City Savings Bank, Inc.
(A Wholly Owned Subsidiary of Union Bank of the Philippines)

Financial Statements
December 31, 2021 and 2020
and Years Ended December 31, 2021
and 2020

and

Independent Auditor's Report

SGV
Building a better working world

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INDEPENDENT AUDITOR'S REPORT

The Board of Directors and the Stockholders
City Savings Bank, Inc.

Report on the Audit of the Financial Statements

Opinion

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

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

Basis for Opinion

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

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with PSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

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

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

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

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

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

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

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

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information required under BSP Circular No. 1074 in Note 34 and Revenue Regulations 15-2010 in Note 35 to the financial statements is presented for purposes of filing with the BSP and Bureau of Internal Revenue, respectively, and is not a required part of the basic financial statements. Such information is the responsibility of the management of City Savings Bank, Inc. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

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Valid to cover audit of 2021 to 2025 financial statements of SEC covered institutions
SEC Firm Accreditation No. 0001-SEC (Group A)
Valid to cover audit of 2021 to 2025 financial statements of SEC covered institutions
BIR Accreditation No. 08-001998-062-2020, December 3, 2020, valid until December 2, 2023
PTR No. 8853462, January 3, 2022, Makati City

July 22, 2022

CITY SAVINGS BANK, INC.
(A Wholly Owned Subsidiary of Union Bank of the Philippines)

STATEMENTS OF FINANCIAL POSITION

	December 31	
	2021	2020
ASSETS		
Cash and Other Cash Items (Note 6)	**₱647,625,372**	₱711,974,313
Due from Bangko Sentral Ng Pilipinas (Note 7)	**35,661,488,310**	19,585,596,040
Due from Other Banks (Note 8)	**3,508,385,181**	3,489,375,227
Securities Purchased Under Resale Agreements (Note 9)	**7,879,436,912**	6,244,463,678
Investment Securities at Amortized Cost (Note 10)	**3,769,034,640**	2,343,304,349
Loans and Receivables (Note 11)	**58,158,700,872**	57,753,308,567
Investments in Associates (Note 12)	**1,527,605,047**	1,560,177,829
Premises, Furniture, Fixtures and Equipment (Note 13)	**1,192,231,238**	1,185,330,298
Investment Properties (Note 14)	**717,928,653**	727,010,950
Intangible Assets (Note 15)	**506,413,724**	537,171,900
Goodwill (Note 16)	**2,729,423,725**	3,259,022,823
Deferred Tax Assets (Note 29)	**1,351,675,061**	1,192,022,972
Prepayments and Other Resources (Note 17)	**913,374,767**	716,699,592
	₱118,563,323,502	₱99,305,458,538
LIABILITIES AND EQUITY		
LIABILITIES		
Deposit Liabilities (Note 19)		
Time	**₱74,077,215,527**	₱57,435,110,936
Savings	**3,118,989,462**	3,024,519,813
Demand	**241,598,120**	193,680,087
	77,437,803,109	60,653,310,836
Bills and Notes Payable (Note 20)	**22,589,863,217**	19,720,622,029
Accounts Payable and Accrued Expenses (Note 21)	**1,610,660,490**	998,398,181
Income Tax Payable (Note 29)	**125,841,792**	182,540,769
Other Liabilities (Note 22)	**488,555,677**	558,668,366
	102,252,724,285	82,113,540,181
EQUITY (Note 24)		
Capital Stock	**258,256,000**	258,256,000
Additional Paid-in Capital	**937,333,350**	937,333,350
Surplus Reserves	**415,815,663**	415,815,663
Surplus Free (Note 12)	**14,715,397,679**	15,672,737,059
Remeasurement Losses on Retirement Obligation (Note 27)	**(8,608,258)**	(84,433,142)
Share in Associates' Fair Value Gains through FVOCI (Note 12)	**1,385,312**	4,037,875
Share in Associates' Remeasurement Losses on Net Retirement Liability	**(8,980,529)**	(11,828,448)
	16,310,599,217	17,191,918,357
	₱118,563,323,502	₱99,305,458,538

See accompanying Notes to Financial Statements.

CITY SAVINGS BANK, INC.
(A Wholly Owned Subsidiary of Union Bank of the Philippines)

STATEMENTS OF INCOME

	Years Ended December 31	
	2021	2020
INTEREST INCOME		
Loans and receivables (Note 11)	**₱9,548,954,899**	₱8,282,032,766
Investment securities at amortized cost (Note 10)	**119,125,966**	91,159,854
Deposit with banks and others (Notes 7, 8 and 9)	**433,952,286**	427,948,831
	10,102,033,151	8,801,141,451
INTEREST EXPENSE		
Deposit liabilities (Note 19)	**1,144,192,431**	1,345,907,372
Bills payable (Note 20)	**1,054,718,452**	926,011,711
Lease liabilities (Note 28)	**13,893,551**	16,169,858
	2,212,804,434	2,288,088,941
NET INTEREST INCOME	**7,889,228,717**	6,513,052,510
OTHER INCOME (Note 25)	**379,685,512**	347,185,967
TOTAL OPERATING INCOME	**8,268,914,229**	6,860,238,477
OPERATING EXPENSES		
Provision for credit and impairment losses (Note 18)	**1,835,400,617**	958,156,327
Compensation and employee benefits (Note 27)	**1,303,410,506**	1,101,977,957
Taxes and licenses (see Note 36)	**980,404,109**	849,467,653
Contracted services	**638,662,953**	264,803,492
Depreciation and amortization (Notes 13, 14, and 15)	**525,607,732**	385,344,898
Fees and commissions (Note 11)	**393,161,047**	123,930,434
Loss on repossession of properties (Note 18)	**382,910,266**	181,410,107
Service charges (Note 11)	**196,897,644**	159,746,006
Insurance	**121,469,448**	100,421,680
Communications, telephone and telegraph	**118,495,356**	108,324,244
Management and professional fees	**83,498,968**	99,914,789
Fines and penalties	**71,960,789**	53,074,944
Security, messengerial and janitorial services	**64,925,878**	74,949,017
Stationery and supplies used	**36,953,960**	36,765,325
Power, light and water	**32,142,192**	28,330,227
Repairs and maintenance	**29,384,491**	38,871,689
Transportation, travel and freight	**23,566,484**	23,719,655
Fuel and lubricants	**22,063,556**	16,072,069
Rent (Note 28)	**15,963,020**	16,378,808
Membership fees and dues	**11,465,952**	11,191,176
Advertising and publicity	**9,608,043**	12,985,251
Others (Note 26)	**249,830,370**	110,474,695
	7,147,783,381	4,756,310,443
INCOME BEFORE SHARE IN NET PROFIT (LOSS) OF ASSOCIATES	**1,121,130,848**	2,103,928,034
SHARE IN NET PROFIT (LOSS) OF ASSOCIATES (Note 12)	**25,987,335**	(19,403,016)
INCOME BEFORE TAX	**1,147,118,183**	2,084,525,020
PROVISION FOR INCOME TAX (Note 29)	**604,457,563**	603,178,901
NET INCOME	**₱542,660,620**	₱1,481,346,117

See accompanying Notes to Financial Statements.

CITY SAVINGS BANK, INC.
(A Wholly Owned Subsidiary of Union Bank of the Philippines)

STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31	
	2021	2020
NET INCOME	**₱542,660,620**	₱1,481,346,117
OTHER COMPREHENSIVE INCOME (LOSS)		
Item that will not be reclassified subsequently to profit or loss in subsequent periods		
Gain (loss) on remeasurements of retirement obligation, net of tax (Note 27)	**75,824,884**	(43,180,527)
Share in net remeasurement gain (loss) on retirement obligation of associates (Note 12)	**2,847,919**	(12,284,413)
Share in fair value movement of associate's equity financial assets at other comprehensive income (Note 12)	**(2,652,563)**	4,037,875
OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX	**76,020,240**	(51,427,065)
TOTAL COMPREHENSIVE INCOME	**₱618,680,860**	₱1,429,919,052

See accompanying Notes to Financial Statements.

CITY SAVINGS BANK, INC.

(A Wholly Owned Subsidiary of Union Bank of the Philippines)

STATEMENTS OF CHANGES IN EQUITY

	Capital Stock	Additional Paid-In Capital	Surplus reserve	Surplus	Remeasurement losses on net retirement liability	Share in Associates' Fair Value losses through FVOCI	Share in Associates' Remeasurement losses on net retirement liability	Total
Balances at January 1, 2021	**₱258,256,000**	**₱937,333,350**	**₱415,815,663**	**₱15,672,737,059**	**(₱84,433,142)**	**₱4,037,875**	**(₱11,828,448)**	**₱17,191,918,357**
Net Income	–	–	–	**542,660,620**	–	–	–	**542,660,620**
Other Comprehensive Income, net of tax	–	–	–	–	**75,824,884**	**(2,652,563)**	**2,847,919**	**76,020,240**
Dividends Declared (Note 30)	–	–	–	**(1,500,000,000)**	–	–	–	**(1,500,000,000)**
Total Comprehensive Income	–	–	–	**(957,339,380)**	**75,824,884**	**(2,652,563)**	**2,847,919**	**(881,319,140)**
Balance at December 31, 2021	**₱258,256,000**	**₱937,333,350**	**₱415,815,663**	**₱14,715,397,679**	**(₱8,608,258)**	**₱1,385,312**	**(₱8,980,529)**	**₱16,310,599,217**
Balances at January 1, 2020	₱258,256,000	₱937,333,350	₱415,815,663	₱14,191,390,942	(₱40,796,650)	₱–	₱–	₱15,761,999,305
Net Income	–	–	–	1,481,346,117	–	–	–	1,481,346,119
Other Comprehensive Income, net of tax	–	–	–	–	(43,636,492)	4,037,875	(11,828,448)	(51,427,065)
Total Comprehensive Income	–	–	–	1,481,346,117	(43,636,492)	4,037,875	(11,828,448)	1,429,919,054
Balance at December 31, 2020	₱258,256,000	₱937,333,350	₱415,815,663	₱15,672,737,059	(₱84,433,142)	₱4,037,875	(₱11,828,448)	₱17,191,918,357

See accompanying Notes to Financial Statements.

CITY SAVINGS BANK, INC.
(A Wholly Owned Subsidiary of Union Bank of the Philippines)

STATEMENTS OF CASH FLOWS

	Years Ended December 31	
	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	**₱1,147,118,182**	₱2,084,525,018
Adjustments for:		
Provision for credit and impairment losses (Note 18)	**1,835,400,617**	958,156,327
Depreciation and amortization (Notes 13, 14 and 15)	**525,607,732**	385,344,898
Loss on repossession of properties	**382,910,266**	181,410,107
Amortization of premium on investment securities at amortized cost	**30,902,837**	27,072,785
Share in net loss (net income) of associates (Note 12)	**(25,987,335)**	19,403,016
Loss (gain) on disposals of:		
Other repossessed assets	**260,989,637**	1,863,409
Premises, Furniture, Fixtures and Equipment	**(336,860)**	(375,512)
Amortization of bills payables' issuance costs (Note 18)	**45,531,365**	19,183,599
Changes in operating assets and liabilities		
Decreases (increases) in:		
Loans and receivables	**(1,711,193,824)**	(5,892,265,790)
Prepayments and other resources	**(1,628,231,016)**	54,547,630
Increases (decreases) in:		
Deposit liabilities	**16,784,492,273**	14,395,709,146
Accounts payable and accrued expenses	**612,262,310**	(189,513,362)
Other liabilities	**143,730,332**	(98,148,159)
Net cash provided by operations	**18,403,196,516**	11,946,913,114
Income taxes paid	**(853,977,988)**	(861,445,342)
Net cash provided by operating activities	**17,549,218,528**	11,085,467,772
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisitions of:		
Investment securities at amortized cost	**(1,456,633,128)**	(2,370,377,133)
Premises, furniture, fixtures and equipment (Notes 13 and 33)	**(235,191,257)**	(357,900,866)
Intangible assets (Note 15)	**(101,647,547)**	(79,109,221)
Investment properties	**–**	(120,000)
Proceeds from disposal of:		
Other repossessed assets	**624,599,005**	139,593,218
Premises, furniture, fixtures and Equipment	**1,392,242**	1,787,260
Investment properties	**6,172,157**	–
Payments made for capital infusion in investee companies (Notes 12)	**(32,498,600)**	–
Share in dividends declared of the associates (Note 12)	**91,058,717**	–
Payments made for acquisition of investee companies (Notes 12 and 16)	**–**	(574,898,753)
Net cash used in investing activities	(1,102,748,411)	(3,241,025,495)

(Forward)

	Years Ended December 31	
	2021	2020
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from availments of bills payable (Note 20)	**₱16,999,240,460**	₱52,492,383,128
Settlements of bills payable (Note 20)	**(14,175,530,637)**	(45,727,170,084)
Dividends paid	**(1,500,000,000)**	–
Payments of principal portion of lease liabilities (Note 28)	**(104,653,422)**	(99,564,550)
Net cash provided by financing activities	**1,219,056,401**	6,665,648,494
NET INCREASE IN CASH AND CASH EQUIVALENTS	**17,665,526,516**	14,510,090,771
CASH AND CASH EQUIVALENTS, GROSS OF IMPAIRMENT ALLOWANCE AT BEGINNING OF PERIOD		
Cash and other cash items (Note 6)	**711,974,313**	622,892,875
Due from Bangko Sentral ng Pilipinas (Note 7)	**19,585,596,040**	5,933,175,145
Due from other banks (Note 8)	**3,493,497,822**	2,642,644,614
Securities purchased under resale agreement (Note 9)	**6,244,463,678**	6,326,728,448
	30,035,531,853	15,525,441,082
CASH AND CASH EQUIVALENTS, GROSS OF IMPAIRMENT ALLOWANCE AT END OF PERIOD		
Cash and other cash items (Note 6)	**647,625,372**	711,974,313
Due from Bangko Sentral ng Pilipinas (Note 7)	**35,661,488,310**	19,585,596,040
Due from other banks (Note 8)	**3,512,507,776**	3,493,497,822
Securities purchased under resale agreement (Note 9)	**7,879,436,912**	6,244,463,678
	₱47,701,058,370	₱30,035,531,853
OPERATIONAL CASH FLOWS FROM INTEREST		
Interest paid	**₱2,181,924,600**	₱2,292,944,195
Interest received	**9,838,413,623**	7,125,072,241

See accompanying Notes to Financial Statements.

NOTES TO FINANCIAL STATEMENTS

1. Corporate Information

City Savings Bank, Inc. (the Bank) was incorporated under Philippine laws and was registered with the Securities and Exchange Commission (SEC) on December 9, 1965. The Bank was granted license to operate by the Bangko Sentral ng Pilipinas (BSP) on December 29, 1965.

The Bank is a thrift bank specializing in salary loans, motorcycle loans and pension loans. As at December 31, 2021, the Bank has 107 branches, including its head office, and 42 branch-lite units.

The Bank is a subsidiary of Union Bank of the Philippines (UBP or Parent Bank). UBP, a universal bank incorporated and domiciled in the Philippines, is listed in the Philippine Stock Exchange (PSE) and is 41.95% owned by Aboitiz Equity Ventures, Inc. (AEVI). As at December 31, 2021 and 2020, UBP's ownership interest in the Bank is 99.78%.

The Bank acquired 100% ownership in Philippine Resources Savings Banking Corporation (PR Savings Bank), following the approvals of the Philippine Competition Commission (PCC) and the Monetary Board (MB) of the BSP on April 5, 2018 and June 14, 2018, respectively.

On July 5, 2018 and July 10, 2018, the Board of Directors (BOD) and the stockholders, respectively, approved the plan of merger of PR Savings Bank and the Bank, with the latter as the surviving entity. Subsequently on December 20, 2018, the Monetary Board (MB) of the BSP approved the merger subject to certain conditions, including completion of the merger within one year from the date of receipt of the BSP approval and that the merger should be effective on the date the SEC issues the certificate of merger.

On February 28, 2019, the SEC approved the merger of the Bank and PR Savings Bank. Accordingly, the assets and liabilities of PR Savings Bank are combined with CSB on the date of merger (see Note 12).

The Bank has 40% ownership interest in PETNET, Inc., a money remittance company, and 49% ownership in First Agro-Industrial Rural Bank, Inc. (FAIRBank), Bangko Kabayan, Inc. and Progressive Bank, Inc. (see Note 12).

The Bank's principal and registered office of business is at UnionBank Plaza, Meralco Avenue corner Sapphire and Onyx Streets, Ortigas Center, Pasig City.

The accompanying financial statements of the Bank were authorized and approved for issue by the Bank's Board of Directors (BOD) on July 22, 2022.

2. Summary of Significant Accounting Policies

Basis of Preparation
The accompanying financial statements have been prepared on a historical cost basis. The financial statements are presented in Philippine peso (₱), which is the Bank's functional currency. All values are rounded to the nearest peso, except when otherwise indicated.

The Bank has elected not to prepare consolidated financial statements. The Bank availed the exemption from preparing the consolidated financial statements on the basis that its Parent Bank publishes consolidated financial statements that are available for public use and comply with PFRSs. The consolidated financial statements of the Parent Bank can be obtained from the SEC and the Parent Bank's registered business address at Union Bank Plaza, Meralco Avenue corner Onyx Street and Sapphire Road, Ortigas Center, Pasig City.

The accompanying financial statements are the Bank's separate financial statements in accordance with Philippine Accounting Standards (PAS) 27, *Separate Financial Statements*.

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

Presentation of Financial Statements
The Bank presents its statement of financial position broadly in order of liquidity. An analysis regarding recovery or settlement within 12 months after the statement of financial position date (current) and more than 12 months after the statement of financial position date (non-current) is presented in Note 23.

Changes in Accounting Policies and Disclosures
The accounting policies adopted are consistent with those of the previous financial year, except that the Bank has adopted the following new accounting pronouncements starting January 1, 2021. Adoption of these pronouncements did not have any significant impact on the Bank's financial position or performance unless otherwise indicated.

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

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

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

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

Beginning on or after January 1, 2021

- Amendments to PFRS 9, PFRS 7, PFRS 4 and PFRS 16, *Interest Rate Benchmark Reform – Phase 2*
  The amendments provide the following temporary reliefs which address the financial reporting effects when an interbank offered rate (IBOR) is replaced with an alternative nearly risk-free interest rate (RFR):

  - Practical expedient for changes in the basis for determining the contractual cash flows as a result of IBOR reform
  - Relief from discontinuing hedging relationships
  - Relief from separately identifiable requirement when an RFR instrument is designated as a hedge of a risk component

  The Bank shall also disclose information about:
  - The nature and extent of risks to which the entity is exposed arising from financial instruments subject to IBOR reform, and how the entity manages those risks; and
  - Their progress in completing the transition to alternative benchmark rates, and how the entity is managing that transition.

- Amendments to PFRS 7, *Financial Instruments: Disclosures and PFRS 9, Financial Instruments, Interest Rate Benchmark Reform*
- Amendments to PAS 1, *Presentation of Financial Statements, and PAS 8, Accounting Policies, Changes in Accounting Estimates and Errors, Definition of Material*
- Conceptual Framework for Financial Reporting issued on March 29, 2018
- Amendments to PFRS 16*, COVID-19-related Rent Concessions*

Beginning on or after April 1, 2021

- COVID-19-Related Rent Concessions beyond June 30, 2021, amendments to IFRS 16

  The amendment extended the period of application of the practical expedient to provide relief to lessees from applying IFRS 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the COVID-19 pandemic until June 30, 2022. The amendment applies to annual reporting periods beginning on or after April 1, 2021.

<u>Standards Issued but not yet Effective</u>
Pronouncements issued but not yet effective are listed below. Unless otherwise indicated, the Bank does not expect that the future adoption of the said pronouncements will have a significant impact on its financial statements. The Bank intends to adopt the following pronouncements when they become effective.

Effective beginning on or after January 1, 2022
- Amendments to PFRS 3, *Reference to the Conceptual Framework*
- Amendments to PAS 16, *Plant and Equipment: Proceeds before Intended Use*
- Amendments to PAS 37, *Onerous Contracts – Costs of Fulfilling a Contract*
- *Annual Improvements to PFRSs* 2018-2020 Cycle

- Amendments to PFRS 1, *First-time Adoption of Philippines Financial Reporting Standards, Subsidiary as a first-time adopter*
- Amendments to PFRS 9, *Financial Instruments*, *Fees in the '10 per cent' test for derecognition of financial liabilities*
- Amendments to PAS 41*, Agriculture, Taxation in fair value measurements*

Effective beginning on or after January 1, 2023

- Amendments to PAS 1*, Classification of Liabilities as Current or Non-current*
- PFRS 17, *Insurance Contracts*

Deferred effectivity

- Amendments to PFRS 10, *Consolidated Financial Statements*, and PAS 28, *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

Significant Accounting Policies

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 the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- in the principal market for the asset or liability, or
- in the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible to the Bank. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

The Bank uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

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 follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities in the absence of a principal market, in the most advantageous market for the asset or liability
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognized in the statement of financial position on a recurring basis, the Bank determines whether transfers have occurred between Levels in the hierarchy by reassessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

Cash and Cash Equivalents
For purposes of reporting cash flows, cash include cash and other cash items (COCI), due from BSP and other banks. Cash equivalents include placements in other banks and securities purchased under

resale agreements (SPURA) with the BSP that are convertible to known amounts of cash with original maturities of three months or less from dates of placements and that are subject to an insignificant risk of changes in value.

Financial Instruments - Initial Recognition and Subsequent Measurement

Date of recognition

Financial assets and liabilities, except for loans and advances to customers and balances due to customers, are initially recognized on the trade date, i.e., the date that the Bank becomes a party to the contractual provisions of the instrument. 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 marketplace. Loans and advances to customers are recognized when funds are transferred to the customers' accounts. The Bank recognizes balances due to customers when funds are transferred to the Bank.

Initial recognition of financial instruments

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

The Bank assesses whether the cash flows from the financial asset represent solely payments of principal and interest (SPPI) on the principal amount outstanding. Instruments with cash flows that do not represent as such are classified at FVTPL.

In making this assessment, the Bank determines whether the contractual cash flows are consistent with a basic lending arrangement, i.e., interest includes consideration only for the time value of money, credit risk and other basic lending risks and costs associated with holding the financial asset for a particular period of time.

The Bank's business model does not depend on management's intentions for an individual instrument, rather it refers to how it manages its group of financial assets in order to generate cash flows (i.e. collecting contractual cash flows, selling financial assets or both).

