AUDITED FINANCIAL STATEMENTS

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Republic of the Philippines
COMMISSION ON AUDIT
Commonwealth Ave., Quezon City

ANNUAL AUDIT REPORT

on the

UCPB SAVINGS BANK, INC.

For the years ended December 31, 2021 and 2020

EXECUTIVE SUMMARY

INTRODUCTION

UCPB Savings Bank, Inc. (UCPBS or the Bank) is a domestic thrift bank incorporated in the Philippines on October 18, 1962, to provide services such as deposit-taking, loans, domestic fund transfers and treasury. The Bank is a 97.49 per cent owned subsidiary of United Coconut Planters Bank (UCPB or the parent bank). The parent bank is a universal bank incorporated in the Philippines.

On March 25, 2010, the Board of Directors (BOD) and stockholders of the Bank approved its amended Articles of Incorporation to extend the corporate term of the Bank, which expired on October 18, 2012, for another 50 years. On January 25, 2012, the Philippine Securities and Exchange Commission (SEC) approved such amendment.

The powers and functions of the UCPBS are exercised by the Board of Directors composed of seven directors and stockholders of the Bank. The Board is headed by a Chairman who is the President and Chief Executive Officer of the UCPB.

The Bank's registered office and principal place of business is located at 18th Floor, UCPB Building, 7907 Makati Avenue, Makati City. The registered office of the parent bank, which is also its principal place of business, is located at UCPB Corporate Offices, 7907 Makati Avenue, Makati City.

On November 05, 2020, the Bank received a letter from the Governance Commission for Government Owned or Controlled Corporations (GCG) saying that UCPB Savings Inc., is a Government Owned or Controlled Corporation (GOCC)/Government Financial Institution (GFI) and is now covered by R.A. No. 10149.

On June 25, 2021, Executive Order No. 142, s2021 titled *"Approving the Merger of Land Bank of the Philippines (LBP) and the United Coconut Planters Bank (UCPB), and the acquisition by the LBP of the Special Preferred Shares of the Philippine Deposit Insurance Corporation (PDIC) in the UCPB"* was signed by the President of the Republic of the Philippines, whereby the latter bank shall emerge as the surviving entity, subject to the requisite approvals from the Securities and Exchange Commission, and to the conditions and limitations under Republic Act Nos. 11524 and 11232 or the Revised Corporation Code of the Philippines.

As at December 31, 2021 and 2020, the Bank operates 49 branches with 8 branch lite offices and 6 lending offices.

As at December 31, 2021, the Bank had 698 regular and 44 probationary employees or a total of 742 including one seconded officer from the UCPB, and is headed by the President.

SCOPE AND OBJECTIVES OF AUDIT

The audit covered the examination, on a test basis, of transactions and accounts of UCPBS for the period January 1 to December 31, 2021 in accordance with the International Standards of Supreme Audit Institutions to enable us to express an opinion on the fairness of presentation of the financial statements for the years ended December 31, 2021 and 2020. Also, we conducted our audit to assess compliance with pertinent laws, rules and regulations, as well as adherence to prescribed policies and procedures.

FINANCIAL HIGHLIGHTS (In Philippine Peso)

I. Comparative Financial Position

Particulars	2021	2020	Decrease
Assets	18,600,481,829	22,047,101,272	(3,446,619,443)
Liabilities	16,246,252,778	19,288,949,371	(3,042,696,593)
Equity	2,354,229,051	2,758,151,901	(403,922,850)

II. Comparative Results of Operations

Particulars	2021	2020	Increase (Decrease)
Revenues	1,398,171,936	1,511,623,128	(113,451,192)
Interest expense	(169,150,903)	(373,254,123)	204,103,220
Impairment losses	(200,967,977)	(106,778,188)	(94,189,789)
Operating expenses	(1,022,479,563)	(1,001,599,986)	(20,879,577)
Net income before tax	**5,573,493**	**29,990,831**	**(24,417,338)**
Tax expense	(988,032)	(12,246,663)	11,258,631
Net profit/(loss)	**4,585,461**	**17,744,168**	**(13,158,707)**
Other comprehensive income/(loss)	53,000,182	(35,187,894)	88,188,076
Total comprehensive income	**57,585,643**	**(17,443,726)**	**75,029,369**

III. Comparative Budget and Actual Expenditures

	2021		2020	
	Approved Budget	Expenditures	Approved Budget	Expenditures
Personal services	480,854,839	476,104,116	459,900,670	459,135,858
Operating expenses	490,963,713	483,819,003	542,439,542	542,464,128
Total	**971,818,552**	**959,923,119**	**1,002,340,212**	**1,001,599,986**

AUDITOR'S OPINION

The Auditor rendered an unmodified opinion on the fairness of presentation of the financial statements of the Bank as at December 31, 2021 and 2020.

SIGNIFICANT AUDIT OBSERVATIONS AND RECOMMENDATIONS

1. The true economic values of 391 Real and Other Properties Acquired (ROPA) recognized at P1 nominal value under Investment Property account were not faithfully represented due to absence of appraisals, while 287 acquired properties were also not regularly appraised, contrary to the provisions of BSP Circular No. 520 Series of 2006 and UCPBS's ROPA Manual.

We recommended and Management agreed to conduct periodic appraisal of ROPA accounts to establish the true economic value of acquired assets recognized under Investment Property in accordance with BSP Circular No. 520 and UCPBS ROPA Manual.

2. The Loan to Value/Loan to Collateral Ratio of the real estate loans granted in CY2021 totaling P143.922 million is not consistent with the requirements of the UCPBS Real Estate Loan Manual, thereby exposing the Bank to possible risk of financial loss.

We recommended and Management agreed to:

a. Require Credit Management Division to investigate loan accounts with insufficient collateral values and undertake necessary action to comply with the Bank's policy;

b. Prepare a separate schedule for the accounts with multiple loans for proper monitoring and to ensure sufficiency of the collaterals; and

c. Ensure that all real estate loans granted are properly and sufficiently covered with collaterals acceptable to the Bank in compliance with UCPBS Real Estate Loan Manual.

STATUS OF IMPLEMENTATION OF PRIOR YEAR'S AUDIT RECOMMENDATIONS

Out of the 19 audit recommendations embodied in the prior year's Annual Audit Report, 11 were fully implemented, and eight were partially implemented of which five were reiterated in Part II of this Report.

Republic of the Philippines
COMMISSION ON AUDIT
Commonwealth Ave., Quezon City
CORPORATE GOVERNMENT AUDIT SECTOR
CLUSTER 1 – BANKING AND CREDIT

INDEPENDENT AUDITOR'S REPORT

The Board of Directors
UCPB Savings Bank, Inc.
Makati City

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the **UCPB Savings Bank, Inc. (UCPBS)** 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), as modified by the application of the financial reporting reliefs issued by the Bangko Sentral ng Pilipinas (BSP) and approved by the Securities and Exchange Commission (SEC), as described in Note 2.1 to the financial statements.

Basis for Opinion

We conducted our audits in accordance with International Standards of Supreme Audit Institutions (ISSAIs). 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 UCPBS in accordance with the Revised Code of Conduct and Ethical Standards for Commission on Audit Officials and Employees (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.

Emphasis of Matter

We draw attention to Note 2.1 to the financial statements, which states that the financial statements have been prepared in accordance with PFRSs, as modified by the application of the financial reporting reliefs issued by the BSP and approved by SEC in response to the COVID-19 pandemic. The impact of the application of the financial reporting reliefs on the 2021 and 2020 financial statements are discussed in detail in Note 2.1. Our opinion is not modified in respect of this matter.

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, as modified by the application of the financial reporting reliefs issued by the BSP and approved by the SEC, as described in Note 2.1 to the financial statements, 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 UCPBS'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 UCPBS or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the UCPBS'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 ISSAIs 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 ISSAIs, 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 UCPBS'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 UCPBS'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 UCPBS 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 in accordance with PFRSs, as modified by the application of the financial reporting reliefs issued by the BSP and approved by the SEC, as described in Note 2.1 to the financial statements.

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 Other Regulatory Requirements

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information required under the BSP Circular 1074 in Note 30 and the Revenue Regulations 15-2010 in Note 31 to the financial statements are presented for purposes of filing with the BSP and the Bureau of Internal Revenue, respectively, and is not a required part of the basic financial statements. Such supplementary information is the responsibility of management and has been subjected to the auditing procedures applied in our audits of the basic financial statements. In our opinion, supplementary the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

COMMISSION ON AUDIT

MARIA LUZ G. VENTURA
OIC, Supervising Auditor

June 28, 2022

June 27, 2022

UCPB SAVINGS

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Philippines 0728

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STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of **UCPB Savings Bank, Inc.** (the Bank) is responsible for the preparation and fair presentation of the financial statements, including the schedules attached therein, for the years ended December 31, 2021 and 2020, in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the 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 to do so.

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

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

Commission on Audit has audited the financial statements of the Bank in accordance with the International Standards of Supreme Audit Institutions, and in its report to the Board of Directors, have expressed its opinion on the fairness of presentation upon completion of such audit.

Liduvino S. Geron
Chairman of the Board

Lizette Margaret Mary J. Racela
President/Chief Executive Officer

Irene S. Quintana
Comptroller

UCPB Savings Bank, Inc.
(A subsidiary of United Coconut Planters Bank)
STATEMENTS OF FINANCIAL POSITION
December 31, 2021 and 2020
(Amounts in Philippine Peso)

	Note	2021	2020
ASSETS			
Cash and other cash items	8	757,009,383	755,528,188
Due from Bangko Sentral ng Pilipinas	8	3,535,047,206	3,942,949,368
Due from other banks	8	171,199,177	340,059,746
Securities Purchased under Resale Agreements	8	466,238,870	1,173,478,888
Financial assets at fair value through profit or loss	9.1	599,370,869	150,849,068
Financial assets at fair value through other comprehensive income	9.2	0	57,204,372
Financial assets at amortized cost, net	9.3	10,900,000	211,768,851
Loans and receivables, net	10	10,950,912,039	13,387,591,901
Bank premises, furniture, fixtures and equipment, and right of use asset, net	11	277,941,454	353,595,761
Investment properties, net	13	904,618,191	751,117,075
Assets held for sale, net	14	27,197,309	79,571,181
Intangible and other resources, net	15	227,202,141	360,639,073
Deferred tax assets, net	24	672,845,190	482,747,800
TOTAL ASSETS		**18,600,481,829**	**22,047,101,272**
LIABILITIES AND EQUITY			
Deposit liabilities	17	15,626,966,435	18,473,963,331
Accrued interest, taxes and other expenses	18	75,602,612	89,207,503
Income tax payable		7,785,072	8,487,401
Retirement liability	21.2	72,530,757	144,072,484
Other liabilities	19	463,367,903	573,218,652
TOTAL LIABILITIES		**16,246,252,779**	**19,288,949,371**
Capital stock		717,249,027	717,249,027
Additional paid-in capital		389,508,285	389,508,285
Revaluation reserves		(59,845,549)	(112,845,731)
Surplus reserves		5,714,392	50,485,455
Surplus		1,301,602,895	1,713,754,865
EQUITY	25	**2,354,229,050**	**2,758,151,901**
TOTAL LIABILITIES AND EQUITY		**18,600,481,829**	**22,047,101,272**

The Notes on pages 10 to 103 form part of these financial statements

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UCPB Savings Bank, Inc.
(A subsidiary of United Coconut Planters Bank)
STATEMENTS OF INCOME
For the years ended December 31, 2021 and 2020
(Amounts in Philippine Peso)

	Note	2021	2020
Interest income			
Loans and receivables	10	1,002,183,282	1,112,836,732
Due from BSP and other banks	8	59,923,355	80,579,155
Trading and investment securities	9.4	19,260,315	23,304,692
Securities purchased under resale agreements	8	10,363,176	43,439,805
		1,091,730,128	**1,260,160,384**
Interest expense			
Deposit liabilities		(160,866,813)	(363,077,558)
Interest expense - leases	12.3	(8,284,090)	(10,170,315)
Bills payable		0	(6,250)
		(169,150,903)	**(373,254,123)**
Net interest income		**922,579,225**	**886,906,261**
Impairment losses	16	(200,967,977)	(106,778,188)
Net interest income after impairment losses		**721,611,248**	**780,128,073**
Other operating income			
Service fees		240,315,806	204,940,588
Trading and securities gains - net	9.1	52,675,490	928,214
Miscellaneous	22	13,874,399	15,494,007
Gain/(Loss) on sale and foreclosure of assets - net	13,14	(423,887)	30,099,935
		306,441,808	**251,462,744**
Other operating expenses			
Salaries and employee benefits	21.1	(477,617,979)	(463,348,858)
Depreciation and amortization	11,13, 15	(155,483,995)	(154,598,321)
Taxes and licenses	31	(124,082,995)	(151,839,950)
Miscellaneous	23	(100,733,857)	(73,188,286)
Insurance		(52,723,529)	(51,576,548)
Security, messengerial and janitorial		(37,718,870)	(42,981,288)
Occupancy		(36,658,950)	(34,597,856)
Litigation	13	(22,761,907)	(16,373,247)
Transportation and travel		(9,275,141)	(9,869,699)
Management and other professional fees		(3,140,952)	(1,373,420)
Entertainment, amusement and recreation		(2,281,388)	(1,852,513)
		(1,022,479,563)	**(1,001,599,986)**
Profit before tax		**5,573,493**	**29,990,831**
Tax expense	24	(988,032)	(12,246,663)
Net profit		**4,585,461**	**17,744,168**

The Notes on pages 10 to 103 form part of these financial statements

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UCPB Savings Bank, Inc.
(A subsidiary of United Coconut Planters Bank)
STATEMENTS OF COMPREHENSIVE INCOME
For the years ended December 31, 2021 and 2020
(Amounts in Philippine Peso)

	Note	2021	2020
NET PROFIT		**4,585,461**	**17,744,168**
OTHER COMPREHENSIVE INCOME/(LOSS)			
Items that will not be reclassified subsequently to profit or loss:			
Remeasurements of post-employment defined benefit plan, net of tax	21.2	53,656,295	(39,199,708)
Net unrealized gain/(loss) on financial assets at fair value through other comprehensive income	9.2	(656,113)	4,011,814
Other comprehensive income/(loss)		**53,000,182**	**(35,187,894)**
TOTAL COMPREHENSIVE INCOME/(LOSS)		**57,585,643**	**(17,443,726)**

The Notes on pages 10 to 103 form part of these financial statements

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UCPB Savings Bank, Inc.
(A subsidiary of United Coconut Planters Bank)
STATEMENTS OF CHANGES IN EQUITY
For the years ended December 31, 2021 and 2020
(Amounts in Philippine Peso)

	Capital Stock (Note 25.1)	Additional paid-in capital (Note 25.1)	Revaluation Reserves (Note 25.2)	Surplus reserves (Note 25.3)	Surplus	TOTAL
Balance at January 1, 2021						
As previously reported	**717,249,027**	**389,508,285**	**(112,845,731)**	**50,485,455**	**1,713,754,865**	**2,758,151,901**
Appropriation during the year				(44,771,063)	44,771,063	0
Effect of BSP relief for ACL staggered booking					(461,508,494)	(461,508,494)
Total comprehensive income for the year			53,000,182		4,585,461	57,585,643
Balance at December 31, 2021	**717,249,027**	**389,508,285**	**(59,845,549)**	**5,714,392**	**1,301,602,895**	**2,354,229,050**
Balance at January 1, 2020						
As previously reported	**717,249,027**	**389,508,285**	**(77,657,837)**	**53,092,664**	**1,693,403,488**	**2,775,595,627**
Appropriation during the year				(2,607,209)	2,607,209	0
Total comprehensive income for the year			(35,187,894)		17,744,168	(17,443,726)
Balance at December 31, 2020	**717,249,027**	**389,508,285**	**(112,845,731)**	**50,485,455**	**1,713,754,865**	**2,758,151,901**

The Notes on pages 10 to 103 form part of these financial statements

UCPB Savings Bank, Inc.
(A subsidiary of United Coconut Planters Bank)
STATEMENTS OF CASH FLOWS
For the years ended December 31, 2021 and 2020
(Amounts in Philippine Peso)

	Note	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES			
Interest received		1,071,743,785	1,159,045,126
Interest paid		(174,318,016)	(395,463,362)
Fees and commission received		240,315,806	204,940,588
Gain on financial assets and liabilities-FVTPL	9.1	53,241,439	(1,850,931)
Miscellaneous Income		8,985,059	26,922,725
General and administrative expenses		(866,995,568)	(847,001,665)
Operating income before changes in operating assets and liabilities		332,972,505	146,592,481
Changes in operating assets and liabilities			
Decrease/(Increase) in operating assets			
FA-Fair value through profit or loss		(439,657,528)	25,852,124
FA-Amortized Cost		210,081,397	19,943,751
FA-Fair value through other comprehensive income		57,165,806	44,237,395
Loans and receivable		1,484,598,692	831,584,815
Other Assets		107,878,908	77,132,151
Increase/(Decrease) in operating assets and liabilities			
Deposit Liabilities		(3,007,863,709)	466,483,708
Accrued taxes, interest and other expenses		160,713,125	375,314,021
Other Liabilities		(57,779,087)	(16,039,863)
Net cash generated from (used in) operations		**(1,151,889,891)**	**1,971,100,583**
Income Taxes Paid		(38,907,004)	(50,170,845)
Net cash generated from (used in) operating activities		**(1,190,796,895)**	**1,920,929,738**
CASH FLOWS FROM INVESTING ACTIVITIES			
Additions to property and equipment	11	(24,767,692)	(75,480,597)
Disposal of property plant and equipment		2,585,065	6,510,751
Additions to intangible assets	15	(9,225,744)	(32,346,081)
Net cash used in investing activities		**(31,408,371)**	**(101,315,927)**
CASH FLOWS FROM FINANCING ACTIVITIES			
Payments of lease liabilities		(60,316,288)	(58,491,656)
Net cash used in financing activities		**(60,316,288)**	**(58,491,656)**
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		**(1,282,521,554)**	**1,761,122,155**
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	8	**6,212,016,190**	**4,450,894,035**
CASH AND CASH EQUIVALENTS AT END OF YEAR	8	**4,929,494,636**	**6,212,016,190**

The Notes on pages 10 to 103 form part of these financial statements

UCPB SAVINGS BANK, INC.
(*A Subsidiary of United Coconut Planters Bank*)
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020
(Amounts in Philippine Pesos)

1. CORPORATE MATTERS

1.1 *Incorporation and Operations*

UCPB Savings Bank, Inc. (UCPBS or the Bank) is a domestic thrift bank incorporated in the Philippines on October 18, 1962, to provide services such as deposit-taking, loans, domestic fund transfers and treasury. The Bank is a 97.55 per cent owned subsidiary of United Coconut Planters Bank (UCPB or the parent bank). The parent bank is a universal bank incorporated in the Philippines.

