.06 million) and included under “Special savings” in deposit liabilities (Note 8). Under the agreement, certain conditions should be met for the Bank to qualify as a depository unit of PRA, these include, but not limited to the following: maintenance of a capital adequacy, asset quality, management, earnings, liquidity risk, and sensitivity to market risk (CAMELS) rating of at least "3" from the BSP. As at December 31, 2021 and 2020, the Bank had satisfactorily complied with these PRA requirements.

As at December 31, 2021, PRA management fees amount to P8,925,725 (2020 - 9,746,007), and is shown as part of Professional fees (Note 14).

Note 20 - Critical accounting judgments and estimates

The preparation of the financial statements in compliance with the Philippine Financial Reporting Standards (PFRS) requires management to make judgments and estimates that affect amounts reported in the financial statements. The judgments and estimates used in the financial statements are based upon management’s evaluation of facts and circumstances at the end of the reporting period. Actual results could differ materially from such estimates.

Estimates and judgments are continuously evaluated and are based on historical experience and other factors, including expectations of future events, which are believed to be reasonable under the circumstances.

Critical accounting judgments

i. Realization of deferred income tax assets (Note 15)

Management reviews at each reporting date the carrying amounts of deferred tax assets. The carrying amount of deferred tax assets is reduced to the extent that the related tax assets cannot be utilized due to insufficient taxable profit against which the deferred tax losses will be applied.

Critical accounting estimates

i. Measurement of the expected credit loss for loans and receivables under PFRS 9 (Note 5)

The measurement of the expected credit loss (ECL) for loans and receivables is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behavior (e.g. the likelihood of customers defaulting and the resulting losses).

A number of significant judgments are also required in applying the accounting requirements for measuring ECL, such as:

- Determining criteria for significant increase in credit risk;
- Choosing appropriate models and assumptions for the measurement of ECL;
- Establishing the number and relative weightings of forward-looking scenarios for each type of product and the associated ECL; and
- Establishing groups of similar financial assets for the purposes of measuring ECL.

Allowance for credit losses on loans and receivables amounts to P12,769,779 and P13,946,703 as at December 31, 2021 and 2020, respectively.

ii. Estimated useful lives of bank premises, furniture, fixtures and equipment, and computer software (Notes 6 and 7)

The Bank estimates the useful lives of its bank premises, furniture, fixtures and equipment, and computer software based on the period over which the assets are expected to be available for use. The estimated useful lives are reviewed at least annually and are updated if expectations differ from previous estimates due to physical wear and tear. The estimation of the useful lives of the bank premises, furniture, fixtures and equipment and computer software are based on a collective assessment of industry practice and experience with similar assets. It is possible, however, that future results of operations could be materially affected by changes in estimates brought about by changes in the factors mentioned above.

The amounts and timing of recorded expenses for any period would be affected by changes in these factors and circumstances. A reduction in the estimated useful lives of the bank premises, furniture, fixtures and equipment and computer software would increase recorded operating expenses and decrease the related assets.

iii. Estimated retirement benefits obligation (Note 16)

The determination of the Bank's obligation and cost of pension and other retirement benefits is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions are described in Note 16 and include, among others, discount rates and salary increase rate. In accordance with PFRS, actual results that differ from the assumptions are accumulated and amortized over future periods and therefore, generally affect the recognized expense and recorded obligation in such future periods.

Retirement benefit obligation as at December 31, 2021 and 2020 is disclosed in Note 16.

Note 21 - Financial risk and capital management

21.1 Financial risk management objectives and policies

The Bank's operation involves the traditional banking activities of deposit-taking and lending to qualified individual or corporate borrowers and use of financial instruments. The Bank is exposed to the following risks from its use of financial instruments: (a) credit; (b) liquidity; (c) interest rate; (d) foreign currency; and (e) price risks.

The Bank is exposed to a variety of financial risks which results from its operating and investing activities. The Bank's risk management focuses on actively securing the Bank's short to medium term cash flows by minimizing the exposure to financial markets. Long-term financial investments are managed to generate lasting returns.

Risk management structure and process

The Bank has established sound risk management practices which include appropriate and reasonable contingency plans in handling risks and to guide the Bank's management and BOD to understand, measure, monitor and control the risk assumed, adopt risk management practices whose sophistication and effectiveness are commensurate to the risk being monitored and controlled, and maintain capital commensurate with the risk exposure assumed.

The BOD and Senior Management of the Bank are ultimately responsible for the oversight of the Bank's risk management process. The BOD is responsible for understanding the nature and the level of risks taken by the Bank. The Senior Management is responsible for ensuring that risks are adequately managed both long-term and day-to-day basis. The Bank's BOD is in-charge of the implementation of the risk management process which includes, among others, the development of various risk strategies and principles, control guidelines, policies and procedures, implementation of risk measurement tools, monitoring of key risk indicators, and the imposition and monitoring of risk limits.

To effectively manage the risks, the Bank identifies current and prospective risk exposures by understanding the sources of risks arising from the Bank's existing or new business initiatives. The head of each department identifies various risks on their current and future operations/products or services. Identifying risk includes identifying the Bank's desired level of risk exposure (risk appetite) based on its ability and willingness to assume the risk.

Risk appetite is set by the Bank's BOD after discussion of the impact, likelihood and alternative ways to manage risk with various department heads. Risk identification is a continuing process and occurs at both the transaction and portfolio level.

Once the sources of risks have been identified, risk measurement models are applied to quantify the Bank's risk exposures. Risk measurement systems and methodologies are integrated in the Bank's risk management process and results are interpreted in coordination with other risk exposures. The Bank's Asset and Liability Committee (ALCO) is responsible for the assessment of possible liquidity risks by establishing indicators of potential risk, assessment and matching potential sources of funds, and monitoring of internal as well as market indicators of liquidity problems of the Bank. ALCO is also responsible for communicating potential exposure of the Bank to interest risk and foreign currency risk to the Senior Management and BOD. The Bank has also created a Credit Committee (CRECOM) which is responsible for the stringent evaluation and approval of loans and for remedial actions on problematic loan accounts.

The Bank maintains an adequate system of internal controls to ensure the integrity of its risk management process. These internal controls are integral part of the Bank's overall system of control. An independent internal audit review on the risk management process is performed on an annual basis. The Internal Audit Department is mandated to conduct annual review and results are reported to the Audit Committee and Senior Management for proper action. The ALCO also conducts review of the guidelines and introduces revisions on the risk management process. The review of risk management process also includes assessment of the assumptions, parameters, and measures used.

21.2 Impairment assessment

The references below show where the Bank's impairment assessment and measurement approach is set out in this report. It should be read in conjunction with the summary of significant accounting policies.

- The Bank's definition and assessment of default and cure (Note 21.2.1)
- An explanation of the Bank's internal grading system (Note 21.5.5)
- How the Bank defines, calculates and monitors the probability of default, exposure at default and loss given default (Note 21.3)
- When the Bank considers there has been a significant increase in credit risk of an exposure (Note 21.2.2)
- The Bank's policy of segmenting financial assets where ECL is assessed on a collective basis (Note 21.2.3)
- The details of the ECL calculations for Stage 1, Stage 2 and Stage 3 assets (Note 21.5.5)

21.2.1 Definition of default and cure

The Branch considers a financial instrument defaulted and therefore Stage 3 (credit-impaired) for ECL calculations when one or more events that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. The following enumerates the events triggering default for each financial asset:

(a) Receivables from customers

i. Principal or interest payments over 3 months (90 days) past due, or the bank has begun collection procedures or liquidation of collateral
ii. Cases where the court has initiated reorganization or liquidation proceedings
iii. Declaration of bankruptcy in court
iv. Debtor's loans from other banking institutions have been recognized as nonperforming, and reclassified as non-accrual or written off as bad debts.
v. Debtor has filed for bankruptcy, reorganization, or other debt clearance proceedings
vi. Loans classified as "in default" according to the Bank's internal credit rating model

(b) Investments in debt instruments/ Due from BSP and other banks

i. External credit ratings of the instrument are "in default"
ii. Principal or interest payments over 3 months (90 days) past due, or are not made in accordance with the agreement
iii. Bankruptcy, reorganization, or other debt clearance proceedings has been filed
iv. Other breaches of contract by the debtor as assessed on a case-by-case basis

(c) Other financial assets

i. Miscellaneous deposits: At the balance sheet date, the deposit has not been returned at maturity or overdue from the collection date, unless the contractual terms specify it.
ii. Remaining receivables: At the balance sheet date, the borrower is more than 90 days past due on its contractual payments.

It is the Bank's policy to consider a financial instrument as 'cured' and therefore re-classified out of Stage 3 when none of the default criteria have been present. The decision whether to classify an asset as Stage 2 or Stage 1 once cured depends on the updated indicators at the time of the cure, and the asset no longer showing significant increase in credit risk compared to initial recognition.

21.2.2 Significant increase in credit risk (SICR)

The Bank continuously monitors all assets subject to ECL. In order to determine whether an instrument or a portfolio of instruments is subject to 12-month ECL or lifetime ECL, the Bank assesses whether there has been a significant increase in credit risk since initial recognition.

At every balance sheet date, the Bank assesses the change in default risk over the lifetime of each financial asset to determine whether there has been a significant increase in credit risk since initial recognition. The Bank considers reasonable and supportable information (including forward-looking information) when determining whether there has been significant increase in credit risk. The main indicators taken into account for each financial asset are as follows:

(a) Receivables from customers

i. The borrower is over 30 days past due.
ii. The Bank's internal credit rating of the asset is equivalent to a non-investment grade rating by an external agency, and the rating has dropped by more than two scales since initial recognition.
iii. Records of bad credit are confirmed after assessment

(b) Investments in debt instruments/ Due from BSP and other banks.

i. The Bank's internal credit rating of the asset is equivalent to a non-investment grade rating by an external agency, and the rating has dropped by more than two scales since initial recognition.
ii. The contractual payments of counterparties are more than 30 days past due.

(c) Other financial assets

i. Miscellaneous deposits: At the balance sheet date, the deposit has not been returned at maturity.
ii. Other receivables: At the balance sheet date, the borrower is more than 30 days past due on its contractual payment.

21.2.3 Grouping of financial assets measured on a collective basis

Depending on the factors below, the Bank calculates ECL either on a collective or an individual basis.

Financial assets subject to ECL that have been assessed individually but for which no impairment is required and all individually insignificant exposure are then assessed collectively, in groups of assets with similar credit risk characteristics.

The Bank groups these exposure into smaller homogeneous portfolios, based on a combination of internal and external characteristics of the loans.

21.3 Analysis of inputs to the ECL model under multiple economic scenarios

An overview of the approach to estimating ECLs is set out in Note 22 Summary of significant accounting policies and in Note 20 Critical accounting judgments and estimates.

The following table shows the forecast of the key forward-looking economic variables used in each of the economic scenarios for the ECL calculations for financial year ended December 31, 2021 and 2020. The figures for "Subsequent years" represent a long-term average and the same are applied for each scenario.