Relevant factors considered by the Bank in determining the business model for a group of financial assets include how the performance of the business model and the financial assets held within that business model are evaluated and reported to the Bank's key management personnel. The Bank also considers the risks that affect the performance of the business model (and the financial assets held within that business model) and how these risks are managed and how managers, if any, of the business are compensated.

As at December 31, 2021 and 2020, the Bank's financial instruments are categorized as financial assets and liabilities at amortized cost. The Bank has no financial instruments at FVTPL or financial assets at FVOCI.

'Day 1' difference

Where the transaction price in a non-active market is different from the fair value based on other observable current market transactions for the same instrument or based on a valuation technique whose variables include only data from observable market, the Bank recognizes the difference between the transaction price and the fair value (or 'Day 1' difference) in the statement of income unless it qualifies for recognition as some other type of asset. In cases where fair value is determined based on data which are not observable, the difference between the transaction price and model value is only recognized in the statement of income when the inputs become observable or when the instrument is derecognized. For each transaction, the Bank determines the appropriate method of recognizing the 'Day 1' difference amount.

Financial assets at amortized cost
This accounting policy relates to 'Due from BSP', 'Due from other banks', 'Securities purchased under resale agreements', 'Investment securities at amortized cost', 'Loans and receivables' and refundable deposits and other investments presented under 'Prepayments and other resources'.

Financial assets are measured at amortized cost if both of the following conditions are met:
- the asset is held within the Bank's business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the instrument give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal amount outstanding.

After initial measurement, financial assets at amortized cost are subsequently measured at amortized cost using the effective interest rate (EIR) method, less any impairment in value.

Reclassification of financial assets
The Bank can only reclassify financial assets if the objective of its business model for managing those financial assets changes. The reclassification will be applied prospectively from the 'reclassification date', which is defined as, the first day of the first reporting period following the change in business model that results in the Bank reclassifying financial assets. Accordingly, any previously recognized gains, losses or interest will not be restated.

In 2021 and 2020, the Bank did not reclassify its financial assets subsequent to their initial recognition.

Financial liabilities at amortized cost
This category represents issued financial instruments, which are not designated at FVTPL and comprises 'Deposit liabilities', 'Bills and notes payable' and 'Accounts payable and accrued expenses' (excluding documentary stamp taxes and other taxes and licenses payable).

Financial liabilities at amortized cost are contractual arrangements resulting in the Bank having the obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Bank's own equity shares.

After initial measurement, these financial liabilities are measured at amortized cost using the effective interest rate method. Amortized cost is calculated by taking into account any discount or premium on the issue and fees that are an integral part of the EIR.

<u>Derecognition of Financial Instruments</u>
Financial assets
A financial asset (or where applicable, a part of a financial asset or part of a group of financial assets) is derecognized when:

- the rights to receive cash flows from the asset have expired; or

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

Financial liabilities
A financial liability is derecognized when the obligation under the liability is discharged, cancelled or has expired.

Impairment of Financial Assets
The Bank records the allowance for expected credit losses for all loans and other debt financial assets carried at amortized cost, together with loan commitments and financial guarantee contracts.

Expected credit loss (ECL) methodology
ECL represents credit loss that reflects an unbiased and probability-weighted amount which is determined by evaluating a range of possible outcomes, the time value of money and reasonable and supportable information about past events, current conditions and forecasts of future economic conditions. ECL allowances are measured at amounts equal to either (i) 12-month ECL or (ii) lifetime ECL for those financial instruments which have experienced a significant increase in credit risk (SICR) since initial recognition (i.e. the General Approach). The 12-month ECL is the portion of lifetime ECL that results from default events on a financial instrument that are possible within the 12 months after the reporting date. Lifetime ECL is the credit loss that results from all possible default events over the expected life of a financial instrument. Both 12-month ECL and lifetime ECL are calculated on either an individual basis or a collective basis, depending on the nature and shared credit risk characteristics of the underlying portfolio of financial instruments. The Bank's policy for grouping financial assets measured on a collective basis is explained in Note 4.

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

For non-credit-impaired financial instruments:
- Stage 1 is comprised of all non-impaired financial instruments which have not experienced a SICR since initial recognition. This also includes financial instruments, where the credit risk has improved, and the instrument has been reclassified from Stage 2. The Bank recognizes a 12-month ECL for Stage 1 financial instruments.
- Stage 2 is comprised of all non-impaired financial instruments which have experienced a SICR since initial recognition. This also includes financial instruments, where the credit risk has improved, and the instrument has been reclassified from Stage 3. The Bank recognizes a lifetime ECL for Stage 2 financial instruments.

For credit-impaired financial instruments:
- Financial instruments are classified as Stage 3 when there is objective evidence of impairment as a result of one or more loss events that have occurred after initial recognition with a negative impact on the estimated future cash flows of the financial instrument or portfolio of financial instruments. The ECL model requires that lifetime ECL be recognized for impaired financial instruments.
- Purchased or credit originated credit impaired (POCI) assets are financial assets that are credit impaired on initial recognition. POCI assets are recorded at fair value at initial recognition and

interest income is subsequently recognized based on a credit adjusted EIR. The ECL allowance is only recognized or released to the extent that there is a subsequent change in the ECL.

The Bank uses internal credit assessment and approvals at various levels to determine the credit risk of exposures at initial recognition. Assessment can be quantitative or qualitative and depends on the materiality of the facility or the complexity of the portfolio to be assessed.

Definition of "default" and "cure"
The Bank defines a financial instrument as in default, which is fully aligned with the definition of credit impaired, in all cases when the borrower becomes more than 90 days past due on its contractual payments. As a part of a qualitative assessment of whether a customer is in default, the Bank also considers a variety of instances that may indicate unlikeliness to pay. When such events occur, the Bank carefully considers whether the event should result in treating the customer as defaulted. An instrument is considered no longer in default (i.e., to have cured) when it no longer meets any of the default criteria and the borrower demonstrated consistent payments for a consecutive period of 180 days.

Significant increase in credit risk
The criteria for determining whether credit risk has increased significantly vary by portfolio and include quantitative changes in probabilities of default and qualitative factors such as downgrade in the credit rating of the borrowers and a backstop based on delinquency. The credit risk of an exposure is deemed to have increased significantly since initial recognition if, based on the Bank's internal credit assessment, the borrower or counterparty is determined to require close monitoring or with well-defined credit weaknesses such as downgrade of credit rating form initial recognition. For exposures without internal credit grades, if contractual payments are past due for more than a specified number of days (i.e. 30 days), the credit risk is deemed to have increased significantly since initial recognition. Days past due are determined by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received. In subsequent reporting periods, if the credit risk of the financial instrument improves such that there is no longer a SICR since initial recognition, the Bank shall revert to recognizing a 12-month ECL.

ECL parameters and methodologies
ECL is a function of the PD, EAD and LGD, with the timing of the loss also considered, and is estimated by incorporating forward-looking economic information and employing the use of the experienced credit judgment.

The PD represents the likelihood that a credit exposure will not be repaid and will go into default in either a 12-month horizon for Stage 1 or lifetime horizon for Stage 2. The PD for each individual instrument is modelled based on historic data and is estimated based on current market conditions and reasonable and supportable information about future economic conditions. The Bank segmented its credit exposures based on homogenous risk characteristics and developed a corresponding PD methodology for each portfolio. The PD methodology for each relevant portfolio is determined based on the underlying nature or characteristic of the portfolio, behavior of the accounts and materiality of the segment as compared to the total portfolio.

EAD is modelled on historic data and represents an estimate of the outstanding amount of credit exposure at the time a default may occur. For off-balance sheet and undrawn amounts, EAD includes an estimate of any further amounts to be drawn at the time of default. LGD is the amount that may not be recovered in the event of default and is modelled based on historical cash flow recovery as well as other applicable forms of recovery based on the portfolio and reasonable and supportable information about future economic conditions, where appropriate. LGD takes into consideration the amount and quality of any collateral held.

The Bank incorporates economic overlays into its measurement of ECL. A broad range of economic overlays are considered as economic inputs.

Collateral valuation
To mitigate its credit risks on financial assets, the Bank seeks to use collateral, where possible. The collateral comes in various forms, such as cash, real estates, other non-financial assets and credit enhancements such as netting agreements. Collateral, unless repossessed, is not recorded on the Bank's statement of financial position.

The fair value of collateral affects the calculation of ECLs. To the extent possible, the Bank uses active market data for valuing financial assets held as collateral. Non-financial collaterals, such as real estate and chattels, are valued based on data provided by external and internal appraisers.

Write-offs
Financial assets are written off either partially or in their entirety only when the Bank has stopped pursuing the recovery. If the amount to be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount. Any subsequent recoveries are credited to impairment loss.

Restructured loans
In certain circumstances, the Bank modifies the original terms and conditions of a credit exposure to form a new loan agreement or payment schedule. The modifications can be given depending on the borrower's or counterparty's current or expected financial difficulty. The modifications may include, but are not limited to, change in interest rate and terms, principal amount, maturity date, date and amount of periodic payments and accrual of interest and charges. Distressed restructuring with indications of unlikeliness to pay are categorized as impaired accounts and are moved to Stage 3.

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

Goodwill
Goodwill is initially measured at cost (being the excess of the aggregate of the consideration transferred and the amount recognized for non-controlling interests and any previous interest held over the net identifiable assets acquired and liabilities assumed). If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Bank re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognized at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognized in the statement of income.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Refer to accounting policy on *Impairment of Goodwill*.

Where goodwill has been allocated to a cash-generating unit (CGU) and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of the cash-generating unit retained.

Investments in Associates

An associate is an entity over which the Bank demonstrates significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

Investments in associates in the Bank's financial statements are initially recognized at cost and subsequently accounted for under the equity method.

On acquisition of investment, any difference between the cost of the investment and the Bank's share of the net fair value of the investee's identifiable assets and liabilities is accounted for as follows:

- Goodwill relating to an associate is included in the carrying amount of the investment. Amortization of that goodwill is not permitted.
- Any excess of the Bank's share of the net fair value of the investee's identifiable assets and liabilities over the cost of the investment is included as income in the determination of the Bank's share of the associate's profit or loss in the period in which the investment is acquired.

Under the equity method, an investment in associate is carried in the statement of financial position at cost plus post-acquisition changes in the Bank's share of the net assets of the associate. Post-acquisition changes in the share of net assets of the associate include the share in the: (a) income or losses; and (b) other comprehensive income (i.e. remeasurements on retirement plan). Dividends received are treated as a reduction in the carrying amount of the investments.

The statement of income reflects the share of the results of operations of the associate. Where there has been a change recognized directly in the equity of the associate, the Bank recognizes its share of any changes and thus, when applicable, discloses in the statement of changes in equity. If the Bank's share of losses in an associate equal or exceeds its interest in the subsidiary, the Bank discontinues recognizing its share in further losses, unless it has incurred obligations or made payments on behalf of the associate. If the associate subsequently reports profits, the investor resumes recognizing its share of those profits only after its share of the profits exceeds the accumulated share of losses that has previously not been recognized.

Appropriate adjustments to the Bank's share of the associate's profit or loss after acquisition are made to account, for example, for depreciation of the depreciable assets based on their fair values at the acquisition date. Similarly, appropriate adjustments to the Bank's share of the associate's profit or loss after acquisition are made for impairment losses, such as for goodwill or non-financial assets.

Unrealized gains and losses on transactions between the Bank and its associate are eliminated to the extent of the Bank's interest in those entities. Where unrealized losses are eliminated, the underlying asset is also tested for impairment losses from a group perspective.

Impairment loss is provided when there is objective evidence that the investments in associates will not be recovered. Refer to accounting policy on *Impairment of Nonfinancial Assets*.

Impairment of Goodwill

Subsequent to initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment, annually or more frequently, if events or changes in circumstances indicate that the carrying value may be impaired.

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

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units), to which the goodwill relates. Recoverable amount is the higher of fair value less costs to sell and value-in-use. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognized. Impairment of goodwill is never reversed.

Premises, Furniture, Fixtures and Equipment
Premises, furniture, fixtures and equipment are carried at acquisition cost less accumulated depreciation and amortization, and any impairment in value.

It is the Bank's policy to classify right-of-use assets as part of property and equipment. Refer to the policy *Leases* for the recognition and measurement of right-of-use assets.

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

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

Buildings and building improvements	25 to 50 years
Furniture, fixtures and equipment	5 to 10 years
Leasehold improvements	5 to 10 years or term of the lease, whichever is shorter

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

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (see accounting policy on *Impairment of Non-financial Assets*).

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

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

Investment Properties
Investment properties pertain to condominium units and to parcels of land and buildings acquired by the Bank in settlement of loans from defaulting borrowers through foreclosure or dacion in payment, which are held by the Bank to earn rental income or for capital appreciation or both, rather than for administrative purposes or sale in the ordinary course of business.

The Bank adopted the cost model in measuring its investment properties. These are carried at acquisition cost less accumulated depreciation and amortization, and any impairment in value.

Investment properties are measured initially at acquisition cost. Investment properties such as condominium units and buildings are depreciated over the estimated useful lives ranging from two to ten years and is recognized under ‘Depreciation and amortization’ in the statement of income.

An asset’s carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (see accounting policy on *Impairment of Non-financial Assets).*

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

Investment property, including the related accumulated depreciation and any allowance for impairment losses, is derecognized upon disposal or when permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gain or loss on the retirement or disposal of an investment property is recognized in profit or loss in the year of retirement or disposal.

<u>Other Repossessed Assets</u>
Other repossessed assets are comprised primarily of repossessed motor vehicles. Repossessed assets acquired through an exchange transaction is measured at fair value of the asset acquired unless the fair value of such asset cannot be determined, in which case, it is measured at the fair value of the asset given up.

Subsequent to initial recognition, repossessed chattels are stated at cost less accumulated depreciation and any impairment in value. Depreciation is calculated on a straight-line basis using the remaining useful lives from the time of acquisition of the vehicles. The useful lives of repossessed chattels are estimated to be no longer than three (3) years.

<u>Intangible Assets</u>
Intangible assets include computer software, branch licenses, dealership agreement and core deposits which are accounted for under the cost model. The cost of the asset is the amount of cash or cash equivalents paid or the fair value of the consideration given up in acquiring the asset at the time of its acquisition. Those intangible assets acquired from business combination are recognized at their acquisition date fair values.

Amortization expense is computed on a straight-line basis over the estimated useful lives of the depreciable assets as follows:

Computer software	5 to 10 years
Dealership agreement	7 years
Core deposits	10 years

Amortization expense is presented under ‘Depreciation and amortization’ in the statement of income. Costs associated with maintaining the intangible assets are expensed as incurred.

Acquired branch licenses from BSP are capitalized based on the costs incurred to acquire the license. Estimated useful lives of branch licenses are considered infinite; hence, not amortized.

The estimated useful lives of and method of amortization for intangible assets with finite useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period. For those intangible assets with indefinite useful lives, the useful life is reviewed annually to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is made on a prospective basis.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (see accounting policy on *Impairment of Non-financial Assets*).

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

Prepayments and Other Resources

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

Leases

Bank as lessee

The Bank applies a single recognition and measurement approach for all leases.

(a) Right-of-use (ROU) assets

The Bank recognizes right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognized, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received and estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories. Unless the Bank is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognized right-of-use assets are depreciated on a straight-line basis from the commencement date to earlier of the end of the useful life of the right-of-use or end of the lease term. The Bank assessed that the estimated useful life of the right-of-use assets is equal to the lease terms. The Bank's ROU assets are presented under "Premises, Furniture, Fixtures and Equipment".

Depreciation of ROU asset is presented under "Depreciation and amortization" in the statement of income.

Right-of-use assets are subject to impairment. Refer to the accounting policies in section *Impairment of non-financial assets*.

(b) Lease liabilities

At the commencement date of the lease, the Bank recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Bank and payments of penalties for terminating a lease, if the lease term reflects the Bank exercising the option to terminate. Variable lease payments that do not depend on an index or a rate are recognized as expense (unless they are incurred to produce inventories) in the period on which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Bank uses its incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest, presented under "Interest expense", and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.

The Bank's lease liabilities are presented under "Other liabilities".

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

Bank as lessor
The Bank classifies a lease as finance lease if it transfers substantially all the risks and rewards incidental to ownership of asset arising from the lease, having considered the any of the following criteria:

- The lease transfers ownership of the asset to the lessee by the end of the lease term;
- The lessee has the option to purchase the asset at a price that is expected to be sufficiently lower than the fair value at the date the option becomes exercisable for it to be reasonably certain, at the inception date, that the option will be exercised;
- The lease term is for the major part of the economic life of the asset even if title is not transferred;
- At the inception date, the present value of the lease payments amounts to at least substantially all of the fair value of the asset; and
- The asset is of such a specialized nature that only the lessee can use it without major modifications.

Leases where the Bank does not transfer substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognized as an income in profit or loss on a straight-line basis over the lease term. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as rental income.

<u>Impairment of Non-financial Assets</u>
The Bank's investments in associates and subsidiary, premises, furniture, fixtures and equipment, investment properties, intangible assets and other nonfinancial assets are subject to impairment testing. Goodwill and intangible assets with an indefinite useful life are tested for impairment at least annually. All other individual assets or group of assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount of those assets may not be recoverable.

When an indicator of impairment exists or when an annual impairment testing for an asset is required, the Bank makes an estimate of recoverable amount. Recoverable amount is the higher of an asset's (or cash-generating unit's) fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is assessed as part of the cash generating unit to which it belongs.

Revenue Recognition (outside the scope of PFRS 15)

Interest income

Interest income is recognized in the statement of income for all financial assets measured at amortized cost using the effective interest rate (EIR) method. The EIR is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset or liability or, when appropriate, a shorter period, to the gross carrying amount of the financial instrument.

The EIR (and therefore, the amortized cost of the financial asset) is calculated by taking into account transaction costs and any discount or premium on the acquisition of the financial asset, as well as fees and costs that are an integral part of the EIR. The Bank recognizes interest income using a rate of return that represents the best estimate of a constant rate of return over the expected life of the financial asset.

Service fees arising from activities such as evaluating the borrower's financial condition, evaluating and recording guarantees, collateral and other security arrangements, negotiating the terms of the instrument, preparing and processing documents and closing the transaction that are considered integral in the creation or acquisition of financial asset is recognized in the statement of income using the EIR method.

The Bank calculates interest income on financial assets, other than those considered credit impaired, by applying the EIR to the gross carrying amount of the financial asset. When a financial asset becomes credit-impaired (regarded as 'Stage 3'), the Bank calculates interest income by applying the EIR to the net amortized cost of the financial asset. If the financial asset cures and is no longer credit-impaired, the Bank reverts to calculating interest income on a gross basis. For POCI financial assets, the Bank calculates interest income by calculating the credit adjusted EIR and applying that rate to the amortized cost of the financial asset. The credit adjusted EIR is the interest rate that, at initial recognition, discounts the estimated future cash flows (including credit losses) to the amortized cost of the POCI financial asset.

Rental income

Rent arising from leased properties is accounted for on a straight-line basis over the lease terms of ongoing leases and is presented as part of 'Other income' in the statement of income.

Revenue Recognition (within the scope of PFRS 15)

Revenue from contracts with customers, if any, is recognized when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Bank expects to be entitled in exchange for goods or services. The following specific recognition criteria must also be met before revenue is recognized:

Service charges and fees

Service charges and penalties relating to loans and receivables and deposit transactions are recognized point in time, i.e. only upon collection or accrued when there is reasonable degree of certainty as to its collectability.

Income from sale or disposal of non-financial assets

Gain (loss) from sale of non-financial assets which pertains to the difference between the consideration from the sale or disposal and the carrying amount of the asset is recognized when it satisfies an identified performance obligation by transferring the promised good (i.e. asset) to a buyer. The asset is considered transferred when the buyer obtains control of the asset. This is presented as part of 'Other income' in the statement of income.

Expense Recognition
Costs and expenses are recognized in profit or loss upon utilization of the assets or services or at the date these are incurred. All finance costs are reported in profit or loss on an accrual basis using the EIR method.

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

The liability recognized in the statement of financial position for a defined benefit plan (presented under 'Other liabilities') is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets.

The cost of providing benefits under the defined benefit plan is calculated regularly by independent actuaries using the projected unit credit method.

Defined benefit costs comprise the following:
- Service cost
- Net interest on the net defined benefit liability or asset
- Remeasurements of net defined benefit liability or asset

Service costs which include current service costs, past service costs and gains or losses on non-routine settlements are recognized as expense in the statement of income. Past-service costs are recognized immediately in profit or loss in the period of a plan amendment or curtailment.

Net interest is calculated by applying the discount rate at the beginning of the period, taking account any changes in the net defined benefit asset or liability during the period as a result of contributions and benefit payments. Net interest on the net defined benefit liability or asset is recognized as expense or income in the statement of income.

Remeasurements, comprising of actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions and the return on plan assets (excluding amount included in net interest) are reflected immediately in the statement of financial position with a charge or credit recognized in other comprehensive income in the period in which they arise. Remeasurements are not reclassified to profit or loss in subsequent periods.

When a plan amendment, curtailment or settlement occurs during the annual reporting period, the amendments to PAS 19 specify that an entity must:
a. Determine current service cost for the remainder of the period after the plan amendment, curtailment or settlement using the actuarial assumptions used to remeasure the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event
b. Determine current service cost for the remainder of the period after the plan amendment, curtailment or settlement using the actuarial assumptions used to remeasure the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event

Compensated Absences
Compensated absences are recognized for the number of paid leave days (including holiday entitlement) remaining at the end of the reporting period. These are included in 'Accounts Payable and Accrued Expenses' in the statement of financial position at the undiscounted amount that the Bank expects to pay as a result of the unused entitlement.

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

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

Deferred tax
Deferred tax is accounted for using the balance sheet liability method, on all temporary differences at the end of the reporting period between the tax base of assets and liabilities and their carrying amounts for financial reporting purposes. Under the balance sheet liability method, with certain exceptions, deferred tax liabilities are recognized for all taxable temporary differences and deferred tax assets are recognized for all deductible temporary differences and the carryforward of unused tax credits from excess 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 taxable profit will be available against which the deferred tax assets can be utilized. Deferred tax, however, is not recognized when it arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting income nor taxable income.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilized. Unrecognized deferred tax assets are reassessed at the end of each reporting period and are recognized to the extent that it has become probable that future taxable profit will be available to allow such deferred tax assets to be recovered.

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

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

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

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

Equity

Capital stock represents the nominal value of shares that have been issued. Additional paid-in capital includes any premium received on the issuance of capital stock. Any transaction costs associated with the issuance of shares are deducted from additional paid-in capital, net of any related income tax benefits.