On March 25, 2010, the Board of Directors (BOD) and stockholders of the Bank approved its amended Articles of Incorporation to extend the corporate term of the Bank, which expired on October 18, 2012, for another 50 years. On January 25, 2012, the Philippine Securities and Exchange Commission (SEC) approved such amendment.

The Bank's registered office and principal place of business is located at 18th Floor, UCPB Building, 7907 Makati Avenue, Makati City. As of December 31, 2021, the Bank operates 49 branches with 8 branch lite offices in both 2021 and 2020. The registered office of the parent bank, which is also its principal place of business, is located at UCPB Building, 7907 Makati Avenue, Makati City.

On November 05, 2020, the Bank received a letter from the Governance Commission for Government Owned or Controlled Corporations (GCG) saying that UCPB Savings Bank Inc., is a Government Owned or Controlled Corporation (GOCC)/Government Financial Institution (GFI) and is now covered by Republic Act (R.A.) No. 10149.

Under Section 3 of R.A. No. 10149, otherwise known as the GOCC Governance Act of 2011, a government-owned or-controlled corporation is defined as:

(o) Government-Owned or -Controlled Corporation (GOCC) refers to any agency organized as a stock or nonstock corporation, vested with functions relating to public needs whether governmental or proprietary in nature, and **owned by the Government of the Republic of the Philippines** directly or through its instrumentalities either wholly or, where applicable as in the case of stock corporations**, to the extent of at least a majority of its outstanding capital stock**: Provided, however, That for purposes of this Act, the term "GOCC"- shall include GICP/GCE and GFI as defined herein. (*Emphasis supplied*)

Further, under the same section, a government financial institution (GFI) is defined as:

(m) Government Financial Institutions (GFIs) refer to financial institutions or corporations in which **the government directly or indirectly owns majority of the capital stock** and which are either: (1) registered with or directly supervised by the Bangko Sentral ng Pilipinas; or (2) collecting or transacting funds or contributions from the public and places them in financial instruments *or* assets such as deposits, loans, bonds and equity including, but not limited to, the Government Service Insurance System and the Social Security System. *(Emphasis Supplied)*

UCPB Savings Bank, Inc. is an incorporated domestic thrift bank which provides deposit-taking, loans, domestic fund transfers, and treasury services. The Bank is under the supervision of the Bangko Sentral ng Pilipinas, categorized as a thrift bank. On the basis of the above definitions**, thus, UCPB Savings Bank, Inc. is a GFI**.

On June 25, 2021, Executive Order No. 142, s2021 titled "Approving the Merger of Land Bank of the Philippines (LBP) and the United Coconut Planters Bank (UCPB), and the acquisition by the LBP of the Special Preferred Shares of the Philippine Deposit Insurance Corporation (PDIC) in the UCPB" was signed by the President of the Republic of the Philippines, whereby the latter bank shall emerge as the surviving entity, subject to the requisite approvals from the Securities and Exchange Commission, and to the conditions and limitations under Republic Act Nos. 11524 and 11232 or the Revised Corporation Code of the Philippines.

UCPB shareholders approved the merger plan with LANDBANK during its stockholders' meeting on December 14, 2021. The shareholders representing 97.2 per cent of the UCPB's total outstanding capital stock voted in favor of the Plan of Merger and Articles of Merger between UCPB and LANDBANK.

With the merger of UCPB and LBP on March 01, 2022, a more unified, stronger, and more resilient institution has merged. UCPBS now a subsidiary of LBP, continues to operate on a stand-alone basis and its services will continue to be unhampered and uninterrupted, still true to its vision to be the Bank of choice in the communities it serves.

The officers and staff of UCPBS remained committed to serving the nation and delivering that brand of service that it is known for, "Kasama Mo".

1.2 *Continuing effect of COVID-19 Pandemic on Bank's Business*

The COVID-19 pandemic started to become widespread in the Philippines in early March 2020 and its impact has been continuing until the date of the approval of these financial statements. The measures taken by the government to contain the virus have affected economic conditions and the Bank's business operations.

In 2021 and 2020, the Bank has taken the following measures to mitigate the adverse effects of the COVID-19 pandemic to the Bank's business.

- Implemented additional health and safety protocols for its employees and visitors such as the frequent disinfection of facilities and COVID-19 testing for its employees among others.

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

In addition to the government-mandated reliefs, the Bank has offered financial relief in response to the COVID-19 situation. These relief measures were granted to eligible customers. Relief measures are as follows:

  - payment of amortization relief including extension of contractual terms; principal and interest relief including lower amortization on extended terms; and
  - change from loan line to term loan (i.e., consolidation of amounts due).

Management will continue to take actions to continually improve the operations as the need arises. Based on the management initiatives for improvements, management projects that the Bank would continue to report positive results of operations and would remain liquid to meet current obligations as they fall due. Accordingly, management has not determined material uncertainty that may cast significant doubt on the Bank's ability to continue as a going concern due to the effects of the pandemic.

1.3 *Approval of Financial Statements*

The financial statements of the Bank as of and for the year ended December 31, 2021 (including the comparative financial statements as of and for the year ended December 31, 2020) were approved and authorized for issue by the Bank on June 28, 2022.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies that have been used in the preparation of these financial statements are summarized below and in the succeeding pages. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 *Basis of Preparation of Financial Statements*

(a) Statement of Compliance with Philippine Financial Reporting Standards

The accompanying financial statements have been prepared in accordance with Philippine Financial Reporting Standards (PFRSs), as modified by the application of the following financial reporting reliefs issued by the Bangko Sentral ng Pilipinas (BSP) Memorandum M-2020-08 Regulatory Relief for BSFIs Affected by Corona Virus Disease 2019 (COVID-19), dated March 14, 2020, and approved by the SEC in Memorandum Circular No. 32-2020 issued on November 17, 2020 in response to the COVID-19 pandemic.

Pursuant to the BSP M-2020-08, the Bank availed the financial reporting relief for the staggered booking of some of its Allowance for Credit Losses (ACL). The Request for BSP relief was initially applied on February 28, 2021 and resubmitted to the BSP on April 7, 2021 due to other requirements of the BSP. Had the Bank measured and recorded in 2020 its allowance for credit losses in accordance with PFRS 9. Its impact on the Financial Statements of the Bank is shown below:

	Amount	Deferred Tax Asset related to recognized allowance for 2020	Unrecognized DTA related to Allowance for Staggered Booking
Outstanding Loans	3,562,163,227		
Total Expected Credit Losses (ECL)	1,261,804,463		
Breakdown:			
Allowance recognized for the year 2020	35,000,000	10,500,000	
Allowance for booking in year 2021	410,900,695		102,725,174
Allowance For Staggered Booking For Five Years	815,903,768		203,975,942

The BSP approved the request on the staggered booking of the company's ACL over a maximum period of five years on May 6, 2021 as per letter dated May 24, 2021.

In July 2021, the Bank booked ACL amounting to P615.34 million. As of December 31, 2021, the remaining ACL balance for staggered booking is P435.71 million. BSP approved staggered booking is shown below:

	Allowance for Credit Losses (ACL) for staggered booking	Deferred Tax Asset related to recognized allowance	Net Effect on Retained Earnings
Year 2021	615,344,658	153,836,165	461,508,493
Year 2022	435,705,565	108,926,391	326,779,174
Year 2023	326,779,174	81,694,794	245,084,380
Year 2024	217,852,783	54,463,196	163,389,587
Year 2025	108,926,391	27,231,598	81,694,793

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

(b) Presentation of Financial Statements

The financial statements are presented in accordance with Philippine Accounting Standard (PAS) 1, *Presentation of Financial Statements*. The Bank presents the statement of comprehensive income separate from the statement of income.

The Bank presents a third statement of financial position as at the beginning of the preceding period when it applies an accounting policy retrospectively, or makes a retrospective restatement or reclassification of items that has a material effect on the information in the statement of financial position at the beginning of the preceding period. The related notes to the third statement of financial position are required to be disclosed.

(c) Functional and Presentation Currency

The accompanying financial statements are presented in Philippine pesos, which is the functional and presentation currency of the Bank. All values represent absolute amounts except when otherwise indicated.

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

2.2 *Adoption of Amended PFRS*

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

The Bank adopted for the first time the following new PFRS and amendments to PFRSs, which are mandatorily effective for annual years beginning on or after January 1, 2021:

PFRS 7 and PFRS 9 (Amendments)	:	Financial Instruments: Disclosures and Financial Instruments – Interest Rate Benchmark Reform Phase 2.
PFRS 16 (Amendments)	:	Leases – Interest Rate Benchmark Reform Phase 2.

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

Discussed below are the relevant information about these pronouncements.

(i) PFRS 7 (Amendments), *Financial Instrument: Disclosures*- For the Bank's fair value hedges of a non-contractually specified benchmark component of interest rate risk, on transition to the alternative benchmark rate, if that risk rate is not separately identifiable at the date of designation, it will be deemed to have met the separately identifiable requirement at that date, if the Bank reasonably expects the term specific interest rate component will be separately identifiable within a period of 24 months from the date the alternative benchmark rate is first designated, regardless of the term for which the risk is designated in that hedge. The 24-month period applies on a rate-by-rate basis.

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

(iii) PFRS 16 (Amendments), *Leases-Interest Rate Benchmark Reform Phase 2*. When a lease is modified as a direct consequence of the interest rate benchmark reform and the new basis for determining the lease payments is economically equivalent to the previous basis, the Bank remeasures the lease liability to reflect the revised lease payments discounted using a revised discount rate that reflects the change in the basis for determining the contractual cash flows.

(b) Effective Subsequent to 2021 but not Adopted Early

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

(i) PAS 16 (Amendments), *Property, Plant and Equipment – Proceeds Before Intended Use* (effective from January 1, 2022). The amendments prohibit deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognizes the proceeds from selling such items, and the cost of producing those items, in profit or loss.

(ii) PAS 37 (Amendments), *Provisions, Contingent Liabilities and Contingent Assets – Onerous Contracts – Cost of Fulfilling a Contract* (effective January 1, 2022). The amendments specify that the 'cost of fulfilling' a contract comprises the 'costs that relate directly to the contract'. Costs that relate directly to a contract can either be incremental costs of fulfilling that contract (examples would be direct labor, materials) or an allocation of other costs that relate directly to fulfilling contracts (an example would be the allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract).

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

- PFRS 9 (Amendments), Financial Instruments – *Fees in the '10 per cent' Test for Derecognition of Liabilities.* The improvements clarify the fees a company includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability.

- Illustrative Examples Accompanying PFRS 16 – *Lease Incentives*. The improvement merely removes potential for confusion regarding lease incentives.

(iv) PAS 1 (Amendments) Presentation of Financial Statements – *Classification of Liabilities as Current or Non-current* (effective January 1, 2023). The amendments aim to promote consistency in applying the requirements by helping companies determine whether, in the statement of financial position, debt and other liabilities with an uncertain settlement date should be classified as current (due or potentially due to be settled within one year) or non-current.

(v) PAS 1 (Amendments), Presentation of Financial Statements – *Disclosure of Accounting Policies* (effective January 1, 2023). The amendments require that an entity discloses its material accounting policies, instead of its significant accounting policies. Further amendments explain how an entity can identify a material accounting policy.

(vi) PAS 8 (Amendments), Accounting Estimates – *Definition of Accounting Estimates* (January 1, 2023). The amendments replace the definition of a change in accounting estimates with a definition of accounting estimates. Under the new definition, accounting estimates are "monetary amounts in financial statements that are subject to measurement uncertainty".

(vii) PAS 12 (Amendments), Income Taxes – *Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction* (January 1, 2023). The amendments clarify that the initial recognition exemption does not apply to transactions in which equal amounts of deductible and taxable temporary differences arise on initial recognition.

2.3 Financial Instrument

Financial assets and financial liabilities are recognized when the Bank becomes a party to the contractual provisions of the financial instrument. For purposes of classifying financial instrument, an instrument is considered as an equity instrument if it is non-derivative and meets the definition of equity for the issuer in accordance with the criteria under PAS 32, *Financial Instruments: Presentation*. All other non-derivative financial instruments are treated as debt instruments.

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

At initial recognition, the Bank measures a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at Fair Value Through Profit or Loss (FVTPL), transaction costs such as fees and commissions that are incremental or directly attributable to the acquisition or issue of the financial asset or financial liability. Transaction costs of financial assets and financial liabilities carried at FVTPL are expensed in profit or loss.

a) Classification, Measurement and Reclassification of Financial Assets

Under PFRS 9, the classification and measurement of financial assets is driven by the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. The classification and measurement of financial assets applicable to the Bank are described below and in the succeeding pages.

(i) Financial Assets at Amortized Cost

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

- the asset is held within the Bank's business model whose objective is to hold financial assets in order to collect contractual cash flows ("hold to collect" or "HTC"); and,

- the contractual terms of the instrument give rise, on specified dates, to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

The financial asset held within the business model of "Amortized Cost" or "Held-to Collect" is achieved by collecting contractual payments over the life of the instrument. These assets are initially measured at fair value plus any transaction cost. These are subsequently measured at amortized cost, using the effective interest method, less any allowance for Expected Credit Losses (ECL). Measurement at amortized cost involves reflecting the instrument at its acquisition value plus any unpaid amortized income.

Where the business model is to hold assets to collect contractual cash flows, the Bank assesses whether the financial instruments' cash flows represent SPPI. The Bank considers whether the contractual cash flows are consistent with basic lending arrangement, i.e., interest includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at FVTPL.

The Bank's financial assets at amortized cost are presented in the Statement of financial position as Cash and Other Cash Items, Due from BSP, Due from Other Banks, Loans and Receivables and Financial Assets at Amortized Cost.

For purposes of cash flows reporting and presentation, cash and cash equivalents comprise accounts with original maturities of three months or less, including cash. These generally include cash on hand, demand deposits and short-term, highly liquid investments readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value.

The Bank may irrevocably elect at initial recognition to classify a financial asset that meets the amortized cost criteria as at FVTPL if that designation eliminates or significantly reduces an accounting mismatch had the financial asset been measured at amortized cost. In 2021 and 2020 the Bank has not made such designation.

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

The Bank accounts for financial assets at Fair Value Through Other Comprehensive Income (FVOCI) if the assets meet the following conditions:

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

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

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

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

(iii) Financial Assets at Fair Value Through Profit or Loss

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

Financial assets at FVTPL are measured at fair value with gains or losses recognized as part of Trading and securities gain (losses) under Other Operating Income (Expense) in the statement of income. Related transaction costs are recognized directly as expense in profit or loss. The fair values of these financial assets are determined by reference to active market transactions or using a valuation technique where no active market exists.

Interest earned on these investments is reported in profit or loss under Interest Income account.

b) Recognition of Interest Income Using Effective Interest Rate Method

Interest income on financial assets measured at amortized cost and all interest-bearing debt financial assets classified as at FVPL, or at FVOCI, is recognized using the effective interest rate method. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument or, when appropriate, a shorter period, to the net carrying amount of the financial asset.

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

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

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

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

(c) Reclassification of Financial Assets

The Bank can only reclassify financial assets if the objective of its business model for managing those financial assets changes. Accordingly, the Bank is required to reclassify financial assets: (i) from amortized cost to FVTPL, if the objective of the business model changes so that the amortized cost criteria are no longer met; and, (ii) from FVTPL to amortized cost, if the objective of the business model changes so that the amortized cost criteria start to be met and the characteristics of the instrument's contractual cash flows meet the amortized cost criteria.