Key variables (2021)	ECL scenario	Assigned probabilities (%)	Next 12 months	2 to 5 years (Average)
GDP (in million pesos)	Base scenario	50	12,149	12,149
	Upside	20	11,352	11,352
	Downside	30	8,113	8,113
Unemployment (%)	Base scenario	50	10.00%	10.00%
	Upside	20	5.10%	5.10%
	Downside	30	17.70%	17.70%
Trade balance (as % of GDP	Base scenario	50	(12.10%)	(12.10%)
	Upside	20	(3.60%)	(3.60%)
	Downside	30	(14.70%)	(14.70%)
Net foreign direct investments flows (Growth rate in %)	Base scenario	50	37.60%	37.60%
	Upside	20	157.30%	157.30%
	Downside	30	53.40%	53.40%
Overall balance of payments (In million US$)	Base scenario	50	1,274	1,274
	Upside	20	2,844	2,844
	Downside	30	9,144	9,144
Overall surplus/deficit (as % of GDP)	Base scenario	50	(9.2)	(9.2)
	Upside	20	1	1
	Downside	30	(11.5)	(11.5)
Exports (Growth rate in %)	Base scenario	50	12.7	12.7
	Upside	20	(25.6)	(25.6)
	Downside	30	36.6	36.6

Key variables (2020)	ECL scenario	Assigned probabilities (%)	Next 12 months	2 to 5 years (Average)
GDP (in million pesos)	Base scenario	50	11,352	12,149
	Upside	20	10,608	11,352
	Downside	30	7,170	7,594
Unemployment (%)	Base scenario	50	10.0%	10.0%
	Upside	20	5.1%	5.1%
	Downside	30	17.7%	17.7%
Trade balance (as % of GDP	Base scenario	50	(6.2%)	(6.2%)
	Upside	20	(1.5%)	(1.5%)
	Downside	30	(14.7%)	(14.7%)
Net foreign direct investments flows (Growth rate in %)	Base scenario	50	(30.9%)	(30.9%)
	Upside	20	157.3%	157.3%
	Downside	30	(53.4%)	(53.4%)
Overall balance of payments (In million US$)	Base scenario	50	4,177	4,177
	Upside	20	(2,068)	(2,068)
	Downside	30	4,177	4,177
Overall surplus/deficit (as % of GDP)	Base scenario	50	(7.5)	(7.5)
	Upside	20	1.0	1.0
	Downside	30	(11.5)	(11.5)
Exports (Growth rate in %)	Base scenario	50	(6.7)	(6.7)
	Upside	20	(29.2)	(29.2)
	Downside	30	25.5	25.5

Sensitivity analysis

The loan portfolios have different sensitivities to movements in macroeconomic variables, so the above three scenarios have varying impact on the expected credit losses of the Bank's portfolios. The allowance for impairment is calculated as the weighted average of expected credit losses under the baseline, upside and downside scenarios. The impact of weighting these multiple scenarios was a decrease in the allowance for impairment by P308,667 from the baseline scenario as of December 31, 2021 (2020 - P153,258 decrease).

21.4 Financial instrument by category

2021	Fair value through profit or loss	Designated at fair value through profit or loss	Fair value through other comprehensive income	At amortized cost	Total
Cash and other cash items	-	-	-	12,104,048	12,104,048
Due from BSP	-	-	-	425,196,121	425,196,121
Due from other banks	-	-	-	446,163,108	446,163,108
Investments securities at FVOCI	-	-	1,476,800,417	-	1,476,800,417
Investment securities at amortized cost	-	-	-	167,473,394	167,473,394
Loans and receivables, net	-	-	-	365,827,903	365,827,903
Miscellaneous deposits	-	-	-	5,760,299	5,760,299
	-	-	1,476,800,417	1,422,524,873	2,899,325,290

	Fair value through profit or loss	Designated at fair value through profit or loss	Other financial liabilities	Total
Deposit liabilities	-	-	925,093,684	925,093,684
Manager's checks	-	-	1,328,109	1,328,109
Accrued interest and other expenses	-	-	13,311,755	13,311,755
Accounts payable	-	-	3,539,797	3,539,797
	-	-	943,273,345	943,273,345

2020	Fair value through profit or loss	Designated at fair value through profit or loss	Fair value through other comprehensive income	At amortized cost	Total
Cash and other cash items	-	-	-	20,874,402	20,874,402
Due from BSP	-	-	-	1,119,311,500	1,119,311,500
Due from other banks	-	-	-	711,688,726	711,688,726
Investments securities at FVOCI	-	-	744,146,900	-	744,146,900
Investment securities at amortized cost	-	-	-	176,936,464	176,936,464
Loans and receivables, net	-	-	-	486,841,276	486,841,276
Miscellaneous deposits	-	-	-	5,909,099	5,909,099
	-	-	744,146,900	2,521,561,467	3,265,708,367

	Fair value through profit or loss	Designated at fair value through profit or loss	Other financial liabilities	Total
Deposit liabilities	-	-	1,204,077,885	1,204,077,885
Manager's checks	-	-	1,837,410	1,837,410
Accrued interest and other expenses	-	-	13,424,255	13,424,255
Accounts payable	-	-	18,829,615	18,829,615
	-	-	1,238,169,165	1,238,169,165

21. 5 Credit risk

Credit risk is the risk of financial loss arising from the borrowers' inability to meet their contractual obligation. The Bank's operation involves the traditional banking activities of deposit-taking and lending to qualified individual or corporate borrowers. Financial problems may arise from lending activities specifically from failure of the borrowers to pay their obligation on time, poor monitoring of documentary requirements that are required to be submitted annually, or failure to regularly monitor the submission of updated reports for active accounts.

21.5.1 Credit risk management

The following guidelines are being implemented by the Bank to mitigate credit risk:

Collection management guidelines

This defines the collection or recovery process of delinquent accounts, the policies on loan loss provisioning, restructuring of accounts, writing off delinquent accounts, compromise agreements and other matters on collection.

Credit guidelines for loans

This defines the requirements, features, qualifications of loan products being offered by the Bank. It includes the process from loan application to approval and monitoring. The following were performed by the Bank to manage credit risk:

- The Bank offers loan products to qualified individuals and corporate clients based on sound and prudent bank practices and in accordance with its existing policies;
- Extending loan facilities to qualified individuals, by taking into consideration the character, capacity, collateral and condition of each borrower;
- For loans that are secured by collaterals, the Bank ensures that it can annotate its mortgage and therefore, protect its legal interest thereto; and
- The Bank ensures that loans are approved by the CRECOM and BOD based on set limits.

Credit rating of corporate finance is categorized into 10 levels according to the risk assessment on each credit extension case. When a loan is granted, in addition to the credit quality of the client, fund purpose, and repayment source, the protection of claims and credit prediction should be considered, and credit risk by credit account and facility should also be respectively assessed and rated based on the corporate or consumer risk rating referencing standards.

Credit risk rating of consumer finance is categorized by client category, client profession and the rating of collateral threshold.

21.5.2 Maximum exposure to credit risk

The table below shows the maximum exposure to credit risk of the Bank as at December 31:

	2021	2020
On-balance sheet		
Due from Bangko Sentral ng Pilipinas	425,196,121	1,119,311,500
Due from other banks	446,163,108	711,688,726
Investment debt securities at FVOCI	1,474,651,217	742,248,465
Investment securities at amortized cost	167,595,169	177,103,964
Loans and receivables	378,597,682	500,787,979
Miscellaneous deposits	5,760,299	5,909,099
Off-balance sheet		
Undrawn loan commitments	140,000,000	95,000,000
	3,037,963,596	3,352,049,733

Loans and receivables is presented gross of allowance for credit losses.

21.5.3 Credit risk concentration profile

Credit risk exposure is also analysed by industry as of December 31 in respect of the Bank's on-balance sheet financial assets as set out below:

2021	Due from BSP	Due from other banks	Investment securities at FVOCI	Investment securities at amortized	Loans and receivables	Miscellaneous deposit	Commitment and contingent accounts	Total
Financial institutions	425,196,121	446,163,108	50,904,652	38,423,378	260,000,000	-	-	1,220,687,259
Sovereign	-	-	1,314,237,000	78,645,042	-	-	-	1,392,882,042
Electricity, gas, steam and airconditioning supply	-	-	40,025,085	-	-	-	-	40,025,085
Community, social and personal activities	-	-	-	-	-	-	-	
Service activities	-	-	-	-	4,690,551	-	-	4,690,551
Agriculture,forestry and fishing	-	-	-	-	31,851,083	-	-	31,851,083
Construction	-	-	69,484,480	50,526,749		-	-	120,011,229
Wholesale and retail	-	-	-	-	31,602,825	-	-	31,602,825
Real estate, renting and business activities	-	-	-	-	31,580,998	1,070,378	-	32,651,376
Others	-	-	-	-	18,872,225	4,689,921	140,000,000	163,562,146
	425,196,121	446,163,108	1,474,651,217	167,595,169	378,597,682	5,760,299	140,000,000	3,037,963,596

2020	Due from BSP	Due from other banks	Investment securities at FVOCI	Investment securities at amortized cost	Loans and receivables	Miscellaneous deposit	Commitment and contingent accounts	Total
Financial institutions	1,119,311,500	711,688,726	-	49,210,049	305,000,000	-	-	2,185,210,275
Sovereign	-	-	673,252,000	76,943,833		-	-	750,195,833
Electricity, gas, steam and airconditioning supply	-	-	-	-	13,775,118	-	-	13,775,118
Community, social and personal activities	-	-	-	-	-	-	-	-
Service activities	-	-	-	-	26,458,757	-	-	26,458,757
Agriculture,forestry and fishing	-	-	-	-	45,500,000	-	-	45,500,000
Construction	-	-	68,996,465	50,950,082	-	-	-	119,946,547
Wholesale and retail	-	-	-	-	71,699,069	-	-	71,699,069
Real estate, renting and business activities	-	-	-	-	27,033,845	1,230,378	-	28,264,223
Others	-	-	-	-	11,321,190	4,678,721	95,000,000	110,999,911
	1,119,311,500	711,688,726	742,248,465	177,103,964	500,787,979	5,909,099	95,000,000	3,352,049,733

21.5.4 Collateral

The Bank holds collateral against specific type of loans and receivables in the form of chattel and mortgage interests, other registered securities over assets, hold-out agreements and guarantees such as post-dated checks. Estimates of fair value (for determining loanable amount) are based on the value of collateral assessed at the time of borrowing. Collateral generally is not held over loans and receivables to other banks, except when securities are held as part of reverse repurchase and securities borrowing activity.

The fair value of real and chattel mortgage held as collateral against loans and receivables amounts to P259 million and P608 million as at December 31, 2021 and 2020, respectively.

21.5.5 Credit quality of financial assets

Loans and receivables, net

In response to the characteristics and scale of business, the Bank sets up credit quality rating for risk management purposes (such as implementing internal evaluation model of credit risk, setting up credit rating table or other relevant regulations).