Surplus free includes all current and prior period results as reported in the statements of income and which are available and not restricted for use by the Bank, reduced by the amounts of dividend declared, if any.

Surplus reserves pertains to the difference of the one percent (1%) required General Loan Loss Provision, as required by the BSP Circular No. 1011 - Guidelines on the Adoption of the Philippine Financial Reporting Standard (PFRS 9), *Financial Instruments*, on Stage 1 on-balance sheet loans over the computed allowance for expected credit losses on Stage 1 accounts under PFRS 9.

Remeasurements on retirement liability comprise of cumulative actuarial gains and losses resulting from remeasurements of post-employment defined benefit obligation, net of related deferred taxes.

Events after the Reporting Date

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

3. Significant Accounting Judgments and Estimates

The preparation of the Bank's financial statements in accordance with PFRS requires the Bank to make judgments and estimates that affect the amounts reported in the financial statements and related notes. Judgments and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results may ultimately differ from these estimates. There were no significant judgements affecting the financial statements of the Bank other than those related to estimations discussed below.

Estimates

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

a. *Estimation of impairment losses on loans and receivables*

The measurement of expected credit losses across all categories of financial assets requires judgment, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses. These estimates are driven by a number of factors, changes in which can result in different levels of allowances.

The Bank adopted a loan loss methodology based on the requirements of PFRS 9. The Bank's ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Significant factors affecting the estimates on the ECL model include:

- The Bank's internal grading model, which assigns PDs to individual grades;

- The Bank's criteria for assessing if there has been a significant increase in credit risk and so allowances for financial assets should be measured on a lifetime expected credit Loss basis and the qualitative assessment;
- The Bank's definition of default, which is consistent with regulatory requirements;
- The segmentation of financial assets when their ECL is assessed on a collective basis;
- Development of ECL models, including the various formulas and the choice of inputs; and
- Determination of associations between macroeconomic scenarios and, economic inputs, and the effect on PDs, EADs and LGDs.

It has been the Bank's policy to regularly review the existing impairment models based on actual loss experience and forward-looking expectations and adjust them as necessary.

The level of estimation uncertainty has increased in 2020 as a result of economic disruption due to COVID-19 pandemic. Accordingly, the Bank, through the expert credit judgments approved by the Bank's Risk Committee, revisited its inputs and assumptions in the ECL calculation related to the following:

- The calibration of PDs and estimation of LGDs to reflect the current default and loss experience as a result of the COVID-19 pandemic;
- The set of macro-economic variables affecting the default of the various loan segments; and
- The determination and selection of macro-economic scenarios and probability weights, which cover the duration and severity of the COVID-19 pandemic impact, the timing of the economic recovery, potential medical developments and length of government-imposed lockdowns, based on available market and published data.

The carrying value of loans and receivables and the analysis of allowance for impairment on such financial assets are shown in Notes 11 and 18, respectively.

b. *Estimation of expected life of loans*

The Bank recognizes the upfront fees from loan originations as interest income using the EIR method over the expected life of the loans. The Bank estimates the expected life of the loans, based on the period over which the loans are expected to be settled in full. The estimation is reviewed periodically and is updated based on the current expectations on the behavior and repayment of the borrowers.

The carrying values of loans and receivables are shown in Note 11.

c. *Valuation of post-employment defined benefit obligation*

The determination of the Bank's obligation and cost of post-employment defined benefit is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions include, among others, discount rates, future salary rate increases and mortality rates. Due to the complexity of the valuation, the underlying assumptions and its long-term nature, defined benefit obligations are highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date.

In determining the appropriate single weighted average discount rate, management considers the interest rates of government securities, with extrapolated maturities corresponding to the expected duration of the defined benefit obligation.

The mortality rate is based on publicly available mortality tables for the Philippines and is modified accordingly with estimates of mortality improvements. Future salary increases are based on expected future inflation rates, seniority, promotion and other market factors.

The amounts of post-employment defined benefit obligation and expense and an analysis of the movements in the estimated present value of post-employment defined benefit obligation are presented in Note 27.

d. Impairment of goodwill
The Bank conducts a review of any impairment in value of goodwill annually every December 31 or frequently, if events if events or changes in the circumstances indicate that the carrying value of the cash generating unit to which to goodwill is allocated may be impaired.

The Bank's impairment assessment requires significant judgement and is based on management's assumptions.

For purposes of impairment testing, the Bank measures the recoverable amount of the CGU to which the goodwill is allocated, based on a value-in-use calculation using cash flow projections from the five-year financial projection covering, which are approved by the senior management. The value-in-use calculation is most sensitive to the following assumptions: a) forecasts of loan releases and b) discount rate.

The discussion of key assumptions used in the impairment calculation and the carrying value of the goodwill are disclosed in Note 16.

4. Financial Risk Management Objectives and Policies

The Bank is committed to protect its reputation, core investments, team members, customers and communities and to create long-term value for all its stakeholders and to adopt an agile, scalable, defensible, and competitively opportunistic Enterprise Risk Management (ERM) framework.

The Bank recognizes that the management of risk is fundamental to the business of banking. In this regard, it aims to consciously and actively manage the risks inherent in the business by striking a balance between risks and returns and achieving growth through an appropriate risk management policy. The Bank is committed to protect its reputation, core investments, team members, customers and communities and to create long-term value for all its stakeholders and to adopt an agile, scalable, defensible, and competitively opportunistic Enterprise Risk Management (ERM) framework.

The Bank enters into financial instruments contracts, which consist primarily of loans and receivables and financial liabilities such as deposits and bills payable to finance the Bank's operations. In carrying out its business, the Bank is exposed to a number of risks, including credit risk, liquidity risk, market risk and operational risk. The Bank also closely monitors other nonfinancial risks, such as strategic risk, compliance risk, regulatory and legal risks, IT risk, and reputation and brand risk.

<u>Risk Management Structure</u>
The Bank's risk governance structure is embedded in its organizational structure. There are four components of the structure: (1) the Branch and CPS Operations, the various management committees (2) the independent Risk Management Team together with the corporate staff functions (Compliance, Information Technology, Accounting and Finance, Treasury, Safety & Security and Human Resources), (3) Internal Audit, and (4) the Board Committees.

The BOD is ultimately responsible for the overall risk management approach, and reviews and approves the policies for managing each of these risks. The BOD oversees and monitors the implementation of its policies through the various committees that it has created.

Risk Measurement and Reporting
The Bank has established an adequate information system for measuring, monitoring, controlling and reporting risks or existing or potential problems and for evaluating policies vis-à-vis prevailing circumstances and emerging portfolio trends.

Monitoring and controlling risks are primarily performed based on the risk appetite of the Bank. The Bank's risk appetite defines in general terms its risk-taking capacity given the acceptable business opportunities that the Bank is willing to pursue and determines how risks are viewed and addressed by the Bank as a whole. This is expressed and guided by the various limits that are mandated and delegated by the Bank's BOD and shareholders.

The Bank has developed and utilized an internal risk rating system in order to help the Board and Senior Management differentiate risks across the individual credits and groups and to facilitate informed decision making. The internal credit risk rating system influences the portfolio management and board reporting, credit approval and underwriting process, allowance for credit losses from a portfolio basis, relationship management and credit administration.

The Bank measures the performance and risk level of its credit portfolio and reports these findings to the BOD through the Risk Management Committee. In terms of measuring the Bank's ability to withstand the impact of stress conditions, stress testing methodology is used. Through stress testing, the impact of exceptional events on the Bank's asset quality, profitability and capital adequacy is measured.

Risk Mitigation
Risks are inherent in the business activities of the Bank. Among its identified risks are credit, liquidity, market, interest rate, operational, legal, and regulatory risks. To exploit opportunities and mitigate the adverse effects of key risks, the Bank develops and implements appropriate and effective systems and procedures in managing and controlling the risks in line with the risk management policies.

Risk management is the Bank's strong advocate of testing and measuring effectiveness as well as adopting a policy of rigorous and forward-looking stress testing that is performed at least every year to identify possible events or changes in industry conditions that could adversely impact the Bank. The main objective of risk management is to ensure that the Bank conducts its business within the risk levels set by the BOD while business units pursue their objective of maximizing returns.

Financial Risks
The relevant financial risks to which the Bank is exposed to are described below.

Market Risk
The Bank recognizes market risk as the adverse impact on earnings or capital, either immediate or over time, arising from changes in the level of volatility of market rates or prices such as interest rates, foreign exchange rates, commodity prices and equity prices. The primary categories of market risk for the Bank is:

The Bank has minimal exposure to foreign currency risks as most transactions are denominated in Philippine peso, its functional currency.

Interest Rate Risk, arising from changes in prevailing interest rates.

The Bank follows a prudent policy on managing its assets and liabilities that shall ensure that exposure to fluctuations in interest rates are kept within acceptable limits. Long-term borrowings are usually at fixed rates. As of December 31, 2021 and 2020, the Bank has no significant exposure to interest rate risk as most of its financial instruments have fixed rates.

Credit Risk
Credit risk is the risk that a counterparty may fail to discharge an obligation to the Bank. The Bank is exposed to credit risk arising from loan defaults of its clients, with a maximum exposure without taking into account collateral and other credit enhancements equal to the carrying amount of their loans. As a mitigating factor, stringent policy has been implemented in loan granting such that the Bank grants credit only with recognized, creditworthy clients. The Bank transacts only with clients who have demonstrated financial soundness.

Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits when appropriate. The Bank adopts a stress testing methodology that will be measured through the Expected Credit Loss (ECL). The expected output of a stress test approved scenario is the NPL ratio, loan loss provisions, and their impact relative to the capital requirement. The Bank must be able to show that current capital levels are sufficient to resist a range of severe but plausible events.

Sufficient means not breaching the required regulatory capital requirement.

Exposure of certain consumption, real estate and commercial loans to credit risk is also managed by obtaining collateral.

The Bank extends loans, such as salary loans to teachers under the DepEd Regional Payroll Services Unit (RPSU) and Autonomous schools, teachers at Private Colleges and Universities and State Universities, as well as pension loans. It also gives out loans to private individuals for the specific purpose of purchasing motorcycles.

The Credit Committee undertakes the evaluation of existing policies, practices and procedures on credit or credit-related matters and if necessary, formulate or create new policies that would be used as guidelines for the management of credit risks at the same time ensuring that these are within the risk appetite of the Bank.

The Bank, being an accredited lending institution with DepEd, has entered into an agreement with DepEd for automatic payroll deductions on salary loans granted to teachers. In 2018, upon release of the new Terms and Conditions of the Automatic Payroll Deduction System (APDS) Accreditation, the Bank may approve a loan only upon certification by the DepEd verifier, stating that the monthly payments can be accommodated within the threshold of the monthly net take home pay as required in the General Appropriations Act at the time of approval of loan.

Since 2019, the Bank has entered into a Memorandum of Agreement with various motorcycle dealers, where the latter have agreed to refer to the Bank prospective buyers of motorcycle units for financing arrangement, albeit subject to the credit standards of the Bank. These buyers undergo credit investigation and evaluation of repayment capacity before approval decision are rendered. Approvals are then relayed to the motorcycle (MC) dealers who release the units to the buyers, in the presence of the Sales associates of the Bank. This is backed up by independent unit composed of Credit Specialists who perform the evaluation of the repayment capacity of the borrower subject to a set of metrics duly approved by the Credit Committee, and the Collection team whose responsibility comes with payment reminders to the borrower all the way to the repossession of the MC unit in the event of payment defaults.

Collateral and other credit enhancements
The Bank holds collateral against certain loans and receivables from borrowers in order to mitigate risk. The collateral may be in the form of mortgages over real estate properties, chattels, deposits and others. The Bank regularly monitors and updates the fair value of the collaterals depending on the type of credit

exposure. Estimates of the fair value of collaterals are considered in the review and assessment of the adequacy of allowance for impairment losses. Fair values are determined by the Bank's internal appraisers.

The Bank's portfolio consists primarily of salary loans to teachers and motorcycle loans, representing 78.48% and 11.83% of the total portfolio, respectively, as of December 31, 2021, and 81.80% and 7.57% of the total loan portfolio, respectively, as of December 31, 2020

Maximum exposure to credit risk after collateral held and other credit enhancements
The table below shows the Bank's maximum exposure to credit risk on loans and receivables as of December 31, 2021 and December 31, 2020:

	December 31, 2021			December 31, 2020		
	Maximum Exposure			Maximum Exposure		
	Carrying Value*	**Financial Effect of Collateral in Mitigating Credit Risk**	**Maximum Exposure to Credit Risk**	Carrying Value*	Financial Effect of Collateral in Mitigating Credit Risk	Maximum Exposure to Credit Risk
Loans:						
Consumption**	**₱55,810,032,395**	**₱2,400,000**	**₱55,807,632,395**	₱54,624,530,201	₱2,400,00	₱54,568,565,569
Commercial	**131,695,305**	**680,545,000**	**-**	199,439,923	670,000,000	–
Real Estate	**979,769**	–	**979,769**	1,971,722	–	1,971,722
Agricultural	**835,034,568**	**115,170,663**	**719,863,905**	825,481,557	130,340,653	695,140,904
Accounts receivable	**2,101,954,935**	–	**2,101,954,935**	1,906,549,116	–	1,903,959,570
Sales contract receivable	**12,107,152**	–	**12,107,152**	13,820,097	–	13,820,097
Unquoted debt securities	**1,538,120**	–	**1,538,120**	4,603,897	–	4,603,897
Accrued interest receivable	**2,600,719,157**	–	**2,600,719,157**	2,337,099,629	–	2,337,099,629
	₱58,879,696,972	**₱798,115,663**	**₱58,630,431,004**	₱57,557,972,519	₱802,740,653	₱59,525,161,388

*Net of unearned interest, discounts and other deferred credits but gross of allowance for credit losses
**Consumption loans include teachers and motorcycle loans.

Financial effect of collaterals in mitigating credit risk is equivalent to the fair value of the collateral or the carrying value of the loan, whichever is lower.

Risk Concentration
Concentration of credit arises when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Bank's performance to developments affecting a particular industry or geographic location.

The Bank maintains its focus and its drive to cater the financial needs of the teachers, notwithstanding the concentration risk it entails, as it continues to believe that said strategy remains viable in terms of financial returns, at the same time morally rewarding as the same actualizes the original core values and mission of the Bank along the lines of financial inclusion and literacy.

While the Bank has taken on this concentration risk, efforts to mitigate the risk have started specifically the diversification of the portfolio by expanding the Bank's reach to teaching and non-teaching personnel of Private Universities and Colleges (PUC) and State Universities and Colleges (SUCs), as well as to pensioners of GSIS & SSS. It has also extensively marketed and offered salary loans to employees of private companies and local government units (LGU) in 2021. With the merger of PR Savings Bank in 2019 and the growth prospects in loan portfolio and net interest margin, the Bank expanded to cater motorcycle loans to a wide array of consumers, which also aids in the mitigating the credit risk concentration.

The Bank, through its Board Risk Committee, likewise manages concentration risks by setting exposure limits to borrowing groups, industries, and where appropriate, on products and facilities.

a. *Concentration by Counterparty*

Information on concentration of financial assets (i.e. Due from BSP, Due from other banks, SPURA, Investment securities at amortized cost, Loans and receivables, and security deposits and other investments under 'Prepayments and other resources') as to counterparties as at December 31, 2021 and 2020 follows. The amounts are gross of unearned interest, discounts and other deferred credits.

	2021	2020
School teachers	**₱58,843,213,881**	₱58,317,413,052
Financial intermediaries	**47,050,848,524**	29,324,038,842
Corporate	**252,622,091**	560,854,812
Other individuals	**7,630,957,579**	5,002,635,140
	113,777,642,075	93,204,941,845
Allowance for impairment loss	**(3,335,360,529)**	(2,160,187,575)
Net Totals	**₱110,442,281,546**	₱91,044,754,271

b. *Concentration by Industry*

The tables below show the distribution of maximum credit exposure by industry sector of financial assets before taking into account the fair value of the loan collateral or other credit enhancements (excluding cash and other cash items). The amounts are net of unearned interest, discounts and other deferred credits:

	2021		2020	
	Amount	**Amount**	Amount	Percentage
Other service activities	**₱6,446,801,3373**	**54.39%**	₱61,141,853,009	64.87%
Financial and insurance activities	**47,050,848,524**	**44.61%**	29,324,038,842	33.59%
Agricultural, forestry and fishing	**852,108,639**	**0.81%**	833,070,325	0.95%
Wholesale and Retail, Trade, Repair of Motor, Vehicles, Motorcycle	**135,008,153**	**0.13%**	340,014,382	0.39%
Real estate activities	**979,769**	**0.00%**	1,971,722	0.00%
Transportation and Storage	**48,977,905**	**0.05%**	136,478,179	0.16%
Education	-	**0.00%**	22,625,674	0.03%
Administrative and Support Service Activities	**7,977,053**	**0.01%**	9,657,453	0.01%
Accommodation and Food Service Activities	**1,629,477**	**0.00%**	1,972,550	0.00%
Manufacturing	**523,033**	**0.00%**	749,295	0.00%
	₱112,566,065,926	**100.00%**	₱91,812,431,432	100.00%

[2]*Others include refundable deposits and other investments.*

Credit quality per class of financial assets

In assessing their credit quality and calculating the ECL, the Bank disaggregates its loans and receivables based on loan products: (a) DepEd/Teachers loans; (b) Motorcycle loans, (c) Other consumption loans; and (d) Other loans acquired from PR Savings Bank. Other consumption loans include loans granted to pensioners, employees of private companies and local government units.

DepEd/Teachers loans

The Bank uses a rating system for purposes of impairment assessment. The model is applied on DepEd/Teachers loans and incorporates borrowers profile, capacity to pay and payment history and credit relationship with the Bank, such as the age, teaching position, net take home pay, number of accounts, customer's months on books, among others, to determine the risk rating for each account.

Each borrower is assigned a credit score as follows:

Credit Score	Risk Rating
E	Minimal
D	Low
C	Moderate
B	Average
A	High

The credit grades used by the Bank in evaluating the credit quality of its financial assets are as follows:

(a) High grade (accounts with risk grades of low to minimal)
These are receivables which have a high probability of collection. The counterparty has the apparent ability to satisfy its obligation

(b) Standard grade (accounts with risk grades of average to moderate)
These are receivables where collections are probable due to the reputation and the financial ability of the counterparty to pay but with experience of default.

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

(d) Default or individually impaired comprise accounts.
These consist of individual credits or portions thereof where existing facts, conditions, and values make collection or liquidation highly improbable and in which substantial loss is probable. Also, these consist of accounts which are considered uncollectible or worthless and of such little value that their continuance as bankable assets are not warranted although the loans may have some recovery or salvage value.

Accounts which are not subjected to risk rating are considered unrated.
The Bank classifies the DepEd/Teachers loans according to stages based on the following:

- Stage 1 – Credit exposures that are considered "performing" and with no significant increase in credit risk since initial recognition or with minimal credit risk. These are accounts that are in current status and no downgrade of two notches in risk rating since origination.
- Stage 2 – Credit exposures that are considered "under-performing" and with significant increase in credit risk since initial recognition. These are accounts with downgrade of two notches in risk rating since origination.
- Stage 3 – Credit exposures that demonstrate objective evidence of impairment as of reporting date and thus, considered "non-performing". These are accounts with age of over 90 days past due, borrowers with accounts unpaid until its maturity ("Real Past Due") or endorsed to Legal Department ("Items in Litigation").

For purposes of the ECL calculation, the Bank assigns a probability of default (PD) using a term structure which is based on the risk rating and month on books. The Bank has developed the PDs based on historical experience for each risk rating and staging transition and calibrates them to reflect current and forward-looking information. Loss given default (LGD) estimates are based on the historical cash flow recovery experience as well as other forms of recovery such as reloans and redemption of other Private Lending Institutions, among others.

Below is the breakdown of the Bank's DepEd loans exposure (outstanding balance and accrued interest receivable) by credit scoring as of December 31, 2021 and 2020:

	December 31, 2021			
Credit Score	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
D to E	**₱10,396,777,112**	**₱–**	**₱1,799,355**	**₱10,398,576,467**
B to C	**30,700,651,341**	**898,607,319**	**355,278,619**	**31,954,537,279**
A	**106,315,670**	**510,123,369**	**3,573,414,239**	**4,189,853,278**
Default	**–**	**–**	**475,293,458**	**475,293,458**
	₱41,203,744,123	**₱1,408,730,688**	**₱4,405,785,671**	**₱47,018,260,482**

	December 31, 2020			
Credit Score	Stage 1	Stage 2	Stage 3	Total
D to E	₱45,248,743,143	₱–	₱–	₱45,248,743,143
B to C	46,215,071	111,706,029	–	157,921,100
A	–	120,974,043	971,254	121,945,297
Default	–	–	2,051,036,409	2,051,036,409
	₱45,294,958,214	₱232,680,072	₱2,052,007,663	₱47,579,645,949

<u>Motorcycle Loans, Other Consumption Loans, and Other Loans Acquired from PR Savings Bank</u>
Receivables of the Bank, other than DepEd/Teachers loans and motorcycle loans, include other smaller portfolios such as household, pension loans and the loans acquired from merger with PR Savings Bank. Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing the lending limits when appropriate. The ECL stages are determined based on the aging and delinquency of the accounts.

The description of each groupings according to stage is explained further as follows:

(a) Stage 1 (Standard grade)
Those that are considered current and up to 30 days past due, and based on delinquencies and payment history, does not demonstrate significant increase in credit risk.

(b) Stage 2 (Substandard grade)
Those that are considered more 30 days past due but does not demonstrate objective evidence of impairment as of reporting date, and, based on delinquencies and payment history, demonstrates significant increase in credit risk.

(c) Stage 3 (Credit impaired)
Those that are considered default or demonstrates objective evidence of impairment as of reporting date. These are accounts with over 90 days past due.

(d) Purchased or originated credit impaired (POCI)
These are receivables which are credit impaired on initial recognition or at the time of acquisition. Lifetime ECL is recognized on these loans

Motorcycle Loans
Below is the breakdown of the motorcycle loans (outstanding balance and accrued interest receivable) as of December 31, 2021 and 2020. The credit risk associated with these loans is assessed based on days past due.