A change in the objective of the Bank's business model will take effect only at the beginning of the reporting period following the change in the business model.

(d) Impairment of Financial Assets under PFRS 9

The Bank assesses its ECL on a forward-looking basis associated with its financial assets carried at amortized cost, debt instruments measured at FVOCI and other contingent accounts such as financial guarantees and loan commitments. No impairment loss is recognized on equity investments. Recognition of credit losses or impairment is no longer dependent on the identification of a credit loss event. Instead, the Bank considers a broader range of information in assessing credit risk and measuring expected credit losses, including past events, current conditions, reasonable and supportable forecasts that affect collectability of the future cash flows of the financial assets.

The bank measures loss allowances at an amount equal to lifetime ECL, except for the following financial instrument for which they are measured at 12- months ECL.

- All current loan accounts, except restructured loan,
- The debt securities that are identified to have "low credit risk" at the reporting date; and,
- Other financial instruments (other than lease receivables) on which credit risk has not increased significantly since their initial recognition.

For these financial instruments, the allowance for impairment is based on 12-month ECL associated with the probability of default of a financial instrument in the next 12 months (referred to as "Stage 1" financial instrument). Unless there has been a significant increase in credit risk subsequent to the initial recognition of the financial assets, a lifetime ECL (which are the expected shortfalls in contractual cash flows, considering thepotential for default at any point during the life of the financial asset) will be recognized (referred to as 'Stage 2" financial instruments). Stage 2 financial instruments also include those loan accounts and facilities where the credit risk has improved and have and have been reclassified from "Stage 3". A lifetime ECL shall be recognized for Stage 3 financial instruments, which include financial instruments that are subsequently credit impaired, as well as purchased or originated credit impaired assets.

The Bank's definition of credit risk and information on how risk is mitigated by the bank are disclosed in Note 4.2.

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

- *Probability of default (PD) - It is an estimate of likelihood of a borrower defaulting on its financial obligation over a given time horizon.*
- *Loss given default (LGD) - It is an estimate of loss arising in case a default occurs at a given time. It is based on the difference between the contractual cash flows of a financial instrument due from a counterparty and those that the Bank would expect to receive, including the realization of any collateral.*
- *Exposure at default (EAD) - It represents the gross carrying amount of the financial instruments subject to the impairment calculation. In case of financial guarantee and loan commitment, the Bank shall include the undrawn balance (up to the current contractual limit) at the time of default should it occur.*

The Bank measures the ECL of a financial asset in such manner that reflects: (i) the time value of money; and, (ii) reasonable and supportable information about past events, current conditions and forecasts of future economic conditions that affect the collectability of the future cash flows of the financial assets.

Measurement of the ECL is determined by a probability-weighted estimate of credit losses over the expected life of the financial instrument.
The Bank's detailed ECL measurement as determined by the management is disclosed in Note 4.2 and 16.

(e) Financial Liabilities at Amortized Cost

Financial liabilities, which include deposit liabilities, accrued interest and other expenses, and other liabilities (except retirement benefit liability and other taxes payable), are recognized when the Bank becomes a party to the contractual terms of the instrument. All interest-related charges incurred on a financial liability are recognized as an expense in profit or loss as part of Interest Expense in the statement of income.

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

Dividend distributions to shareholders are recognized as financial liabilities upon declaration by the Bank's BOD.

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

(f) Derecognition of Financial Assets

The financial assets are derecognized when the contractual rights to receive cash flows from the financial instruments expire, or when the financial assets and all substantial risks and rewards of ownership have been transferred to another party.

If the Bank neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Bank recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Bank retains substantially all the risks and rewards of ownership of a transferred financial asset, the Bank continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

(i) *Modification of Loans*

When the Bank renegotiates or otherwise modifies the contractual cash flows of loans to customers, the Bank assesses whether or not the new terms are substantially different to the original terms. The Bank considers, among others:

- If the borrower is in financial difficulty, whether the modification merely reduces the contractual cash flows to amounts the borrower is expected to be able to pay;
- Whether any substantial new terms are introduced that will affect the risk profile of the loan;
- Significant extension of the loan term when the borrower is not in financial difficulty;
- Significant change in the interest rate;
- Change in the currency the loan is denominated in; and/or,
- Insertion of collateral, other security or credit enhancements that will significantly affect the credit risk associated with the loan.

If the terms are substantially different, the Bank derecognizes the financial asset and recognizes a "new" asset at fair value, and recalculates a new effective interest rate for the asset. The date of renegotiation is consequently considered to be the date of initial recognition for impairment calculation, including for the purpose of determining whether a significant increase in credit risk has occurred.

However, the Bank also assesses whether the new financial asset recognized is deemed to be credit-impaired at initial recognition, especially in circumstances where the renegotiation was driven by the debtor being unable to make the originally agreed payments. Differences in the carrying amount are recognized in profit or loss as either gain or loss on derecognition of financial assets.

As to the impact on ECL measurement, the expected fair value of the "new" asset is treated as the final cash flow from the existing financial asset at the date of derecognition. Such amount is included in the calculation of cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

If the terms are not substantially different, the renegotiation or modification does not result in derecognition, and the Bank recalculates the gross carrying amount based on the revised cash flows of the financial asset and recognizes a modification gain or loss in profit or loss.

The new gross carrying amount is recalculated by discounting the modified cash flows of the original effective interest rate (or credit-adjusted effective interest rate for purchased or originated credit-impaired financial assets).

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

(ii) *Derecognition of Financial Assets Other than Through Modification*

A financial assets (or where applicable, a part of a financial asset or part of a group of financial assets) are derecognized when the contractual rights to receive cash flows from the financial instruments expire, or when the financial assets and all substantial risks and rewards of ownership have been transferred to another party. If the Bank neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Bank recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Bank retains substantially all the risks and rewards of ownership of a transferred financial asset, the Bank continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

(g) *Derecognition of Financial Liabilities*

Financial liabilities are derecognized from the statement of financial position only when the obligations are extinguished either through discharge, cancellation or expiration. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or if the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of the new liability, and the difference in the respective carrying amounts is recognized as gain or loss in profit or loss.

(h) *Financial Guarantees and Undrawn Loan Commitment*

Financial guarantees are those issued by the Bank to creditors as allowed under existing rules and regulations whereby it guarantees third party obligations by signing as guarantor in the contract or agreement. Undrawn loan commitments and letters of credit are commitments under which, over the duration of the commitment, the Bank is required to provide a loan with pre-specified terms to the customer. The nominal contractual value of financial guarantees and undrawn loan commitments, where the loan agreed to be provided is on market terms, are not reflected in the statement of financial position. These contracts are in the scope of the ECL requirements where the Bank estimates the expected portion of the irrevocable undrawn loan commitments that will be drawn over their expected life based on the Bank's historical observations of actual drawdowns and forward-looking forecasts. The ECL related to financial guarantees and loan commitments without outstanding drawn amounts is recognized under Other Liabilities account in the statement of financial position. As of December 31, 2021 and 2020, the Bank has no outstanding financial guarantees and loan commitments.

2.4 Bank Premises, Furniture, Fixtures and Equipment

Depreciable properties, including buildings and improvements, furniture, fixtures and equipment and leasehold improvements are carried at cost, less accumulated depreciation and amortization, and any impairment in value. Land is carried at cost less any impairment in value.

The initial cost of bank premises, furniture, fixtures and equipment consists of its purchase price, including import duties, taxes and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditures incurred after the bank premises, furniture, fixtures and equipment have been put into operation, such as repairs and maintenance are normally charged against operations in the period in which the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of bank premises, furniture, fixtures and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as an additional cost of bank premises, furniture, fixtures and equipment.

Depreciation and amortization is computed on a straight-line basis over the estimated useful lives of the depreciable assets. Leasehold improvements are amortized over the shorter of the term covering the leases and the estimated useful lives of the improvements. The estimated useful lives of the depreciable assets are as follows:

Building and Building Improvements	20 years
Furniture, Fixtures and Equipment	3 to 5 years

The useful life and depreciation and amortization methods are reviewed periodically to ensure that the period and method of depreciation and amortization are consistent with the expected pattern of economic benefits from items of bank premises, furniture, fixtures and equipment. The carrying amounts of bank premises, furniture, fixtures and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying amounts may not be recoverable. If any such indication exists and where the carrying amounts exceed the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amount.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (see Note 2.8 and 11).

The assets' residual values, useful lives and methods of depreciation are reviewed, and adjusted if appropriate, at each end of reporting period.

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

2.5 Investment Properties

Investment properties are measured initially at cost, including transaction costs. An investment property acquired through an exchange transaction is initially measured at fair value of the asset acquired unless the fair value of such an asset cannot be measured in which case the investment property acquired is measured at the carrying amount of the asset given up. Foreclosed properties are classified under Investment properties from foreclosure date. Gain or loss from foreclosure is included as part of Gain on sale and foreclosure of assets account under Other Operating Income section of the statement of income.

Subsequent to initial recognition, depreciable investment properties are carried at cost less accumulated depreciation and amortization and impairment (see Note 13).

Depreciation is computed using the straight-line method over their respective useful life ranging from five to 30 years. Land is carried at cost less any impairment in value (see Note 2.8 and 13).

Investment properties are derecognized when they have either been disposed of or when the investment property is permanently withdrawn from use and no future benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognized in the statements of income as part of Gain on sale and foreclosure of assets account under Other Operating Income section of the statement of income in the year of retirement or disposal. Expenditures incurred after the investment properties have been put into operations, such as repairs and maintenance costs, are normally charged against income in the period in which costs are incurred.

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

2.6 Assets Held-for-Sale

Assets held-for-sale include real and other properties (i.e., motorcycles and other vehicles) acquired through repossession or foreclosure that the Bank intends to sell within one year from the date of classification as held-for-sale and is committed to immediately dispose the assets through an active marketing program.

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

Assets held-for-sale are measured at the lower of their carrying amounts, immediately prior to their classification as held for sale, and their fair value less costs to sell. The Bank recognizes impairment loss for any initial or subsequent write-down of the asset at fair value less cost to sell. Gain for any subsequent increase in fair value less cost to sell of an asset is recognized to the extent of the cumulative impairment loss previously recognized. Assets classified as held for sale are not subject to depreciation.

If the Bank has classified an asset as held-for-sale, but the criteria for it to be recognized as held-for-sale are no longer satisfied, the Bank ceases to classify the asset as held-for sale. The gain or loss arising from the sale or remeasurement of assets held-for-sale is recognized in profit or loss and included as part of Gain on sale and foreclosure of assets account under Other Operating Income section of the statement of income.

2.7 Intangible Assets and Other Resources

Intangible assets consist of acquired software costs that are capitalized on the basis of the cost incurred to acquire and bring to use the specific software. These costs are amortized on a straight-line basis over the estimated useful lives (ranging from three to 10 years). Intangible assets are subject to impairment testing as described in Note 2.8.

Cost associated with maintaining the computer software programs are recognized as expense when incurred.

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

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

2.8 Impairment of Non-financial Assets

At each reporting date, the Bank assesses whether there is any indication that its bank premises, furniture, fixtures and equipment, investment properties, assets held-for-sale, intangible assets and other non-financial assets may be impaired. When an indicator of impairment exists or when an annual impairment testing for an asset is required, the Bank makes a formal estimate of the recoverable amount.

Recoverable amount is the higher of a non-financial asset's fair value less cost to sell and its value in use, unless the asset does not generate cash inflows that are largely independent of those from other assets or group of assets, in which case the recoverable amount is assessed as a part of the cash-generating unit to which it belongs. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pretax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or cash-generating unit.

An impairment loss is charged to profit and loss in the year in which it arises. For nonfinancial assets, an assessment is made at each reporting date as to whether there is any indication that such assets are impaired or whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the assets' recoverable amount since the last impairment loss was recognized.

If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation and amortization, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the statement of income. After such a reversal, the depreciation and amortization expense is adjusted in future years to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining life.

2.9 Employee Benefits

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

(a) Post-employment Defined Benefit Plan

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

The asset or liability recognized in the statement of financial position for a defined benefit plan is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows for expected benefit payments using a discount rate derived from the interpolated yields of government bonds as calculated by Bloomberg which used BVAL Evaluated Pricing Service to calculate the PHP BVAL. These yields are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related post-employment liability.

Remeasurements, comprising of actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions and the return on plan assets (excluding amount included in net interest) are reflected immediately in the statement of financial position with a charge or credit recognized in other comprehensive income in the period in which they arise. Net interest is calculated by applying the discount rate at the beginning of the period, taking account of any changes in the net defined benefit liability or asset during the period as a result of contributions and benefit payments. Net interest is reported as part of Salaries and Employee Benefits account under Other Operating Expenses section of the statement of income.

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

(b) Post-employment Defined Contribution Plans

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

(c) Short-term Benefits

Short-term employee benefits include wages, salaries, bonuses, and non-monetary benefits provided to current employees, which are expected to be settled before twelve months after the end of the reporting period during which an employee services are rendered, but does not include termination benefits. The undiscounted amount of the benefits expected to be paid in respect of services rendered by employees in an accounting period is recognized in profit or loss during that period and any unsettled amount at the end of the reporting period is included as part of Accrued Taxes, Interests, and Other Expenses in the statement of financial position.

(d) Termination Benefits

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

(e) Bonus Plans

The Bank recognizes a provision where it is contractually obliged to pay the benefits, or where there is a past practice that has created a constructive obligation.

(f) Compensated Absences

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

2.10 Borrowing Cost

Borrowing costs are recognized as expenses in the period in which they are incurred, except to the extent that they are capitalized. Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset (i.e., an asset that takes a substantial period of time to get ready for its intended use or sale) are capitalized as part of cost of such asset.

The capitalization of borrowing costs commences when expenditures for the asset and borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalization ceases when substantially all such activities are complete.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

2.11 Leases

The Bank accounts for its leases as follows:

(a) Accounting for Leases in Accordance with PFRS 16

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

- the contract contains an identified asset, which is either explicitly identified in the contract or implicitly specified by being identified at the time the asset is made available to the Bank;
- the Bank has the right to obtain substantially all of the economic benefits from use of the identified asset throughout the period of use, considering its rights within the defined scope of the contract; and,
- the Bank has the right to direct the use of the identified asset throughout the period of use. The Bank assess whether it has the right to direct 'how and for what purpose' the asset is used throughout the period of use.

At lease commencement date, the Bank recognizes a right-of-use asset and a lease liability in the statement of financial position. The right-of-use asset is measured at cost, which is made up of the initial measurement of the lease liability, any initial direct costs incurred by the Bank, an estimate of any costs to dismantle and remove the asset at the end of the lease, and any lease payments made in advance of the lease commencement date (net of any incentives received). Subsequently, the Bank amortize the right-of-use asset on a straight-line basis from the lease commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The Bank also assesses the right-of-use asset for impairment when such indicators exist.

On the other hand, the Bank measures the lease liability at the present value of the lease payments unpaid at the commencement date, discounted using the interest rate implicit in the lease if that rate is readily available or the Bank's incremental borrowing rate. Lease payments include fixed payments (including in-substance fixed) less lease incentives receivable, if any, variable lease payments based on an index or rate, amounts expected to be payable under a residual value guarantee, and payments arising from options (either renewal or termination) reasonably certain to be exercised. Subsequent to initial measurement, the liability will be reduced for payments made and increased for interest. It is remeasured to reflect any reassessment or modification, or if there are changes in substance fixed payments. When the lease liability is remeasured, the corresponding adjustment is reflected in the right-of-use asset, or profit and loss if the right-of-use asset is already reduced to zero.

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

2.12 Provision and Contingencies

Provisions are recognized when present obligations will probably lead to an outflow of economic resources and they can be estimated reliably even if the timing or amount of the outflow may still be uncertain. A present obligation arises from the presence of a legal or constructive obligation that has resulted from past events.

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the end of the reporting period, including the risks and uncertainties associated with the present obligation. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. When time value of money is material, long-term provisions are discounted to their present values using a pretax rate that reflects market assessments and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense. Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate.

In those cases where the possible outflow of economic resource as a result of present obligations is considered improbable or remote, or the amount to be provided for cannot be measured reliably, no liability is recognized in the financial statements. Similarly, possible inflows of economic benefits to the Bank that do not yet meet the recognition criteria of an asset are considered contingent assets, hence, are not recognized in the financial statements.

On the other hand, any reimbursement that the Bank can be virtually certain to collect from a third party with respect to the obligation is recognized as a separate asset not exceeding the amount of the related provision.

2.13 Related party Transactions and Relationships

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

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

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

2.14 Income Taxes

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

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

Deferred tax is accounted for using the liability method, on temporary differences at the end of each reporting period between the tax base of assets and liabilities and their carrying amounts for financial reporting purposes.

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

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

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized.