The Bank, using statistical methods and expert professional judgment, as well as the consideration of client information, developed a business credit rating model for the purpose of evaluating the credit risk of corporate clients. The model is regularly reviewed to check if the calculation result is consistent with the actual situation, and adjustment of various inputs is calibrated to optimize the calculation result.

The credit quality of borrowers can be divided into four risk categories, which are set out and defined below, from very low to high, apart from impaired:

	Corporate	Consumer
Credit risk rating	Internal credit ratings mapped to S&P's ratings	Internal credit ratings
Very low	AAA to A-	Obligors rated in this category have an excellent capacity to meet financial commitments with very low credit risk.
Low	BBB+ to BB+	Obligors rated in this category have a good capacity to meet financial commitments with low credit risk.
Medium	BB- to B+	Obligors rated in this category have a fairly acceptable capacity to meet financial commitments with moderate credit risk.
High	B- to CCC	Obligors rated in this category have uncertain capacity to meet financial commitments and are subject to high credit risk.

Other than the above rated risk categories, other categories used internally are as follows:

Impaired/default - Obligors with objective evidence of impairment as a result of one or more events that have an impact on the estimated future cash flows of the obligors that can be reliably estimated. The detailed definition is further disclosed in Note 21.2.1.

Unrated - Refer to obligors which are currently not assigned with obligors' ratings due to unavailability of ratings models.

Investment debt securities

The risk management of the Bank's debt instruments is based on credit rating of external institutions, credit quality of bonds, condition by geographical location and counterparty risk to identify the credit risk.

The Bank assesses the credit quality of debt instrument investments similar to corporate loans from very low to high risk based on their external credit ratings.

Due from BSP and other banks

The Bank assesses the credit status of each counterparty before any transaction, and ratings assigned by domestic and foreign external ratings agencies are used in determining internal credit grades on which various credit risk exposure limits are set and then granted to different counterparties.

Other financial assets at amortized cost

For other financial assets (accounts receivable and miscellaneous deposits), the Bank applies the PFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected credit loss methodology. These financial assets are grouped based on shared risk characteristics and aging profile. For some of these, impairment is assessed individually at a counterparty level.

The following table sets out the credit quality of financial assets by category:

Loans and receivables

	2021 ECL Staging			
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Credit grade				
Low	60,616,073	-	-	60,616,073
Medium	265,206,838	-	-	265,206,838
High	-	14,993,468	570	14,994,038
Impaired	-	32,029,484	5,751,249	37,780,733
Gross carrying amount	325,822,911	47,022,952	5,751,819	378,597,682
Loss allowance	(5,183,660)	(3,969,354)	(3,616,765)	(12,769,779)
Carrying amount	320,639,251	43,053,598	2,135,054	365,827,903

	2020 ECL Staging			
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Credit grade				
Low	42,254,909	-	-	43,254,909
Medium	396,946,739	46,268,197	-	443,214,936
High	5,674,950	44,702	-	5,719,652
Impaired	-	-	9,598,482	9,598,482
Gross carrying amount	444,876,598	46,312,899	9,598,482	500,787,979
Loss allowance	(3,446,284)	(6,491,921)	(4,008,498)	(13,946,703)
Carrying amount	441,430,314	39,820,978	5,589,984	486,841,276

Investment in debt securities and other financial assets

	2021 ECL Staging			
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Low				
Due from BSP	425,196,121	-	-	425,196,121
Due from other banks	446,163,108	-	-	446,163,108
Investment securities at FVOCI	1,474,651,217	-	-	1,474,651,217
Investment securities at amortized cost	167,595,169	-	-	167,595,169
Unrated				
Miscellaneous deposits	5,760,299	-	-	5,760,299
Gross carrying amount	2,519,365,914	-	-	2,519,365,914
Loss allowance	(343,096)	-	-	(343,096)
Carrying amount	2,519,022,818	-	-	2,519,022,818

	2020 ECL Staging			
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
Low				
Due from BSP	1,119,311,500	-	-	1,119,311,500
Due from other banks	711,688,726	-	-	711,688,726
Investment securities at FVOCI	742,180,900	-	-	742,180,900
Investment securities at amortized cost	177,103,964	-	-	177,103,964
Unrated				
Miscellaneous deposits	5,909,099	-	-	5,909,099
Gross carrying amount	2,756,194,189	-	-	2,756,194,189
Loss allowance	(235,065)	-	-	(235,065)
Carrying amount	2,755,959,124	-	-	2,755,959,124

21.5.6 Credit quality of impaired financial assets (Stage 3)

Financial assets that are credit-impaired are shown below:

	2021	2020
Gross exposure	5,751,819	9,598,482
Allowance for impairment loss	(3,616,765)	(4,008,498)
	2,135,054	5,589,984
Fair value of collateral	-	10,795,000

21.6 Liquidity risk

Liquidity represents the ability to fund assets and meet obligations as they become due. It is essential for banks to compensate for expected and unexpected balance sheet fluctuations and provide funds for growth. To manage liquidity risk, the Bank has established Liquidity Risk Management Practices (LRMP) to ensure that the Bank is able to maintain a level of liquidity sufficient to meet its financial obligations in a timely manner. The Bank's LRMP also reflects the ability of the Bank to manage unplanned changes in funding sources, as well as to react to changes in market conditions that affect the ability to quickly liquidate assets with minimal loss. It also includes evaluating various funding sources and the costs associated with the sources identified.

Funding diversification allows the Bank to maintain access to different funding lines and allows more flexibility in selecting the appropriate funding source.

The Bank uses the following risk measurement methodologies to measure liquidity risk exposure:

a) Risk impact and likelihood rating guide

- No. 1 rating - may occur only in exceptional circumstances
- No. 2 rating - could occur at some time (low probability of occurrence)
- No. 3 rating - might occur at some time (moderate probability)
- No. 4 rating - will probably occur in most circumstances
- No. 5 rating - is expected to occur in most circumstances and has occurred several times in the unit

b) Daily cash level report (in Philippine peso and US dollar)

The Bank uses daily cash level report to measure excess funds on a daily basis and exposure on day to day (short term) funding liquidity risk. It is also used to determine the sufficiency of the Bank's reserves land excess funds available for BSP overnight lend.

c) Maturity matching

The Bank measures the exposure on liquidity risk arising from mismatched maturities of assets and liabilities, otherwise known as "tenor gaps". In this method, the Bank's financial assets and liabilities are divided into time bands and then slots each cash inflow and outflow items according to maturity dates. The overall objective is to determine and control liquidity "gaps" and highlight long term build ups in cash inflows and outflows. A gap per time band is computed by getting the difference between the inflows and outflows within the time band. A positive liquidity gap is an estimate of the Bank's net excess funds for the time band. A negative liquidity gap is an estimate of the future funding requirements of the Bank.

The table below presents an analysis of the maturity groupings of resources and liabilities in accordance with BSP account classifications. The liability balances disclosed in the following tables are based on contractual undiscounted cash flows, which may differ from the amounts included in the statement of financial position due to certain items which are based on discounted cash flows.

December 31, 2021	1-3 months	3 months-1 year	over 1-5 years	over 5 years	Total
Assets					
Cash and other cash items	12,104,048	-	-	-	12,104,048
Due from BSP	425,196,121	-	-	-	425,196,121
Due from other banks	446,163,108	-	-	-	446,163,108
Investment securities at FVOCI	-	250,000,000	859,572,548	375,499,500	1,485,072,048
Investment securities at amortized cost	2,157,833	9,460,214	107,614,239	49,553,760	168,786,046
Loans and receivables	12,802,861	63,523,800	259,948,950	40,775,483	377,051,094
Miscellaneous deposits	-	-	5,760,299	-	5,760,299
	898,423,971	322,984,014	1,232,896,036	465,828,743	2,920,132,764
Liabilities					
Deposit liabilities	237,251,716	28,764,805	659,077,162	-	925,093,683
Manager's check	1,328,109	-	-	-	1,328,109
Accrued interest other expenses	13,311,755	-	-	-	13,311,755
Other financial liabilities	3,539,797	-	-	-	3,539,797
	255,431,377	28,764,805	659,077,162	-	943,273,344
Gap	642,992,594	294,219,209	573,818,874	465,828,743	1,976,859,420

December 31, 2020	1-3 months	3 months- 1 year	over 1-5 years	over 5 years	Total
Assets					
Cash and other cash items	20,874,402	-	-	-	20,874,402
Due from BSP	1,119,311,500	-	-	-	1,119,311,500
Due from other banks	634,809,682	76,879,047	-	-	711,688,729
Investment securities at FVOCI	-	-	718,000,000	46,943,833	764,943,833
Investment securities at amortized cost	2,237,573	9,659,365	117,304,660	58,262,586	187,464,184
Loans and receivables	20,886,257	328,976,644	102,611,187	56,288,014	508,762,102
Miscellaneous deposits	-	5,909,099	-	-	5,909,099
	1,798,119,414	421,424,155	937,915,847	161,494,433	3,318,953,849
Liabilities					
Deposit liabilities	317,410,615	45,659,759	841,007,511	-	1,204,077,885
Manager's check	1,837,410	-	-	-	1,837,410
Deposit for future stock subscription	1,200,000,000	-	-	-	1,200,000,000
Accrued interest other expenses	13,424,254	-	-	-	13,424,254
Other financial liabilities	18,829,615	-	-	-	18,829,615
	1,551,501,894	45,659,759	841,007,511	-	2,438,169,164
Gap	246,617,520	375,764,396	96,908,336	161,494,433	880,784,685

The Bank performs the following to mitigate exposure to liquidity risk:

- Avoiding extreme concentration of transactions in a single market and loan exposure in a single industry;
- Diversification of loan / asset exposures in different industries, the types of transactions in which the Bank will engage in and establish exposure limits per industry/per individual type of products;
- Lending and investing only in highly liquid markets;
- Consideration of the availability of alternative markets as protection against the possibility of losing access to one or more markets during periods of overall market stress;
- Requiring treasury personnel to continuously observe market conditions and notify Risk Managers/Senior Management of any indications of market illiquidity (including suspension of availment on existing credit lines);
- Requiring Account Officers and Loan Officers to continuously observe market conditions and report to Risk Managers/Senior Management any indications of stress or problems in any industry/borrower;
- Consideration of the possible need to rebalance portfolios, provide extra collateral and manage potential defaults;
- Establishment of procedures that will identify and address timing mismatches in offsetting payment and delivery obligations, such as early terminations of deposits. This will be achieved through the preparation and analysis of various reports; and
- Observation of various control limits set by the BOD to minimize exposure on liquidity risk.

In addition to the developed procedures that mitigate liquidity risk exposure, the Bank has established a contingency plan to deal with temporary and long-term liquidity disruptions.

Minimum Liquidity Ratio

On February 8, 2018, the BSP issued Circular No. 996 series of 2018 entitled Amendments to the Liquidity Coverage Ratio Framework and Minimum Prudential Liquidity requirements for stand-alone thrift banks, rural banks, cooperative banks and Quasi-bank. Under the circular, covered banks shall maintain a prudential Minimum Liquidity Ratio (MLR) of 20% which consists of liquid assets to cover qualified liabilities including off-balance sheet liabilities.