	December 31, 2021			
Risk rating	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Standard	**₱5,564,281,767**	**₱–**	**₱–**	**₱5,564,281,767**
Substandard	**–**	**173,031,171**	**–**	**173,031,171**
Credit impaired	**–**	**–**	**1,418,774,842**	**1,418,774,842**
	₱5,564,281,767	**₱173,031,171**	**₱1,418,774,842**	**₱7,156,087,780**

	December 31, 2020			
Risk rating	Stage 1	Stage 2	Stage 3	Total
Standard	₱3,008,648,056	₱–	₱–	₱3,008,648,056
Substandard	–	505,476,456	–	505,476,456
Credit impaired	–	–	1,035,900,152	1,035,900,152
	₱3,008,648,056	₱505,476,456	₱1,035,900,152	₱4,550,024,664

Motorcycle loans include those acquired from PR Savings Bank, originated by CSB and bought-out from Country Funders Finance Corporation (CFFC) (see Note 11).

Other consumption loans
Below is the breakdown of the Bank's other consumption loans exposure (outstanding balance and accrued interest receivable) by credit quality as of December 31, 2021 and 2020:

		December 31, 2021		
Risk rating	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Standard	**₱3,873,325,624**	**₱–**	**₱–**	**₱3,873,325,624**
Substandard	**–**	**377,071,744**	**–**	**377,071,744**
Credit impaired	**–**	**–**	**1,664,578,942**	**1,664,578,942**
	₱3,873,325,624	**₱377,071,744**	**₱1,664,578,942**	**₱5,914,976,310**

		December 31, 2020		
Risk rating	Stage 1	Stage 2	Stage 3	Total
Standard	₱3,317,133,455	₱–	₱–	₱3,317,133,455
Substandard	–	371,152,664	–	371,152,664
Credit impaired	–	–	449,016,538	449,016,538
	₱3,317,133,455	₱371,152,664	₱449,016,538	₱4,137,302,657

Other Financial Assets
As of December 31, 2021 and December 31, 2020, other financial assets, which include 'Due from BSP', 'Due from other banks', 'SPURA', 'Investment securities at amortized cost', 'Accounts receivable' and 'Unquoted debt securities' under 'Loans and receivables', and 'Security deposits' under 'Prepayments and other resources' are classified as high grade ("Stage 1") since these are receivables which have a high probability of collection because the counterparties have the apparent ability to satisfy their obligations or the security on the receivables is readily enforceable.

Liquidity Risk
Liquidity is a bank's ability to meet its cash and collateral obligations without sustaining unacceptable losses. Liquidity risk is the current and prospective risk to earnings or capital arising from the Bank's inability to make timely payment on its financial obligations to customers and repay deposits on maturity. The Bank's objective is to strike a balance between liquidity and profitability in managing

this type of risk. The Bank closely monitors the current and prospective maturity structure of its resources and liabilities and the market condition to guide pricing and asset/liability allocation strategies to manage its liquidity risks. In addition, the Bank manages liquidity risk by holding sufficient liquid assets of appropriate quality to ensure short-term funding requirements are met and by maintaining a balanced loan portfolio. It seeks to maintain sufficient liquidity to take advantage of interest rate opportunities when they arise.

Liquidity is monitored by the Bank on a daily basis. The table below shows the maturity profile of the Bank's financial assets and liabilities, based on the contractual undiscounted cash flows as at December 31, 2021 and 2020:

		December 31, 2021				
	On Demand	**Up to 1 Month**	**Over 1 to 3 Months**	**Over 3 to 12 Months**	**Beyond 1 Year**	**Total**
Financial Assets						
Cash and other cash items	**₱647,625,372**	**₱–**	**₱–**	**₱–**	**₱–**	**₱647,625,372**
Due from BSP	**2,132,488,310**	**33,536,041,681**	–	–	–	**35,668,529,991**
Due from other banks	**3,503,768,296**	**4,616,885**	–	–	–	**3,508,385,181**
Securities purchased under			–	–	–	
resale agreement*	–	**7,880,750,151**				**7,880,750,151**
Loans and receivables						
Loans*	**2,704,222,466**	**11,310,765**	**579,566,203**	**4,725,048,720**	**66,424,797,339**	**74,444,945,493**
Unquoted debt securities*	–	–	–	**1,538,120**	–	**1,538,120**
Accounts receivable	**126,689,788**	**1,328,017,063**	**455,378,239**	**13,865,431**	**178,905,448**	**2,102,855,969**
Accrued interest receivable	**2,278,014,634**	**90,883,877**	**72,160,029**	**188,234,507**	**506.858,966**	**3,136,152**
Sales contract receivable	**123,286**	–	**247,578**	**1,404,705**	**11,031,621**	**12,807,190**
Other assets	–	–	–	–	**253,659,481**	**253,659,481**
	₱10,569,240,107	**₱42,852,380,696**	**₱1,140,014,581**	**₱5,080,820,248**	**₱67,968,482,222**	**₱127,610,937,855**
Financial Liabilities						
Deposit liabilities						
Time*	**₱2,728,300,445**	**₱52,084,193,668**	**₱6,231,361,795**	**₱5,352,249,028**	**₱8,609,754,902**	**₱75,005,859,838**
Savings	**3,118,989,462**	–	–	–	–	**3,118,989,462**
Demand	**241,598,120**	–	–	–	–	**241,598,120**
Bills payable*		**3,005,571,574**	**2,007,390,037**	**9,099,234,953**	**9,856,212,001**	**23,968,408,566**
Accounts payable and accrued expenses**	**1,421,022**	**145,382,754**	**133,844,435**	**1,159,036,995**	**47,555,730**	**1,487,240,935**
Other liabilities**	–	**216,161,647**	–	**36,716,778**	**461,429,759**	**714,308,184**
	₱6,090,309,049	**₱55,451,309,643**	**₱8,372,596,267**	**₱15,647,237,754**	**₱18,974,952,392**	**₱104,536,405,105**

**Includes future interest*
***Excludes statutory liability*

		December 31, 2020				
	On Demand	Up to 1 Month	Over 1 to 3 Months	Over 3 to 12 Months	Beyond 1 Year	Total
Financial Assets						
Cash and other cash items	₱711,974,313	₱–	₱–	₱–	₱–	₱711,974,313
Due from BSP	1,751,596,040	17,834,000,000	–	–	–	19,585,596,040
Due from other banks	3,426,344,090	63,031,137	–	–	–	3,489,375,227
Securities Purchased under						
Resale Agreement*	–	6,244,463,678	–	–	–	6,244,463,678
SPURA	–	–	–	–	2,441,676,158	2,441,676,158
Loans and Receivables						
Loans*	2,151,955,409	67,405,741	391,683,979	4,318,959,172	65,145,037,316	72,075,041,617
Unquoted debt securities*	–	1,897,163	876,027	296,701	1,583,832	4,653,723
Accounts Receivable	–	1,539,023,518	26,095,962	25,434,850	313,405,239	1,903,959,569
Accrued Interest Receivable	–	2,160,891,023	–	–	–	2,160,891,023
Sales Contract Receivable	–	722,494	–	418,453	12,679,151	13,820,098
Other assets	–	–	–	–	251,908,115	251,908,115
	₱ 8,041,869,852	₱ 27,911,434,754	₱418,655,968	₱ 4,345,109,176	₱ 68,166,289,811	₱108,883,359,561
Financial Liabilities						
Deposit liabilities						
Time*	₱1,374,061,169	₱36,274,007,497	₱5,027,251,361	₱5,308,056,042	₱10,136,206,718	₱58,119,582,787
Savings	3,024,519,813	–	–	–	–	3,024,519,813
Demand	193,680,087	–	–	–	–	193,680,087
						21,095,553,106
Bills payable*	–	–	4,520,036,546	9,336,105,988	7,239,410,572	
Accounts payable and accrued expenses**	925,729,437	–	–	–	72,668,744	998,398,181
Other liabilities**	21,447,680	–	–	–	464,898,663	486,346,343
	₱ 5,539,438,186	₱ 36,274,007,497	₱ 9,547,287,907	₱ 14,644,162,030	₱ 17,913,184,697	₱83,918,080,317

**Includes future interest*
***Excludes statutory liabilities*

5. Fair Value Measurement and Categories of Financial Assets and Liabilities

The methods and assumptions used by the Bank in estimating the fair value of the financial instruments are:

Cash and other cash items, due from BSP and other banks, and SPURA
The carrying amounts approximate fair values due to the short-term nature of these accounts.

Investment securities at amortized cost
Fair values of quoted securities are based on market prices from debt exchanges.

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

Security deposits
The fair value of refundable deposits was computed using the discounted cash flow methodology, using the prevailing market rate of interest for a similar instrument.

Investment Properties
The fair values of the condominium units classified under "Investment Properties" and the land, buildings and improvements (see Note 14) are determined by independent external appraisers using the sales comparison approach. This is a comparative approach that considers the sales of similar or substitute properties and related market data and economic conditions prevailing at the time of valuations were made and establishes a value estimate by processes involving comparison. Listings and offerings may also be considered.

Liabilities
The fair values of liabilities approximate their carrying amounts due to either the demand nature or the relatively short-term maturities of these liabilities except for time deposit liabilities and bills payable whose Level 3 fair values are estimated using the discounted cash flow methodology using the Bank's incremental borrowing rates for similar borrowings with maturities consistent with those remaining for the liability being valued.

The following table sets forth the carrying values and estimated fair values of financial instruments for which fair values are required to be disclosed and with fair values different from their carrying amounts as at December 31, 2021 and 2020:

	2021				
	Carrying value	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets					
Loans and receivables	**₱58,158,700,872**	**₱–**	**₱–**	**₱79,651,987,679**	**₱79,651,987,679**
Investment securities at amortized cost	**3,769,034,640**	**3,779,062,235**	**–**	**–**	**3,779,062,235**
Security deposits (included as part of 'Prepayments and Other Resources')	**211,325,706**	**–**	**–**	**211,325,706**	**211,325,706**
	₱62,139,061,218	**₱3,779,062,235**	**₱–**	**₱79,863,313,619**	**₱83,642,375,620**
Financial liabilities					
Deposit liabilities					
Time	**₱74,077,215,527**	**₱–**	**₱–**	**₱75,005,859,839**	**₱75,005,859,839**
Bills and notes payable	**22,589,863,217**	**–**	**–**	**23,968,408,565**	**23,968,408,565**
	₱96,667,078,744	**₱–**	**₱–**	**98,974,268,404**	**98,974,268,404**

	2020				
	Carrying value	Level 1	Level 2	Level 3	Total
Financial assets					
Loans and receivables	₱57,753,308,567	₱–	₱–	₱69,014,164,523	₱69,014,164,523
Investment securities at amortized cost	2,343,304,349	–	–	2,629,291,970	2,629,291,970
Security deposits (included as part of ‘Prepayments and Other Resources’)	193,761,298	–	–	193,761,298	193,761,298
	₱60,290,374,214	₱–	₱–	₱71,837,217,791	₱71,837,217,791
Financial liabilities					
Deposit liabilities					
Time	₱57,435,110,936	₱–	₱–	₱ 58,119,582,786	₱ 58,119,582,786
Bills and notes payable	19,720,622,029	–	–	20,345,268,100	20,345,268,100
	₱77,155,732,965	₱–	₱–	₱78,464,850,886	₱78,464,850,886

The tables below summarize the fair value hierarchy of the Bank’s nonfinancial assets which are not measured at fair value in the statement of financial position but for which fair value is disclosed:

	2021				
	Carrying value	**Level 1**	**Level 2**	**Level 3**	**Total**
Nonfinancial assets					
Investment properties					
Condominium units	**₱433,864**	–	–	**₱224,741,414**	**₱224,741,414**
Land	**699,117,932**	–	–	**1,209,941,820**	**1,209,941,,820**
Building and building improvements	**18,376,857**	–	–	**30,554,000**	**30,554,000**

	2020				
	Carrying value	Level 1	Level 2	Level 3	Total
Nonfinancial assets					
Investment properties					
Condominium units	₱458,249	₱–	₱–	₱224,741,414	₱224,741,414
Land	705,163,212	–	–	719,607,712	719,607,712
Building and building improvements	21,389,489	–	–	29,270,000	29,270,000

In 2021 and 2020, there were no transfers made among each of these levels in the fair value hierarchy.

6. Cash and Other Cash Items

Cash and other cash items consist of the following items:

	2021	2020
Cash in vault	**₱420,691,039**	₱494,421,936
Cash in automated teller machines (ATM)	**215,697,900**	174,792,100
Checks and other cash items	**11,236,433**	42,760,277
	₱647,625,372	₱711,974,313

Cash consists primarily of funds in the form of Philippine currency notes and coins in the Bank’s vault and those in the possession of tellers, including ATM.

Other cash items include checks drawn on other banks or other branches after the Bank’s clearing cut-off time until the close of the regular banking hours.

7. Due from Bangko Sentral Ng Pilipinas

This account is composed of the following:

	2021	2020
Mandatory reserves (Note 19)	**₱2,132,488,310**	₱1,751,596,040
Non-mandatory reserves	**33,529,000,000**	17,834,000,000
	₱35,661,488,310	₱19,585,596,040

Due from BSP includes balance of noninterest-bearing peso deposit account which the Bank maintains primarily to meet reserve requirements and to serve as a clearing account for interbank claims and the aggregate amounts of placements made under the overnight and term deposit facility with BSP.

Under Section 254 of the Manual of Regulations for Banks (MORB), a bank shall keep its required reserves in the form of deposits placed in the bank's demand deposit account with the BSP.

Section 254.1 of the MORB further provides that such deposit account with the BSP is not considered as a regular current account as drawings against such deposits shall be limited to: (a) settlement of obligation with the BSP, and (b) withdrawals to meet cash requirements.

Due from BSP held that are non-mandatory reserves include overnight deposit facility (ODF) earns annual interest that ranges from 4.00% to 4.75% and from 1.50% to 3.50% in 2021 and 2020, respectively. The total interest income earned amounted to ₱333.0 million and ₱248.3 million in 2021 and 2020, respectively, and is presented as part of 'Interest income on deposits with banks and others' in the statements of income.

8. Due from Other Banks

This account consists of the following:

	2021	2020
Savings and demand deposits	**₱3,507,888,871**	₱3,426,344,090
Time deposits	**4,616,885**	67,151,712
	3,512,505,756	3,493,497,822
Allowance for impairment (Note 18)	**(4,120,575)**	(4,120,575)
	₱3,508,385,181	₱3,489,375,227

Savings and demand deposits generally earn interest based on daily bank deposit rates. Time deposits, having maturities of up to three months, earn interest rates per annum of 4.00% to 4.75% in 2021 and from 2.00% to 3.50% in 2020. Interest income on deposits with other banks amounted to ₱4.87 million and ₱11.99 million in 2021 and 2020, respectively, and is shown as part of 'Interest income on deposits with banks and others' in the statements of income.

In 2021 and 2020, the Bank recognized provision for (reversal of) impairment amounting to nil and (₱2.46) million, respectively, for Due from other banks (see Note 18).

9. Securities Purchased Under Resale Agreements - RRP

The Reverse Repurchase (RRP) Facility is the primary monetary instrument of the BSP. It is an overnight facility offered using a fixed-rate and full-allotment method, where individual bidders are awarded a portion of the total offer depending on their bid size.

RRP yielded 2.00% to 3.75% annual interest rate in both 2021 and 2020.

As of December 31, 2021 and December 31, 2020, the Bank's outstanding RRP amounted to ₱7.88 billion and ₱6.24 billion, respectively, have a maturity period of three and six days, respectively.

10. Investment Securities at Amortized Cost

As of December 31, 2021, the Bank's investment securities at amortized cost pertains to the Fixed Rate Treasury Notes (FXTN) and Retail Treasury Bonds (RTB) holdings of the Bank. However in 2020, the Bank's investment securities at amortized cost pertains only to the Fixed Rate Treasury Notes (FXTN).

Interest income earned is amounted to ₱119.13 million and ₱91.16 million in 2021 and 2020, respectively. This is shown as part of the Interest income on investment securities at amortized cost in the statement of income. Unamortized premium as of December 31, 2021 and 2020, amounted to ₱269.03 million and ₱343.31 million, respectively.

11. Loans and Receivables

This account consists of:

	2021	2020
Loans	**₱57,610,485,964**	₱56,841,367,928
Unearned service fee and unearned interest and discount (UID)	**(1,211,576,149)**	(1,392,510,414)
Deferred dealers' commissions and other charges	**378,832,222**	202,565,889
	56,777,742,037	55,651,423,403
Accounts receivable	**2,101,299,935**	1,906,549,116
Sales contract receivable	**12,762,152**	13,820,097
Unquoted debt securities	**1,538,120**	4,603,897
Accrued interest receivable	**2,600,719,157**	2,337,099,629
	61,494,061,401	59,913,496,142
Allowance for impairment (Note 18)	**(3,335,360,529)**	(2,160,187,575)
	₱58,158,700,872	₱57,753,308,567

Loans
Loans to customers bear effective interest rates as follows:

	2021	2020
DepEd/Teachers loans (DepEd, PUC, SUC)	**6.50% - 12.00%**	6.50% - 12.00%
Non-DepEd consumer loans (LGU, PL, HHL)	**4.05% - 99.82%**	4.05% - 99.82%
Motorcycle loans	**4.12% - 96.42%**	4.12% - 96.42%
Other loans	**5.12% - 22.22%**	5.12% - 22.22%

Unearned service fees pertain to the upfront fees received by the Bank from borrowers upon origination of the loans of Teachers/DepEd loans. Deferred dealers' commissions and other charges are the upfront commissions paid to dealers for the origination of the motorcycle loans.

In 2021 and 2020, the Bank incurred service charges amounting to ₱196.90 million and ₱159.75 million, respectively, recorded in "Service charges" and representing fees paid/payable to DepEd for the payments collected from the borrowers by DepEd on behalf of the Bank.

In 2021 and 2020, the Bank also incurred commissions paid/payable to the dealers amounting to ₱342.95 million and ₱75.38 million, respectively, recorded in "Fees and commissions" pertaining to commissions other than related to origination of the loans, like for meeting sales quota and early submission of motorcycle documents.

Certain loans as at December 31, 2021 and 2020 amounting to ₱5.70 billion and ₱6.09 billion, respectively, are pledged as collaterals to secure the Bank's notes payable (see Note 20).

In June 2019, the Bank entered into a loan receivable purchase agreement with Country Funders Finance Corporation ("CFFC"), whereby the Bank agreed to purchase and CFFC agreed to sell its loans receivable from various motorcycle loan borrowers for a total consideration equivalent to the outstanding balance and accrued interest plus a percentage of processing fee. In 2021 and 2020, the total amount of motorcycle loans purchased by the Bank from CFFC amounted to nil and ₱41.03 million, respectively. In addition, the Bank and CFFC entered into collection service agreement whereby CFFC will handle the collections of these receivables for a fee. In 2021 and 2020, the Bank incurred fees, under the collection service agreement with CFFC, of ₱7.05 million and ₱36.04 million, respectively.

Accounts receivable
Accounts receivable include ₱1.87 billion and ₱1.46 billion accrued remittances from DepEd as at December 31, 2021 and 2020, respectively, representing collections by DepEd on behalf of the Bank which are normally remitted to the Bank within one month.

As of December 31, 2020, Account receivable includes amount due from Land Bank of the Philippines (LBP) pertaining to redemption of matured unquoted debt securities amounting to ₱157.59 million as of December 31, 2020. The amount has been settled in 2021.

Pursuant to the share purchase agreement, the previous shareholders of PR Savings Bank agreed to carve out certain assets and settle certain claims totaling ₱338.54 million, which is to be deducted from the escrow amount (see Note 12). As of December 31, 2021 and 2020, the outstanding balance of these receivable, presented in 'Account receivable', amounted to ₱0.74 million and ₱104.17 million, respectively.

Unquoted debt securities
Unquoted debt securities consist of LBP agrarian reform bonds and investments in Small Business Corporation (SB) in a form of Micro, Small and Medium Enterprise (MSME) notes, as part of the reserve requirements and in compliance with Presidential Decree (PD) No. 717, Agri Agra Law, with Section 15 of Republic Act (RA) No. 9501, Magna Carta for MSMEs, and BSP Circular No. 625-Magna Carta for Micro, Small and Medium Enterprises.

Details are as follows:

	2021	2020
LBP - Agrarian reform bonds	**₱1,538,120**	₱4,439,515
Other LBP bonds	**–**	191,420
	1,538,120	4,630,935
UID	**–**	(27,038)
	₱1,538,120	₱4,603,897

The agrarian reform bonds are redeemable in a monthly installment from the dates these were issued and bear interest based on an average 91-day treasury bill rates.

Interest income
Interest income earned on loans and receivables are as follows:

	2021	2020
Interest income on:		
Loans	**₱9,541,942,529**	₱8,279,362,359
Accounts and sales contract receivable	**908,811**	2,085,644
Unquoted debt securities	**6,103,559**	584,763
	₱9,548,954,899	₱8,282,032,766

Allowance for impairment
Movements in allowance for credit losses on loans and receivables follow:

	2021	2020
Balance at beginning of year	**₱2,160,187,575**	₱1,478,189,986
Provision for credit losses	**1,305,801,519**	816,535,900
Write off and others	**(130,628,565)**	(134,538,311)
Balance at end of year	**₱3,335,360,529**	₱2,160,187,575

12. **Investments in Associates**

The movements in the investments in associates and a subsidiary accounted for under the equity method are as follow:

		2021	2020
Acquisition costs	*% Equity interest*		
Balance at beginning of the year			
PETNET *	40.00%	**₱938,607,536**	₱941,176,956
Bangko Kabayan ****	49.00%	**491,237,415**	–
FAIR Bank **	49.00%	**81,292,316**	88,395,510
PBI *****	49.00%	**46,963,417**	–
CSBLI ***	40.00%	**2,077,145**	2,000,000
		1,560,177,829	1,031,572,466
Gain on disposal of CSBLI		**(2,077,513)**	–
Capital infusion to PBI		**34,380,757**	–
Acquisition of associate		–	523,797,257
Capital infusion to FAIR Bank		–	41,454,000
Gain on bargain purchase of PBI		–	9,647,496
Balance at the end of the year		**1,592,481,073**	1,606,471,219

	2021	2020
Accumulated equity in net earnings		
Balance at beginning of the year	**(₱38,046,849)**	(₱18,643,833)
Share in net income (loss) during the year		
PETNET	**50,738,837**	9,891,782
Bangko Kabayan	**36,208,793**	14,891,272
CSBLI	**368**	(22,768)
FAIR Bank	**(12,210,321)**	(36,710,279)
PBI	**(48,750,342)**	(7,453,023)
Share in dividends declared for the year		
PETNET	**(5,308,768)**	–
Bangko Kabayan	**(85,749,949)**	–
Balance at the end of the year	**(103,118,231)**	(38,046,849)
Accumulated share in other comprehensive income		
Balance at the beginning of the year	**(8,246,539)**	–
Share in gain on remeasurement of retirement plan of associates		
Fair Bank	**(44,177)**	–
Bangko Kabayan	**3,277,150**	(6,720,046)
PETNET	**(542,505)**	(5,564,368)
PBI	**157,452**	–
Share in unrealized FV gains/losses on FA through OCI of Bangko Kabayan	**(2,652,563)**	4,037,875
Balance at the end of the year	**(8,051,182)**	(8,246,539)
Net carrying amount at end of year		
PETNET	**₱984,195,057**	₱938,607,536
Bangko Kabayan	**442,320,846**	491,237,415
FAIR Bank	**69,037,818**	81,292,316
PBI	**32,051,326**	46,963,417
CSBLI	**–**	2,077,145
	₱1,527,605,047	₱1,560,177,829

*The principal place of business of PETNET is at East Offices Building, 114 Aguirre Street, Legaspi Village, Makati City.
**The principal place of business of FAIR Bank is at Dela Vina cor. J. Lequin Sts., Gairan, Bogo City, Cebu, Philippines.
***The principal place of business of CSBLI is at Osmena Boulevard, Cebu City.
****The principal place of business of Banko Kabayan is at Poblacion Ibaan, Batangas.
*****The principal place of business of PBI is at Balasan, Iloilo.