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

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

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

2.15 Revenue and Expense Recognition

Revenue is recognized only when (or as) the Bank satisfies a performance obligation by transferring control of the promised services to the customer. A contract with a customer that results in a recognized financial instrument in the Bank's financial statements may partially be within the scope of PFRS 9 and partially within the scope of PFRS 15. In such case, the Bank first applies PFRS 9 to separate and measure the part of the contract that is in-scope of PFRS 9, and then applies PFRS 15 to the residual part of the contract. Expenses and costs, if any, are recognized in profit or loss upon utilization of the assets or services or at the date these are incurred. All finance costs are reported in profit or loss on accrual basis.

The Bank assesses its revenue arrangements against specific criteria in order to determine if it is acting as a principal or agent. The Bank concluded that it is acting as a principal in all of its revenue arrangements.

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

(a) Revenues within the scope of PFRS 15

(i) Service charges and penalties

Service charges and penalties are recognized only upon collection or accrued when there is reasonable degree of certainty as to its collectability.

(ii) Fees and commissions

- *Fee income earned from services that are provided over time*

Fees earned for the provision of services over a period of time are accrued over that period as the customer simultaneously receives and consumes the benefits provided by the Bank. Using an output method, revenue is recognized if the Bank has a right to invoice the customer for services directly corresponding to performance completed to date. These fees include service fees and commission income.

- *Fee income from providing transaction services*

Fees arising from negotiating or participating in the negotiation of a transaction for a third party are recognized on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognized after fulfilling the corresponding criteria.

(iii) Other Income

Income from the sale of services is recognized upon completion of service. Income from sale of properties is recognized upon completion of earnings process and the collectability of the sale prices is reasonably assured.

The Bank assessed that there is no difference in accounting for the above fees and commission income under PFRS 15 and PAS 18.

(b) Revenues outside the scope of PFRS 15

(i) Interest Income

Interest on interest-bearing financial assets at FVTPL are recognized based on the contractual rate. Interest on financial instruments is recognized based on the EIR method of accounting (see Note 2.3).

(ii) Recovery on charged-off assets

Income arising from collections on accounts or recoveries from impairment of items previously written off are recognized in the year of recovery.

(iii) Dividend Income

Dividend income is recognized when the Bank's right to receive payment is established.

(iv) Trading and securities gain (loss) - net

Results arising from trading activities include all gains and losses from changes in fair value for Financial assets at FVTPL and gains and losses from disposal of Financial assets at amortized cost.

(v) Rental Income

Rental income arising on leased properties is accounted for on a straight-line basis over the lease terms on ongoing leases.

Costs and expenses are recognized in the statement of income upon utilization of the resources and/or services or at the date they are incurred. All finance costs are reported on an accrual basis, except capitalized borrowing costs which are included as part of the cost of the related qualifying asset, if any (see Note 2.10).

2.16 Equity

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

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

Revaluation reserves consist of:

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

(b) Unrealized gains and losses due to the revaluation of Financial assets at FVOCI.

Surplus reserves pertain to the following:

(a) Amounts set aside to cover losses due to fire, defalcation by and other unlawful acts of the Bank's personnel or third parties.

(b) Accumulated amount set aside for possible or unforeseen losses, decrease of shrinkage in the book value of the Bank's assets or for undeterminable liabilities not otherwise recorded such as those arising from lawsuits, defaults on obligations and unexpected differences.

(c) General loan loss reserve which pertains to the accumulated amount of appropriation from Surplus made by the Bank arising from the excess of the one-percent general loan loss provisions for outstanding loans as required by the BSP under Circular No. 1011, *Guidelines on the Adoption of PFRS 9* (Circular No. 1011) over the computed allowance for ECL for Stage 1 financial instruments.

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

2.17 Events After the End of the Period

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

3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

The preparation of the Bank's financial statements in accordance with PFRSs requires the management to make judgments and estimates that affect the amounts reported in the financial statements and related notes. Judgments and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results may ultimately vary from these estimates. Unless specifically indicated to apply to either year, the policies that follow apply to both years.

3.1 Critical Management Judgments in Applying Accounting Policies

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

(a) Determination of Lease Term of Contracts with Renewal and Termination Options

In determining the lease term, the Bank considers all relevant factors and circumstances that create an economic incentive to exercise a renewal option or not exercise a termination option. Renewal options and/or periods after termination options are only included in the lease term if the lease is reasonably certain to be extended or not terminated.

For leases of warehouses and offices, the factors that are normally the most relevant are (a) if there are significant penalties should the bank pre-terminate the contract, and (b) if any leasehold improvements are expected to have a significant remaining value, the Bank is reasonably certain to extend and not to terminate the lease contract. Otherwise, the bank considers other factors including historical lease durations and the costs and business disruption required to replace the leased asset. The Bank included the renewal period as part of the lease term for leases of warehouses and offices due to the significance of these assets to its operations. These leases have a short, noncancellable lease period (i.e., one to four years) and there will be a significant negative effect on production if a replacement is not readily available. The lease term is reassessed if an option is actually exercised or not exercised or the Bank becomes obliged to exercise or not exercise it. The assessment of reasonable certainty is only revised if a significant event or a significant change in circumstances occurs, which affects this assessment, and that is within the control of the Bank.

(b) Evaluation of Business Model Applied in Managing Financial Instruments

The Bank manages its financial assets based on business models that maintain adequate level of financial assets to match its expected cash outflows, largely its core deposit funding arising from customers' withdrawals and continuing loan disbursements to borrowers.

The Bank developed business models which reflect how it manages its portfolio of financial instruments. The Bank's business models need not be assessed at entity level or as a whole but shall be applied at the level of a portfolio of financial instruments (i.e., group of financial instruments that are managed together by the Bank) and not on an instrument-by-instrument basis (i.e., not based on intention or specific characteristics of individual financial instrument). In determining the classification of a financial instrument, the Bank evaluates in which business model a financial instrument or a portfolio of financial instruments belong to taking into consideration the objectives of each business model established by the Bank (e.g., generating accrual income, direct matching to a specific liability) as those relate to the Bank's investment and lending strategies.

(c) Testing the Cash Flow Characteristics of Financial Assets and Continuing Evaluation of the Business Model

In determining the classification of financial assets, the Bank assesses whether the contractual terms of the financial assets give rise on specified dates to cash flows that are solely payments of principal on the principal outstanding, with interest representing time value of money and credit risk associated with the principal amount outstanding. The assessment as to whether the cash flows meet the test is made in the currency in which the financial asset is denominated. Any other contractual term that changes the timing or amount of cash flows (unless it is a variable interest rate that represents time value of money and credit risk) does not meet the amortized cost criteria. In cases where the relationship between the passage of time and the interest rate of the financial instrument may be imperfect, known as modified time value of money, the Bank assesses the modified time value of money feature to determine whether the financial instrument still meets the SPPI criterion. The objective of the assessment is to determine how different the undiscounted contractual cash flows could be from the undiscounted cash flows that would arise if the time value of money element was not modified (the benchmark cash flows). If the resulting difference is significant, the SPPI criterion is not met. In view of this, the Bank considers the effect of the modified time value of money element in each reporting period and cumulatively over the life of the financial instrument.

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

(d) Distinction Between Investment Properties and Owned-Managed Properties

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

(e) Classification and Determination of Fair Value of Acquired Properties

The Bank classifies its acquired properties as Bank Premises, Furniture, Fixtures and Equipment if used in operations, as Assets Held-for-Sale if the Bank expects that the properties will be recovered principally through sale rather than continuing use of the asset, as Investment Properties if currently held for undetermined future use and is regarded as held for capital appreciation, or as financial assets in accordance with PFRS 9.

(f) Recognition of Provisions and Contingencies

Judgment is exercised by management to distinguish between provisions and contingencies. Policies on recognition of provisions and contingencies are discussed in Note 2.12 and disclosures on relevant provisions and contingencies are presented in Note 16.

3.2 Key Sources of Estimation Uncertainty

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

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

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

(b) *Estimation of Allowance of ECL*

When measuring allowance for ECL for relevant categories of financial assets, management applies judgment in defining the criteria in assessing whether a financial asset has experienced significant increase in credit risk (SICR) since initial recognition, and in the estimation of the contractual cash flows due from counterparty and those that the Bank would expect to receive, taking into account the cash flows from the realization of collateral and integral credit enhancements. The Bank's ECL calculations are outputs of complex models with a number of underlying assumptions about future economic conditions and credit behavior of counterparties (e.g., the likelihood of counterparties defaulting and the resulting losses). The computation of the ECL also consider the use of reasonable and supportable forward-looking information, which is based on assumptions for the future movement of different economic drivers and how these drivers will affect each other that may result in different levels of loss allowance.

Significant factors affecting the estimates on the ECL model include:

- internal rating matrix which determines the PD to be assigned to a financial asset;
- criteria for assessing if there has been a significant increase in credit risk and when a financial asset will be transferred between the three stages;
- the Bank's definition of default for different segments of credit exposures that considers the regulatory requirements;
- establishing groups of similar financial assets (i.e., segmentation) for the purposes of measuring ECL on a collective basis;
- establishment of LGD parameters based on historical recovery rates of claims against defaulted counterparties across different group of financial instruments; and,
- establishing the number and relative weightings of forward-looking scenarios for each type of product/market and the associated ECL.

(c) *Determination of Fair Value Measurement for Financial Assets at FVPTL and FVOCI*

The Bank carries certain financial assets at fair value which requires judgment and extensive use of accounting estimates and judgements. In cases when active market quotes are not available, fair value is determined by reference to the current market value of another financial instrument which is substantially the same or is calculated based on the expected cash flows of the underlying net base of the instrument or other more appropriated valuation techniques (see Note 9).

The amount of changes in fair value of financial assets and financial liabilities would affect profit or loss or other comprehensive income.

The fair value of financial assets measured at fair value are grouped in fair value hierarchy disclosed in Note 7.1. Further, the carrying values of the Bank's financial assets at FVTPL and FVOCI financial assets and the amounts of fair value changes recognized on those assets are disclosed in Notes 9.1 and 9.2.

(d) *Estimation of Useful Lives of Bank Premises, Furniture, Fixtures and Equipment, Investment Properties, Right -of-use Assets and Intangible Assets*

The Bank estimates the useful lives of bank premises, furniture, fixtures and equipment, investment properties, right-of-use assets and intangible assets based on the period over which the assets are expected to be available for use.

The estimated useful lives of bank premises, furniture, fixtures and equipment, investment properties, right-of-use assets and intangible assets are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets.

The carrying amounts of bank premises, furniture, fixtures, equipment, and right-of-use, investment properties and intangible assets are analyzed in Notes 11, 13 and 15, respectively. Based on management's assessment as at December 31, 2021 and 2020, there is no change in estimated useful lives of those assets during those years. Actual results, however, may vary due to changes in estimates brought about by changes in factors mentioned above.

(e) *Fair Value Measurement of Investment Properties and Assets Held-for-Sale*

The Bank's investment properties which consist of parcels of land and buildings, and improvements which are held for capital appreciation or held under operating lease agreements, and assets held-for-sale are measured using the cost model. The estimated fair values of investment properties and assets held-for-sale as disclosed in Notes 13 and 14, respectively, is determined on the basis of appraisals conducted by qualified internal and independent professional appraisers applying the relevant valuation methodologies as discussed therein.

For investment properties and assets held-for-sale with appraisal conducted prior to the end of the current reporting period, management determines whether there are significant circumstances during the intervening period that may require adjustments or changes in the disclosure of fair values of those properties. As of December 31, 2021 and 2020, there were no circumstances that management has determined possible adjustments in the fair values of the investment properties and assets held-for-sale.

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

(f) Determination of Realizable Amount of Deferred Tax Assets

The Bank reviews its deferred tax assets at the end of each reporting period and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized.

Management assessed that the deferred tax assets recognized as at December 31, 2021 and 2020 will be fully utilized in the coming years. The carrying value of deferred tax assets as of those dates is disclosed in Note 24.

(g) Impairment of Non-financial Assets

In assessing impairment, management estimates the recoverable amount of each asset or a cash-generating unit based on expected future cash flows and uses an interest rate to calculate the present value of those cash flows. Estimation uncertainty relates to assumptions about future operating results and the determination of a suitable discount rate. Though management believes that the assumptions used in the estimation of fair values reflected in the financial statements are appropriate and reasonable, significant changes in those assumptions may materially affect the assessment of recoverable values and any resulting impairment loss could have a material adverse effect on the results of operations.

Impairment losses recognized on the Bank's non-financial assets are disclosed in Note 16.

(h) Valuation of Post-Employment Defined Benefits

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 and expected rate of salary increase. A significant change in any of these actuarial assumptions may generally affect the recognized expense, other comprehensive income or losses and the carrying amount of the post-employment benefit obligation in the next reporting period.

The amounts of post-employment benefit obligation and expense and an analysis of the movements in the estimated present value of post-employment benefit, as well as the significant assumptions used in estimating such obligation are presented in Note 21.2.

4 RISK MANAGEMENT POLICIES AND OBJECTIVES

The Bank has exposure to the following risk from its use of financial instrument.

- Credit Risk
- Liquidity Risk
- Market Risk
- Operational Risk

The Bank is cognizant of the need to address various other risks such as operations risk, technology risk, strategic/business risk, compliance risk and legal risk.

4.1 Risk Management

Overall, the Bank's BOD is responsible for approving the Bank's risk governance framework and overseeing its implementation by management. Relative to this, BOD is responsible for defining the Bank's risk appetite and organizational responsibilities following the three lines of defense framework; approve and oversee the Bank's adherence to the risk appetite statement expressed in limits and policies/procedures relating to the management of risks throughout the Bank.

The risk management framework adopted by the Bank consists of the following processes:

- Risk identification
- Risk measurement
- Risk control
- Risk monitoring

The above processes are performed coherently and collaboratively at three levels, namely:

- Strategic level – where the BOD and, senior management set mission and vision, define the risk philosophy, define strategic plans and revenue goals.

- Transaction level – where the Risk-Taking Personnel (RTP), Front and Back-Office personnel determine opportunities and take risks. The risk-taking activities at this level shall be congruent to the goals, strategies and risk philosophy set by the policy making body.

- Portfolio level – where the portfolio/position risks are captured and evaluated by independent third party, other than the RTP [i.e., Risk Management Division (RMD), Internal Audit Division and Compliance Division].

The Risk Oversight Committee, (ROC), a board-level committee created by the BOD, advise the BOD on the overall current and future risk appetite of the Bank, oversee senior management's adherence to the risk appetite statement, report on the state of risk culture and oversee the risk management function of the Bank through the RMD.

RMD, which is independent of the business units, and is directly reporting to the ROC, performs daily market risk analyses to measure market risk exposures, monitors credit risk exposures and portfolio movements, and monitors compliance with the Bank's policies, procedures and limits. RMD also takes the lead in the development of the Bank's internal limits structure, risk classification and profiling through the internal credit risk rating system.

4.2 Credit Risk

Credit risk arises from a counterparty's failure to meet the terms of any contract with the Bank or otherwise perform as agreed. It arises any time the Banks's funds are extended, committed, invested, or otherwise exposed through actual or implied contractual agreements, whether reflected on or off books. Credit risk is not limited to the loan portfolio.

(a) Management of Credit Risk

The credit risk management of the entire loan portfolio is under the direct oversight of the ROC and the Executive Committee while that of the individual borrowers is performed by the business units. Risk management is embedded in the entire credit process, i.e. from credit origination to remedial management (if needed). Among the tools used by the Bank in managing credit risk include the following:

- Credit policies and procedures;
- Approving authorities
- Internal credit rating for commercial loans subject to individual assessment;
- Review of the sufficiency of valuation reserves;
- Monitoring the adequacy of capital for credit risk via the capital adequacy ratio;
- Monitoring of breaches in regulatory limits; and,
- Credit scoring for auto loans
- Credit risk management dashboard to identify the following:
    - portfolio growth;
    - loss rate
    - movements in non-performing loans (NPL); and,
    - movement in foreclosed assets.

(b) Credit Risk at Initial Recognition

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.

(c) Modification

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.

(d) Concentration of Risks of Financial Assets with Credit Risk Exposures

Concentrations arise 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 manages risk concentration via monthly monitoring and reporting to the ROC and BOD of the following:

- Exposure to each loan product in terms of amount, percentage to total loan portfolio, and past due and NPL amounts and ratios;
- Ratio of secured to unsecured loans; and,
- Large exposures or accounts equal or greater than 5.00 per cent of the qualifying capital.
- Top 20 borrowers.