As of December 31, 2021 and 2020, the Banks MLR compliance are as follows:

	2021	2020
Stock of liquid assets	2,276,307,375	2,601,039,593
Qualifying liabilities	952,232,652	1,249,026,542
MLR compliance	239%	208%

The Bank's stock of liquid assets consists of cash and cash equivalents, due from BSP and other banks and government debt securities.

21.7 Interest rate risk

Interest rate risk is the risk that changes in market interest rates will reduce current or future earnings and/or the economic value of a financial institution. Accepting interest rate risk is a normal part of the Bank's operation and is a major source of profitability and shareholder value. Excessive or inadequately understood and controlled interest rate risk, however, can pose a significant threat to the Bank's earnings and capital. Thus, an effective risk management process that maintains interest rate risk within prudent levels is essential to ensure the safety and soundness of the Bank. The Bank classifies sources of interest rate risk as option risk and repricing.

a) Prepayment option risk

Option risk is presented by optionality that is embedded in some assets and liabilities. The most common example is the mortgage loan. This type of loan presents significant option risk due to prepayment option available to clients.

For salary loans and other types of loans, the clients have the option to prepay the loan or they can extend the term of the loan which has the effect of slowing down the repayment. In terms of deposit products, clients have the option to terminate deposit accounts which in turn would lessen deposit liabilities of the Bank. As at December 31, 2021, loans subject to prepayment risk represents commercial, consumption and real estate loans with an aggregate amount of P364,347,758 (2020 - P489,466,789) (Note 5). The effect of prepayment option is deemed not significant as the option price normally approximates the amortized cost of the financial instruments at option date.

b) Repricing risk

The simplest technique for measuring interest rate risk exposure starts with a maturity or repricing schedule that distributes interest-sensitive assets, liabilities and off-balance sheet positions into a certain number of predefined time bands according to their maturity or time remaining to their next repricing. The Bank has condominium loan products in which borrowers may choose to avail of the fixed interest rate from one (1) to five (5) years. The market rate may tend to go up or down which exposes the Bank to repricing risk. As at December 31, 2021, the Bank's condominium loans under Real estate classification which are subject to repricing risk amount to P18,075,217 (2020 - P27,028,702) (Note 5).

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

The Bank adopts repricing gap analysis in analyzing its resources and liabilities based on expected interest realization and recognition.

If the analysis shows a positive gap, the Bank is exposed to the risk that interest rates will go down; however, if the analysis shows a negative gap, the Bank is exposed to the risk that interest rates will go up.

The interest rate risk profile of the Bank's assets and liabilities is as follows:

December 31, 2021	Repricing 1-3 months	Repricing 3 months-1 year	Repricing 1-5 years	Non-repricing	Total
Assets					
Cash and other cash items	-	-	-	12,104,048	12,104,048
Due from BSP	408,721,727	-	-	16,474,394	425,196,121
Due from other banks	-	387,821,896	-	58,341,213	446,163,109
Investment securities at FVOCI	-	250,000,000	1,235,072,048	-	1,485,072,048
Investment securities at amortized cost	40,141,004	-	-	128,645,042	168,786,046
Loans and receivables	20,033,295	302,010,536	42,303,928	-	364,347,759
Miscellaneous deposits	-	-	-	5,760,299	5,760,299
	468,896,026	939,832,432	1,277,375,976	221,324,996	2,907,429,430
Liabilities and equity					
Deposit liabilities	27,484,019	28,764,805	449,309,465	419,535,395	925,093,684
Manager's check	-	-	-	1,328,109	1,328,109
Other financial liabilities	-	-	-	3,539,797	3,539,797
	27,484,019	28,764,805	449,309,465	424,403,301	929,961,590
Gap	441,412,007	911,067,627	828,066,511	(203,078,305)	1,977,467,840

December 31, 2020	Repricing 1-3 months	Repricing 3 months-1 year	Repricing 1-5 years	Non-repricing	Total
Assets					
Cash and other cash items	-	-	-	20,874,402	20,874,402
Due from BSP	1,101,416,164	-	-	17,895,336	1,119,311,500
Due from other banks	585,253,971	76,879,047	-	49,555,708	711,688,726
Investment securities at FVOCI	-	-		742,180,900	742,180,900
Investment securities at amortized cost	49,421,049	-	-	127,515,415	176,936,464
Loans and receivables	10,253,757	328,976,644	150,236,392	10,979,999	500,446,792
Miscellaneous deposits	-	-	-	5,909,099	5,909,099
	1,746,344,941	405,855,691	150,236,392	974,910,859	3,277,347,883
Liabilities and equity					
Deposit liabilities	88,357,508	45,659,759	611,954,404	458,106,214	1,204,077,885
Manager's check	-	-	-	1,837,410	1,837,410
Deposit for future stock subscription	-	-	-	1,200,000,000	1,200,000,000
Other financial liabilities	-	-	-	18,829,615	18,829,615
	88,357,508	45,659,759	611,954,404	1,678,773,239	2,424,744,910
Gap	1,657,987,433	360,195,932	(461,718,012)	(703,862,380)	852,602,973

The Bank can tolerate a cumulative positive or negative gap of at least 35% for regular banking unit and 85% for the FCDU’s total interest rate sensitive assets or liabilities and equity. Any excess thereon is communicated to the ALCO who courses through to Senior Management and BOD for proper action.

The table below represents the sensitivity of the Bank's financial assets to a ±100 basis points possible interest rate changes with all other variables held constant as at December 31:

Effect of reasonably possible shift in profit and loss	Change in interest rate	2021	2020
Interest rate-sensitive financial assets			
Due from BSP	±100 bps	±4,087,217	±11,014,162
Due from other banks	±100 bps	±3,878,219	±6,621,330
Investment securities at amortized cost	±100 bps	±383,860	±494,210
Loans and receivables, net	±100 bps	±3,643,478	±4,894,668
		±11,992,774	±23,024,370
Interest rate-sensitive financial liability			
Deposit liabilities	±100 bps	±5,055,583	±7,459,717

21.8 Foreign currency exchange risk

Foreign currency exchange risk is the risk to earnings or capital arising from changes in foreign exchange rates. In contracting to meet clients' foreign currency needs or simply buying and selling foreign exchange for its own account, the Bank undertakes a risk that exchange rates might change subsequent to the time the contract is consummated.

Most of the Bank's transactions are carried out in Philippine peso. Exposures to foreign currency exchange risk arise mainly from the foreign currency denominated due from other banks maintained by the Bank.

Foreign currency denominated financial assets as at December 31 are translated into Philippine peso at closing rate as follows:

	2021		2020	
	In US Dollar	In Philippine Peso	In US Dollar	In Philippine Peso
Financial assets				
Cash and other cash items	30,511	1,556,030	54,952	2,638,795
Due from other banks	7,838,112	399,735,898	14,349,528	689,064,321
Investment securities at FVOCI	1,498,150	76,404,152	-	-
Investment securities at amortized cost	953,099	48,607,098	976,794	46,905,663
Loans and receivables	23,279	1,187,196	210,000	10,084,200
Other assets	400	20,361	9,511	456,719
	10,343,551	527,510,735	15,600,785	749,149,698
Financial liabilities				
Deposit liabilities	9,207,902	469,593,790	14,489,317	695,777,010
Accrued interest payable	103	5,248	176	8,432
	9,208,005	469,599,038	14,489,493	695,785,442
Total net exposure	1,135,546	57,911,697	1,111,292	53,364,256

These balances were translated using the Bankers Association of the Philippines (BAP) peso-dollar exchange rates of P51 (2020 - P48.02) as at December 31, 2021. Net unrealized foreign exchange gain for the year ended December 31, 2021 amount to P3,364,727 (2020 - P2,539,603 loss).

Foreign currency-denominated deposits are generally used to fund the Bank's foreign currency denominated loans 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 a 30% liquidity reserve on all foreign currency liabilities held under the FCDU. As at December 31, 2021 and 2020, the Bank is in compliance with the said regulations.

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

For a 6.21% and 5.16% change in the foreign exchange rate of the Bank against relevant currency, there would be an equal and opposite impact on the pre-tax income and equity and the effects are shown below:

	Change in FX rate	Impact on pre-tax income	Impact on equity
December 31, 2021	+/-6.21%	+/-3,592,667	+/-2,694,500
December 31, 2020	+/-5.16%	+/-2,753,596	+/-1,927,517

Exposures to foreign exchange rate fluctuation vary during the year depending on the volume of USD buying and selling transactions. Nonetheless, the analysis above is considered to be representative of the Bank's exposure to foreign currency risk.

21.9 Price risk

The Bank is exposed to price risk on the fluctuation on the price or fair value of its investments at FVOCI - quoted equity securities. It manages its risk arising from changes in market price by monitoring the changes in the market price of the investments. The fair value of investments at FVOCI are based on published prices in the market.

The following table details the Bank's sensitivity to a 10% increase and decrease in the market prices of investments at FVOCI. The sensitivity rate used represents the management's assessment of the reasonably possible changes in the market values.

2021	Change in market values	Impact on equity
Investment securities at	+10%	35,625
FVOCI	-10%	(35,625)

2020	Change in market values	Impact on equity
Investment securities at	+10%	137,620
FVOCI	-10%	(137,620)

21.10 Fair value information

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follow:

- Level 1 - Quoted (unadjusted) market prices in active markets 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; and
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

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

Financial asset measured at fair value

The fair value and fair value hierarchy of financial assets at fair value through other comprehensive income (FVOCI) as at December 31 are as follows:

	2021	2020	Valuation
Financial assets at FVOCI			
Level 1	1,476,800,417	744,146,900	Published prices

Financial assets and liabilities measured at amortized cost for which fair value is disclosed

The following gives the fair value information of the Bank's investment securities at amortized cost which are not measured at fair value, but the fair values are disclosed at the end of each reporting period:

	2021		2020	
	Carrying values	Fair values	Carrying values	Fair values
Investment securities at amortized cost	167,473,394	176,244,661	176,936,464	189,635,657

These investment securities at amortized cost is classified under Level 1 based on market prices or broker/dealer price quotations.

Cash and other cash items and due from BSP and other banks

Due to the short-term nature of these financial instruments, their fair value approximates the carrying amount as at reporting date.

Loan and receivables

Fair value of loans and receivables is estimated by discounting anticipated cash (including interest at contractual rates). Performing loans are grouped, to the possible, into homogenous pools segregated by maturity and the coupon rates of the loans within each pool. In general, cash flows are discounted using current market rates for instruments with similar maturity, repricing and risk characteristics.

For non-performing loans and receivables, an estimate is made of the time period to realize these cash flows and the fair value is estimated by discounting these cash flows at the effective interest rate. For non-performing loans and receivables where collateral exists, the fair value is the lesser of the carrying value of the loans and receivables net of specific allowances, or the fair value of the collateral, discounted as appropriate.

Based on the methodology described above, the Bank has determined that the carrying values of loans and receivables approximate fair values.