There were no impairment losses recognized on these investments in 2021 and 2020.

Business Acquisition and Merger

Acquisition of PR Savings Bank

In December 2017, CSB purchased 127.72 million common stock and 65.0 million preferred shares of PR Savings Bank representing 66.28% and 33.72%, respectively, of the total outstanding capital stock of PR Savings Bank for a total consideration of ₱7.02 billion, ₱300.00 million of which shall be released by CSB directly to a Joint Venture (JV) Company. The sellers shall cause the relevant Ropali Group entity to execute a joint venture agreement with CSB to form an incorporated JV Company engaged in motorcycle dealership within one year from closing date or such longer period as the parties may agree upon in writing.

On April 5, 2018, the Philippine Competition Commission (PCC) approved the acquisition of PR Savings Bank by CSB. The acquisition was approved by the Monetary Board (MB) of the BSP on June 14, 2018 (see Note 15) and is considered as the acquisition date. For convenience purposes, CSB used June 30, 2018 as the date of the business combination.

On June 22, 2020, CSB and the Ropali Group came to a mutual understanding to defer the incorporation of the JV due to challenges created by the COVID-19 pandemic. The ₱300.0 million balance was released by CSB to the Ropali Group with the expectation that the same amount shall be delivered by the Ropali Group as its capital contribution upon incorporation of the JV.

The final fair values of the identifiable assets and liabilities acquired at the date of acquisition amounted to ₱3.20 billion. For PFRS reporting purposes, the acquisition resulted in goodwill of ₱3.48 billion.

Pursuant to the SPA, the previous shareholders of PR Savings Bank agreed to carve out certain assets and settle certain claims totaling ₱338.54 million which shall be considered as a reduction from the escrow account. See Note 11.

The acquisition of PR Savings Bank was to primarily gain a foothold in the motorcycle lending business. Accordingly, the entire goodwill arising from the PR Savings Bank acquisition was attributed to the Motorcycle Loans CGU for the purpose of impairment testing (see Note 16). The goodwill arising from the acquisition is attributed to expected synergies from the future growth of the motorcycle lending business through the benefits of combined talent and technology. None of the goodwill recognized is expected to be deductible for income tax purposes.

As discussed in Note 1, the BOD and stockholders of CSB approved the plan of merger with PR Savings Bank. On December 27, 2018 and February 28, 2019, the BSP and the SEC, respectively, approved the merger between CSB and PR Savings Bank, with CSB as the surviving entity.

On December 20, 2018, the Monetary Board of the BSP granted certain merger incentives, including temporary relief from compliance with the minimum CAR of 10% on solo basis for both the Bank and PRSB from June 2018 until the effectivity of the merger, provided that the Bank's CAR shall not fall below 7%; ten-year amortization of goodwill from July 2018 to June 2028, and staggered booking of loan impairment determined based on BSP's examination of PR Savings Bank as of June 30, 2018 over a period of 5 years to start on the year the merger becomes effective. Subsequently, CSB recognized outright a significant amount of this required loan impairment as part of the determination of the final fair value of assets acquired as of the date of the business combination. CSB's CAR, after effectivity of the merger, increased from 8.9% in December 2018 to 11.9% in March 2019.

The difference amounting of ₱752.77 million between the final goodwill under PFRS of ₱3,482.19 million and the BSP approved goodwill of ₱2,729.42 million was reflected as reduction in Retained Earnings for prudential reporting to the BSP. In addition, for prudential reporting, the Bank is amortizing the goodwill approved by the BSP and recognized goodwill amortization amounting to ₱272.94 million in both 2021 and 2020. As of December 31, 2021 and 2020, the goodwill balance under prudential reporting amounted to ₱1,774.13 million and ₱2,047.07 million, respectively.

The Bank accounted for the legal merger that is in substance the redemption of shares in the subsidiary, in exchange for the underlying net assets of the subsidiary. Accordingly, the acquired assets and assumed liabilities are recognized at the carrying amounts in the consolidated financial statements of the UBP Group as of the date of the legal merger.

Acquisition of PETNET, Inc.
On December 17, 2018, the Bank obtained significant influence over PETNET, Inc. equivalent to 40% equity interest and voting rights. For convenience purposes, the Bank used December 31, 2018 in applying the equity method of accounting.

PETNET is engaged in the business of money remittance, acts as money changer/foreign exchange dealer or engages in the business of buying and/or selling foreign currencies, and manage and engage in such other businesses, as may be necessary, in accordance with laws and prevailing BSP rules and regulations.

Acquisition of FAIR Bank
On December 15, 2016, BSP approved the acquisition by the Bank and UIC of the FAIR Banks's 441,000 common shares and 259,002 common shares respectively. The common shares acquired by CSB represented 49.00% of the issued and outstanding capital stock of FAIR Bank.

FAIR Bank is presently engaged in carrying and engaging in the business of extending rural credit to small farmers and tenants and to deserving rural industries or enterprises under the Rural Bank Act of 1992 and is regulated and supervised by the BSP.

Acquisition of Progressive Rural Bank, Inc. (PBI)
On January 5, 2018, CSB and UPI acquired 75% ownership of PBI. On February 24, 2020, the BSP approved the transfer of the voting shares of stock of PBI to the Bank and UIC.

PBI is a rural banking institution duly organized and existing under Philippine laws with principal office at Balasan, Iloilo. It is authorized to engage in the business of extending rural credit to small farmers and tenants, and to deserving rural industries and enterprises.

Acquisition of Bangko Kabayan, Inc. (BKI)
On February 6, 2019, CSB and UIC acquired 1.80 million and 0.77 million common shares equivalent to 49.00% and 21.00% of the total outstanding shares of BKI, respectively.

On September 19, 2019, BSP approved the transfer of the voting shares of stock of BKI to the Bank and UIC.

BKI operates as a rural bank that serves micro, small, and medium enterprises (MSMEs) and individuals in the Philippines. It offers microfinance, deposit products, loans, OFW housing loans, remittance, and mobile banking services. BKI was founded in 1957 and is based in Ibaan, Batangas.

Selected financial information
The following table presents the financial information of the associates as of and for the years ended December 31, 2021 and 2020:

	Assets	Liabilities	Revenues	Net Income/(Loss)
2021				
PETNET	**₱1,306,097,591**	**₱218,557,542**	**₱747,086,186**	**₱109,162,259**
FAIR Bank	**309,491,195**	**241,889,877**	**86,526,755**	**(12,101,144)**
BKI	**3,370,303,002**	**2,859,351,655**	**333,893,000**	**54,980,874**
PBI	**233,779,215**	**212,143,295**	**77,966,584**	**(21,162,419)**
2020				
PETNET	₱1,444,373,547	₱456,683,884	₱595,011,308	₱24,729,454
FAIR Bank	350,619,403	270,325,065	41,412,602	(74,918,937)
CSBLI	6,665,073	267,313	–	(56,920)
BKI	3,484,366,688	2,854,076,773	232,365,039	30,390,351
PBI	428,112,547	358,164,430	113,922,106	(32,548,148)

For the year ended December 31, 2021, the Bank recognized share in the associates' net remeasurement gain on retirement obligation and fair value loss on financial assets at other comprehensive income amounting to ₱2.85 million and (₱2.65 million), respectively.

13. **Premises, Furniture, Fixtures and Equipment**

The composition of and movements in this account follow:

				2021			
	Land	**Building**	**Building Improvements**	**Right-of-use Asset**	**Leasehold Improvements**	**Furniture, Fixtures and Equipment**	**Total**
Cost							
Balances at beginning of year, as previously reported	**₱491,018,688**	**₱235,618,423**	**₱27,221,983**	**₱518,609,646**	**₱241,308,887**	**₱835,644,476**	**₱2,349,422,103**
Additions	**–**	**–**	**22,159,361**	**50,208,216**	**47,198,598**	**75,294,021**	**193,860,196**
Disposals	**–**	**–**	**–**	**–**	**–**	**(3,907,424)**	**(3,907,424)**
Reclassifications/Adjustments	**–**	**(444,947)**	**1,544,616**	**42,592,904**	**(1,699,694)**	**11,906**	**42,004,785**
Balances at end of year	**₱491,018,688**	**₱235,173,476**	**₱50,925,960**	**₱611,410,766**	**₱286,807,791**	**₱906,042,979**	**₱2,581,379,660**
Accumulated Depreciation and Amortization							
Balances at beginning of year	**–**	**110,355,158**	**25,661,677**	**210,409,040**	**131,516,238**	**686,149,696**	**1,164,091,809**
Depreciation and amortization	**–**	**8,722,507**	**546,215**	**123,962,145**	**47,479,082**	**50,515,884**	**231,529,384**
Adjustments on useful life	**–**	**(788,536)**	**(2,830,293)**	**–**	**–**	**–**	**(3,618,829)**
Disposals	**–**	**–**	**–**	**–**	**–**	**(2,178,322)**	**(2,178,322)**
Reclassifications/Adjustments	**–**	**(345,593)**	**482,186**	**–**	**(787,319)**	**11,917**	**(954,027)**
Balances at end of year	**–**	**117,943,536**	**23,859,785**	**334,371,185**	**178,474,741**	**734,499,175**	**1,389,148,422**
Net Book Values	**₱491,018,688**	**₱117,229,940**	**₱27,066,175**	**₱277,039,581**	**₱108,333,050**	**₱171,543,804**	**₱1,192,231,238**

				2020			
	Land	Building	Building Improvements	Right-of-use Asset	Leasehold Improvements	Furniture, Fixtures and Equipment	Total
Cost							
Balances at beginning of year, as previously reported	₱491,018,688	₱235,618,423	₱26,683,260	₱300,282,779	₱237,884,804	₱759,658,774	₱2,051,146,728
Additions	–	–	538,723	218,326,867	55,774,344	83,260,929	357,900,863
Disposals	–	–	–	–	(52,270,461)	(4,485,625)	(56,756,086)
Reclassifications	–	–	–	–	(79,800)	(2,789,602)	(2,869,402)
Balances at end of year	491,018,688	235,618,423	27,221,983	518,609,646	241,308,888	835,644,476	2,349,422,103
Accumulated Depreciation and Amortization							
Balances at beginning of year	–	101,958,233	22,626,725	89,746,630	131,185,279	640,850,070	986,366,937
Depreciation and amortization	–	8,396,925	3,034,952	120,662,410	52,601,420	58,921,581	243,617,287
Adjustments on useful life	–	–	–	–	–	(9,669,835)	(9,669,835)
Disposals	–	–	–	–	(52,270,461)	(3,449,389)	(55,719,850)
Reclassifications	–	–	–	–	–	(502,731)	(502,731)
Balances at end of year	–	110,355,158	25,661,677	210,409,040	131,516,238	686,149,696	1,164,091,808
Net Book Values	₱491,018,688	₱125,263,265	₱1,560,307	₱308,200,606	₱109,792,649	₱149,494,780	₱1,185,330,295

Under BSP rules, investments in bank premises, furniture, fixtures and equipment should not exceed 50% of the Bank's unimpaired capital. As at December 2021 and 2020, the Bank has satisfactorily complied with this requirement.

The Bank recognized gain from disposal of premises, furniture, fixtures and equipment amounting to ₱0.34 million and ₱0.36 million in 2021 and 2020, respectively, and is presented as part of 'Other Income' in the statements of income (see Note 25).

As at December 31, 2021 and 2020, the cost of fully depreciated assets still in use amounted to ₱940.32 million and ₱880.74 million, respectively.

14. **Investment Properties**

The components and movements in this account follow:

	2021		
	Land	**Building and improvements**	**Total**
Cost			
Balances at beginning of year	**₱705,163,212**	**₱50,475,813**	**₱755,639,025**
Disposals	**(6,045,280)**	**(213,000)**	**(6,258,280)**
	699,117,932	**50,262,813**	**749,380,745**
Accumulated amortization			
Balances at beginning of year	**₱–**	**₱28,628,075**	**₱28,628,075**
Depreciation	**–**	**2,910,140**	**2,910,140**
Disposals	**–**	**(86,123)**	**(86,123)**
Balances at end of year	**–**	**31,452,092**	**31,452,092**
Net book values	**₱699,117,932**	**₱18,810,721**	**₱717,928,653**

	2020		
	Land	Building and improvements	Total
Cost			
Balances at beginning of year	₱719,938,212	₱51,187,813	₱771,126,025
Additions	120,000	–	120,000
Disposals	(14,895,000)	(712,000)	(15,607,000)
	705,163,212	50,475,813	755,639,025
Accumulated amortization			
Balances at beginning of year	₱–	₱26,227,278	₱26,227,278
Depreciation	–	2,998,304	2,998,304
Reclassifications	–	(289,611)	(289,611)
Disposals	–	(307,896)	(307,896)
Balances at end of year	–	28,628,075	28,628,075
Net book values	₱705,163,212	₱21,847,738	₱727,010,950

This account represents condominium units and parcels of land and buildings acquired by the Bank that are held to earn rentals. Rental income from investment properties amounted to ₱1.06 million and ₱1.17 million in 2021 and 2020, respectively, and is presented as part of 'Other Income' in the statements of income (see Note 25).

This also includes foreclosed land, building and improvements acquired through merger from PR Savings Bank. These properties are not held for rentals.

Direct operating expenses arising from the investment properties that generated rental income during the period, pertaining to common area maintenance fee, which were booked as part of 'Membership fees and dues' under 'Operating expenses' in the statements of income, amounted to ₱9.56 million and ₱8.88 million in 2021 and 2020, respectively. It also includes real estate tax amounting to ₱0.62 million and ₱0.18 million for 2021 and 2020, respectively.

Direct operating expenses arising from the investment properties that did not generate rental income during the period, pertaining to common area maintenance fee, which were booked as part of 'Litigations/Assets acquired expense' under 'Operating expenses' in the statements of income, amounted to nil and ₱0.90 million in 2021 and 2020, respectively. It also includes real estate tax amounting to ₱0.51 million for both 2021 and 2020.

There are no investment properties that are pledged as security to Bank's liabilities as of December 31, 2021 and 2020.

15. Intangible Assets

The components and movements in this account are as follows:

	2021				
	Software	Branch Licenses and Trademark	Core Deposits	Dealership Agreement	Total
Cost					
Balances at beginning of year	**₱577,626,726**	**₱62,957,096**	**₱270,711,496**	**₱35,200,000**	**₱946,495,318**
Additions	**105,804,764**	**–**	**–**	**–**	**105,804,764**
Adjustments	**(4,282,216)**	**125,000**	**–**	**–**	**(4,157,216)**
Balances at end of year	**679,149,274**	**63,082,096**	**270,711,496**	**35,200,000**	**1,048,142,866**
Accumulated Amortization					
Balances at beginning of year	**₱330,398,365**	**₱1,441,419**	**₱65,166,015**	**₱12,317,619**	**409,323,418**
Amortization	**87,429,760**	**–**	**27,327,078**	**22,282,170**	**137,039,008**
Adjustments	**(6,048,006)**	**(1,441,419)**	**2,255,930**	**600,211**	**(4,633,284)**
Balances at end of year	**411,780,119**	**–**	**94,749,023**	**35,200,000**	**541,729,142**
Net Book Values	**₱267,369,155**	**₱63,082,096**	**₱175,962,473**	**₱–**	**₱506,413,724**

	2020				
	Software	Branch Licenses and Trademark	Core Deposits	Dealership Agreement	Total
Cost					
Balances at beginning of year	₱499,413,352	₱62,061,250	₱270,711,496	₱35,200,000	₱867,386,098
Additions	78,213,374	895,846	–	–	79,109,220
Balances at end of year	577,626,726	62,957,096	270,711,496	35,200,000	946,495,318
Accumulated Amortization					
Balances at beginning of year	295,820,355	–	40,606,724	7,542,857	343,969,936
Amortization	34,578,010	1,441,419	24,559,291	4,774,762	65,353,482
Balances at end of year	330,398,365	1,441,419	65,166,015	12,317,619	409,323,418
Net Book Values	₱247,228,361	₱61,515,677	₱205,545,481	₱22,882,381	₱537,171,900

Core deposits and Dealership Agreement

The business combination between the Bank and PR Savings Bank resulted in acquisition of core deposits and dealership agreement with fair values as of date of business combination amounting to ₱270.71 million and ₱35.20 million, respectively.

16. Goodwill

Impairment Testing of Goodwill

As discussed in Note 12, the Bank's acquisition of PR Savings Bank in 2018 resulted in goodwill amounting to ₱3,482.19 million recognized in the Bank's PFRS financial statements. As a result of the merger of PR Savings Bank to the Bank, the goodwill is recognized in the Bank's separate financial statements and is allocated to the Bank's motorcycle lending business, being the CGU.

The Bank performed its annual impairment test in December of each year or more frequently when there are indicators of impairment. The Bank considers various internal and external sources of information in assessing whether there is any indication that goodwill is impaired including if there are significant changes with an adverse effect on the CGUs that have taken place during the period in the technological, market, economic or legal environment in which the CGU operates. As a result of the ongoing economic uncertainty brought about by the COVID-19 pandemic, the results of the motorcycle lending business was lower than expected. The volume of loan releases was lower and the motorcycle loans reported higher NPLs, indicating a potential impairment of goodwill.

Based on the annual impairment test as of December 31, 2020, management has recognized an impairment charge of ₱223.18 million in 2020 against goodwill with a carrying amount of ₱3,482.20 (with total CGU carrying amount of ₱3,719.20 million, including the identifiable net asset of the CGU).

As a result of the continuing economic uncertainty brought about by the COVID-19 pandemic, the Bank performed an interim goodwill impairment assessment in 2021. The recoverable amount of the motorcycle loans CGU based on the VIU calculation is of ₱3,086.03 billion. This analysis resulted in an impairment charge of ₱529.60 million in 2021 against the motorcycle CGU with a carrying amount of ₱3,615.63 million.

The impairment charges were recorded in provision for credit and impairment losses in the 2020 and 2021 statements of income.

The Bank also performed an annual impairment test as of December 31, 2021. The recoverable amount of the motorcycle loans as of December 31, 2021 has been determined based on a value in use calculation using cash flow projections from financial budgets approved by senior management covering a five-year period and is higher than the carrying value of the CGU. Key assumptions in VIU calculation of CGUs are most sensitive to include forecasts of loan releases and discount rate. Future cash flows and growth rates were based on historical experiences and strategies developed and prospects, including assessment of impact of the COVID-19 pandemic. The discount rate used for the computation of the net present value is the weighted average cost of capital and was determined by reference to a comparable entity, market observable inputs and assumptions consistent with the valuation practice. In 2021 and 2020, the pre-tax discount rate applied to cash flow projections is 14.4% and 15.1%, respectively.

No further impairment charge was recognized based on the annual impairment test as of December 31, 2021.

17. **Prepayments and Other Resources**

This account consists of:

	2021	2020
Other repossessed assets, before allowance for impairment	**₱474,107,195**	₱536,763,666
Security deposits	**211,325,706**	193,761,298
Unused documentary stamps	**182,676,902**	6,321,020
Prepaid expenses and other deferred charges	**141,138,988**	117,917,704
Unused stationery and supplies	**8,610,255**	9,663,043
Others	**35,706,161**	18,703,913
	1,053,565,207	883,130,644
Allowance for impairment (Note 18)	**(140,190,440)**	(166,431,052)
	₱913,374,767	₱716,699,592

Prepaid expenses include prepaid life and health insurance, rental, documentary stamp tax, and others.

Other repossessed assets
Other repossessed assets primarily pertain to the Bank's repossessed motor vehicles acquired in settlement of the defaulted loans. These motor vehicles are recognized at their fair values upon repossession. Loss recognized upon repossession amounted to ₱381.79 million and ₱181.41 million in 2021 and 2020, respectively.

The movements in 'Other repossessed assets' follow:

	2021	2020
Cost		
Balance at beginning of year	**₱646,550,081**	₱397,617,880
Additions	**1,395,870,115**	361,113,681
Disposals	**(1,472,833,373)**	(98,838,015)
Reclassification to "Premises, Furniture, Fixtures and Equipment"	**(224,059)**	(12,891,843)
Other adjustments	**–**	(451,622)
Balance at end of year	**569,362,764**	646,550,081
Accumulated depreciation		
Balance at beginning of year	**109,786,415**	111,387,192
Depreciation	**163,056,934**	83,335,596
Disposals	**(178,156,869)**	(82,036,715)
Reclassification to "Premises, Furniture, Fixtures and Equipment"	**–**	(2,899,658)
Other adjustments	**569,089**	–
Balance at end of year	**95,255,569**	109,786,415
Allowance for impairment losses		
Balance at beginning of year	**166,431,052**	40,426,128
Provision for impairment losses	**381,799,363**	126,518,736
Disposals	**(409,424,722)**	–
Reclassification to "Premises, Furniture, Fixtures and Equipment"	**1,384,747**	(513,812)
Balance at end of year	**140,190,440**	166,431,052
Net Book Value	**₱333,916,755**	₱370,332,614

Loss on disposals of other repossessed assets is disclosed in Note 25.