The Bank monitors concentration of credit risk by industry of counterparty. An analysis of concentration risk (at net amount) at the reporting date is presented as follows:

	December 31, 2021			
	Loans and Receivables	**Loans and Advances to Banks (a)**	**Trading and Investment Securities (b)**	**Total**
Real estate	4,198,355,208	0	0	4,198,355,208
Financial intermediaries	548,547,020	171,199,177	0	719,746,197
Philippine government	0	4,001,286,076	610,370,869	4,611,656,945
Others community, social and personal services	8,197,509,103	0	0	8,197,509,103
	12,944,411,331	4,172,485,253	610,370,869	17,727,267,453
Less allowance for credit and impairment losses	1,993,499,292	0	100,000	1,993,599,292
	10,950,912,039	**4,172,485,253**	**610,270,869**	**15,733,668,161**

	December 31, 2020			
	Loans and Receivables	**Loans and Advances to Banks (a)**	**Trading and Investment Securities (b)**	**Total**
Real estate	4,389,402,290	0	0	4,389,402,290

	December 31, 2021			
	Loans and Receivables	Loans and Advances to Banks (a)	Trading and Investment Securities (b)	Total
Financial intermediaries	654,659,419	340,059,746	0	994,719,165
Philippine government	0	5,116,428,256	419,822,291	5,536,250,547
Others community, social and personal services	9,603,942,349	0	0	9,603,942,349
	14,648,004,058	5,456,488,002	419,822,291	20,524,314,351
Less allowance for credit and impairment losses	1,260,412,157	0	0	1,260,412,157
	13,387,591,901	**5,456,488,002**	**419,822,291**	**19,263,902,194**

a. Comprised of Due from BSP, Due from Other Banks and SPURA.
b. Comprised of Financial Assets at FVTPL, FVOCI, Financial Assets at Amortized Cost.

(e) Excessive Risk Concentration

Credit risk concentrations can arise whenever a significant number of borrowers have similar characteristics and are affected similarly by changes in economic or other conditions. The Bank analyzes the credit risk concentration to an individual borrower, related group of accounts, industry, product, and security.

To monitor risk concentration, RMD reports monthly to the ROC trends in loan portfolio and past due (both performing and non-performing) and compliance with internal limits.

(f) Maximum Exposure to Credit Risk

The Bank's maximum exposure to credit risk is equal to the carrying value of its financial assets except for certain secured loans and discounts shown in the succeeding page:

	Gross Maximum Exposure	Fair Value of Collaterals	Net Exposure	Financial Effect of Collaterals
December 31.2021				
Loans and discounts				
Commercial	4,736,117,630	3,910,132,650	825,984,980	3,910,132,650
Consumption	3,872,139,379	0	3,872,139,379	0
Real estate	3,181,457,920	5,533,356,989	(2,351,899,069)	3,181,457,920
Others	844,467,589	0	844,467,589	0
	12,634,182,518	**9,443,489,639**	**3,190,692,879**	**7,091,590,570**

	Gross Maximum Exposure	Fair Value of Collaterals	Net Exposure	Financial Effect of Collaterals
December 31.2020				
Loans and discounts				
Commercial	5,211,985,280	4,230,078,375	981,906,905	4,230,078,375
Consumption	4,673,295,861	0	4,673,295,861	0
Real estate	3,345,216,580	5,565,596,232	(2,220,379,652)	3,345,216,580
Others	1,145,023,634	50,656,059	1,094,367,575	50,656,059
	14,375,521,355	**9,846,330,666**	**4,529,190,689**	**7,625,951,014**

The following table shows the description of credit quality of commercial accounts:

Credit Quality	ICRR System Grade	Description
High grade	1	Excellent
	2	Strong
Standard grade	3	Good
	4	Satisfactory
	5	Acceptable
	6	Watchlist
Substandard grade	7	Especially mentioned
	8	Substandard
Impaired	9	Doubtful
	10	Loss

Excellent

This rating is given to a borrower with a very low probability of going into default in the coming year. The borrower has a high degree of stability, substance and diversity and has access to public markets to raise substantial amount of funds at any time; has a very strong debt service capacity and has conservative balance sheet leverage. The track record of the borrower in terms of profit is very good and exhibits highest quality under virtually all economic conditions.

Strong

This rating is given to borrowers with a low probability of going into default in the coming year. The borrower normally has a comfortable degree of stability, substance and diversity. Under normal market conditions, the borrower has good access to public markets to raise funds. Borrower has a strong market and financial position with a history of successful performance. Overall debt service capacity is deemed very strong; critical balance sheet ratios are conservative.

Good

This rating is given to smaller corporations with limited access to public capital markets or to alternative financial markets. Probability of default is quite low and it bears some degree of stability and substance. However, borrower may be susceptible to cyclical changes and more concentration of business risk, by product or by market. Typical of this type of borrower is the combination of comfortable asset protection and an acceptable balance sheet structure.

Satisfactory

This rating is given to a borrower where clear risk elements exist, the probability of default is somewhat and normally has limited access to public markets. The probability is reflected in volatility of earnings and overall performance. The borrower should be able to withstand normal business cycles, but any prolonged unfavorable economic period would create deterioration beyond acceptable levels. The borrower has the combination of reasonably sound assets and cash flow protection with adequate debt service capacity and has reported profits in the past year and is expected to report a profit in the current year.

Acceptable

This rating is given to a borrower whose risk elements are sufficiently pronounced to withstand normal business cycles but any prolonged unfavorable economic and/or market period would create an immediate deterioration beyond acceptable levels. The risk to this borrower is still acceptable as there is sufficient cash flow either historically or expected for the future; new business or project finance transaction, an existing borrower where the nature of the exposure represents a higher risk because of extraordinary developments but for which a decreasing risk within an acceptable period can be expected.

Watchlist

This rating is given to a borrower which incurs net losses and has salient financial weaknesses, specifically in profitability, reflected on its financial statements. Credit exposure is not at risk of loss at the moment but performance of the borrower has weakened and unless present trends are reversed, could lead to losses.

Especially Mentioned

This rating is given to a borrower that exhibits potential weaknesses that deserve management's close attention. No immediate threat to the repayment of the loan exists through normal course of business but factors may exist that could adversely affect the credit worthiness of the borrower.

Substandard

This rating is given to a borrower where repayment of loan through normal course of business, may be in jeopardy due to some adverse events. There exists the possibility of future losses to the institution unless given closer supervision.

Doubtful

This rating is given to a borrower who exhibit more severe weaknesses than those classified as "Substandard", whose characteristics on the basis of currently known facts, conditions, and values make collection or liquidation highly improbable, however the exact amount remains undeterminable as yet. Classification as "Loss" is deferred because of specific pending factors which may strengthen the assets.

Loss

This rating is given to a borrower whose loans or portions thereof are considered uncollectible. The collectible amount, with no collateral or which collateral is of little value, is difficult to measure and more practical to write-off than to defer even though partial recovery may be obtained in the future.

The following table shows credit quality per class of financial assets based on the Bank's rating system (gross of allowance for credit losses):

	2021				2020
	Stage 1	**Stage 2**	**Stage 3**	**Total**	**Total**
Receivables from customers:					
Corporate loans:					
High Grade	0	0	0	0	0
Standard Grade	1,204,968,304	0	8,735,253	1,213,703,557	2,801,333,927
Substandard Grade	448,316,365	584,085,802	229,014,697	1,261,416,864	1,571,228,488
Unrated	203,940,944	0	0	203,940,944	220,633,421
Past due but not impaired	11,977,204	15,546,216	0	27,523,420	42,202,897
Impaired	48,159,834		1,981,373,011	2,029,532,845	576,586,547
	1,917,362,651	599,632,018	2,219,122,961	4,736,117,630	5,211,985,280
Consumer loans:					
Standard Grade	0	0	0	0	0
Substandard Grade	0	0	0	0	0
Unrated	5,866,007,066	2,060,219	0	5,868,067,285	6,982,537,560
Past due but not impaired	69,059,754	296,698,182	1,531,782,252	1,897,540,188	1,818,180,197
Impaired	0	420,698	132,036,717	132,457,415	362,818,318
	5,935,066,820	299,179,099	1,663,818,969	7,898,064,888	9,163,536,075
Unquoted debt securities:					
High Grade	501,145	0	0	501,145	662,952
Standard Grade	0	0	0	0	0
Substandard Grade	0	0	0	0	0
Unrated	0	0	0	0	0
Past due but not impaired	0	0	0	0	0
Impaired	0	0	0	0	0
	501,145	0	0	501,145	662,952
Sales contract receivables:					
High Grade	0	0	0	0	0
Standard Grade	0	0	0	0	0
Substandard Grade	0	0	0	0	0
Unrated	22,445,648	0	14,639,055	37,084,703	27,034,378
Past due but not impaired	0	0	0	0	0
Impaired	0	0	0	0	0
	22,445,648	0	14,639,055	37,084,703	27,034,378

	2021				2020
	Stage 1	Stage 2	Stage 3	Total	Total
Accrued interest receivables:					
High Grade	0	0	0	0	0
Standard Grade	5,941,153	528	0	5,941,681	33,912,537
Substandard Grade	0	54,669,681	3,487,842	58,157,523	1,098,736
Unrated	67,132,261	5,741	0	67,138,002	105,381,690
Past due but not impaired	942,403	6,341,786	24,895,199	32,179,388	20,084,133
Impaired	0	9,983	37,432,768	37,442,751	20,395,906
	74,015,817	61,027,719	65,815,809	200,859,345	180,873,002
Accounts receivables:					
High Grade	0	0	0	0	0
Standard Grade	0	0	0	0	0
Substandard Grade	0	0	0	0	0
Unrated	72,398,421	0	2,124,036	74,522,457	74,148,822
Past due but not impaired	0	0	0	0	0
Impaired	0	0	0	0	0
	72,398,421	0	2,124,036	74,522,457	74,148,822
Bills Purchased:					
High Grade	0	0	0	0	0
Standard Grade	0	0	0	0	0
Substandard Grade	0	0	0	0	0
Unrated	1,255,178	0	0	1,255,178	3,051,270
Past due but not impaired	0	0	0	0	0
Impaired	0	0	0	0	0
	1,255,178	0	0	1,255,178	3,051,270
Total	**8,023,045,680**	**959,838,836**	**3,965,520,830**	**12,948,405,346**	**14,661,291,779**

Due from BSP and due from other banks are rated as high grade since these are deposited in or transacted with reputable banks which have low probability of insolvency. Government securities are rated as high grade since these are issued by the ROP. Unquoted debt securities are rated as standard grade based on the reputation of the counterparty and lack of marketability as compared with quoted debt securities.

(g) Past Due but not Impaired Loans and Receivables

These are loans and receivables where contractual interest or principal payments are past due but the Bank believes that impairment is not appropriate on the basis of the level of collateral available and or status of collection of amounts owed to the Bank.

As at December 31, 2021 aging analysis of past due but not individually impaired loans and discounts are shown below:

	90 to 180 days	Over 180 days	Total
Real estate	255,071,596	559,993,704	815,065,300
Commercial	27,523,420	0	27,523,420
Consumption	286,155,482	713,121,795	999,277,277
Others	42,882,830	40,314,780	83,197,610
	611,633,328	**1,313,430,279**	**1,925,063,607**

(h) Impaired Loans and Receivables and Investments Securities

These are certain loans and receivables and investment securities for which the Bank determines that it is highly probable that it will not be able to collect all principal and interest due based on the contractual terms of the promissory note and securities agreements.

The Bank holds collateral against loans and receivables in the form of real estate and chattel mortgages, guarantees and other registered securities. Estimates of fair value are based on the value of collateral assessed at the time of borrowing and these are updated every two years. Generally, collateral is not held over loans and advances to banks except for reverse repurchase agreements. The Bank is not allowed to sell or pledge collateral held for reverse repurchase agreements. Collateral is not usually held against investment securities and no such collateral was held as at December 31, 2021 and 2020.

The total fair value of collaterals of impaired loans and receivables amounted to P1.75 billion and P423.34 million as at December 31, 2021 and 2020, respectively. These collaterals consist of real estate mortgages and chattel mortgages.

It is the Bank's policy to dispose of foreclosed properties acquired in an orderly manner.

Such assets for disposal are offered for sale through public bidding (only after they are appraised anew to determine current market values and duly bid for, based on the approved minimum bid price). The proceeds of the sale of the foreclosed assets classified as Investment Properties and Assets Held-for-Sale in the statements of financial position are used to reduce or repay the outstanding claim.

As at December 31, 2021 and 2020, restructured loans amounted to P1.05 billion and P1.10 billion, respectively. Restructured loans, which do not meet the requirements to be treated as performing loans shall also be considered as NPLs. As at December 31, 2021 and 2020, restructured loans considered as NPL amounted to P87 million and P1.00 billion, respectively.

The breakdown of restructured loans and discounts by class are shown below:

	2021	2020
Commercial	960,388,172	1,011,731,639
Consumption	55,538,956	22,013,604
Real estate	18,774,860	54,817,793
Others	11,737,192	10,182,580
	1,046,439,180	**1,098,745,616**

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

The Bank focused on supporting customers who are experiencing (i.e., those availing of reliefs) and about to experience financial difficulties (i.e., those with reprieved business operations) as a result of the COVID-19 situation and has offered a range of financial assistance measures including temporary loan repayment deferrals (principal and interest).

In accordance with regulatory guidance, the Bank implemented mandatory payment holidays to all eligible loan accounts. The following are the considerations in measuring ECL under COVID-19 situation:

(a) Significant Increase in Credit Risk

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

(b) COVID-19 Overlay

COVID-19 overlay represents adjustments in relation to data and model limitations as a result of the COVID-19 economic disruption. The adjustments are based on a combination of portfolio level credit risk analysis and an evaluation of ECL coverage at an exposure level. This also includes the effect of government and other support program. Considerations included the potential severity and duration of the economic disruption and the heightened credit risk of specific sectors and loan classes or segments. The impact of post-model adjustments made in estimating the reported ECL as at December 31, 2021 and 2020 are disclosed in Note 16.

(j) Modification of Financial Assets

(a) Financial Reliefs Provided by the Bank

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

In addition to the government-mandated reliefs, the Bank has offered financial relief in response to the COVID-19 situation. These relief measures were granted to eligible customers. Relief measures are as follows:

- payment of amortization relief including extension of contractual terms;
- principal and interest relief including lower amortization on extended terms; and
- change from loan line to term loan (i.e., consolidation of amounts due).

The outstanding balance of restructured loans amounts to P1.05 billion and P1.10 billion as of December 31, 2021 and 2020, respectively. The related allowance for credit loss of such loans amounts to P280.40 million and P226.60 as of the same dates, respectively.

Of the total outstanding restructured loans as of December 31, 2021, P52.55 million are due to impact of COVID-19 situation.

(b) Financial Reliefs Mandated by the Government

In compliance with Republic Act No. 11469, *Bayanihan to Heal as One* Act), (BAHO Act) the Bank implemented a minimum 30-day grace period on all loans with principal and interests falling due within the period of the Enhanced Community Quarantine (ECQ), which started on March 17, 2020 up to April 30, 2020, which was extended until May 31, 2020.

In compliance with Republic Act No. 11494, *Bayanihan to Recoveras One Act,* (BARO Act), the Bank granted one-time 60-day grace period for payments and/or maturity periods of all existing, current and outstanding loans as of September 15, 2020, falling due, or any partthereof, on or before December 31, 2020, subject to compliance with regulatory requirements.

During the grace period or payment holiday, there were no interests on interests, penalties or other charges but accrued interests at contractual rate for grace periods were charged based on the outstanding principal balance of loan at the time of application of the grace periods.

As of December 31, 2021, the total outstanding balance of loans modified under BAHO and BARO Acts amounts to P3.36 billion and P618.18 million, respectively.

The financial reliefs provided by the Bank and mandated by the Government has not resulted in material modification loss as the present value of the original cash flows and the present value of the revised cash flows were substantially equivalent.

The following table provides a summary of outstanding balances of modified loans resulting from the financial reliefs provided by the Bank and mandated by the Government as of December 31, 2021:

	2021	2020	
	BAHO/BARO Accts.	BAHO/BARO Accts.	Total
Stage 1 (Performing)			
Corporate	333,150,065	447,654,299	780,804,364
Commercial	1,819,598,972	3,943,063,548	5,762,662,520
	2,152,749,037	**4,390,717,847**	**6,543,466,884**
Stage 2 (Underperforming)			
Corporate	573,518,409	1,259,741,879	1,833,260,288
Commercial	145,720,276	296,908,131	442,628,407
	719,238,685	**1,556,650,010**	**2,275,888,695**

	2021 BAHO/BARO Accts.	2020 BAHO/BARO Accts.	Total
Stage 3 (Non-performing)			
Corporate	85,081,670	85,320,873	170,402,543
Commercial	1,025,590,782	988,140,529	2,013,731,311
	1,110,672,452	**1,073,461,402**	**2,184,133,854**

(c) Assessment of SICR

The risk of default of such assets after modification is assessed at the reporting date and compared with the risk under the original terms at initial recognition, when the modification is not substantial and so does not result in derecognition of the original asset. The Bank monitors the performance of the financial asset subsequent to its modification.

The Bank may determine that the credit risk has significantly improved after restructuring (in accordance with the new terms for six consecutive months or more), so that the assets are moved from Stage 3 or Stage 2.

The Bank continues to monitor if there is a subsequent SICR in relation to such modified assets through the use of specific models for modified assets (see also Note 4.3.)

4.3 Liquidity Risk

Liquidity risk is the current and prospective risk to earnings or capital arising from the Bank's inability to meet its obligation when they fall due without incurring unacceptable losses.