Deposit liabilities

Deposit liabilities is calculated using discounted cash flow models, based on the deposit type and its related maturity, applying either market rates, where applicable or current rates offered for deposits of similar remaining maturities.

Based on the described above, the Bank has determined that the carrying values of deposits by customers approximate fair values.

Other financial assets and liabilities

Carrying amounts of other financial assets and liabilities which have no definite repayment dates are assumed to be their fair values.

21.11 Capital management

The primary objectives of the Bank's capital management are to ensure that the Bank complies with the BSP imposed minimum capital requirements and to maintain healthy capital ratios in order to support its business and to maximize shareholders' value.

Under MORB Section 111.1, the Bank has complied the minimum capitalization set by the BSP which is P750 million for thrift banks with head office in Metro Manila with up to ten (10) branches.

The Bank also complies with the minimum Capital Adequacy Ratio (CAR) as mandated by the BSP. The risk based CAR of thrift banks expressed as a percentage of qualifying capital to risk-weighted asset, shall not be less than ten percent (10%). Qualifying capital consists of Tier 1 (core plus hybrid) capital and Tier 2 (supplementary) capital elements, net of required deductions from capital. Tier 1 capital consists of the Bank's total equity excluding net unrealized losses on financial assets at FVOCI, unbooked valuation reserves and other capital adjustments based on latest report of examination as approved by the Monetary Board, total outstanding unsecured loans and credit accommodations, net of allowance for credit losses and deferred tax asset, net of deferred tax liability. Tier 2 capital consists of general loan loss provision and unsecured subordinated debt. Risk-weighted asset is the assigned risk weight to assets after exclusion of zero percent (0%) risk weight assets such as cash on hand, due from BSP, loans covered by hold-out on or assignment of deposits, loans or acceptances under letters of credit to the extent covered by margin deposits, and other non-risk items as determined by the Monetary Board of the BSP.

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

As at December 31, the Bank's CAR is computed as follows:

	2021	2020
	(In Thousands of Pesos)	
Qualifying capital		
Net Tier 1 capital	2,067,039	2,151,715
Net Tier 2 capital	3,173	3,456
Total qualifying capital	2,070,212	2,155,171
Risk weighted assets		
Credit risk weighted assets	1,256,000	1,529,504
Operational risk weighted assets	167,416	167,737
Total risk weighted assets	1,423,416	1,697,241
CAR	145.44%	126.98%

The Bank has fully complied with the minimum CAR requirement of ten percent (10%).

Note 22 - Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to both years presented, unless otherwise stated.

22.1 Basis of preparation

The financial statements of the Bank have been prepared in accordance with Philippine Financial Reporting Standards (PFRS). The term PFRS in general includes all applicable PFRS, Philippine Accounting Standards (PAS) and Interpretations issued by the former Standing Interpretations Committee (SIC), the Philippine Interpretations Committee (PIC) and the International Financial Reporting Interpretations Committee (IFRIC), which have been approved by the Financial Reporting Standards Council (FRSC) and adopted by the SEC.

The Bank's financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets at FVOCI.

22.2 Changes in accounting policy and disclosures

(a) Amendments to existing standards and the revised Conceptual Framework adopted by the Bank effective January 1, 2021

The following amendments to existing standards and the revised Conceptual Framework have been adopted by the Bank effective January 1, 2021:

- Amendments to PFRS 7, '*Financial Instruments: Disclosures*', and PFRS 9, *'Financial Instruments'*

  The amendments made to IFRS 7 Financial Instruments: Disclosures, IFRS 9 Financial Instruments and IAS 39 Financial Instruments: Recognition and Measurement provide certain reliefs in relation to interest rate benchmark reforms.

  The reliefs relate to hedge accounting and have the effect that the reforms should not generally cause hedge accounting to terminate. However, any hedge ineffectiveness should continue to be recorded in the income statement.

  The adoption of the above amendment has no material impact the financial statements of the Bank since there are no financial instruments directly affected by the interest rate benchmark reforms.

- Amendments to PFRS 16, Leases', COVID-19 related concessions

  The amendment, effective June 1, 2020, provides lessees with an option to treat qualifying rent concessions in the same way as they would if they were not lease modifications. In many cases, this will result in accounting for the concessions as variable lease payments in the period in which they are granted.

  The adoption of the above amendment has no material impact the financial statements of the Bank.

(b) New amendments to existing standards not yet effective and not early adopted by the Bank

The following amendments to existing standards are not mandatory for December 31, 2021 reporting period and have not been early adopted by the Bank:

- Amendments to PAS 16, 'Property, Plant and Equipment' (effective for annual periods beginning on or after January 1, 2022)

  The amendment prohibits an entity from deducting from the cost of an item of property, plant and equipment any proceeds received from selling items produced while the entity is preparing the asset for its intended use. It also clarifies that an entity is 'testing whether the asset is functioning properly' when it assesses the technical and physical performance of the asset.

- Amendments to PFRS 3, *'Business Combinations'* (effective for annual periods beginning on or after January 1, 2022)

  Amendments were made to update the references to the Conceptual Framework for Financial Reporting and add an exception for the recognition of liabilities and contingent liabilities within the scope of PAS 37, *'Provisions, Contingent Liabilities and Contingent Assets'* and Interpretation 21, *Levies*.

- Amendment to PAS 37, *'Provisions, Contingent Liabilities and Contingent Assets'* (effective for annual periods beginning on or after January 1, 2022)

  The amendment clarifies that the direct costs of fulfilling a contract include both the incremental costs of fulfilling the contract and an allocation of other costs directly related to fulfilling the contracts. Before recognizing a separate provision for an onerous contract, the entity recognizes any impairment loss that has occurred on assets used in fulfilling the contract.

- Amendments to PAS 1, *'Presentation of Financial Statements'* (effective for annual periods beginning on or after January 1, 2022)

  The amendments clarify that liabilities are classified as either current or noncurrent, depending on the rights that exist at the end of the reporting period. Classification is unaffected by the expectations of the entity or events after the reporting date (e.g. the receipt of a waver or a breach of covenant). The amendments also clarify what PAS 1 means when it refers to the 'settlement' of a liability.

  In addition, PAS 1 requires entities to disclose their material rather than their significant accounting policies. The amendments define what is 'material accounting policy information' and explain how to identify when accounting policy information is material. They further clarify that immaterial accounting policy information does not need to be disclosed. If it is disclosed, it should not obscure material accounting information.

- Amendment to PAS 8, *'Accounting Policies, Changes in Accounting Estimates and Errors'* (effective for annual periods beginning on or after January 1, 2023)

  The amendment clarifies how companies should distinguish changes in accounting policies from changes in accounting estimates. The distinction is important, because changes in accounting estimates are applied prospectively to future transactions and other future events, but changes in accounting policies are generally applied retrospectively to past transactions and other past events as well as the current period.

- Amendments to PAS 12, *'Income Taxes'* effective for annual periods beginning on or after January 1, 2023)

  The amendments require entities to recognize deferred tax on transactions that, on initial recognition, give rise to equal amounts of taxable and deductible temporary differences. They will typically apply to transactions such as leases of lessees and decommissioning obligations and will require the recognition of additional deferred tax assets and liabilities. The amendment should be applied to transactions that occur on or after the beginning of the earliest comparative period presented. In addition, entities should recognize deferred tax assets (to the extent that it is probable that they can be utilized) and deferred tax liabilities at the beginning of the earliest comparative period for all deductible and taxable temporary differences associated with (a) right-of-use assets and lease liabilities, and (b) decommissioning, restoration and similar liabilities, and the corresponding amounts recognized as part of the cost of the related assets. The cumulative effect of recognizing these adjustments is recognized in retained earnings, or another component of equity, as appropriate.

- Annual improvements to PFRS Standards 2018-2020

  The following improvements were finalized in May 2020:

  i. PFRS 9 *'Financial Instruments'*, clarifies which fees should be included in the 10% test for derecognition of financial liabilities.

  ii. PFRS 16 *'Leases'*, amendment of illustrative example 13 to remove the illustration of payments from the lessor relating to leasehold improvements, to remove any confusion about the treatment of lease incentives.

The adoption of the above amendments is not expected to have a material impact on the financial statements of the Bank.

22.3 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. The Bank recognizes a financial instrument in the statement of financial position when, and only when, the Bank becomes a party to the contractual provisions of the instrument.

22.3.1 Financial assets

22.3.1.1 Date of recognition

All financial assets are recognized when the entity becomes a party to the contractual provisions of the instrument. Regular way purchases and sales of financial assets are recognized on trade-date, the date on which the Bank commits to purchase or sell the asset.

22.3.1.2 Initial recognition and subsequent measurement

At initial recognition, the Bank measures a financial asset at its fair value plus directly attributable transaction costs, except in the case of financial assets recorded at fair value through profit or loss. Immediately after initial recognition, an expected credit loss allowance (ECL) is recognized for financial assets measured at amortized cost and investments in debt instruments measured at FVOCI, as described in Note 22.3.1.4 below, which results in the loss provision being recognized in profit or loss when an asset is newly originated.

When the fair value of financial assets differs from the transaction price on initial recognition, the Bank recognizes the difference as follows:

- When the fair value is evidenced by a quoted price in an active market for an identical asset or liability (i.e. a Level 1 input) or based on a valuation technique that uses only data from observable markets, the difference is recognized as a gain or loss.
- In all other cases, the difference is deferred and the timing of recognition of deferred day one profit or loss is determined individually. It is either amortized over the life of the instrument, deferred until the instrument's fair value can be determined using market observable inputs, or realized through settlement.

The Bank classifies all of its financial assets based on the business model for managing the assets and the asset's contractual cash flow characteristics, measure at either:

- Amortized cost, as explained in Note 22.3.1.2 (1);
- Fair value through other comprehensive income ("FVOCI"), as explained in Note 22.3.1.2 (2); and
- Fair value through profit or loss ("FVTPL"), as explained in Note 22.3.1.2 (3).

Debt instruments

Debt instruments are those instruments that meet the definition of a financial liability from the issuer's perspective, such as loans and receivables, due from BSP and other banks, government and corporate bonds and other financial receivables.

Classification and subsequent measurement of debt instruments depend on the Bank's business model for managing the asset and the cash flow characteristics of the asset.

Equity instruments

Equity instruments are instruments that meet the definition of equity from the issuer's perspective; that is, instruments that do not contain a contractual obligation to pay and that evidence a residual interest in the issuer's net assets.

Based on these factors, the Bank classifies its financial assets into one of the following measurement categories:

1. Financial assets at amortized cost

The Bank measures financial assets at amortized cost if both of the following conditions are met:

(a) The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding; and
(b) The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows.

The details of these conditions are outlined below:

Business model assessment: The business model reflects how the Bank manages the assets in order to generate cash flows. That is, whether the Bank's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of assets. If neither of these is applicable, then the financial assets are classified and measured at fair value through profit or loss. Factors considered by the Bank in determining the business model for a group of assets include past experience on how the cash flows for these assets were collected, how the asset's performance is evaluated and reported to key management personnel, how risks are assessed and managed and how managers are compensated.