18. Allowance for Impairment

Movements in the allowance for impairment are as follow:

	2021	2020
Balances at beginning of year:		
Loans and receivables	**₱2,160,187,575**	₱1,478,189,986
Due from other banks	**4,120,575**	6,579,210
Other repossessed assets	**166,431,052**	40,426,128
Other resources	**278,662**	278,662
	2,331,017,864	1,525,473,986

(Forward)

	2021	2020
Movements during the year:		
Provision for (reversal of) impairment		
Loans and receivables	**₱1,305,801,519**	₱816,535,900
Due from other banks	**–**	(2,458,635)
Other repossessed assets	**381,799,363**	126,518,636
Accounts written-off	**(130,628,565)**	(134,538,311)
Disposals and others	**(408,039,975)**	(513,712)
	1,148,932,342	805,543,878
Balances at end of year:		
Loans and receivables (Note 11)	**3,335,360,529**	2,160,187,575
Due from other banks (Note 8)	**4,120,575**	4,120,575
Other repossessed assets (Note 16)	**140,190,440**	166,431,052
Other resources (Note 16)	**278,662**	278,662
	₱3,479,950,206	₱2,331,017,864

An analysis of changes in the gross carrying amount and the corresponding ECL allowances in relation to loans (outstanding balances before unearned service fee and unearned interest and discounts, including accrued interest receivables) and the breakdown of movements in 2021 and 2020 for total receivables from customers follow:

DepEd/Teachers Loans

	December 31, 2021			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Gross Carrying Amount				
Gross carrying amount as at January 1, 2021	**₱45,679,705,914**	**₱187,772,144**	**₱2,051,036,409**	**₱47,918,514,467**
Newly originated assets that remained in Stage 1 as at December 31, 2021	**30,211,091,576**	**–**	**–**	**30,211,091,576**
Newly originated assets that moved to Stage 2 and Stage 3 as at December 31, 2021	**–**	**1,221,976,602**	**672,035,139**	**1,894,011,741**
Movements in loans balance (excluding write-offs)	**(35,570,123,013)**	**(21,558,562)**	**2,701,950,180**	**(32,889,731,395)**
Transfers to Stage 1	**981,283,885**	**(197,279,410)**	**(784,004,475)**	**–**
Transfers to Stage 2	**(37,487,448)**	**231,512,787**	**(194,025,339)**	**–**
Transfers to Stage 3	**(3,795,716)**	**(1,116,927)**	**4,912,643**	**–**
Amounts written-off	**(56,931,075)**	**(12,575,947)**	**(46,118,885)**	**(115,625,907)**
Gross carrying amount as at December 31, 2021	**₱41,203,744,123**	**₱1,408,730,687**	**₱4,405,785,671**	**₱47,018,260,482**
Expected Credit Losses				
ECL allowance as at January1, 2021	**₱192,863,781**	**₱11,968,936**	**₱239,481,274**	**₱444,313,991**
Newly originated assets that remained in Stage 1 as at December 31, 2021	**123,309,023**	**–**	**–**	**123,309,023**
Newly originated assets that moved to Stage 2 and Stage 3 as at December 31, 2021	**–**	**78,533,089**	**122,670,674**	**201,203,763**
Effect of collections and other movements in loans (excluding write-offs)	**(273,598,570)**	**(40,805,657)**	**729,075,916**	**414,671,690**
Transfers to Stage 1	**166,661,724**	**(1,221,527)**	**(165,440,197)**	**–**
Transfers to Stage 2	**(269,457)**	**44,396,298**	**(44,126,841)**	**–**
Transfers to Stage 3	**26,906)**	**69,624**	**(42,718)**	**–**
Impact on ECL of exposures transferred between stages and change in model				
Amounts written-off	**(56,931,075)**	**(12,575,947)**	**(46,118,885)**	**(115,625,906)**
ECL allowance as at December 31, 2021	**₱152,008,521**	**₱80,364,817**	**₱835,499,222**	**₱1,067,872,560**

	December 31, 2020			
	Stage 1	Stage 2	Stage 3	Total
Gross Carrying Amount				
Gross carrying amount as at January 1, 2020	₱142,741,106,966	₱41,006,029	₱2,170,862,493	₱44,952,975,488
Newly originated assets that remained in Stage 1 as at December 31, 2020	32,346,040,807	–	–	32,346,040,807
Newly originated assets that moved to Stage 2 and Stage 3 as at December 31, 2020		85,398,861	33,312,332	18,711,193
Movements in loans balance (excluding write-offs)	(29,950,649,547)	158,595,915	390,516,911	(29,401,536,721)
Transfers to Stage 1	555,594,090	(96,993,572)	(458,600,518)	–
Transfers to Stage 2	(514,870)	5,080,402	(4,565,532)	–
Transfers to Stage 3	(11,871,533)	(5,315,490)	17,187,023	–
Amounts written-off	–	–	(97,676,300)	(97,676,300)
Gross carrying amount as at December 31, 2020	₱45,679,705,913	₱187,772,145	₱2,051,036,409	₱47,918,514,467

	December 31, 2020			
	Stage 1	Stage 2	Stage 3	Total
Expected Credit Losses				
ECL allowance as at January1, 2020	₱319,668,102	₱4,419,438	₱281,156,570	₱605,244,110
Newly originated assets that remained in Stage 1 as at December 31, 2020	135,336,012	–	–	135,336,012
Newly originated assets that moved to Stage 2 and Stage 3 as at December 31, 2020	–	6,437,413	4,210,679	10,648,092
Effect of collections and other movements in loans (excluding write-offs)	(194,590,059)	(9,025,749)	(146,166,906)	(349,782,714)
Transfers to Stage 1	(64,243,490)	6,276,385	57,967,105	–
Transfers to Stage 2	6,316	(583,399)	577,083	–
Transfers to Stage 3	(235,652)	(243,201)	478,853	–
Impact on ECL of exposures transferred between stages and change in model	(3,077,447)	4,688,049	53,560,897	55,171,499
Amounts written-off	–	–	(12,303,008)	(12,303,008)
ECL allowance as at December 31, 2020	₱192,863,782	₱11,968,936	₱239,481,273	₱444,313,991

Motorcycle loans

	December 31, 2021			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Gross Carrying Amount				
Gross carrying amount as at January 1, 2021	**₱3,008,648,056**	**₱505,476,456**	**₱1,035,900,152**	**₱4,550,024,664**
Newly originated assets that remained in Stage 1 as at December 31, 2021	**4,323,660,389**	**–**	**–**	**4,323,660,389**
Newly originated assets that moved to Stage 2 and Stage 3 as at December 31, 2021	**–**	**21,605,669**	**460,303,607**	**481,909,276**
Movements in loans balance (excluding write-offs)	**(2,240,539,252)**	**(628,084,855)**	**669,117,558**	**(2,199,506,549)**
Transfers to Stage 1	**509,605,172**	**(122,998,243)**	**(386,606,929)**	**–**
Transfers to Stage 2	**(3,651,723)**	**423,242,068**	**(419,590,345)**	**–**
Transfers to Stage 3	**(33,440,874)**	**(26,209,925)**	**59,650,799**	**–**
Gross carrying amount as at December 31, 2021	**₱5,564,281,768**	**₱173,031,170**	**₱1,418,774,842**	**₱7,156,087,780**
Expected Credit Losses				
ECL allowance as at January 1, 2021	**₱178,794,722**	**₱93,594,822**	**₱642,881,099**	**₱915,270,643**
Newly originated assets that remained in Stage 1 as at December 31, 2021	**368,522,019**	**–**	**–**	**368,522,019**
Newly originated assets that moved to Stage 2 and Stage 3 as at December 31, 2021	**–**	**6,348,320**	**320,003,068**	**326,351,388**
Effect of collections and other movements in loans (excluding write-offs)	**(427,843,773)**	**(193,132,127)**	**406,930,395**	**(214,045,506)**
Transfers to Stage 1	**271,982,032**	**(3,214,413)**	**(268,767,619)**	**–**
Transfers to Stage 2	**(317,378)**	**106,175,372**	**(105,857,994)**	**–**
Transfers to Stage 3	**(28,996)**	**(4,954)**	**33,950**	**–**
ECL allowance as at December 31, 2021	**₱391,108,626**	**₱9,767,021**	**₱995,222,898**	**₱1,396,098,544**

	December 31, 2020				
	Stage 1	Stage 2	Stage 3	POCI	Total
Gross Carrying Amount					
Gross carrying amount as at January 1, 2020	₱1,979,320,805	₱378,414,440	₱371,646,873	–	₱2,729,382,118
Newly originated assets that remained in Stage 1 as at December 31, 2020	2,406,264,050	–	–	–	2,406,264,050
Newly originated assets that moved to Stage 2 and Stage 3 as at December 31, 2020	–	278,726,214	252,647,796	–	531,374,010
Movements in loans balance (excluding write-offs)	(1,972,017,737)	(129,613,862)	1,017,530,127	–	(1,084,101,472)
Transfers to Stage 1	627,707,912	(200,589,060)	(427,118,852)	–	–
Transfers to Stage 2	(30,551,869)	180,046,234	(149,494,365)	–	–
Transfers to Stage 3	(2,075,106)	(1,507,510)	3,582,616	–	–
Amounts written-off	–	–	(32,894,042)	–	(32,894,042)
Gross carrying amount as at December 31, 2020	₱3,008,648,056	₱505,476,456	₱1,035,900,152	₱–	₱4,550,024,664
Expected Credit Losses					
ECL allowance as at January 1, 2020	₱120,187,599	₱72,874,081	₱240,543,711	₱–	₱433,605,391
Newly originated assets that remained in Stage 1 as at December 31, 2020	147,228,991	–	–	–	147,228,991
Newly originated assets that moved to Stage 2 and Stage 3 as at December 31, 2020	–	50,310,710	151,588,677	–	201,899,387
Effect of collections and other movements in loans (excluding write-offs)	(377,023,019)	(118,697,402)	292,057,182	–	(203,663,239)
Transfers to Stage 1	297,340,375	(39,160,203)	(258,180,172)	–	–
Transfers to Stage 2	(1,634,456)	92,874,574	(91,240,118)	–	–
Transfers to Stage 3	(94,253)	(261,641)	355,894	–	–
Impairment loss (gain)	–	–	–	–	–
Impact on ECL of exposures transferred between stages and change in model	(7,210,515)	35,654,703	324,535,008	–	352,979,196
Amounts written-off	–	–	(16,779,084)	–	(16,779,084)
ECL allowance as at December 31, 2020	₱178,794,722	₱93,594,822	₱642,881,098	₱–	₱915,270,642

Other consumption loans

	December 31, 2021			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Gross Carrying Amount				
Gross carrying amount as at January 1, 2021	**₱3,447,885,468**	**₱436,860,350**	**₱1,099,899,536**	**₱4,984,645,355**
Newly originated assets that remained in Stage 1 as at December 31, 2021	**2,998,083,435**	**–**	**–**	**2,998,083,435**
Newly originated assets that moved to Stage 2 and Stage 3 as at December 31, 2021	**–**	**291,860,609**	**144,014,120**	**435,874,728**
Movements in loans balance (excluding write-offs)	**(3,083,313,582)**	**(346,364,004)**	**936,083,728**	**(2,493,593,858)**
Transfers to Stage 1	**564,588,904**	**(70,094,287)**	**(494,494,617)**	**–**
Transfers to Stage 2	**(50,147,839)**	**70,202,544**	**(20,054,706)**	**–**
Transfers to Stage 3	**(461,303)**	**(1,610,612)**	**2,071,915**	**–**
Amounts written-off	**(3,309,458)**	**(3,782,857)**	**(2,941,035)**	**(10,033,350)**
Gross carrying amount as at December 31, 2021	**₱3,873,325,625**	**₱377,071,744**	**₱1,664,578,942**	**₱5,914,976,310**
Expected Credit Losses				
ECL allowance as at January 1, 2021	**₱280,279,544**	**₱28,526,737**	**₱82,059,643**	**₱890,865,924**
Newly originated assets that remained in Stage 1 as at December 31, 2021	**50,832,735**	**–**	**–**	**50,832,735**
Newly originated assets that moved to Stage 2 and Stage 3 as at December 31, 2021	**–**	**5,718,569**	**108,166,041**	**113,884,609**
Effect of collections and other movements in loans (excluding write-offs)	**(648,571,502)**	**(33,423,664)**	**568,972,707**	**(113,022,458)**

(Forward)

	December 31, 2021			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Transfers to Stage 1	**₱384,350,040**	**(₱587,403)**	**(₱383,762,637)**	**₱–**
Transfers to Stage 2	**87,948**	**9,907,381**	**(9,995,329)**	**–**
Transfers to Stage 3	**(5,385)**	**21,122**	**(15,737)**	**–**
Impact on ECL of exposures transferred	**–**	**–**	**–**	**–**
between stages and change in model	**–**	**–**	**–**	**–**
Amounts written-off	**(3,309,458)**	**(3,782,857)**	**(2,941,035)**	**(10,033,350)**
ECL allowance as at December 31, 2021	**₱63,663,924**	**₱6,379,885**	**₱862,483,652**	**₱932,527,461**

	December 31, 2020			
	Stage 1	Stage 2	Stage 3	Total
Gross Carrying Amount				
Gross carrying amount as at January 1, 2020	₱4,709,504,280	₱149,627,265	₱1,031,004,642	₱5,890,136,187
Newly originated assets that remained in Stage 1 as at December 31, 2020	1,321,034,875	–	–	1,321,034,875
Newly originated assets that moved to Stage 2 and Stage 3 as at December 31, 2020	–	203,415,067	6,462,691	209,877,758
Movements in loans balance (excluding write-offs)	(2,883,601,451)	247,151,044	200,482,643	(2,435,967,764)
Transfers to Stage 1	318,494,503	(229,238,251)	(89,256,252)	–
Transfers to Stage 2	(4,985,696)	65,994,310	(61,008,614)	–
Transfers to Stage 3	(12,561,043)	(89,084)	12,650,127	–
Amounts written-off	–	–	(435,701)	(435,701)
Gross carrying amount as at December 31, 2020	₱3,447,885,468	₱436,860,351	₱1,099,899,536	₱4,984,645,355
Expected Credit Losses				
ECL allowance as at January 1, 2020	₱34,956,656	₱16,678,199	₱337,727,541	₱389,362,396
Newly originated assets that remained in Stage 1 as at December 31, 2020	96,613,367	–	–	96,613,367
Newly originated assets that moved to Stage 2 and Stage 3 as at December 31, 2020	–	14,824,525	4,001,249	18,825,774
Effect of collections and other movements in loans (excluding write-offs)	104,786,968	(9,715,292)	262,439,818	357,511,494
Transfers to Stage 1	56,916,104	(15,452,777)	(41,463,327)	–
Transfers to Stage 2	(387,768)	26,934,288	(26,546,520)	–
Transfers to Stage 3	(890,550)	(15,232)	905,782	–
Impact on ECL of exposures transferred between stages and change in model	(11,715,233)	(4,726,974)	45,060,050	28,617,843
(Forward)				
Amounts written-off	–	–	(64,950)	(64,950)
ECL allowance as at December 31, 2020	₱280,279,544	₱28,526,737	₱582,059,643	₱890,865,924

19. Deposit Liabilities

The components of deposit liabilities follow:

	2021	2020
Time	**₱74,077,215,527**	₱57,435,110,936
Savings	**3,118,989,462**	3,024,519,813
Demand	**241,598,120**	193,680,087
	₱77,437,803,109	₱60,653,310,836

Deposit liabilities bear annual fixed interest rates ranging from nil to 3.50% and nil to 8.50% in 2021 and 2020, respectively. Interest expense on deposit liabilities recognized in 2021 and 2020 amounted to ₱1.14 billion and ₱1.35 billion, respectively.

Under existing BSP regulations, thrift banks are subject to statutory and liquidity reserves equivalent to 3.00% (BSP Circular 1092 series of 2020) and 4.00% (BSP Circular 1063 series of 2019) as of both December 31, 2021 and 2020. As at December 31, 2021 and 2020, the Bank is in compliance with the said regulation. Liquidity and statutory reserves included as part of Due from BSP amounting to ₱2.13 billion and ₱1.75 billion as at December 31, 2021 and 2020, respectively (see Note 7).

20. Bills and Notes Payable

This account consists of the following:

	2021	2020
Bills and notes payable	**₱22,715,689,455**	₱19,796,899,751
Unamortized debt issuance costs	**(125,826,238)**	(76,277,722)
	₱22,589,863,217	₱19,720,622,029

This account consists of borrowings from local banks and other financial institutions including related parties (see Note 30).

Bills payable
Bills payable bear annual interest rates ranging from 2.50% to 8.28% and from 3.75% to 8.28% in 2021 and 2020, respectively.

Notes payable
In 2020, the Bank issued a ₱5.00 billion fixed-rate Note Facility and Security Agreement divided into two series and is broken down as follows:

Note Holders	Series A Notes (in millions)	Maturity Date	Series B Notes (in millions)	Maturity Date	Total Amount (in millions)
BDO Unibank Inc.	₱600	12/22/2023	₱3,000	12/22/2025	₱3,600
Development Bank of the Philippines	–	–	500	12/22/2025	500
Philippine National Bank	550	12/22/2023	–	–	550
Robinsons Bank Corporation	350	12/22/2023	–	–	350
	₱1,500		**₱3,500**		**₱5,000**

The Note Facility and Security Agreement above were subject to annual interest rate of 4.10% and 4.40% for Series A and Series B Notes, respectively.

The significant terms and conditions of the corporate notes are as follows:

a. the Notes starting on the 2nd anniversary from the First Issue Date with respect to Series A Notes and starting on the 3rd anniversary from the First Issue Date with respect to Series B Notes, and prior to the Maturity Date, the Issuer may redeem in whole or in part, the relevant outstanding Notes. The minimum early redemption amount shall be ₱500 million and in multiples of ₱100 million thereafter. Early redemption shall be subject to a pre-payment premium of the amount prepaid. For Series A Notes, on the 2nd anniversary until before maturity date, 100.50% as a percentage of principal. For Series B Notes, on the 3rd anniversary until before the 4th anniversary, 101.00% as a percentage of principal and, on the 4th anniversary until before maturity date, 100.50% as a percentage of principal;

b. the Notes shall constitute direct, unconditional, unsubordinated and secured obligations ranking at least pari passu with all other present and future direct, unconditional, unsubordinated and unsecured Peso-denominated obligations (contingent or otherwise) of the Issuer insofar as the amount owed to each Note Holders are not fully covered by the proceeds of the Assigned Credits; and
c. in consideration of the Notes Facility granted by the Note Holders to the Issuer, and to ensure the payment when due (whether at stated maturity, by acceleration or otherwise) of all amounts due under the Notes and other amounts due under this Agreement, as well as the prompt observance and performance of the terms and conditions of the Finance Documents, and for other good and valuable consideration the receipt and sufficiency of which are hereby acknowledged by the Issuer, the Issuer hereby assigns, transfers, conveys, creates a security interest and sets over unto the Notes Facility Agent, for the pari passu and pro-rata benefit of all of the Note Holders, their respective successors and permitted assigns, all of the Issuer's rights, title to and interests in and to the Assigned Credits.

As of December 31, 2021 and 2020, the corporate notes with total carrying amount of ₱5.00 billion are collateralized by the assignment of loans amounting to ₱5.55 billion (see Note 11).

As of December 31, 2021 and 2020, the corporate notes issued in June 2017 with interest ranging from 6.21% to 6.78% per annum and with carrying amounts of ₱125 million and ₱450 million, respectively are collateralized by the assignment of loans amounting to ₱151 million and ₱540 million, respectively (see Note 11).

Interest expense on bills and notes payable recognized in 2021 and 2020 amounted to ₱1.05 billion and ₱926.01 million, respectively, inclusive of ₱93.25 million and ₱93.30 million amortization of debt issuance costs in 2021 and 2020, respectively.

The Bank is not subject to any debt covenant requirements with its borrowings as of December 31, 2021 and 2020.

21. Accounts Payable and Accrued Expenses

This account consists of:

	2021	2020
Accounts payable	**₱741,704,391**	₱396,930,324
Accrued expenses	**308,287,478**	218,067,025
Accounts payable – borrowers	**251,224,476**	85,391,825
Accrued interest payable	**153,461,792**	122,581,958
Accrued other taxes and licenses	**103,314,083**	130,031,097
Accounts payable on motorcycle dealership and loan buyouts	**52,668,270**	45,395,952
	₱1,610,660,490	₱998,398,181

Accounts payable and accrued expenses represent payables and accruals for operating expenses such as repairs and maintenance, management and professional fees, security services, electricity and water, postage and telephone, fines and penalties, and others.

Accounts payable - borrowers represents collections from DepEd held for refund to the Bank's borrowers. This liability arises when DepEd continues to deduct from the salaries of the teachers the amortization of the existing loans prior to re-loan, while the Bank already deducts the full outstanding amount of the existing loan from the proceeds of the new loan.

Accounts payable on motorcycle dealership pertains to unpaid commissions to the motorcycle dealers (see Note 11).

Accounts payable on loan buyout represents unpaid purchase price of motorcycle loans acquired from CFFC (see Note 11).