The Bank's objective in liquidity risk management is to ensure that the Bank has sufficient liquidity to meet obligations under normal and adverse circumstances and be able to take advantage of interest rate opportunities when they arise.

Liquidity risk is monitored and controlled primarily by a gap analysis of maturities of relevant assets and liabilities reflected in the maximum cumulative outflow (MCO) report, as well as an analysis of available liquid assets.

MCO is a liquidity gap tool to project short-term as well as long-term cash flow expectations on a business-as-usual condition. The MCO is generated by distributing the cash flows of the Bank's assets, liabilities and off-balance sheet items to time bands based cash flow expectations such as contractual maturity, nature of the account, behavioral patterns, projections on business strategies, and/or optionality of certain products. The incorporation of behavioral cash flow assumptions and business projections or targets results in a dynamic gap report which realistically captures the behavior of the products and creates a forward-looking cash flow projection.

Cash flows from assets are considered as cash inflows, while cash flows from liabilities are considered cash outflows. The net cash flows are determined for each given time period. If the inflows exceed the outflows, the Bank is said to have a positive liquidity gap or excess funds for the given time bucket. Conversely, if the outflows exceed the inflows, the Bank is said to have a negative liquidity gap or funding need for the given time bucket.

The Bank's MCO focuses on a 12-month period wherein cumulative outflow in various time bands within the 12-month period are compared to the acceptable MCO limits set by the BOD. Furthermore, internal liquidity ratios have been set. The Bank seeks to maintain sufficient liquidity by funding diversification and by maintaining a balanced loan portfolio which is repriced on a regular basis.

To supplement the business-as-usual scenario parameters reflected in the MCO report, the Bank also conducts liquidity stress testing to determine the impact of extreme factors, scenarios and/or events to the Bank's liquidity profile. Liquidity stress testing is performed quarterly.

Following are liquidity ratios monitored by the Bank:

- Liquid Assets Analysis

	2021		2020	
	Primary Reserve to Deposit*	**Secondary Reserves to Deposits****	**Primary Reserve to Deposit***	**Secondary Reserves to Deposits****
December	31.34%	3.91%	33.52%	2.28%
September	28.86%	6.21%	36.83%	1.62%
June	32.08%	3.70%	36.40%	1.46%
March	32.63%	1.24%	28.87%	1.71%

*Primary (Cash and Other Cash Items, due from BSP and other banks, interbank loans)
**Secondary [FVTPL, FVOCI, Amortized cost and Unquoted debt securities]

- Loan to Deposit Ratio

	March	June	September	December
2021	81.22%	80.18%	81.86%	80.85%
2020	84.00%	76.00%	75.00%	78.00%

(a) Large Fund Providers

This measures the Bank's concentrated exposure to large lenders, which is monitored monthly by the RMD to check the Bank's vulnerability to a substantial drop in deposit levels as a result of an outflow due to large depositors. The report is presented to the ROC and BOD.

Percentage of large funds to total deposit liabilities follows:

	2021	2020
December	20.44%	30.38%
September	24.64%	33.75%
June	27.66%	31.82%
March	27.26%	43.90%

(b) Financial Assets and Financial Liabilities

Analysis of equity and debt securities at fair value into maturity banking is based on the expected date of realization and remaining contractual maturities, respectively.

For other assets, the analysis into contractual maturity banking is based on the remaining period from the end of the reporting period to the maturity date.

The maturity banking is based on the remaining period from the end of the reporting period to the contractual maturity date. When counterparty has a choice of when the amount is paid, the liability is allocated to the earliest period in which the Bank can be required to pay.

The table below shows the maturity profile of the Bank's financial assets and financial liabilities based on contractual cash flows (in thousands):

	2021					
	Up to 1 Month	**1 to 3 Months**	**3 to 12 Months**	**1 to 5 Years**	**Beyond 5 Years**	**Total**
Financial Assets:						
Financial assets at FVTPL	600,218	0	0	0	0	600,218
Financial assets at FVOCI:						
Government securities	0	0	0	0	0	0
Unquoted equity securities	0	0	0	0	0	0
Financial assets at amortized cost	0	114	682	12,766	57	13,619
At amortized cost:						
Cash and other cash items	757,009	0	0	0	0	757,009
Due from BSP	3,535,047	0	0	0	0	3,535,047
Due from other banks	171,199	0	0	0	0	171,199
Loans and discounts:						
Commercial	1,857,817	582,006	546,389	1,082,864	1,029,785	5,098,861
Consumption	261,706	9,446	271,069	3,537,635	75,498	4,155,354
Real estate	17,913	806	27,702	331,839	4,269,125	4,647,385
Others	29,879	3,400	85,967	875,475	505	995,226
Unquoted debt securities	0	0	0	501	0	501
Sales contract receivable	0	0	22,427	14,639	0	37,066
Accrued interest receivable	200,859	0	0	0	0	200,859
Accounts receivable	65,671	3,886	1,793	3,191	0	74,541
Bills purchased	1,255	0	0	0	0	1,255
Total Financial Resources	7,498,573	599,658	956,029	5,858,910	5,374,970	20,288,140

	2021					
	Up to 1 Month	**1 to 3 Months**	**3 to 12 Months**	**1 to 5 Years**	**Beyond 5 Years**	**Total**
Financial Liabilities:						
Deposit liabilities:						
Demand	3,087,941	0	0	0	0	3,087,941
Savings	6,508,078	0	0	0	0	6,508,078
Time	4,809,151	0	0	665,451	556,345	6,030,947
	14,405,170	0	0	665,451	556,345	15,626,966
Other liabilities	0	0	0	0	0	0
Total Financial Liabilities	14,405,170	0	0	665,451	556,345	15,626,966
Net Liquidity Surplus (Gap)	**(6,906,597)**	**599,658**	**956,029**	**5,193,459**	**4,818,625**	**4,661,174**

	2020					
	Up to 1 Month	**1 to 3 Months**	**3 to 12 Months**	**1 to 5 Years**	**Beyond 5 Years**	**Total**
Financial Assets:						
Financial assets at FVTPL	1	128	151,793	0	0	151,922
Financial assets at FVOCI:						
Government securities	0	0	49,460	511	6,670	56,641
Unquoted equity securities	0	0	0	0	0	0
Financial assets at amortized cost	443	113	996	11,842	191,923	205,317
At amortized cost:						
Cash and other cash items	755,528	0	0	0	0	755,528
Due from BSP	3,942,949	0	0	0	0	3,942,949
Due from other banks	340,060	0	0	0	0	340,060
Loans and discounts:						
Commercial	1,023,088	869,402	529,784	958,918	2,133,770	5,514,962
Consumption	531,965	11,577	218,486	4,709,277	12,082	5,483,387
Real estate	84	255	12,393	329,820	4,654,044	4,996,596
Others	151,184	4,912	64,329	1,210,443	13,708	1,444,576
Unquoted debt securities	0	1	4	658	0	663
Sales contract receivable	0	0	1,081	7,863	30,952	39,896
Accrued interest receivable	174,836	0	0	0	0	174,836
Accounts receivable	74,098	0	908	0	0	75,006
Bills purchased	3,051	0	0	0	0	3,051
Total Financial Resources	6,997,287	886,388	1,029,234	7,229,332	7,043,149	23,185,390
Financial Liabilities:						
Deposit liabilities:						
Demand	2,931,636	0	0	0	0	2,931,636
Savings	6,198,684	0	0	0	0	6,198,684

	2020					
	Up to 1 Month	1 to 3 Months	3 to 12 Months	1 to 5 Years	Beyond 5 Years	Total
Time	7,894,421	0	0	904,475	544,748	9,343,644
	17,024,741	0	0	904,475	544,748	18,473,964
Other liabilities	0	0	0	0	0	0
Total Financial Liabilities	17,024,741	0	0	904,475	544,748	18,473,964
Net Liquidity Surplus (Gap)	**(10,027,454)**	**886,388**	**1,029,234**	**6,324,857**	**6,498,401**	**4,711,426**

In terms of a liquidity crisis, the Bank has put in place a liquidity contingency plan. Depending on the severity of the liquidity problem, the Bank may choose or be forced to use one or more of its liquidity sources. The Bank periodically tests its ability to draw on the identified sources of back-up liquidity.

(c) Liquidity Coverage Ratio

On March 10, 2016, the BSP issued Circular No. 905, *Implementation of Basel III Framework on Liquidity Standards – Liquidity Coverage Ratio and Disclosure Standards*, which provides the implementing guidelines on liquidity coverage ratio (LCR) and disclosure standards that are consistent with the Basel III framework. The LCR is the ratio of high-quality liquid assets to total net cash outflows which should not be lower than 100 per cent. Per BSP Circular No. 1035, *Amendments to the Basel III Liquidity Coverage Ratio Framework and minimum Liquidity Ratio Framework*, compliance with the 100 per cent LCR minimum requirement. As at December 31, 2021 the Bank's compliance with LCR is at 158.09 per cent.

(d) Net Stable Fund Ratio

On June 6, 2018, the BSP issued Circular No. 1007, Implementing Guidelines on the adoption of *the Basel III Framework on Liquidity Standards – Net stable Funding Ratio and Disclosure Standards*, which provides the implementing guidelines on Net Stable Funding Ratio and disclosure standards that are consistent with the Basel III framework. The NSFR is the ratio of Available Stable Funding (ASF) to the Required Stable Funding (RSF) which should not be lower than 100 per cent. Per BSP Circular No. 1034, *Amendments to the Basel III Framework on Liquidity Standards -Net Stable Funding Ratio and minimum NSFR Framework*, compliance with the 100 per cent NSFR minimum requirement. As at December 31, 2021 the Bank's compliance with NSFR is at 147 per cent.

4.4 Market Risk

Market risk is the risk to earnings and capital arising from adverse movements in factors that affect the market value of instruments, products and transactions in an institution's overall portfolio. The Bank's market risk originates primarily from holding peso-denominated debt securities which are sensitive to interest rate movements. The Bank is not subject to foreign currency risk and equity price risk since it does not have transactions denominated in foreign currency and investments in quoted equity securities.

(a) Trading Activities

Trading market risk exists in the Bank as the values of its trading positions are sensitive to changes in interest rates in the course of market making activities as well as from taking advantage of market opportunities. The Bank adopts the parametric Value at Risk (VaR) methodology (with 99 per cent confidence level and ten-day holding period) to measure trading market risk.

Volatilities are updated daily and are based on historical data for a rolling 260-day period. The RMD reports the VaR utilization and breaches to limit to the Treasury Division on a daily basis and to the ROC and BOD monthly. The VaR figures are back tested daily against hypothetical profit or loss to validate the robustness of the VaR model and reported to the ROC and BOD quarterly.

VaR Assumptions and Limitations

The VaR models are designed to measure market risk in a normal market environment. The models assume that any changes occurring in the risk factors affecting the normal market environment will follow a normal distribution. It is based on historical volatilities and assumes that future price movements will follow a statistical distribution.

As VaR is based on historical correlations and volatilities in market prices and assumes that future price movements will follow a statistical distribution, it may not apply to volatile markets. The VaR only estimates the potential loss of the portfolios at the close of each business day. It does not give the precise amount of loss and does not account for any losses that may occur beyond the 99 per cent confidence level. VaR is not designated to give the probability of bank failure, but only attempts to quantify losses that may arise from a bank's exposure to market risk.

VaR Limit

VaR limit has been set by the BOD subject to annual review. There was no instance for the years ended December 31, 2021 and 2020 that the aggregate daily losses were greater than the VaR limit.The Bank's VaR statistics follow (in thousands):

	2021	2020
December 31	87	5,551
Year to date average	391	3,997
High	1,347	5,776
Low	0	3,038

(b) Non-trading Activities

Interest Rate Risk

The Bank follows a prudent policy on managing its assets and liabilities so as to ensure that exposure to fluctuation in interest rates are kept within acceptable limits.

The Bank measures the sensitivity of its assets and liabilities to interest rate fluctuations by way of "repricing gap" analysis using their repricing characteristics. To evaluate earnings exposure, interest rate-sensitive liabilities in each time band are subtracted from the corresponding interest rate-sensitive assets to produce a "repricing gap" for that time band. The difference in the amount of assets and liabilities maturing or being repriced over a one-year period gives the Bank an indication of the extent to which it is exposed to the risk of potential changes in net interest income. A negative gap occurs when the amount of interest rate sensitive liabilities exceeds the amount of interest rate sensitive assets. Positive gap, on the other hand, occurs when the amount of interest rate sensitive assets exceeds the amount of interest rate sensitive liabilities.

In period of rising interest rates, a positive gap is an advantage as assets are refinanced at increasing higher interest rates thereby increasing the net interest margin. However, in period of falling interest rates, a positive gap would restrain the growth of net interest income.

The repricing gap covering the one-year period is multiplied by an assumed change in interest rates to yield an approximation of the change in net interest income that would result from interest rate movement and such is compared with the limit set by the BOD on the level of earnings at risk (EaR) exposure deemed tolerable to the Bank. Compliance to the EaR limit is monitored monthly by the RMD. This EaR computation is accomplished monthly, with a quarterly stress test.

The following table on succeeding page sets forth the repricing gap position of the Bank (in thousands).

	2021				
	Up to 1 Month	1 to 3 Months	3 to 6 Months	6 to 12 Months	Total
Financial Assets:					
Due from BSP	3,050,213	0	0	0	3,050,213
Loans receivables	897,086	996,683	825,635	2,118,185	4,837,589
Unquoted debt securities	0	0	0	0	0
Financial assets at FVOCI	0	0	0	0	0
Total financial assets	3,947,299	996,683	825,635	2,118,185	7,887,802
Financial Liability – Time deposits	3,250,702	1,353,037	264,083	663,651	5,531,473
Repricing Gap	**696,597**	**(356,354)**	**561,552**	**1,454,534**	**2,356,329**

	2020				
	Up to 1 Month	1 to 3 Months	3 to 6 Months	6 to 12 Months	Total
Financial Assets:					
Due from BSP	4,508,479	0	0	0	4,508,479
Loans receivables	403,785	1,196,248	965,284	2,069,153	4,634,470
Unquoted debt securities	0	0	0	0	0
Financial assets at FVOCI	0	0	0	0	0
Total financial assets	4,912,264	1,196,248	965,284	2,069,153	9,142,949
Financial Liability – Time deposits	7,584,487	1,651,699	36,564	64,217	9,336,967
Repricing Gap	**(2,672,223)**	**(455,451)**	**928,720**	**2,004,936**	**(194,018)**

Interest Rate Sensitivity Analysis

The following tables demonstrate the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Bank's mark-to-market gain/loss on financial assets at FVTPL and equity arising from mark-to-market gain/loss on FVOCI (amounts in millions).

	Impact of Changes in Interest Rates on Mark-to-Market Gain / Loss on Financial Assets at FVTPL*							
	2021				2020			
Increase (Decrease) in Basis Points	-100	-50	+50	+100	-100	-50	+50	+100
Change in mark-to-market gain / loss Financial Asset at FVTPL	0.15	0.07	-0.08	-0.15	4.63	2.05	-2.05	-4.63

There is no other impact on the Bank's equity other than those already affecting the statements of income.

	Impact of Changes in Interest Rates on Equity**							
	2021				2020			
Increase (Decrease) in Basis Points	-100	-50	50	100	-100	-50	+50	+100
Change in mark-to-market gain / loss Financial Asset at FVOCI	0.00	0.00	0.00	0.00	1.70	2.05	-2.05	-1.70

***The impact on the Bank's equity already excludes the impact on transactions affecting the statements of income.*

4.5 Operational Risk

As for operational risk, the Bank has completed the bankwide Operational Risk and Control Self-Assessment in support of the enterprise risk management framework of the Bank. RMD conducts a risk awareness training to new employees and a refresher course to existing employees. The seminar covers an introduction to all types of risks that the Bank is exposed to with focus on operational risk, information technology, and information security.

Operational risks are risks arising from the potential inadequate information systems and systems, operations or transactional problems (relating to service or product delivery), breaches in internal controls, fraud, or unforeseen catastrophes that may result in unexpected loss.

Operational risks include the risk of loss arising from various types of human or technical error, settlement or payments failures, business interruption, administrative and legal risks, and the risk arising from systems not performing adequately.

The ROC of the Bank assists management in meeting its responsibility to understand and manage operational risk exposures.

The ROC applies a number of techniques to efficiently manage operational risks. Among these are enumerated as follows:

- Each major business line has an embedded Risk Officer Designate who acts as a point person for the implementation of various operational risk tools. The Risk Officer Designates attend annual risk briefings conducted by RMD to keep them up-to-date with different operational risk issues, challenges and initiatives.