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

Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest ('SPPI'), and that are not designated at fair value through profit or loss, are measured at amortized cost. The carrying amount of these assets is adjusted by any expected credit loss allowance recognized and measured. Interest income from these financial assets is included in 'Interest income' using the effective interest rate method. Amortized cost financial assets include cash and other cash items, due from BSP, due from other banks, investment securities at amortized cost, loans and receivables, and miscellaneous deposits under Other assets.

2. Fair value through other comprehensive income (FVOCI)

The Bank applies the new category under PFRS 9 of debt instruments measured at FVOCI when both of the following conditions are met:

- The instrument is held within a business model, the objective of which is achieved by both collecting contractual cash flows and selling financial assets; and
- The contractual terms of the financial assets meet the SPPI test.

Financial assets at FVOCI are subsequently measured at fair value with gains and losses arising due to changes in fair value recognized in other comprehensive income. Impairment gains or losses, interest revenue and foreign exchange gains and losses on the instrument's amortized cost are recognized in the statement of total comprehensive income. When the financial asset is derecognized, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss. Interest income from these financial assets is included in 'Interest income' using the effective interest rate method.

Equity instruments are normally measured at FVTPL. However, for non-traded equity instruments, with an irrevocable option at inception, the Bank measure the changes through FVOCI (without recycling profit or loss upon derecognition).

Included in financial assets at FVOCI are investment securities at FVOCI.

3. Fair value through profit or loss (FVTPL)

Assets that do not meet the criteria for amortized cost or FVOCI are measured at fair value through profit or loss. A gain or loss on a debt investment that is subsequently measured at fair value through profit or loss and is not part of a hedging relationship is recognized in profit or loss and presented in the statement of total comprehensive income within ‘Trading gain on securities’ in the period in which it arises, unless it arises from debt instruments that were designated at fair value or which are not held for trading, in which case they are presented separately. As at December 31, 2021 and 2020, the Bank has no financial assets at fair value through profit loss.

22.3.1.3 Derecognition

A financial asset is derecognized when there is a substantial modification of terms and conditions or factors other than substantial modification.

i. Derecognition due to substantial modification of terms and conditions

The Bank derecognizes a financial asset, such as a loan and receivables, when the terms and conditions have been renegotiated to the extent that, substantially, it becomes a new loan, with the difference between the carrying amounts after and prior to modification recognized as a gain or loss, to the extent that an impairment loss has not already been recorded.

The newly recognized loans are classified as Stage 1 for ECL measurement purposes, unless the new loan is deemed to be purchased or originated credit-impaired ("POCI").

If the modification does not result in cash flows that are substantially different, the modification does not result in derecognition. Based on the change in cash flows discounted at the original effective interest rate ("EIR"), the Bank records a modification gain or loss, to the extent that an impairment loss has not already been recorded. As at December 31, 2021 and 2020, no financial assets were derecognized due to substantial modification of terms and conditions.

ii. Derecognition other than for substantial modification

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

(1) The rights to receive cash flows from the financial asset have expired; or
(2) The transfer of financial asset is as set out below and the transfer qualifies for derecognition.

The Bank has transferred the financial asset if, and only if, either:

(1) The Bank has transferred its contractual rights to receive cash flows from the financial asset; or
(2) It retains the rights to the cash flows, but has assumed an obligation to pay the received cash flows in full without material delay to a third party under a ‘pass-through’ arrangement.

Pass-through arrangements are transactions whereby the Bank retains the contractual rights to receive the cash flows of a financial asset (the 'original asset'), but assumes a contractual obligation to pay those cash flows to one or more entities (the 'eventual recipients'), when all of the following three conditions are met:

- The Bank has no obligation to pay amounts to the eventual recipients unless it has collected equivalent amounts from the original asset, excluding short-term advances with the right to full recovery of the amount lent plus accrued interest at market rates;
- The Bank cannot sell or pledge the original asset other than as security to the eventual recipients; and
- The Bank has to remit any cash flows it collects on behalf of the eventual recipients without material delay. In addition, the Bank is not entitled to reinvest such cash flows, except for investments in cash or cash equivalents including interest earned, during the period between the collection date and the date of required remittance to the eventual recipients.

A transfer only qualifies for derecognition if either the Bank has:

- Transferred substantially all the risks and rewards of the asset; or
- Neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

The Bank considers control to be transferred if and only if, the transferee has the practical ability to sell the asset in its entirety to an unrelated third party and is able to exercise that ability unilaterally and without imposing additional restrictions on the transfer.

When the Bank has neither transferred nor retained substantially all the risks and rewards and have retained control of the asset, the asset continues to be recognized only to the extent of the Bank's continuing involvement, in which case, the Bank also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Bank has retained.

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

If continuing involvement takes the form of a written or purchased option (or both) on the transferred asset, the continuing involvement is measured at the value the Bank would be required to pay upon repurchase. In the case of a written put option on an asset that is measured at fair value, the extent of the entity's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

22.3.1.4 Impairment of financial assets

The Bank assesses on a forward-looking basis the expected credit losses (‘ECL’) associated with its debt instrument assets carried at amortized cost and FVOCI and with the exposure arising from loan commitments. The Bank recognizes a loss allowance for such losses at each reporting date. The measurement of ECL reflects:

- An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- The time value of money; and
- Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

PFRS 9 outlines a ‘three-stage’ model for impairment based on changes in credit quality since initial recognition as summarized below:

- A financial instrument that is not credit-impaired on initial recognition is classified in “Stage 1” and has its credit risk continuously monitored by the Bank.
- If a significant increase in credit risk since initial recognition is identified, the financial instrument is moved to “Stage 2” but is not yet deemed to be credit-impaired. The Bank determines SICR based on prescribed benchmarks approved by the Board of the Directors.
- If the financial instrument is credit-impaired, the financial instrument is then moved to “Stage 3”.
- Financial instruments in Stage 1 have their ECL measured at an amount equal to the portion of lifetime expected credit losses that results from default events possible within the next 12 months. Instruments in Stages 2 or 3 have their ECL measured based on expected credit losses on a lifetime basis.
- A pervasive concept in measuring ECL in accordance with PFRS 9 is that it should consider forward-looking information.
- Purchased or originated credit-impaired (POCI) financial assets are those financial assets that are credit impaired on initial recognition. Their ECL is always measured on a lifetime basis (Stage 3). There are no POCI as at December 31, 2021 and 2020.

The following diagram summarizes the impairment requirements under PFRS 9 (other than purchased originated credit-impaired financial assets):

Change in credit quality since initial recognition

Stage 1	Stage 2	Stage 3
(Initial recognition)	(Significant increase in credit risk since initial recognition)	(Credit-impaired assets)
12-month expected credit losses	Lifetime expected credit losses	Lifetime expected credit losses

The Bank uses the following key judgements and assumptions when estimating expected credit losses in accordance with PFRS 9:

Determination of significant increase in credit risk (SICR)

The assessment of significant deterioration since initial recognition is key in establishing the point of switching between the requirement to measure an allowance based on 12-month ECL and one that is based on lifetime ECL. The quantitative and qualitative assessments are required to estimate the significant increase in credit risk by comparing the risk of a default occurring on the financial assets as at reporting date with the risk of default occurring on the financial assets as at the date of initial recognition.

Measuring ECL - Inputs, assumptions and estimation techniques

The ECL is measured on either a 12-month or lifetime basis depending on whether a significant increase in credit risk has occurred since initial recognition or whether an asset is considered to be credit-impaired. Expected credit losses are the discounted product of the probability of default (PD), exposure at default (EAD) and loss given default (LGD), defined as follows:

- The PD represents the likelihood that the borrower will default (as per "Definition of default and credit-impaired" above), either over the next 12 months (12M PD), or over the remaining life (lifetime PD) of the asset. The estimation of PD for consumer loans is based on the Bank's aging reports with the incorporation of forward-looking economic information. While for corporate loans and investment in debt securities, PD is calculated based on default rate tables published by external credit rating agencies, incorporating forward-looking information.

- EAD is based on the amounts the Bank expects to be owed at the time of default, over the next 12 months (12M EAD) or over the remaining life (lifetime EAD). The 12-month and lifetime EADs are determined based on the contractual repayments owed by the borrower over a 12-month or lifetime basis.

- LGD represents the Bank's expectation of the extent of loss on a defaulted exposure. They are grouped according to type (corporate or consumer). For consumer loans, the LGD is calculated based on the historical recovery experience. For corporate loans and investments in debt instruments, the LGD is calculated based on the collateral and liquidity preference of the debt instrument, incorporating the average recovery rate disclosed by external credit rating agencies.

The ECL is determined by multiplying the PD, LGD and EAD together for each individual exposure or collective segment. This effectively calculates an ECL for each future year, which is then discounted back to the reporting date and summed. The discount rate used in the ECL calculation is the original effective interest rate or an approximation thereof.

There have been no significant changes in estimation techniques or significant assumptions made during the reporting period.

Expected life

Lifetime expected credit losses must be measured over the expected life. This is restricted to the maximum contractual life and takes into account expected prepayments, extensions, calls and similar options.

Investment securities at FVOCI

The ECLs for financial investments measured at FVOCI do not reduce the carrying amount of these financial assets in the statement of financial position, which remains at fair value. Instead, an amount equal to the allowance that would arise if the assets were measured at amortized cost is recognized in OCI as an accumulated impairment amount, with a corresponding charge to profit or loss. The accumulated loss recognized in OCI is recycled to the profit and loss upon derecognition of the assets.

Forward-looking information incorporated in the ECL models

The Bank incorporates historical and current information, and forecasts forward-looking events and key economic variables that are assessed to impact credit risk and expected credit losses for each portfolio. Macroeconomic variables that affect a specific portfolio's non-performing loan rate(s) are determined through statistical modelling and the application of expert judgment. The probability-weighted ECL is calculated by running each scenario through the relevant ECL models and multiplying it by the appropriate scenario weighting.

The estimation and application of forward-looking information requires significant judgment. As with any economic forecasts, the projections and likelihood of occurrences are subject to a high degree of inherent uncertainty and therefore the actual outcomes may be significantly different to those projected. The scenarios and their attributes are reassessed at each reporting date. Information regarding the forward-looking economic variables and the relevant sensitivity analysis is disclosed in Note 21.3.

Valuation of collateral held as security for financial assets

The Bank's accounting policy for collateral assigned to it through its lending arrangements under PFRS 9.

Reclassification of financial assets

The Bank reclassifies debt investments when and only when its business model for managing those assets changes. The reclassification takes place from the start of the first reporting period following the change. Such changes are expected to be very infrequent and none occurred during the period.

Financial liabilities

22.3.1.5 Date of recognition

All financial liabilities are initially recognized on trade date (i.e. the date that the Bank becomes a party to the contractual provision of the instruments). This includes regular way trades: purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

The Bank classifies its financial liabilities in the following categories: financial liabilities at fair value through profit or loss, and financial liabilities at amortized cost.

(a) Financial liabilities at fair value through profit or loss

This category comprises two sub-categories: financial liabilities classified as held for trading, and financial liabilities designated by the Bank as at fair value through profit or loss upon initial recognition.