22. Other Liabilities

This account consists of:

	2021	2020
Lease liabilities (Note 28)	**₱299,150,781**	₱334,821,574
Pension liability (Note 27)	**25,189,393**	132,916,567
Withholding tax payable	**27,238,968**	21,432,075
Others	**136,976,535**	69,498,150
	₱488,555,677	₱558,668,366

23. Maturity Analysis of Assets and Liabilities

The following tables show an analysis of assets and liabilities analyzed according to whether they are expected to be recovered or settled within one year and beyond one year from reporting date:

	2021			2020		
	Up to One Year	**Over One Year**	**Total**	Up to One Year	Over One Year	Total
Financial Assets						
Cash and other cash items	**₱647,625,372**	**₱–**	**₱647,625,372**	₱711,974,313	–	₱711,974,313
Due from BSP	**35,661,488,310**	**–**	**35,661,488,310**	19,585,596,040	–	19,585,596,040
Due from other banks	**3,508,385,181**	**–**	**3,508,385,181**	3,489,375,227	–	3,489,375,227
SPURA	**7,879,436,912**	**–**	**7,879,436,912**	6,244,463,678	–	6,244,463,678
Consumption	**5,955,292,057**	**50,746,675,882**	**56,701,967,939**	9,531,455,095	46,438,203,090	55,969,658,185
Agricultural	**212,853,043**	**665,074,378**	**877,927,421**	598,839,703	263,907,191	862,746,894
Real estate	**939,977**	**39,792**	**979,769**	423,753	1,547,969	1,971,722
Commercial	**440,464**	**29,170,371**	**29,610,835**	105,879	6,885,248	6,991,127
	6,169,525,541	**51,440,960,423**	**57,610,485,964**	10,130,824,430	46,710,543,498	56,841,367,928
Unquoted debt securities	**1,538,120**	**–**	**1,538,120**	2,874,355	1,729,542	4,603,897
Investment in Government securities		**3,769,034,640**	**3,769,034,640**	–	2,343,304,349	2,343,304,349
Accounts receivable	**1,924,168,849**	**568,725,460**	**2,492,894,309**	212,293,510		212,293,510
Accrued interest receivable	**2,135,636,471**	**465,082,686**	**2,600,719,157**	2,258,006,835	–	2,258,006,835
	10,230,868,981	**56,243,803,209**	**66,474,672,190**	12,603,999,130	49,055,577,389	61,659,576,519
Prepayments and other resources	**–**	**253,659,480**	**253,659,480**	–	251,908,115	251,908,115
Nonfinancial Assets						
Investments in Associates	**`–**	**1,527,605,047**	**1,527,605,047**	–	1,560,177,829	1,560,177,829
Premises, Furniture, Fixtures and Equipment	**–**	**1,192,231,238**	**1,192,231,238**	–	1,185,330,298	1,185,330,298
Investment properties	**–**	**717,928,653**	**717,928,653**	–	727,010,950	727,010,950
Intangible assets	**–**	**506,413,724**	**506,413,724**	–	537,171,900	537,171,900
Deferred tax assets	**–**	**1,351,675,061**	**1,351,675,061**	–	1,192,022,972	1,192,022,972
Prepayments and other resources	**332,426,045**	**327,289,242**	**659,715,287**	94,605,463	370,186,015	464,791,478
Goodwill	**–**	**2,729,423,725**	**2,729,423,725**	–	3,259,022,823	3,259,022,823
	332,426,045	**8,352,566,690**	**8,684,992,735**	94,605,463	8,830,922,787	8,925,528,250
Less: Allowance for impairment and credit losses			**(3,335,360,529)**			(2,160,187,575)
Unearned discounts and other deferred income			**(1,211,576,149)**			(1,392,510,414)
Total Assets			**₱118,563,323,502**			₱99,305,458,538

	2021			2020		
	Up to One Year	**Over One Year**	**Total**	Up to One Year	Over One Year	Total
Financial Liabilities						
Deposit liabilities:						
Demand	**₱241,598,120**	**₱–**	**₱241,598,120**	₱193,680,087	₱–	₱193,680,087
Savings	**3,118,989,462**	**–**	**3,118,989,462**	3,024,519,813	–	3,024,519,813
Time	**65,856,140,155**	**8,221,075,372**	**74,077,215,527**	53,546,518,157	3,888,592,779	57,435,110,936
	69,216,727,737	**8,221,075,372**	**77,437,803,109**	56,764,718,057	3,888,592,779	60,653,310,836
Bills and notes payable	13,872,250,414	**8,717,612,803**	**22,589,863,217**	13,571,240,275	6,149,381,754	19,720,622,029
Accounts payable and accrued expenses	**1,401,507,074**	**209,153,416**	**1,610,660,490**	925,729,437	72,668,744	998,398,181
Other liabilities	**33,570,535**	**385,978,385**	**419,548,920**	21,447,680	464,898,663	486,346,343
	15,307,328,023	**9,312,744,604**	**24,620,072,627**	14,518,417,392	6,686,949,161	21,205,366,553
Nonfinancial Liabilities						
Income tax payable	**125,841,792**	**–**	**125,841,792**	–	182,540,769	182,540,769
Other liabilities	**37,140,391**	**31,866,366**	**69,006,757**	33,213,273	39,108,750	72,322,023
	162,982,183	**31,866,366**	**194,848,549**	33,213,273	221,649,519	254,862,792
Total Liabilities	**₱84,687,037,943**	**₱17,565,686,342**	**₱102,252,724,285**	71,316,348,722	10,797,191,459	₱82,113,540,181

24. Capital and Liquidity Management

Capital stock

Capital stock consists of

	Shares		Amount	
	2021	2020	**2021**	2020
Common - ₱1,000 par value				
Authorized - 300,000 shares				
Issued and outstanding				
Balances at beginning and end of year	**258,256**	258,256	**₱258,256,000**	₱258,256,000
Additional paid-in capital	**937,333**	937,333	**937,333,350**	937,333,350

Surplus

Upon the full adoption of PFRS 9, the BSP has required the appropriation for the difference of the 1% general loan loss provision over the computed ECL allowance for impairment losses related to Stage 1 accounts. The Bank appropriated surplus amounting to ₱117.80 million in 2019.

Capital Management

It is the Bank's policy to maintain a strong capital base to sustain the development of its business and to meet regulatory capital requirements at all times. It also seeks to maintain a prudent balance between the advantages and flexibility afforded by a strong capital position and the higher returns on equity possible with greater leverage.

When managing capital, the Bank determines the levels of risk weighted asset growth and the optimum amount of capital required to support planned business growth. As part of its management policy, capital generated in excess of planned requirements is returned to stockholders normally by way of dividends.

Regulatory Qualifying Capital

Under current banking regulations, the Bank's compliance with regulatory requirements and ratios is based on the "unimpaired capital" (regulatory net worth) reported to the BSP, which is determined on the basis of regulatory policies, which differ from PFRS in some respects. Moreover, the risk-based capital ratio of a bank, expressed as a percentage of qualifying capital to risk-weighted assets, should not be less than ten percent (10.00%). Qualifying capital and risk-weighted assets are computed based on BSP regulations.

The qualifying capital of the Bank for purposes of determining the capital-to-risk assets ratio to total equity excludes:
(a) unbooked valuation reserves and other capital adjustments as may be required by the BSP;
(b) total outstanding unsecured credit accommodations, both direct and indirect, to directors, officers, stockholders and their related interests (DOSRI);
(c) deferred tax asset or liability; and,
(d) other regulatory deductions.

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

Effective January 1, 2014, the Bank complied with BSP Circular No. 781, *Basel III Implementing Guidelines on Minimum Capital Requirements*, which provides the implementing guidelines on the revised risk-based capital adequacy framework particularly on the minimum capital and disclosure requirements for universal banks and commercial banks, as well as their subsidiary banks and quasi-banks, in accordance with the Basel III standards.

The Circular sets out a minimum Common Equity Tier 1 (CET1) ratio of 6.00% and Tier 1 capital ratio of 7.50%. It also introduces a capital conservation buffer of 2.50% comprised of CET1 capital. The BSP's existing requirement for Total CAR remains unchanged at 10.00% and these ratios shall be maintained at all times.

The Bank's capital-to-risk assets ratio (CAR) of the Bank as of December 31, 2021 and 2020 based on the Basel 3 risk-based capital adequacy framework are shown in the table below (amounts in thousands):

	2021	2020
Common Equity Tier 1 Capital	**₱9,540,765**	₱9,906,360
Tier 1 capital	**9,540,765**	9,906,360
Tier 2 capital	**659,682**	638,325
Total qualifying capital	**10,200,448**	10,544,685
Risk-weighted assets	**₱77,018,237**	₱75,071,389
Capital ratios:		
Total regulatory capital expressed as a percentage of total risk-weighted assets	**13.24%**	14.05%
Total tier 1 capital expressed as a percentage of total risk weighted assets	**12.39%**	13.20%
Common equity tier 1 capital expressed as a percentage of total risk weighted assets	**12.39%**	13.20%

The CAR as of December 31, 2021 is based on audited financial information while the CAR as of December 31, 2020 is based on the balances reported by the Bank to the BSP.

	2021	2020
Capital requirements		
Credit risk	**₱65,968,245**	₱63,832,502
Market risk	**–**	–
Operational risk	**11,049,992**	11,238,887
Total capital requirements	**₱77,018,237**	₱75,071,389

In 2014, the BSP, in line with their aim to further strengthen the banking system, increased the minimum capital requirement for all bank categories. For thrift banks, both the location of the head office and size of the physical network are considered in tiering the minimum capital requirements. The revised minimum capital requirement of the Bank is set at ₱2.00 billion.

Basel III Leverage Ratio (BLR)
BSP Circular Nos. 881 and 990 cover the implementing guidelines on the BLR framework designed to act as a supplementary measure to the risk-based capital requirements and shall not be less than 5.00%. The monitoring period has been set every quarter starting December 31, 2014 and extended until June 30, 2018. Effective July 1, 2018, the monitoring of the leverage ratio was implemented as a Pillar I minimum requirement.

The details of the BLR as of December 31, 2021 and 2020 is as follows (amounts in thousands, except percentages). The BLRs below as of December 31, 2021 and 2020 are based on audited financial information and are not the same with the amounts and percentages reported to the BSP.

	2021	2020
Tier 1 Capital	**₱9,540,765**	₱10,386,190
Exposure Measure	**118,563,324**	99,992,387
BLR	**8.05%**	10.39%

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

Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR)
BSP Circular No. 905 provides the implementing guidelines on LCR and disclosure standards that are consistent with Basel III framework. The LCR is calculated as the ratio of stock of high-quality liquid assets (HQLA) over the total net cash outflows over the next 30 calendar days, which should not be lower than 100%. Compliance with the LCR minimum requirement commenced on January 1, 2018 with the prescribed minimum ratio of 90.00% for 2018 and 100.00% effective January 1, 2019.

On June 6, 2018, the BSP issued BSP Circular No.1007 covering the implementing guidelines on the adoption of the Basel III Framework on Liquidity Standards – Net Stable Funding Ratio (NSFR).

The NSFR is aimed to promote long-term resilience against liquidity risk by requiring banks to maintain a stable funding profile in relation to the composition of its assets and off-balance sheet activities. It complements the LCR, which promotes short term resilience of a bank's liquidity profile. Banks shall maintain an NSFR of at least 100 percent (100%) at all times. The implementation of the minimum NSFR shall be phased in to help ensure that covered banks can meet the standard through reasonable measures without disrupting credit extension and financial market activities. An observation period was set from July 1 to December 31, 2018. Effective, January 1, 2019, banks shall comply with the prescribed minimum ratio of 100%.

However, on February 21, 2019, under BSP Circular Nos. 1034 and 1035, the MB approved the extension of the observation period for the Basel III LCR and Net Stable Funding Ratio (NSFR) requirement for subsidiary banks and quasi-banks (QBs) of universal and commercial banks to December 31, 2019 and adoption of 70% floors on LCR and NSFR for subsidiary banks and QBs during this observation period. Effective January 1, 2020, the subsidiary banks and QBs are required to comply with the minimum LCR and NSFR of 100%

The Bank's LCR as of December 31, 2021 and 2020 follows (amounts in thousands, except percentage):

	2021	2020
Total HQLA	**₱40,088,176**	₱28,583,983
Total net cash outflows	**29,824,033**	21,381,481
LCR Ratio	**134.42%**	133.69%

As of December 31, 2021 and 2020, the Bank reported NSFR of 124% and 104%, respectively.

The LCR and NSFR as of December 31, 2021 are based on audited financial information while those as of December 31, 2020 are based on numbers reported to the BSP.

25. Other Income

This consists of

	2021	2020
Loan related fees and penalties	**₱582,933,885**	₱259,000,523
Recovery of written off accounts	**25,696,951**	64,263,160
ATM fees	**13,464,691**	11,627,786
Deposit-related fees	**17,184,228**	12,610,436
Rental income (Notes 14 and 28)	**1,058,534**	1,171,959
Gain (loss) on disposal of:		
Other repossessed assets	**(260,989,637)**	(1,863,409)
Premises, Furniture, Fixtures and Equipment	**336,860**	375,512
	₱379,685,512	₱347,185,967

26. Other Expenses

Other expenses consist of information technology expense, fines and penalties, banking fees, supervision and examination, promotional expense, while other expenses-others consist of recruitment cost, litigation expense, representation and entertainment, donations and charitable contributions, sponsorship and solicitation, promotional expense, and facilities and equipment, tools expense and miscellaneous expenses.

	2021	2020
Information technology expenses	**₱114,895,077**	₱17,492,385
Supervision and examination	**25,352,285**	25,878,697
Promotional expenses	**24,725,041**	13,149,100
Miscellaneous expenses	**84,857,967**	53,954,513
	₱249,830,370	₱110,474,695

27. **Compensation and Employee Benefits**

Details of compensation and employee benefits are presented below.

	2021	2020
Short-term employee benefits	**₱1,217,757,619**	₱1,040,209,677
Post-employment benefits	**85,652,887**	61,768,280
	₱1,303,410,506	₱1,101,977,957

Retirement Plan

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

The normal retirement age is 60 or completion of 30 years of service whichever is earlier. The service of any employee, however, may be extended from year to year beyond the normal retirement date, provided such an extension of service is with the consent of the employee concerned and the express approval of the Bank. The plan also provides for an early retirement after completion of at least 10 years of service. Normal retirement benefit is an amount equivalent to 100% of the employees' final basic monthly salary multiplied by the number of years of service prior to January 1, 2008 and 150% of the final basic monthly salary for services rendered starting January 1, 2008.

The cost of defined benefit retirement plans as well as the present value of the benefit obligation is determined using actuarial valuations. The actuarial valuation involves making various assumptions. The principal assumptions used are shown below:

	2021	2020
Discount rates	**5.10%**	3.98%
Expected rate of salary increases	**5.50%**	5.00%
Turnover rate	**A scale ranging from 5% at age 18 to 0% at age 60**	A scale ranging from 5% at age 18 to 0% at age 60
Average remaining working lives	**15**	15

The amounts of post-employment defined benefit obligation recognized in the statements of financial position are determined as follows:

	2021	2020
Present value of the obligation	**₱543,995,214**	₱542,411,250
Fair value of plan assets	**(518,805,821)**	(409,494,683)
Net pension liability	**₱25,189,393**	₱132,916,567

Changes in the present value of the defined benefit obligation follow:

	2021	2020
Balance at beginning of year	**₱542,411,250**	₱433,760,773
Current service cost	**82,049,807**	59,977,761
Interest expense	**20,853,211**	20,996,498
Remeasurements - actuarial losses (gains) arising from:		
Changes in financial assumptions	**(42,164,302)**	66,907,655
Experience adjustments	**(35,793,888)**	(7,739,227)
Benefits paid	**(23,360,864)**	(31,492,210)
Balance at end of year	**₱543,995,214**	₱542,411,250

Changes in the fair value of plan assets follow:

	2021	2020
Balance at beginning of year	**₱409,494,683**	₱373,650,915
Contributions to the plan	**84,238,965**	51,299,417
Benefits paid	**(23,360,864)**	(31,492,210)
Interest income	**17,250,131**	19,205,979
Return on plan assets (excluding amounts included in net interest)	**31,182,906**	(3,169,418)
Balance at end of year	**₱518,805,821**	₱409,494,683

The fair value of plan assets by each class is as follows:

	2021	2020
Assets		
Cash and cash equivalents	**₱82,222,353**	₱59,919,710
Investment in unit investment trust funds	**280,881,717**	227,333,059
Investment in government securities	**10,736,787**	11,141,082
Debt instruments		–
Financial Institution	**51,391,741**	–
Real estate	–	11,307,340
Energy and power	**11,005,458**	10,628,206
Equity instruments	**5,177,711**	52,079,421
Holding	**11,916,450**	–
Real estate	**38,960,009**	10,341,127
Financial institutions	**17,930,696**	8,622,640
Energy and power	**7,875,969**	10,365,535
Mining	**99,664**	7,053,212
Telecommunications	–	90,521
Accrued interest and other receivables	**607,266**	760,068
	518,805,821	409,641,921
Liabilities		
Accrued trust fee payable	–	(147,238)
	₱518,805,821	₱409,494,683

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

Cash and cash equivalents include cash in savings deposit and time deposit accounts. Unit investment trust funds (UITFs) are open-ended pooled trust funds denominated in peso, operated and administered by a trust entity and made available by participation. The investments of the retirement fund in UITFs consist of various bond and equity funds. Equity instruments consist of shares traded in the local stock exchange, which include equity securities of the Parent Bank amounting to ₱17.93 million and ₱10.37 million as at December 31, 2021 and December 31, 2020, respectively (see Note 30).

To efficiently manage the retirement plan, the Bank ensures that the investment positions are managed in accordance with its asset-liability matching strategy to achieve that long-term investments are in line with the obligations under the retirement scheme. The Bank actively monitors how the duration and the expected yield of the investments are matching the expected cash outflows arising from the retirement obligations. In view of this, investments are made in reasonably diversified portfolio, such that the failure of any single investment would not have a material impact on the overall level of assets.

The fair values of the above equity and debt securities are determined based on quoted market prices in active markets. The remaining plan assets are carried at their carrying amounts since the carrying amounts approximate the fair values.

The amounts included in 'Compensation and employee benefits' expense in the statements of income are as follows:

	2021	2020
Current service costs	**₱82,049,807**	₱59,977,761
Net interest expense	**3,603,080**	1,790,519
	₱85,652,887	₱61,768,280

The movements in 'Remeasurement losses on net retirement liability' follow:

	2021	2020
Balance at beginning of period	**(₱84,433,142)**	(₱40,796,650)
Actuarial gains (losses) arising on defined benefit obligation	**77,958,190**	(59,168,428)
Actuarial gains (losses) on return on plan assets	**31,182,906**	(3,169,418)
Remeasurement losses, before tax	**109,141,096**	(62,337,846)
Income tax effect	**(33,316,213)**	18,701,354
Remeasurement gains (losses), net of tax	**75,824,883**	(43,636,492)
Balance at end of period	**(₱8,608,259)**	(₱84,433,142)

The sensitivity analysis below has been determined based on reasonably possible changes of each significant assumption on the defined benefit obligation as of the end of the reporting period, assuming if all other assumptions were held constant:

	Impact of Post-employment Defined Benefit Obligation		
	Change in Assumption	**Increase in Assumption**	**Decrease in Assumption**
December 31, 2021			
Discount rate	**+/-1.0%**	**(₱60,620,580)**	**₱72,028,138**
Salary growth rate	**+/-1.0%**	**73,851,597**	**(63,197,882)**
December 31, 2020			
Discount rate	+/-1.0%	(₱64,038,399)	₱76,637,439
Salary growth rate	+/-1.0%	77,918,428	(66,275,494)

Shown below is the maturity analysis of the undiscounted benefit payments:

	2021	2020
Less than 1 year	**₱40,916,598**	₱36,922,473
More than 1 year to 5 years	**123,303,725**	121,495,490
More than 5 years to 10 years	**201,509,717**	169,738,244
More than 10 years to 15 years	**470,096,885**	420,874,403
More than 15 years 20 years	**918,750,038**	719,020,309
More than 20 years	**2,205,928,911**	1,786,928,917
	₱3,960,505,874	₱3,254,979,836

The Bank expects to contribute ₱83.59 million to the fund in 2022 based on the funding valuation in 2021.

The weighted average duration of the defined benefit obligation in 2021 and 2020 is 19.47 years and 18.94 years, respectively.

28. Leases

Lease Commitments - Bank as Lessee

The Bank has operating lease contracts covering its offices occupied by some branches, ranging from one (1) to twenty-five (25) years. The lease contracts provide for escalation in rental rate ranging from 5.00% to 10.00% in both 2021 and 2020 and are renewable upon mutual agreement of both parties.

The rollforward analysis of lease liabilities follows:

	2021	2020
Balance at January 1	**₱334,821,574**	₱228,509,376
Executed new contracts	**55,089,078**	189,706,890
Interest expense	**13,893,551**	16,169,858
Lease payments	**(104,653,422)**	(99,564,550)
Balance at December 31	**₱299,150,781**	₱334,821,574

Shown below is the maturity analysis of the undiscounted lease payments as of December 31:

	2021	2020
1 year or less	**₱119,994,545**	₱117,245,158
more than 1 years to 2 years	**95,389,006**	106,801,397
more than 2 years to 3 years	**66,353,924**	84,200,949
more than 3 years to 4 years	**28,032,535**	56,632,428
more than 5 years	**7,427,228**	23,503,024

The following are the amounts recognized in profit or loss:

	2021	2020
Amortization expense of ROU assets (Note 13)	**₱123,962,145**	₱120,662,410
Interest expense on lease liabilities	**13,893,551**	16,169,858
Expenses relating to short term-leases	**15,963,020**	16,378,808
Total amount recognized in profit or loss	**₱153,818,716**	₱153,211,076

29. Income Taxes

Income taxes include corporate income taxes and final tax paid at the rate of 20.00%, which represents final withholding tax on gross interest income from government securities and other deposit substitutes. These income taxes, as well as the deferred tax benefits, are presented as 'Provision for income tax' in the statements of income.

Provision for (benefit from) income tax consists of:

	2021	2020
Current		
RCIT	**₱685,723,339**	₱792,348,337
Final	**111,555,672**	105,500,158
	797,279,011	897,848,495
Deferred	**(192,821,448)**	(294,669,594)
	₱604,457,563	₱603,178,901

Provision (benefit) from deferred income tax recognized directly against OCI for the years ended December 31, 2021 and 2020 amounted to ₱33.32 million and (₱18.70 million), respectively.

The components of the net deferred tax assets follow:

	December 31	
	2021	2020
Deferred tax assets on:		
Allowance for impairment and credit losses	**₱833,892,785**	₱649,355,629
Deferred service fees	**302,894,037**	417,790,728
Accumulated depreciation on investment properties and other repossessed assets	**26,305,928**	35,086,478
Retirement obligation	**6,297,348**	39,874,970
Loss on foreclosure of other repossessed assets	**109,167,428**	54,423,032
Right-of-use asset, net of lease liabilities	**5,527,800**	7,986,290
Others	**114,957,713**	30,973,947
	1,399,043,039	1,235,491,074
Deferred tax liabilities on:		
Interest accretion on purchase price allocation of loans acquired from PR Savings Bank	**15,911,421**	21,413,683
Unamortized bond issue costs	**31,456,559**	22,054,419
	47,367,980	43,468,102
	₱1,351,675,059	₱1,192,022,972

Reconciliation between the statutory income tax rate and the effective income tax rate follows:

	2021	2020
Net income at statutory income tax rate	**₱286,779,546**	₱625,357,506
Tax effects of:		
Income subjected to final tax	**(26,713,891)**	(104,458,383)
Nondeductible expenses	**234,050,558**	85,269,411
Nontaxable income and others	**(6,979,657)**	(2,989,633)
CREATE impact on deferred	**192,639,556**	–
CREATE impact on current	**(75,318,549)**	–
Effective income tax	**₱604,457,563**	₱603,178,901

Relevant tax regulations

Corporate Recovery and Tax Incentives for Enterprises (CREATE) Bill

As a result of the changes brought about by CREATE, applicable tax rates for current and future taxable and deductible amounts for purposes of deferred tax measurement were reduced from 30% to 25%.