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

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

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

5 CAPITAL MANAGEMENT

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

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

The breakdown of the Bank's risk-weighted assets as at December 31, 2021 and 2020 as reported to the BSP follows (in thousands):

	With BSP Relief 2021	Without BSP Relief 2021	2020
Credit risk-weighted assets	12,452,897	12,382,566	15,110,188
Market-risk weighted assets	6	6	51,892
Operational risk-weighted assets	2,377,730	2,377,730	2,604,454
	P14,830,633	**P 14,760,302**	**17,766,534**

5.1 Regulatory Qualifying Capital

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

The Bank has complied with the capital adequacy ratio prescribed by BSP. The Capital Adequacy Ratios (CAR) of the Bank, as reported to the BSP, is shown in the table below (in thousands):

	With BSP Relief 2021	Without BSP Relief2021	2020
Tier 1	1,507,732	1,289,880	2,006,730
Tier 2	84,901	84,901	190,298
Total qualifying capital	1,592,633	1,374,781	2,197,028
Tier 1	10.17%	8.74%	11.29%
Tier 2	0.57%	0.58%	1.08%
CAR	10.74%	9.32%	12.37%

Qualifying capital comprises share capital, surplus including current year profit less deferred income tax. Risk weighted assets consist of total assets less cash on hand, due from BSP, loans covered by hold-out on or assignment of deposits, loans or acceptances under letters of credit to the extent covered by margin deposits and other non-risk items determined by the Monetary Board (MB) of the BSP.

Qualifying capital and risk-weighted assets are computed based on BSP regulations.

Certain adjustments are made in PFRS-based results and reserves, as prescribed by the BSP.

As at December 31, 2021 and 2020, the Bank has complied with all externally imposed capital requirements by the BSP.

5.2 BASEL III

On January 15, 2013, the BSP issued Circular 781, which contains the revised risk-based capital adequacy framework for the Philippine Banking system in accordance with the Basel III standards. The said Circular took effect on January 1, 2014. The following are the revised minimum capital requirements for Universal Banks (UBs) and Commercial Banks (KBs) and their subsidiary banks and quasi-banks (QBs):

- 6.0 per cent Common Equity Tier 1 (CET1)/Risk-Weighted Assets (RWAs)
- 7.5 per cent Tier 1 Capital/RWAs, and
- 10.0 per cent Total Qualifying Capital (Tier1 plus Tier2)/RWAs

The Qualifying Capital must consist of the sum of the following elements, net of required deductions: Tier 1 -'going concern' [(CET1) plus Additional Tier 1(ATI)] and Tier 2 -'gone concern'. A bank/quasi-bank must ensure that any component of capital included in qualifying capital complies with all the eligibility criteria for the particular category of capital in which it is included. The Circular further describes the elements/criteria that a domestic bank should meet for each capital category. Regulatory adjustments and calculation guidelines for each capital category are also discussed.

In conformity with the Basel III standards, a Capital Conservation Buffer (CCB) of 2.5 per cent of RWAs, comprised of CET1 capital, has been required of UBs/KBs and their subsidiary banks and quasi-banks. This buffer is meant to promote the conservation of capital and build-up of adequate cushion that can be drawn down by banks to absorb losses during financial and economic stress. The restrictions on distribution that a bank must meet at various levels of CET1 capital ratios are established, as shown in below table. Restrictions will be imposed if a bank has no positive earnings, has CET1 of not more than 8.5 per cent (CET Ratio of 6 per cent plus conservation buffer of 2.5 per cent) and has not complied with the minimum 10 per cent CAR.

Level of CET1 capital	Restriction on Distributions
<6.0	No distribution
6.0%-7.25%	No distribution until more than 7.25 per cent CET1 capital is met
>7.25%-8.5%	50 per cent of earnings may be distributed
>8.5%	No restriction on the distribution

5.3 Leverage Ratio

On June 9, 2015, the BSP issued Circular No. 881, *Implementing Guidelines on the Basel III Leverage Ratio Framework*, covering the implementing guidelines on the Leverage Ratio framework designed to act as a supplementary measure to the risk-based capital requirements and shall not be less than 5.0 per cent. The monitoring period has been set every quarter starting December 31, 2014 and extended until June 30, 2018 per BSP Circular No. 990, *Amendments to the Basel III Leverage Ratio Framework,* issued on January 22, 2018. Effective July 1, 2018, the monitoring of the leverage ratio was implemented as a Pillar I minimum requirement.

The Bank has taken into consideration the impact of the foregoing requirements to ensure that the appropriate level and quality of capital are maintained on an ongoing basis.

6 CATEGORIES AND OFFSETTING OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

6.1 Carrying Amounts and Fair Value by Category

The carrying amounts and fair values of the categories of financial assets and financial liabilities presented in the statements of financial position are shown below (in thousands):

	2021		2020	
	Carrying Amounts	Fair Values	Carrying Amounts	Fair Values
Financial Resources:				
At amortized cost:				
Cash and other cash items	757,009	757,009	755,528	755,528
Due from BSP	3,535,047	3,535,047	3,942,949	3,942,949
Due from other banks	171,199	171,199	340,060	340,060
Interbank Loan Receivables and SPURA	466,239	466,239	1,173,479	1,173,479
Loans and receivables - net	10,950,912	10,900,711	13,387,591	12,998,708
Financial assets	10,900	12,540	211,769	281,044
Financial assets at:				
FVTPL	599,371	599,371	150,849	150,849
FVOCI	0	0	57,204	57,204
	16,490,677	**16,442,116**	**20,019,429**	**19,699,821**
Financial Liabilities:				
At amortized cost:				
Deposit liabilities:				
Demand	3,087,941	3,087,941	2,931,636	2,931,636
Savings	6,508,078	6,508,078	6,198,684	6,198,684
Time	6,030,947	6,030,947	9,343,643	9,343,643
Accrued interest and other expenses	59,573	59,573	174,836	174,836
Other liabilities				
Bills purchased - contra	1,255	1,255	3,051	3,051
Managers' check	37,144	37,144	66,747	66,747
Due to PDIC	16,030	16,030	19,117	19,117
Due to Treasury of the Philippines	8,983	8,983	8,983	8,983
Miscellaneous	281,470	281,470	235,522	235,522
	16,031,421	**16,031,421**	**18,982,219**	**18,982,219**

Except for loans and receivables at amortized cost with fair value disclosed different from their carrying amounts, management considers that the carrying amounts of other financial assets and financial liabilities presented above which are measured at amortized cost, approximate the fair values either because those instruments are short-term in nature or the effect of discounting for those with maturities of more than one year is not material.

6.2 Offsetting of Financial Assets and Financial Liabilities

For financial assets and financial liabilities subject to enforceable master netting agreements or similar arrangements, each agreement between the Bank and its customers allows for net settlement of the relevant financial assets and financial liabilities when both elect to settle on a net basis. In the absence of such an election, financial assets and financial liabilities will be settled on a gross basis; however, each party to the master netting agreement or similar agreement will have the option to settle all such amounts on a net basis in the event of default of the other party.

7 FAIR VALUE MEASUREMENT AND DISCLOSURES

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

(a) *Cash and Other Cash Items, Due from BSP and Due from Other Banks*

The carrying amounts approximate fair value considering that these accounts consist mostly of overnight deposits and other short-term placements.

(b) *Financial Assets at FVTPL, Financial Assets at FVOCI and Financial Assets at Amortized Cost*

Fair value is generally based on quoted market prices, if available. If the market prices are not readily available, fair values are estimated using either values obtained from independent parties offering pricing services or adjusted quoted market prices of comparable investments or using the discounted cash flow methodology. Except for financial assets at amortized cost, with fair value disclosed different from their carrying amounts, financial assets at FVTPL and financial assets at FVOCI – government securities, management considers that the carrying amounts approximate the fair value either because those instruments are short-term in nature or the effect of discounting for those maturities more than one year is not material.

(c) *Unquoted Equity Securities*

Fair value equals its carrying amount since the fair value could not be reliably determined due to the unpredictable nature of future cash flows and the lack of suitable methods of arriving at a reliable fair value. These are carried at cost, net of impairment.

(d) *Loans and Receivables*

Fair value 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.

(e) *Liabilities*

The carrying amounts approximate their fair value since these are relatively short-term in nature.

7.1 Fair Value Hierarchy

The Bank uses the following hierarchy in determining and disclosing the fair value of financial instruments by valuation technique:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities that an entity can access at the measurement date;

- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and,

- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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

For purposes of determining the market value at Level 1, a market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

For investments which do not have quoted market price, the fair value is determined by using generally acceptable pricing models and valuation techniques or by reference to the current market of another instrument which is substantially the same after taking into account the related credit risk of counterparties, or is calculated based on the expected cash flows of the underlying net asset base of the instrument.

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

7.2 Financial Assets Measured at Fair Value

Set out below is the fair value hierarchy of the Bank's financial assets measured at fair value as at December 31 (in thousands):

	2021			
	Level 1	**Level 2**	**Level 3**	**Total Fair Value**
Financial Resources				
Financial assets at FVTPL -				
Government securities held for trading	599,371	0	0	599,371
Financial assets at FVOCI -				
Government debt securities	0	0	0	0
	599,371	**0**	**0**	**599,371**

	2020			
	Level 1	**Level 2**	**Level 3**	**Total Fair Value**
Financial Resources				
Financial assets at FVTPL -				
Government securities held for trading	150,849	0	0	150,849
Financial assets at FVOCI -				
Government debt securities	57,204	0	0	57,204
	208,053	**0**	**0**	**208,053**

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

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

7.3 Financial Instruments at Amortized Cost for Which Fair Value is Disclosed

For cash and cash equivalents with fair values included in Level 1, management considers that the carrying amounts of those short-term financial instruments approximate their fair values.

The fair values of all other financial assets and financial liabilities are included in Level 3 which are not traded in an active market, and is determined by using generally acceptable pricing models and valuation techniques or by reference to the current market value of another instrument which is substantially the same after taking into account the related credit risk of counterparties, or is calculated based on the expected cash flows of the underlying net asset base of the instrument.

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

7.4 Fair Value Measurement for Non-financial Assets

(a) Determining Fair Value of Investment Properties

The table below shows the Levels within the hierarchy of non-financial assets measured at fair value on a recurring basis as of December 31.

			2021	
	Level 1	**Level 2**	**Level 3**	**Total Fair Value**
Investment properties:				
Land	0	525,695,115	0	525,695,115
Building	0	0	575,100,963	575,100,963
Assets Held-for-sale	0	0	32,459,011	32,459,011
	0	**525,695,115**	**607,559,974**	**1,133,255,089**

			2020	
	Level 1	**Level 2**	**Level 3**	**Total Fair Value**
Investment properties:				
Land	0	480,684,708	0	480,684,708
Building	0	0	426,591,724	426,591,724
Assets Held-for-sale	0	0	84,385,876	84,385,876
	0	**480,684,708**	**510,977,600**	**991,662,308**

The fair value of the Bank's investment properties and assets held-for-sale is determined on the basis of the appraisals performed by various internal and external appraiser with appropriate qualifications and recent experience in the valuation of similar properties in the relevant locations. To some extent, the valuation process was conducted by the appraiser in discussion with the Bank's management with respect to the determination of the inputs such as the size, age, and condition of the land and buildings, and assets held-for-sale, and the comparable prices in the corresponding property location.

In estimating the fair value of these properties, management takes into account the market participant's ability to generate economic benefits by using the assets in their highest and best use. Based on management assessment, the best use of the Bank's non-financial assets indicated above is their current use.

The Level 2 fair values of land and buildings under Investment Properties account were derived using the market comparable approach that reflects the recent transaction prices for similar properties in nearby locations. Under this approach, when sales prices of comparable land in close proximity are used in the valuation of the subject property with no adjustment on the price, fair value is included in Level 2. On the other hand, if the observable recent prices of the reference properties were adjusted for differences in key attributes such as property size, zoning, and accessibility, the fair value is included in Level 3. The most significant input into this valuation approach is the price per square meter, hence, the higher the price per square meter, the higher the fair value.

The Level 3 fair values of the land and buildings under Investment Properties account, and assets held-for-sale were determined using the cost approach that reflects the cost to a market participant to construct an asset of comparable usage, construction standards, design and layout, adjusted for obsolescence. The more significant inputs used in the valuation include direct and indirect costs of construction such as but not limited to, labor and contractor's profit, materials and equipment, surveying and permit costs, electricity and utility costs, architectural and engineering fees, insurance and legal fees. These inputs were derived from various suppliers and contractor's quotes, price catalogues, and construction price indices. Under this approach, higher estimated costs used in the valuation will result in higher fair value of the properties.

(b) Other Fair Value Information

The reconciliation of the carrying amounts of investment properties and assets held-for-sale included in Levels 2 and 3 are presented in Notes 13 and 14.

There has been no change to the valuation techniques used by the Bank during the year for its non-financial assets. Also, there were no transfers into or out of Level 2 and 3 fair value hierarchy in 2021 and 2020.

8 CASH AND CASH EQUIVALENTS

The components of cash and cash equivalents were as follows:

	2021	2020
Cash and other cash items	757,009,383	755,528,188
Due from BSP	3,535,047,206	3,942,949,368
Due from other banks	171,199,177	340,059,746
Securities Purchased under Resale Agreements	466,238,870	1,173,478,888
	4,929,494,636	**6,212,016,190**

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 teller, including automated teller machines. Cash items consist of coins and checks and cash items (other than currency on hand), such as checks drawn on other banks and other items received after the Bank's clearing cut-off time until the close of the regular banking hours.

Demand deposit represents the aggregate balance of deposit accounts maintained with the BSP primarily to meet reserve requirements and to serve as clearing account for interbank claims. Special deposit pertains to overnight and time deposit accounts. Interest rates on these special deposits range from 1.50 per cent to 2.00 per cent per annum in 2021 and 1.50 per cent to 4.13 per cent per annum in 2020. Interest income earned on the placements made with BSP amounted to P59.79 million in 2021 and P80.34 million in 2020 and is presented as part of Interest income on Due from BSP and Other Banks account in the statements of income.

Due from other banks maintained under savings and demand accounts are as follows:

	2021	2020
Commercial banks:		
Savings	10,305,295	6,989,321
Demand	25,028,132	36,711,511
	35,333,427	43,700,832
Government banks:		
Savings	82,790,662	244,408,084
Demand	53,075,088	51,950,830
	135,865,750	296,358,914
	171,199,177	**340,059,746**

Interest rates on these deposits ranges from 0.05 per cent to 0.15 per cent per annum in 2021 and 0.25 per cent per annum 2020. Interest income earned on the placements made with other banks amounted to P0.13 million in 2021 and P0.24 million in 2020 and is presented as part of Interest income on Due from BSP and Other Banks account in the statements of income.

SPURA are lending to counterparties collateralized by government securities with maturities of less than three months from placement dates and earn annual interest of 2.00 per cent in 2021 and 2.00 per cent to 4.00 per cent in 2020. Interest income from SPURA amounted to P10.36 million in 2021 and P43.44 million in 2020 and presented as Interest income from Securities Purchased under Resale Agreement account in the statements of income.

9 TRADING AND INVESTMENT SECURITIES

This account consist of:

9.1 Financial Assets at Fair Value Through Profit or Loss

Financial assets at FVTPL as at December 31, 2021 and 2020 are composed of Philippine peso-denominated government debt securities amounting to P599.37 million and P150.85 million, respectively. These debt securities earn annual interest at rates ranging from 1.78 per cent to 6.38 per cent in 2021 and 2.59 per cent to 6.38 per cent in 2020. (see Note 9.4). All financial assets at FVTPL are held for trading.

For the years ended December 31, 2021 and 2020, net trading and securities gains (losses) in the statements of income resulted from:

	2021	2020
Net realized gains (losses)	53,241,439	1,850,931
Net unrealized gains (losses)	(565,949)	(922,717)
	52,675,490	928,214

9.2 Financial Assets at Fair Value Through Other Comprehensive Income

This account consists of the following:

	2021	2020
Government debt securities	0	57,204,372
Unquoted equity securities	0	0
	0	57,204,372
Allowance for impairment losses	0	0
	0	**57,204,372**

Financial assets at FVOCI consist of fixed-rate treasury notes issued by the Philippine government and corporate bonds. Interest rate of 6.25 per cent in 2020. (see Note 9.4)

The details of net unrealized fair value gains (losses) on Financial Assets at FVOCI follow (see Note 25.2):

	2021	2020
Balance at beginning of the year	656,113	(3,355,701)
Net Unrealized gains (loss) recognized as other comprehensive income	(656,113)	4,011,814
Balance at end of year	**0**	**656,113**

In 2020, the Bank acquired additional debt securities amounting to P50.00 million and were disposed in 2021.