A financial liability is classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking.

As at December 31, 2021 and 2020, the Bank has no financial liabilities that are designated at fair value through profit loss.

(b) Other liabilities measured at amortized cost

Financial liabilities that are not classified as at fair value through profit or loss fall into this category and are measured at amortized cost.

Financial liabilities measured at amortized cost include deposit liabilities, accrued interest and other expenses, and other liabilities, primarily accounts payable.

22.3.1.6 Initial recognition and subsequent measurement

Financial liabilities at amortized cost are initially recognized at fair value plus transaction costs.

Financial liabilities are subsequently measured at amortized cost using the effective interest method.

22.3.1.7 Derecognition

Financial liabilities are derecognized when they have been redeemed or otherwise extinguished (i.e. when the obligation is discharged or is cancelled or has expired).

Collateral (shares and bonds) furnished by the Bank under standard repurchase agreements and securities lending and borrowing transactions is not derecognized because the Bank retains substantially all the risks and rewards on the basis of the predetermined repurchase price, and the criteria for derecognition are therefore not met.

22.3.2 Offsetting of financial assets and liabilities

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

22.4 Fair value measurement

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 measurement date.

The fair value of financial and non-financial liabilities takes into account non-performance risk, which is the risk that the entity will not fulfill an obligation.

Financial instruments

The Bank classifies its fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed equity securities and debt instruments on exchanges (for example, Philippine Stock Exchange, Inc., Philippine Dealing and Exchange Corp. (PDEX), etc.).

Level 2 - Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices). This level includes the majority of the over-the-counter ("OTC") derivative contracts. The primary source of input parameters like LIBOR yield curve or counterparty credit risk is Bloomberg.

Level 3 - Inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes equity investments and debt instruments with significant unobservable components. This hierarchy requires the use of observable market data when available. The Bank considers relevant and observable market prices in its valuations where possible. The Bank has no assets or liabilities classified under Level 3 as at December 31, 2021 and 2020.

The appropriate level is determined on the basis of the lowest level input that is significant to the fair value measurement.

- For financial instruments traded in active markets, the determination of fair values of financial assets and financial liabilities is based on quoted market prices or dealer price quotations. This includes listed equity securities and quoted debt instruments on major exchanges and broker quotes mainly from PDEX and Bloomberg.

- A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. If the above criteria are not met, the market is regarded as being inactive. Indications that a market is inactive are when there is a wide bid-offer spread or significant increase in the bid-offer spread or there are few recent transactions.

- For all other financial instruments, fair value is determined using valuation techniques. In these techniques, fair values are estimated from observable data in respect of similar financial instruments, using models to estimate the present value of expected future cash flows or other valuation techniques, using inputs (for example, LIBOR yield curve, FX rates, volatilities and counterparty spreads) existing at reporting dates. The Bank uses widely recognized valuation models for determining fair values of non-standardized financial instruments of lower complexity. For these financial instruments, inputs into models are generally market observable.

The fair value for loans and receivables as well as liabilities to customers are determined using a present value model on the basis of contractually agreed cash flows, taking into account credit quality, liquidity and costs.

Non-financial assets or liabilities

The Bank uses valuation techniques that are appropriate in the circumstances and applies the technique consistently. Commonly used valuation techniques are as follows:

- Market approach - A valuation technique that uses observable inputs, such as prices, broker quotes and other relevant information generated by market transactions involving identical or comparable assets or group of assets.
- Income approach - A valuation technique that converts future amounts (e.g., cash flows or income and expenses) to a single current (i.e., discounted) amount. The fair value measurement is determined on the basis of the value indicated by current market expectations about those future amounts.
- Cost approach - A valuation technique that reflects the amount that would be required currently to replace the service capacity of an asset (often referred to as current replacement cost).

The fair values were determined in reference to observable market inputs reflecting orderly transactions, i.e. market listings, published broker quotes and transacted deals from similar and comparable assets, adjusted to determine the point within the range that is most representative of the fair value under current market conditions.

22.5 Bank premises, furniture, fixtures and equipment

Bank premises, furniture, fixtures and equipment are initially recognized at historical cost which comprises its purchase price, including taxes and any directly attributable costs of bringing the asset to its working condition and location necessary for it to be capable of operating in the manner intended by management. These are subsequently carried at cost less accumulated depreciation and any impairment in value. Expenses that provide incremental future economic benefits to the Bank are added to the carrying amount of an item of bank premises, furniture, fixtures and equipment.

All other expenses are recognized in the statement of total comprehensive income as incurred. Depreciation of bank premises, furniture, fixtures and equipment commences once the property and equipment are available for use and computed using the straight-line basis over the estimated useful lives of property and equipment as follows:

	Number of years
Bank premises	25-50
Furniture, fixtures and equipment	3-5
Transportation and equipment	5
Leasehold improvement	5 or lease term; whichever is shorter

The useful lives and depreciation method are reviewed at each reporting date to ensure that the period and method of depreciation are consistent with the expected pattern of economic benefits from items of bank premises, furniture, fixtures and equipment.

When bank premises, furniture, fixtures and equipment are retired or otherwise disposed of, the cost of the related accumulated depreciation and accumulated provision for impairment losses, if any, are removed from the accounts and any resulting gain or loss is credited to or charged against current operations. Fully depreciated bank premises, furniture, fixtures and equipment are retained in the accounts until they are no longer in use and no further depreciation and amortization is charged against current operations.

22.6 Computer software

The Bank's computer software was acquired separately and was initially recognized at cost. Following initial recognition, computer software is carried at cost less any accumulated amortization and any accumulated impairment losses. Computer software is amortized over the useful or economic life, and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and method is reviewed at least at each reporting date. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and treated as changes in accounting estimates. Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and install the specific software. These costs are amortized on the basis of the expected useful lives of five (5) years. Costs associated with maintaining computer software are expensed as incurred. The assets are derecognized when there is no future economic benefit associated with its continuing use.

22.7 Impairment of non-financial assets

At each reporting date, the Bank reviews the carrying amounts of bank premises, furniture, fixtures and equipment and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). When the asset does not generate cash flows that are independent from other assets, the Bank estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognized as an expense immediately.

When an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in prior years. A reversal of an impairment loss is recognized as income.

22.8 Leases

The Bank is the lessee

The Bank recognizes leases as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use.

Assets and liabilities arising from a lease are initially measured on a present value basis. The interest expense is recognized in the profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

i. Measurement of lease liabilities

Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable
- variable lease payment that are based on an index or a rate
- amounts expected to be payable by the lessee under residual value guarantees
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for the Bank's leases, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

To determine the incremental borrowing rate, the Bank:

- where possible, uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received,
- uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk for leases held for entities which do not have recent third party financing, and
- makes adjustments specific to the lease (i.e. term, currency and security).

Lease payments are allocated between principal and interest expense. The interest expense is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

ii. Measurement of right-of-use assets

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability,
- any lease payments made at or before the commencement date less any lease incentives received,
- any initial direct costs, and
- restoration costs.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Bank is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life.

iii. Extension and termination options

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated). The lease term is reassessed if an option is actually exercised (or not exercised) or the Bank becomes obliged to exercise (or not exercise) it. The assessment of reasonable certainty is revised only if a significant event or a significant change in circumstances occurs, which affects this assessment, and that is within the control of the lessee.

22.9 Income taxes

The tax expense for the period comprises current and deferred tax. Tax is recognized in the statement of total comprehensive income, except to the extent that it relates to items recognized in other comprehensive income or directly in equity.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at reporting date. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred tax liabilities are not recognized if they arise from the initial recognition of goodwill; deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable income. Deferred income tax is determined using tax rates that have been enacted or substantively enacted by the reporting date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized. At each reporting date the Bank reassess the need to recognize previously unrecognized deferred income tax asset.

Deferred income tax assets are recognized for all deductible temporary differences, carryforward benefits of unused tax credits from excess of minimum corporate income tax (MCIT) over regular corporate income tax (RCIT) and unused net operating loss carryover (NOLCO), to the extent that it is probable that sufficient future taxable profits will be available against which the deductible temporary differences, carryforward benefits of unused tax credits from excess of MCIT over RCIT and unused NOLCO can be utilized. Deferred income tax liabilities are recognized for all taxable temporary differences.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax asset against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

22.10 Retirement benefit obligation

The Bank provides defined benefit retirement plan for all regular and qualified employees. The retirement plan is generally funded through payments to a trustee bank determined by periodic actuarial calculations.

The retirement benefit that an employee will receive on retirement under a defined benefit plan is dependent on several factors such as age, years of service and compensation. The Bank's defined benefit retirement plan provides a retirement benefit equivalent to one hundred percent (100%) of plan salary for every year credited service for qualified employees.

The liability recognized in the statement of financial position in respect of defined benefit retirement plans is the present value of the defined benefit obligation less the fair value of plan assets at the end of the reporting period. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of government bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related retirement obligation.

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

Remeasurement comprising actuarial gains and losses, return on plan asset and any change in the effect of the asset ceiling (excluding net interest on defined benefit liability) is recognized immediately in other comprehensive income in the period in which they arise. Remeasurement is not reclassified to profit or loss in subsequent periods. Remeasurement recognized in other comprehensive income account "Remeasurement gains (losses) on retirement plan" is not reclassified to another equity account in subsequent periods. The difference between the interest income component of net interest and the actual return on plan asset is recognized in other comprehensive income.

Past-service costs are recognized immediately in the statement of comprehensive income.

22.11 Share capital

Share capital comprise common shares which meet the equity classification. This is presented in the statement of financial position equal to the par value of the shares issued and outstanding as at reporting dates.

Additional paid-in capital

Additional paid-in capital represents premium received on the issuance of capital stock above its par value. Transaction costs associated with the issuance of shares are deducted from additional paid-in capital, net of any related income tax benefits.

Accumulated deficit

Accumulated deficit include all current and prior period results as reported in the statement of total comprehensive income**.**

Deposit for future stock subscription

Deposit for future stock subscription are accounted for as a separate account under equity when all of the following elements are present at end of the reporting period.

- The unissued authorized capital stock of the Bank is insufficient to cover the amount of deposit;
- There is BOD approval in the proposed increase in authorized capital stock (for which a deposit was received by the Bank);
- There is stockholders' approval of the said proposed increase; and,
- The application for the approval of the proposed increase has been presented for filing or has been filed with the SEC.

When one of the conditions above is not met, the amount is recorded as a liability.

22.12 Interest income and expense

Interest income and expense are recognized in the statement of total comprehensive income for all interest-bearing financial instruments using the effective interest method.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of financial assets, except for:

- POCI financial assets, for which the original credit-adjusted effective interest rate is applied to the amortized cost of the financial asset.
- Financial assets that are not 'POCI' but have subsequently become credit-impaired (or 'Stage 3'), for which interest revenue is calculated by applying the effective interest rate to their amortized cost (i.e. net of the expected credit loss provision).