This resulted in a reduction in the provision for current income tax in 2021 by ₱75.32 million that is recognized in the 2021 statement of income. In addition, as a result of the change in the tax rate, the deferred tax balances have been remeasured from 30% to 25%, resulting in reduction in net deferred tax asset of ₱198.67 million, increase in provision for deferred income tax by ₱195.55 million in the 2021 statement of income, and decrease in other comprehensive income by ₱3.12 million in the 2021 statement of comprehensive income.

The following are the relevant tax regulations affecting the Bank:

Income Tax

- MCIT, computed at 1% gross income from July 1, 2020 to June 30, 2023, net of allowable deductions as defined under the tax regulations, or to RCIT of 25% effective July 1, 2020, whichever is higher;
- FCDU transactions with non-residents of the Philippines are tax-exempt, while interest income on foreign currency loans from residents other than depository banks under the expanded system is subject to 10% income tax;
- Withholding tax of 15% is imposed on interest earned under the expanded foreign currency deposit system; and,
- NOLCO can be claimed as deductions against taxable income within three years after NOLCO is incurred. The excess of the MCIT over income tax due may be carried over to the three succeeding taxable years and credited against income tax due provided the Bank is in RCIT position. On September 30, 2020, the BIR issued Revenue Regulations No. 25-2020 implementing Section 4(bbbb) of Bayanihan to Recover as One Act which states that the NOLCO incurred for taxable years 2020 and 2021 can be carried over and claimed as a deduction from gross income for the next five (5) consecutive taxable years immediately following the year of such loss.

Under Philippine tax laws, the Bank is subject to percentage and other taxes (presented as ‘Taxes and licenses’ in the statements of income) as well as income taxes. Percentage and other taxes paid consist principally of documentary stamp tax and gross receipts tax (GRT).

Gross Receipts Tax
Banks are subject to gross receipts tax under Sec. 121 of the National Internal Revenue Code as amended.

Documentary Stamp Tax
Documentary stamp taxes (DST) (at varying rates) are imposed on the following:

- Bank checks, drafts, or certificate of deposit not bearing interest, and other instruments;
- Bonds, loan agreements, promissory notes, bills of exchange, drafts, instruments and securities issued by the Government of any of its instrumentalities, deposit substitute debt instruments, certificates of deposits bearing interest and other not payable on sight or demand;
- Acceptance of bills of exchange and letters of credit; and,
- Bills of lading or receipt.

The significant provisions relating to DST under TRAIN are summarized below:

- On every original issue of debt instruments, there shall be collected a DST of 1.50 on each 200 or fractional part thereof of the issue price of any such debt instrument; provided, that for such debt instruments with terms of less than one year, the DST to be collected shall be of a proportional amount in accordance with the ratio of its term in number of days to 365 days; provided further that only one DST shall be imposed on either loan agreement or promissory notes to secure such loan.
- On all sales or transfer of shares or certificates of stock in any corporation, there shall be collected a DST of 1.50 on each 200, or fractional part thereof, of the par value of such stock.
- On all bills of exchange (between points within the Philippines) or drafts, there shall be collected a DST of 0.60 on each 200, or fractional part thereof, of the face value of any such bill of exchange or draft.

The following instruments, documents and papers shall be exempt from DST:

- Borrowings and lending of securities executed under the Securities Borrowing and Lending Program of a registered exchange, or in accordance with regulations prescribed by the appropriate regulatory authority;
- Loan agreements or promissory notes, the aggregate of which does not exceed 250,000 or any such amount as may be determined by the Secretary of Finance, executed by an individual for his purchase on installment for his personal use;
- Sale, barter or exchange of shares of stock listed and traded through the local stock exchange (as amended by RA No. 9648);
- Fixed income and other securities traded in the secondary market or through an exchange;
- Derivatives including repurchase agreements and reverse repurchase agreements;
- Bank deposit accounts without a fixed term or maturity; and,
- Interbank call loans with maturity of not more than seven days to cover deficiency in reserve against deposit liabilities.

30. Related Party Transactions

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions or if they are subjected to common control or common significant influence such as subsidiaries, associates of subsidiaries, affiliates or other related parties.

The Bank has several business relationships with related parties, which include its Parent Bank, major stockholder of Parent Bank, entities under common control, its directors, officers, stockholders and related interests (DOSRI), its key management personnel. Under the Bank's policies, transactions with related parties are made substantially on the same terms and conditions as transactions with other individuals and businesses of comparable risks.

Related party transactions of the Bank by category of related party are presented below.

	Amount of Transactions		Outstanding Balances	
Related Party Category	**2021**	2020	**2021**	2020
Parent Bank				
UBP				
Purchase of services	**₱62,331,306**	₱115,792,470	**₱580,052**	₱628,294
Rental payments	**25,741,669**	23,533,227	**61,546,670**	74,894,147
Deposits	**322,006,648**	–	**1,142,738,547**	820,731,899
Interest income on deposits	**1,958,864**	2,813,903	–	–
Interbank call loans	–	55,000,000	–	–
Interest income on IBCL	–	8,528,646	–	–
Cash dividends	**1,496,811,304**	–	–	–
Major Stockholder of Parent Bank				
AEVI				
Purchase of services	**816,726**	888,311	–	142,041
Bills payable	**3,350,340,000**	6,799,131,656	–	–
Interest expense on borrowings	**2,597,332**	28,312,727	–	–
Entities under common control				
Purchase of services	**296,651,832**	328,902,190	**19,882,853**	33,248,292
Bills payable	**44,209,683,461**	26,154,211,556	**14,000,000**	14,000,000
Interest expense on borrowings	**27,939,759**	122,316,105	**10,525**	2,801,534
Deposit liabilities	**13,604,861,470**	40,137,554,488	**36,770,911,076**	23,166,049,606
Interest expense on deposits	**181,860,254**	46,604,584	**39,571,225**	10,837,186
Key management personnel				
Compensation	**278,173,063**	216,773,510	–	–

Purchases of Services

Services are presented as part of 'Operating Expenses' in the statements of income. The related outstanding payables for services obtained in 2021 and 2020 are presented as part of 'Accounts Payable and Accrued Expenses account in the statements of financial position (see Note 21). Such payables are noninterest-bearing, unsecured and settled in cash within three months.

Rental Payments

The Bank entered into various lease contracts with the Parent Bank where two of its branches and corporate offices are located and are used for bank operations and administration office purposes. The lease arrangements have lease terms of five years and are subject to escalation of 5.00% of the basic rent after one year.

The total rent paid in 2021 and 2020 amounted to ₱25.7 million and ₱23.5 million, respectively.

Deposits
The deposit accounts of the Bank with the Parent Bank generally earning interest based on daily bank deposit rates.

Bills payable
These borrowings are unsecured and are settled in cash upon maturity with interest rates ranging from 1.25% to 4.00% and 0.75% to 4.50% in 2021 and 2020, respectively.

Interbank call loans
These are short-term lending with annual fixed rate ranging from 3.34% to 3.78% in 2020.

Cash Dividends
On November 17, 2021, the BOD approved the declaration of cash dividends equivalent to ₱1.5 billion. Record date for stockholders entitled to the cash dividend is November 17, 2021 and the payment is on December 15, 2021.

Remuneration of Key Management Personnel
Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Bank, directly or indirectly. The Bank considers the members of the Committee to constitute key management personnel for purposes of PAS 24.

	2021	2020
Short-term benefits	**₱260,655,195**	₱198,917,552
Post-employment benefits	**13,651,371**	13,259,423
Other long-term benefits	**3,866,497**	4,596,535
	₱278,173,063	₱216,773,510

The short-term, post-employment benefits and other long-term benefits are included as part of ‘Compensation and employee benefits’ in the statements of income.

Loans
On November 23, 2008, the BSP approved the proposed Special Financing Plan (SFP) to the Bank’s officers effective November 26, 2008. The objective of the SFP is to provide financial assistance to the Bank’s officers as part of their fringe benefits and to meet their housing, transportation, household and personal needs of their officers. The approved SFP is subject to the following conditions, that:

- the Bank shall strictly comply with the provisions of Sec. 83 of RA 337, General Banking Act, as amended, and its implementing regulations on financial assistance;

- the Bank shall strictly comply with guidelines/regulations governing financial plans for bank officers and employees provided under Sec. 2337 of the Manual Regulations for Banks and Other Financial Intermediaries, Book II;

- the aggregate amount of the loans to be granted under the program shall at no time exceed 5.00% of total loan portfolio;

- the Bank's investment in equipment and other chattels under its fringe benefit program for officers and employees shall be included in determining the extent of the investment of the Bank in real estate and equipment for purposes of Sec. 25 of RA 337; and,

- any amendments to the SFP shall be submitted to the Department of Thrift Banks and Non-Bank Financial Institutions for prior approval within 30 calendar days from approval thereof by the Bank's BOD.

As at December 31, 2021 and December 31, 2020, the Bank's outstanding loans under the SFP, amounted to ₱40.96 million and ₱131.25 million, respectively, and are presented as part of 'Loans and Receivables' in the statements of financial position. These unsecured loans are repaid through salary deductions. Interest rates from these loans ranges from 3.75% to 8.00% in 2021 and 4.50% to 12.00% in 2020. Interest income amounted to ₱2.61 million and ₱13.02 million in 2021 and 2020, respectively, and is presented as part of 'Interest Income on Loans and Receivables' in the statements of profit or loss.

Retirement Plan

The Bank's retirement fund for its defined benefit post-employment plan is administered and managed by a trustee duly appointed by the Bank. UBP is currently handling the fund of the Bank. The fair value and the composition of the plan assets as at December 31, 2021 and 2020 are presented in Note 24.

As at December 31, 2021 and 2020, the Bank's plan assets consist of investments in corporations listed in the PSE, which include investments in shares of stock of the following related parties.

	2021	2020
AEVI	**₱11,915,348**	₱10,339,765
APC	**7,861,917**	7,028,077
UBP	**17,930,796**	10,365,535
	₱37,708,061	₱27,733,377

The retirement fund neither provides any guarantee or surety for any obligation of the Bank nor its investments covered by any restrictions or liens.

31. Offsetting of Financial Assets and Liabilities

The Bank to discloses information about rights of offset and related arrangements (such as collateral posting requirements) for financial instruments under enforceable master netting agreements or similar arrangements. The effects of these arrangements are disclosed in the succeeding tables.

December 31, 2021

Financial assets recognized at end of reporting period by type	**Gross carrying amounts (before offsetting)**	**Gross amounts offset in accordance with the offsetting criteria**	**Net amount presented in the statement of financial position [a-b]**	**Effect of remaining rights of set-off (including rights to set off financial collateral) that do not meet PAS 32 offsetting criteria**		**Net exposure [c-d]**
				Financial instruments	**Fair value of financial collateral**	
	[a]	**[b]**	**[c]**	**[d]**		**[e]**
Securities purchased under resale agreement	**₱7,879,436,912**	**₱–**	**₱7,879,436,912**	**₱7,879,436,912**	**₱–**	**₱–**

December 31, 2020

Financial assets recognized at end of reporting period by type	Gross carrying amounts (before offsetting)	Gross amounts offset in accordance with the offsetting criteria	Net amount presented in the statement of financial position [a-b]	Effect of remaining rights of set-off (including rights to set off financial collateral) that do not meet PAS 32 offsetting criteria		Net exposure [c-d]
				Financial instruments	Fair value of financial collateral	
	[a]	[b]	[c]	[d]		[e]
Securities purchased under resale agreement	₱6,244,463,678	₱–	₱6,244,463,678	₱6,244,463,678	₱–	₱–

32. Commitments and Contingencies

In the normal course of the Bank's operations, there are various outstanding commitments and contingent liabilities which are not reflected in the accompanying financial statements. The Bank recognizes in its books any losses and liabilities incurred in the course of its operations as soon as these become determinable and quantifiable.

As at December 31, 2021 and 2020, the Bank has certain suits and claims that remain unsettled. Management believes, based on the opinion of its legal counsels, that the ultimate outcome of such cases and claims will not have a material effect on the Bank's financial position and results of operations.

As at December 31, 2021 and 2020, the Bank has unused credit lines with various depository banks amounting to ₱18.70 billion and ₱25.15 billion, respectively.

Management believes that as at December 31, 2021 and 2020, no additional material losses or liabilities are required to be recognized in the financial statements as a result of the above commitments and contingencies.

33. Notes to Statements of Cash Flows

The following is the summary of noncash investing and financing activities of the Bank:

	2021	2020
Non-cash investing and financing activities		
Execution of new contracts		
Right-of-use assets	**₱50,208,216**	₱218,326,867
Lease liability	**55,089,078**	189,706,890
Non-cash investing activity		
Foreclosure of repossessed properties	**1,395,870,115**	542,549,885

The following are the cash flow movements of the Bank's financing liabilities in 2021 and 2020:

2021						
			Non-cash changes			
	January 1, 2021	**Net Cash flows**	**Interest Accretion**	**Amortization of debt issue costs**	**Additions/ Executions**	**December 31, 2021**
Lease liabilities*	**₱334,821,574**	**(₱104,653,422)**	**₱13,893,551**	**₱–**	**55,089,078**	**₱299,150,781**
Bills and notes payable	**19,720,622,029**	**(14,175,530,637)**	**–**	**45,531,365**	**16,999,240,460**	**22,589,863,217**
	₱20,055,443,603	**(₱14,280,184,059)**	**₱13,893,551**	**₱45,531,365**	**₱17,054,329,538**	**₱22,889,013,998**

*Presented in "Other liabilities".
**Net cash flows related to lease liabilities include the payments of interest portion amounting to ₱13.89 million classified as operating activity. Net cash flows related to principal portion amounting to ₱18.00 million is classified as financing activity.

2020						
			Non-cash changes			
	January 1, 2020	Net Cash flows	Interest Accretion	Amortization of debt issue costs	Additions/ Executions	December 31, 2020
Lease liabilities*	₱228,509,376	(₱99,564,550)	₱16,169,858	₱–	₱189,706,890	₱334,821,574
Bills and notes payable	12,956,604,745	6,744,833,685	–	19,183,599		19,720,622,029
	₱13,185,114,121	₱6,645,269,135	₱16,169,858	₱19,183,599	₱189,706,890	₱20,055,443,603

*Presented in "Other liabilities".
**Net cash flows related to lease liabilities include the payments of interest portion amounting to ₱16.17 million classified as operating activity. Net cash flows related to principal portion amounting to ₱99.56 million is classified as financing activity.

34. Supplementary Information Required Under BSP Circular 1074

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

Basic quantitative indicators of financial performance

The following are the Bank's basic indicators of financial performance as of and for the years ended December 31, 2021 and 2020:

	2021	2020
Return on average equity*	**3.24%**	8.99%
Return on average asset**	**0.50%**	1.68%
Net interest margin	**8.93%**	8.20%

*Net income divided by average total equity.
**Net income divided by average total assets
***Net interest income divided by average earning assets.

Capital instruments issued

The Bank's capital instruments consist of capital stock. As of December 31, 2021 and 2020, the Bank has outstanding capital stock shown below:

	Shares		**Amount**	
	2021	2020	**2021**	2020
Common - 1,000 par value				
Authorized - 300,000 shares				
Issued and outstanding				
Balances at beginning and end of year	**258,256**	258,256	**258,256,000**	258,256,000
Additional paid-in capital	**937,333**	937,333	**937,333,350**	937,333,350

Concentration of credit exposures

An analysis of concentrations of credit risk for loans and other receivables (gross of any allowance for credit losses and net of deferred credits and unearned discounts) of the Bank by industry and by geographic location as of December 31, 2021 and 2020 is shown below:

	2021		2020	
	Amount	**%**	Amount	%
Concentration by industry				
Other service activities	**₱55,720,045,101**	**98.14%**	₱54,327,502,525	97.62%
Agricultural, forestry and fishing	**822,145,456**	**1.45%**	811,033,627	1.46%
Wholesale and Retail, Trade, Repair of Motor, Vehicles, Motorcycle	**175,493,749**	**0.31%**	339,432,378	0.61%
Transportation and Storage	**48,948,422**	**0.09%**	136,478,179	0.25%
Administrative and Support Service Activities	**7,977,043**	**0.01%**	9,657,453	0.02%
Accommodation and Food Service Activities	**1,629,464**	**0.00%**	1,972,550	0.00%
Real estate activities	**979,769**	**0.00%**	1,971,722	0.00%
Manufacturing	**523,033**	**0.00%**	749,295	0.00%
Education	**–**	**0.00%**	22,625,674	0.04%
	₱56,777,742,037	**100.00%**	₱55,651,423,403	100.00%

Breakdown of total loans as to security and status

The analysis of loans as to the security and status of accounts are presented in the succeeding tables.

As to security

The breakdown of total loans and other receivables (gross of any allowance and net of deferred credits and unearned discounts) as to secured, with corresponding collateral types, and unsecured loans follows:

	2021	2020
Secured:		
Real estate mortgage	**₱84,864,087**	₱471,104,093
Deposit hold-out	**1,647,629**	26,148,074
	86,511,716	497,252,167
Unsecured	**56,691,230,321**	55,154,171,236
	₱56,777,742,037	₱55,651,423,403

As to status

The breakdown of loans (gross of any allowance for impairment and deferred credits and unearned discounts) as to status follows:

	2021	2020
Performing loans - Current	**₱51,848,257,348**	₱51,997,049,749
Non-performing loans (NPLs):		
Past-due	**5,762,228,615**	4,844,213,139
Items in litigation	–	105,040
	5,762,228,615	4,844,318,179
	₱57,610,485,964	₱56,841,367,928

Non-performing loans (NPLs) of the Bank as of December 31, 2021 and 2020 are presented below, net of specific allowance for credit losses, unearned discounts and other deferred credits in compliance with BSP Circular 855, respectively.

	2021	2020
Gross NPLs	**₱5,762,228,615**	₱4,844,318,178
Specific allowance for credit losses on NPLs	**(2,357,169,795)**	(1,253,080,360)
	₱3,405,058,820	₱3,591,237,818

The NPLs as of December 31, 2021 and 2020 are based on audited numbers.

Under BSP Circular No. 941, *Amendments to the Regulations on Past Due and Non-performing Loans*, effective January 1, 2018, the outstanding balance of loans, investments, receivables, or any financial asset, including restructure loans, shall be considered past due when any principal and/or interest or installment due, or portions thereof, are not paid at their contractual due date.

Furthermore, they are considered non-performing, even without any missed contractual payments, when it is considered impaired under PFRS 9, classified as doubtful or loss, in litigation, and/or there is evidence that full repayment of principal and interest is unlikely without foreclosure of collateral, if any. All other financial assets, 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.

Information on related party loans
As required by BSP, the Bank discloses loan transactions with investees and with certain directors, officers, stockholders and related interests (DOSRI). Existing banking regulations limit the amount of individual loans to DOSRI, 70.00% of which must be secured, to the total of their respective deposits and book value of their respective investments in the Bank. In the aggregate, loans to DOSRI generally should not exceed total equity or 15.00% of total loan portfolio, whichever is lower.

BSP Circular No. 423 dated March 15, 2004 amended the definition of DOSRI accounts. The following table shows information relating to the loans, other credit accommodations and guarantees classified as DOSRI accounts under regulations existing prior to said circular, and new DOSRI loans, other credit accommodations granted under said circular:

	2021	2020
Total outstanding DOSRI accounts	**₱1,197,570,844**	₱919,091,107
Unsecured DOSRI loans	**208,226,039**	161,572,105
% of DOSRI accounts granted prior to effectivity of BSP Circular No. 423 to total loans	**–**	–
% of DOSRI accounts granted after under BSP Circular No. 423 to total loans	**2.08%**	1.62%
% of DOSRI accounts to total loans	**2.08%**	1.62%
% of unsecured DOSRI accounts to total DOSRI loans	**17.39%**	17.58%
% of past due DOSRI loans to total DOSRI loans	**–**	–
% of nonperforming DOSRI loans to total DOSRI loans	**–**	–

Secured liabilities and assets pledged as security
As of December 31, 2021 and 2020, corporate notes totaling ₱5.13 billion and ₱5.45 billion are collateralized by the assignment/pledge of loans of ₱5.70 billion and ₱6.09 billion, respectively.

Contingencies and commitments
As of December 31, 2021 and 2020, the Bank has unused credit lines with various depository banks and related parties amounting to ₱18.70 billion and ₱25.15 billion, respectively. Other than this, the Bank has no amounts of contingencies and commitments arising from off-balance sheet items, transaction-related contingencies, sale and repurchase agreements not recognized in the statement of financial position, interest and foreign exchange related items and other commitments.

35. Supplementary Information Required by the Bureau of Internal Revenue

Presented below is the supplementary information which is required by the BIR under its existing Revenue Regulations No. 15-2010 to be disclosed as part of the notes to financial statements. This supplementary information year is not a required disclosure under PFRS.

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

In 2021, the Bank reported total GRT amounting to ₱529.25 million and is presented under ‘Taxes and licenses’ in the statements of income. Total GRT payable as at December 31, 2021 amounted to ₱103.31 million, which is included as part of ‘Accrued other taxes and licenses’.

Documentary Stamp Tax

For the year ended December 31, 2021, DST purchased and affixed through the electronic DST amounted to ₱978 million and ₱801.64 million, respectively. DST charged to profit and loss under 'Taxes and licenses' amounted to ₱396.09 million.

Taxes on Importation

The Bank has no taxes on importation as there were no importations made in 2021.

Withholding Taxes

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

Final withholding taxes	₱138,777,871
Tax on compensation and benefits	136,442,917
Expanded withholding taxes	110,658,184
	₱385,878,972

Taxes and Licenses

Details of taxes and licenses of the Bank for the year ended December 31, 2021 are as follows:

GRT	₱529,252,409
DST	396,085,397
Business permits	47,218,793
Real property tax	1,846,171
BIR registration fees	83,985
Miscellaneous	5,917,354
	₱980,404,109

Taxes and licenses are presented under 'Operating Expenses' in the statements of income.

The Bank also incurred fringe benefits tax amounting to ₱6.92 million which is presented under "Compensation and employee benefits" in the statements of income.

Excise Tax

The Bank does not have excise taxes accrued or paid since it does not have any transactions subject to excise tax in 2021.

Deficiency Tax Assessments and Tax Cases

In 2021, the Bank paid to BIR ₱ 10.90 million as deficiency tax assessment for taxable year 2019.

As at December 31, 2021, the Bank does not have any final deficiency tax assessments from the BIR nor does it have tax cases outstanding or pending in courts or bodies outside of the BIR in any of the open taxable years.