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of a financial asset (i.e. its amortized cost before any impairment allowance) or to the amortized cost of a financial liability. The calculation does not consider expected credit losses and includes transaction costs, premiums or discounts and fees and points paid or received that are integral to the effective interest rate, such as origination fees. For purchased or originated credit-impaired ('POCI') financial assets – assets that are credit-impaired at initial recognition – the Bank calculates the credit-adjusted effective interest rate, which is calculated based on the amortized cost of the financial asset instead of its gross carrying amount and incorporates the impact of expected credit losses in estimated future cash flows.

When the Bank revises the estimates of future cash flows, the carrying amount of the respective financial assets or financial liability is adjusted to reflect the new estimate discounted using the original effective interest rate. Any changes are recognized in profit or loss.

22.13 Service charges and fees

Revenue is recognized when (or as) the Bank satisfies a performance obligation by transferring a promised good or service to a customer (i.e. an asset). An asset is transferred when (or as) the customer obtains control of that asset.

The recognition of revenue can be either over time or at a point in time depending on when the performance obligation is satisfied.

When control of a good or service is transferred over time, that is, when the customer simultaneously receives and consumes the benefits, the Bank satisfies the performance obligation and recognizes revenue over time. Otherwise, revenue is recognized at the point in time at the point of transfer control of the good or service to the customer.

Variable consideration is measured using either the expected value method or the most likely amount method depending on which method the Bank expects to better predict the amount of consideration to which it will be entitled. This is the estimated amount of variable consideration, or the portion, if any, of that amount for which it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur. Where there is a single performance obligation, the transaction price is allocated in its entirety to that performance obligation. Where there are multiple performance obligations, the transaction price is allocated to the performance obligation to which it relates based on stand-alone selling prices.

Service charges and fees are generally recognized when the service has been provided. Commission and fees arising from loans, deposits, and other banking transactions are taken up as income based on agreed terms and conditions.

22.14 Other income

Revenue is recognized when earned.

22.15 Expense recognition

Cost and expenses are recognized in profit or loss when a decrease in future economic benefits related to a decrease in an asset or an increase of a liability has arisen that can be measured reliably. Expenses in the statement of total comprehensive income are presented using the functional method.

Operating expenses constitute costs of operating, marketing and administering the Bank and are expensed as incurred.

22.16 Related party relationships and transactions

Related party relationship exists when (a) a person or a close member of that person's family has control or joint control, has significant influence or is a member of the key management personnel of the reporting entity or of a parent of the reporting entity, (b) an entity is related to the Bank if, the entity and the Bank are members of the same group, one entity is an associate or joint venture of the other entity, both entities are joint ventures of the same third party, one entity is a joint venture of a third entity and the other entity is an associate of the third party, an entity is a post-employment benefit plan for the benefit of employees of the Bank, the entity is controlled or jointly controlled by a person who has control or joint control over the Bank and a person as identified in (a) above has significant influence over the entity or is a member of the key management personnel of the entity or of a parent of the entity. In considering each possible related party relationship, attention is directed to the substance of the relationships, and not merely to the legal form.

A related party transaction is a transfer of resources, services or obligations between related parties, regardless of whether a price is charged.

22.17 Provisions and contingencies

Provisions 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 resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Where discounting is used, the increase in the provision due to the passage of time is recognized as interest expense. When the Bank expects a provision or loss to be reimbursed, the reimbursement is recognized as a separate asset only when the reimbursement is virtually certain and its amount is estimable. The expense relating to any provision is presented in the statement of total comprehensive income, net of any reimbursement.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

Contingent liabilities are not recognized in the financial statements. They are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the financial statements but disclosed when an inflow of economic benefits is probable. Contingent assets are assessed continually to ensure that developments are appropriately reflected in the financial statements. If it has become virtually certain that an inflow of economic benefits will arise, the asset and the related income are recognized in the financial statements.

22.18 Comparatives

Certain reclassifications have been made in the prior year to conform to the current year's presentation. This did not affect the Association's total assets, liabilities, equity and profit previously reported.

22.19 Events after the reporting date

The Bank identifies post year-end events as events that occurred after the reporting date but before the date when the financial statements were authorized for issue. Post year-end events that provide additional information about the Bank's financial position at the reporting date (adjusting events) are reflected in the financial statements. Post year-end events that are not adjusting events are disclosed in the financial statements when material.

Note 23 - Supplemental information required under BSP Circular No. 1074

Presented below are the additional information required by BSP Circular No. 1074 issued on January 8, 2020. This information is presented for BSP reporting purposes and is not required in the basic financial statements.

(i) Basic quantitative indicators of financial performance

The key financial performance indicators follow (in %):

	2021	2020
Return on average equity		
- Simple average[1]	(3.60%)	(6.53%)
Return on average assets		
- Simple average[2]	(1.70%)	(1.76%)
Net interest margin		
- Simple average[3]	2.75%	2.50%

[1]Net income divided by average total equity for the period indicated. Average total equity is based on the year-on-year balance of equity for the years ended December 31, 2021 and 2020.
[2]Net income divided by average total assets as at period indicated. Average total assets is based on the year-on-year balance of total assets as at December 31, 2021 and 2020.
[3]Net interest income divided by average interest-earning assets. Average interest earning assets is based on the year-on-year balance of interest earning assets as at December 31, 2021 and 2020.

(ii) Description of capital instrument issued

The Bank considers its common shares as capital instrument for purposes of calculating its capital adequacy ratio as at December 31, 2021 and 2020.

(iii) Significant credit exposures

Details of the loans and advances portfolio as to concentration as to industry/economic sector (in %) at December 31 are as follows:

	2021	2020
Community, social and personal activities	4,622,302	13,775,118
Service activities	4,690,551	26,458,757
Agriculture, forestry and fishing	31,851,083	45,500,000
Wholesale and retail, trade, repair of motor vehicles and motorcycles	31,602,824	71,699,069
Real estate, renting and business activities	31,580,998	27,033,845
Financial institution	260,000,000	305,000,000
	364,347,758	489,466,789

(iv) Breakdown of total loans

Details of the loans and advances portfolio at December 31 as to collateral (amounts net of unearned discounts and exclusive of accrued interest receivable) are as follows:

	2021	2020
Secured by:		
Real estate	66,959,704	69,152,073
Chattel	175,946	19,114,044
	67,135,650	88,266,117
Unsecured	297,212,108	401,200,672
	364,347,758	489,466,789

Other collaterals include hold-out deposits, mortgage trust indentures, government securities and bonds, quedan/warehouse receipts, trust receipts, and deposit substitutes.

Details of the loans and advances portfolio at December 31 as to status (amounts net of unearned discounts and exclusive of accrued interest receivable) are as follows:

	2021		
	Performing	Non-Performing	Total
Corporate	306,218,662	35,431,578	341,650,240
Individual	2,740,000	1	2,740,001
Housing	18,075,217	-	18,075,217
Auto Loan	101,764	6	101,770
Salary	948,778	831,752	1,780,530
	328,084,421	36,263,337	364,347,758

	2020		
	Performing	Non-Performing	Total
Corporate	440,819,443	6,304,409	447,123,853
Individual	9,636,631	1,806,944	11,443,575
Housing	27,028,702	-	27,028,702
Auto Loan	729,165	6	729,171
Salary	2,192,567	948,922	3,141,489
	480,406,508	9,060,281	489,466,789

Breakdown of performing and non-performing loans net of allowance for credit losses are as follows:

	2021	2020
Non-performing accounts (NPL)	36,263,337	9,060,281
Allowance attributable to NPL	35,527,305	3,257,702
Net NPL	736,032	5,802,579

BSP Circular 941, *Amendments to Regulations on Past Due and Non-Performing Loans,* states that loans, investments, receivables, or any financial asset shall be considered non-performing, even without any missed contractual payments, when it is considered impaired under existing accounting standards, classified as doubtful or loss, in litigation, and if there is an evidence that full repayment of principal and interest is unlikely without foreclosure of collateral. All other loans, even if not considered impaired, shall be considered non-performing if any principal and/or interest are unpaid for more than ninety (90) days from contractual due date, or accrued interests for more than ninety (90) days have been capitalized, refinanced, or delayed by agreement.

Microfinance and other small loans with similar credit characteristics shall be considered non-performing after contractual due date or after they have become past due.

Restructured loans shall be considered non-performing. However, if prior to restructuring, the loans were categorized as performing, such classification shall be retained.

(v) Information on related party loans

Details of DOSRI loans are as follows:

	2021	2020
Outstanding DOSRI loans	253,125	478,125
% to total outstanding loans and advances	0.10%	0.10%
% to total outstanding DOSRI loans		
Unsecured DOSRI loans	100%	100%
Past due DOSRI loans	-	-
Non-performing DOSRI loans	-	-

The Bank is in full compliance with the General Banking Act and the BSP regulations on DOSRI loans as at December 31, 2021 and 2020.

(vi) Secured liabilities and assets pledged as security

There are no loans and advances at December 31, 2021 and 2020 used as security for bills payable.

(vii) Contingencies and commitments arising from off-balance sheet items

The are no credit exposure relating to off-balance sheet item as at December 31, 2021 and 2020.

Note 24 - Supplementary information required by the Bureau of Internal Revenue (BIR)

Below is the additional information required by Revenue Regulation (RR) No. 15-2010 that is relevant to the Bank. This information is presented for purposes of filing with the BIR and is not a required part of the basic financial statements.

(i) Documentary stamp taxes

Documentary stamp taxes paid for the year ended December 31, 2021 amount to P15,400,000.

(ii) Withholding taxes

Withholding taxes paid and accrued for the year ended December 31, 2021 consist of:

	Paid	Accrued	Total
Income taxes withheld on compensation	4,155,739	189,568	4,345,307
Final income taxes withheld on interest on deposits and yield on deposit substitutes	148,747	90,359	239,106
Creditable income taxes withheld (expanded)	-	161,548	161,548
Fringe benefit tax	1,970,839	-	1,970,839
	6,275,325	441,475	6,716,800

(iii) All other local and national taxes

Local and national taxes paid and accrued for the year ended December 31, 2021 consist of:

	Paid	Accrued	Total
Gross receipts tax	2,643,230	1,800,000	4,443,230
Real property tax	269,417	-	269,417
Municipal taxes	564,489	-	564,489
Deficiency taxes	6,580,382	-	6,580,382
Others	58,976	-	58,976
	10,116,494	1,800,000	11,916,494

(iv) Tax cases and assessments

The Bank received a formal assessment notice dated October 18, 2017 covering deficiency income tax for the taxable year 2014. The Bank requested for reinvestigation on a letter dated November 16, 2017, which was granted by the BIR in December 2017. As at December 31, 2021, no decision is yet made on the reinvestigation.

On December 9, 2020, the Bank received a Letter of Authority (LOA) from the BIR to examine the books and other accounting records for all internal revenue taxes, including documentary stamp taxes and other/miscellaneous taxes, for the period from January 1 to December 31, 2019. The Bank has settled the deficiency taxes, including statutory increments amounting to P5,807,385 on December 31, 2021. On March 11, 2022, the BIR has issued termination letter for the assessment.