9.3 *Financial Assets at Amortized Cost*

Financial assets at amortized cost consist of securities which bear nominal annual rates of 6.25 per cent to 18.25 per cent in both 2021 and 2020. These securities have maturity of beyond three years from the end of the reporting periods. This account consists of the following:

	2021	2020
Amortized Cost-Corporate bonds	10,000,000	10,000,000
Amortized Cost-FXTN	1,000,000	190,000,000
Unamortized Discount/Premium	0	11,868,851
Allowance for Credit Losses	(100,000)	(100,000)
Balance at the end of year	**10,900,000**	**211,768,851**

9.4 *Interest Income on Trading and Investment Securities*

For the years ended December 31, 2021 and 2020, interest income on trading and investment securities in the statements of income follows:

	Note	2021	2020
Financial assets at:			
Amortized cost	9.3	9,212,546	19,205,999
FVTPL	9.1	9,430,222	1,116,870
FVOCI	9.2	617,547	2,981,823
		19,260,315	**23,304,692**

10 LOANS AND RECEIVABLES

This account consists of:

	Note	2021	2020
Loans and discounts:			
Commercial		4,736,117,630	5,211,985,280
Consumption		3,872,139,379	4,673,295,861
Real estate		3,181,457,920	3,345,216,580
Others		844,467,589	1,145,023,634
		12,634,182,518	14,375,521,355
Accrued interest receivable		200,859,345	180,873,002
Accounts receivable		74,522,457	74,148,822
Sales contract receivable		37,084,703	27,034,378
Bills purchased		1,255,178	3,051,270
Unquoted debt securities		501,145	662,952
		12,948,405,346	14,661,291,779
Unearned discounts		(3,994,015)	(13,287,721)
Allowance for credit losses	16	(1,993,499,292)	(1,260,412,157)
		10,950,912,039	**13,387,591,901**

Other loans and discounts include industrial, agriculture and other type of loans.

Effective interest rates on loans and discounts range from 6.50 per cent to 12.00 per cent both in 2021 and 2020.

Unquoted debt securities pertain to a 10-year bond of the Land Bank of the Philippines (LBP). The LBP bonds have various maturity dates starting from December 5, 2012 to August 17, 2028. Interest rates on the LBP bonds are based on 91-day treasury-bill rates. As at December 31, 2021, no unearned discounts on unquoted debt securities.

Accounts receivable mainly consists of amounts due from customers and other parties under open-account arrangements, claims such as insurance proceeds, advances to officers and employees and other miscellaneous receivables.

Accrued interest receivable consists of accrued interest on:

	2021	2020
Loans and discounts	199,818,722	174,737,271
Financial assets:		
Amortized cost	28,308	4,811,958
FVOCI	0	659,722
FVTPL	576,221	232,356
Sales contract receivable	64,893	98,899
Deposits with BSP and other banks	369,822	331,232
Unquoted debt securities	1,379	1,564
	200,859,345	**180,873,002**

Interest income on loans and receivables consists of:

	2021	2020
Loans and discounts	999,498,078	1,110,414,056
Unquoted debt securities	6,940	17,762
Sales contracts receivable	2,678,264	2,404,914
	1,002,183,282	**1,112,836,732**

Interest income from restructured loans amounted to P30.72 million and P25.04 million in 2021 and 2020, respectively.

Sales contracts receivable arise mainly from the sale of foreclosed properties booked under the Investment Properties and Assets Held-for-Sale accounts.

The following table shows information relating to loans and discounts classified as to secured and unsecured (in thousands):

	2021	2020
Loans secured by:		
Real estate mortgage	3,002,140	3,295,989

	2021	2020
Chattel mortgage	1,718,437	2,285,017
Deposits	56,541	50,656
	4,777,118	5,631,662
Unsecured	7,858,320	8,743,859
	12,635,438	**14,375,521**

11 BANK PREMISES, FURNITURE, FIXTURES AND EQUIPMENT

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

	Land	Buildings and Improvements	Furniture, Fixtures and Office Equipment	Leasehold Improvement	Right-of-use Asset	Total
December 31, 2021						
Cost	1,011,711	42,042,698	273,881,482	225,294,127	162,272,330	704,502,348
Accumulated Depreciation and amortization	0	(21,979,234)	(227,352,385)	(129,994,980)	(47,234,295)	(426,560,894)
Net carrying amount	**1,011,711**	**20,063,464**	**46,529,097**	**95,299,147**	**115,038,035**	**277,941,454**
December 31, 2020						
Cost	1,011,711	42,712,698	274,691,397	281,028,250	206,199,661	805,643,717
Accumulated Depreciation and amortization	0	(19,301,120)	(221,471,791)	(164,524,293)	(46,750,752)	(452,047,956)
Net carrying amount	**1,011,711**	**23,411,578**	**53,219,606**	**116,503,957**	**159,448,909**	**353,595,761**
January 1, 2020						
Cost	1,011,711	38,568,777	352,211,662	259,044,019	240,200,398	891,036,567
Accumulated Depreciation and amortization	0	(16,401,731)	(280,725,310)	(141,112,231)	(46,298,488)	(484,537,760)
Net carrying amount	**1,011,711**	**22,167,046**	**71,486,352**	**117,931,788**	**193,901,910**	**406,498,807**

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

	Land	Buildings and Improvements	Furniture, Fixtures and Office Equipment	Leasehold Improvement	Right-of-use Asset	Total
Balance at January 1, 2021 net of accumulated depreciation and amortization	1,011,711	23,411,578	53,219,606	116,503,957	159,448,909	353,595,761
Additions	0	0	13,956,297	6,896,298	3,915,097	24,767,692
Transfer and Reclassification	0	(670,000)	(176,289)	(25,348)	(1,091,676)	(1,963,313)
Disposal	0	0	(1,019,346)	(285,986)	0	(1,305,332)
Depreciation and amortization charges for the year	0	(2,678,114)	(19,451,171)	(27,789,774)	(47,234,295)	(97,153,354)
Balance at December 31, 2021 net of accumulated depreciation and amortization	**1,011,711**	**20,063,464**	**46,529,097**	**95,299,147**	**115,038,035**	**277,941,454**
Balance at January 1, 2020 net of accumulated depreciation and amortization	1,011,711	22,167,046	71,486,352	117,931,788	193,901,910	406,498,807
Additions	0	4,143,921	24,172,285	26,342,058	20,822,333	75,480,597
Transfer and Reclassification	0	(16)	(14,533,657)	989,899	(8,524,582)	(22,068,356)
Disposal	0	0	(775,027)	(4,135,178)	0	(4,910,205)
Depreciation and amortization charges for the year	0	(2,899,373)	(27,130,347)	(24,624,610)	(46,750,752)	(101,405,082)
Balance at December 31, 2020 net of accumulated depreciation and amortization	**1,011,711**	**23,411,578**	**53,219,606**	**116,503,957**	**159,448,909**	**353,595,761**

As at December 31, 2021 and 2020, the original cost of fully depreciated bank premises, furniture, fixtures and equipment still in use by the Bank amounted to P188.55 million and P169.32 million, respectively.

As at December 31, 2021 and 2020, there were no idle and retired bank premises, furniture, fixtures and equipment.

Gain on disposal of bank premises, furniture, fixtures and equipment amounted to P1.28 million and P1.60 million in 2021 and 2020, respectively, and is presented under

Miscellaneous income under Other Operating Income section of the statements of income (see Note 22).

Under BSP rules, investments in bank premises, furniture, fixtures and equipment should not exceed 50 per cent of the respective unimpaired capital of the Bank. As of December 31, 2021 and 2020, the Bank have complied with this BSP requirement.

12 LEASES

The Bank leases the land currently occupied by its branches for periods ranging from one to 20 years, renewable upon mutual agreement of the Bank and the lessor under certain terms and conditions. With the exception of short-term leases and leases of low-value underlying assets, each lease is reflected on the statements of financial position as a right-of-use asset and a lease liability. Variable lease payments which do not depend on an index or a rate are excluded from the initial measurement of the lease liability and asset. Each lease generally imposes a restriction that, unless there is a contractual right for the Bank to sublet the asset to another party, the right-of-use asset can only be used by the Bank. Leases are either non-cancellable or may only be cancelled by incurring a substantive termination fee. For leases of offices, the Bank kept those properties in good state of repair and return the properties in their original condition at the end of the lease. Further, the Bank ensures the leased assets and maintenance fees incurred are in accordance with the lease contracts.

The table below describes the nature of the Bank's leasing activities of right-of-use asset recognized in the statements of financial position.

	Number of rights-of-use assets lease	Range of remaining term	Average remaining lease term	Number of leases with extension	Number of lease with options to purchase	Number of lease with termination options
Offices	61	1-10 years	3.28 years	0	0	61

12.1 Lease Liabilities

There is no lease liabilities and amounts in respect of possible future lease termination options not recognized.

As at December 31, 2021, the Bank has not committed leases which have not commenced yet.

The undicounted maturity analysis of lease liabilities at December 31, are as follows :

2021	Within 1 year	Two to Five years	More than Five years	Total
Lease Payments	5,035,219	117,756,484	35,416,217	158,207,920
Finance Charges	(353,847)	(6,240,480)	(1,689,763)	(8,284,090)
Net Present Value	**4,681,372**	**111,516,004**	**33,726,454**	**149,923,830**

2020	Within 1 year	Two to Five years	More than Five years	Total
Lease Payments	1,906,615	147,085,225	60,196,200	209,188,040
Finance Charges	(237,271)	(7,238,804)	(2,687,680)	(10,163,755)
Net Present Value	**1,669,344**	**139,846,421**	**57,508,520**	**199,024,285**

12.2 Lease Payment Not Recognized as Liabilities

The Bank has elected not to recognize a lease liability for short-term leases or for leases of low value assets. Payments made under such leases are expensed on a straight-line basis. In addition, certain variable lease payments are not permitted to be recognized as lease liabilities and are expensed as incurred.

12.3 Additional Profit or Loss and Cash Flow Information

The total cash outflow in respect of leases amounted to P60.32 million in 2021 and P58.50 million in 2020. Interest expense in relation to lease liabilities amounted to P8.28 million in 2021 and P10.17 million in 2020 and is presented as part of Interest Expense in statement of income.

13 INVESTMENT PROPERTIES

Investment properties consist of various land, and buildings and improvements acquired through foreclosure or dacion as payment of outstanding loans by the borrowers. The difference between the fair value of the asset upon foreclosure and the carrying value of the loan is recognized as part of Gain/(Loss) on Sale and Foreclosure of Assets - net account in the statements of income.

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

	Land	Buildings and Improvements	Total
December 31, 2021			
Cost	525,695,115	575,100,963	1,100,796,078
Accumulated Depreciation	0	(171,231,718)	(171,231,718)
Accumulated Impairment	(22,229,051)	(2,717,118)	(24,946,169)
Net carrying amount	**503,466,064**	**401,152,127**	**904,618,191**
December 31, 2020			
Cost	480,684,708	426,591,724	907,276,432
Accumulated Depreciation	0	(138,386,041)	(138,386,041)
Accumulated Impairment	(14,077,537)	(3,695,779)	(17,773,316)
Net carrying amount	**466,607,171**	**284,509,904**	**751,117,075**

	Land	Buildings and Improvements	Total
January 1, 2020			
Cost	440,131,278	418,967,138	859,098,416
Accumulated Depreciation	0	(102,922,617)	(102,922,617)
Accumulated Impairment	(16,507,520)	(3,756,951)	(20,264,471)
Net carrying amount	**423,623,758**	**312,287,570**	**735,911,328**

Reconciliations of the carrying amounts of investment properties at the beginning and end of 2021 and 2020 follow:

	2021			2020		
	Land	Buildings and Improvements	Total	Land	Buildings and Improvements	Total
Cost						
Balance at beginning of year	480,684,708	426,591,724	907,276,432	440,131,278	418,967,138	859,098,416
Additions	71,643,836	173,496,639	245,140,475	63,263,671	21,957,586	85,221,257
Disposals	(26,633,429)	(24,987,400)	(51,620,829)	(22,710,241)	(14,333,000)	(37,043,241)
Balance at end of year	**525,695,115**	**575,100,963**	**1,100,796,078**	**480,684,708**	**426,591,724**	**907,276,432**
Accumulated depreciation						
Balance at beginning of year	0	138,386,041	138,386,041	0	102,922,617	102,922,617
Depreciation and amortization	0	40,476,887	40,476,887	0	39,284,669	39,284,669
Disposals	0	(7,631,210)	(7,631,210)	0	(3,821,245)	(3,821,245)
Balance at end of year	0	171,231,718	171,231,718	0	138,386,041	138,386,041
Allowance for impairment and losses						
Balance at beginning of year	14,077,537	3,695,779	17,773,316	16,507,520	3,756,951	20,264,471
Provision for impairment loss	0	0	0	0	0	0
Adjustments	8,228,514	(103,139)	8,125,375	(1,873,771)	1,700,327	(173,444)
Disposals	(77,000)	(875,522)	(952,522)	(556,212)	(1,761,499)	(2,317,711)
Balance at end of year	22,229,051	2,717,118	24,946,169	14,077,537	3,695,779	17,773,316
Carrying amount at the end of year	**503,466,064**	**401,152,127**	**904,618,191**	**466,607,171**	**284,509,904**	**751,117,075**

The aggregate fair value of the investment properties amounted to P1.34 billion and P907.28 million as at December 31, 2021 and 2020, respectively. Fair value has been determined based on valuations made by independent and/or in-house appraisers.

The fair values of the Bank's land under investment properties have been determined in using the market comparable approach that reflects the recent transaction prices for similar properties in nearby locations, hence, included in the Level 2. On the other hand, the Bank's buildings were derived from the observable recent prices of the reference properties and adjusted based on the property size, zoning and accessibility. Thus, the fair value is included in Level 3 (see Note 7.4).

Direct operating expenses on investment properties for the Bank amounted to P22.76 million and P16.37 million in 2021 and 2020 respectively and is presented as Litigation under Other Operating Expenses in the statements of income.

In 2021 and 2020, the Bank recognized fair value gain on foreclosure and sale of investment as part of Gain/(loss) on sale and foreclosure of assets - net account under Other Operating Income section of the statements of income amounting to P 39.77 million and P38.96 million, respectively.

The Bank recognized loss and gain on sale of investment properties amounting to P18.33 million and P2.9 million in 2021 and 2020 respectively, which are presented as part of Gain/(loss) on sale and foreclosure of assets – net account under Other Operating Income section of the statements of income.

14 ASSETS HELD-FOR-SALE

This account consists of chattel properties acquired from foreclosure of collaterals during the year such as motorcycles and other vehicles. These properties are readily available for immediate sale in its present condition and that management believes that the sale is highly probable at the time of reclassification.

The changes in the carrying amount of the assets held-for-sale are summarized as follows:

	2021	2020
Beginning balance	79,571,181	56,524,335
Repossessions	86,255,000	59,848,637
Sale and redemption	(138,628,872)	(36,801,791)
	27,197,309	**79,571,181**

As at December 31, 2021 and 2020, allowance for impairment loss on assets-held-for-sale amounted to P4.94 million and P4.81 million, respectively (see Note 16).

In 2021 and 2020, the Bank recognized loss on sale and foreclosure of assets held-for-sale amounting to P21.86 million and P11.76 million, respectively, and is presented as part of Gain/(Loss) on Sale and Foreclosure of Assets - net account in the statements of income.

15 INTANGIBLE AND OTHER RESOURCES

This account consists of the following:

	2021	2020
Deferred charges	127,488,684	232,298,183
Deferred assets	26,611,581	41,152,495
Advance rentals and refundable deposits	19,905,007	26,479,607
Software costs – net	37,885,066	47,081,496
Prepaid expenses	8,085,337	7,246,422

	2021	2020
Stationery supplies	1,315,510	1,739,800
Other Assets-FFE	753,812	579,028
Miscellaneous	5,910,289	4,640,230
	227,955,286	361,217,261
Allowance for impairment loss	(753,145)	(578,188)
	227,202,141	**360,639,073**

Deferred charges include deferred commissions that are directly associated with loans and discounts with customers. The commissions are deferred and amortized over the terms of the related loans, which is typically ranging from 36 to 60 months.

Deferred assets represent leases of vehicles to managerial employees and officers.

Advance rentals and refundable deposits include rental deposits for the lease of the various branches of the Bank from several parties.

The gross carrying amounts of software costs at the beginning and end of 2021 and 2020 is shown below:

	December 31, 2021	December 31, 2020	January 1, 2020
Cost	63,644,892	87,001,015	74,686,205
Accumulated amortization	(25,759,826)	(39,919,519)	(56,611,961)
Net carrying amount	**37,885,066**	**47,081,496**	**18,074,244**

A reconciliation of the carrying amount of software costs at the beginning and end of 2021 and 2020 is shown below.

	2021	2020
Balance at January 1, net of accumulated amortization	47,081,496	18,074,244
Additions	9,225,744	32,346,081
Amortization charges for the year	(17,853,754)	(13,908,570)
Disposal / Reclassification	(568,420)	10,569,741
Balance at December 31, net of accumulated amortization	**37,885,066**	**47,081,496**

16 ALLOWANCES FOR CREDIT AND IMPAIRMENT LOSSES

Changes in the allowances for credit and impairment losses are summarized as follows:

	Note	2021	2020
Balances at beginning of year:			
Loans and receivables	10	1,260,412,157	1,159,010,157
Investment properties	13	17,773,316	20,264,471
Assets held-for-sale	14	4,814,695	3,302,415
Other resources	15	578,188	0
		1,283,578,356	1,182,577,043

	Note	2021	2020
Credit and impairment losses during the year			
Loans and receivables		193,893,020	106,000,000
Assets held-for-sale		6,900,000	100,000
Other resources		174,957	678,188
		200,967,977	106,778,188
Disposals:			
Investment properties	13	(952,522)	(2,317,711)
Assets held-for-sale		(14,546,152)	(1,899,272)
		(15,498,674)	(4,216,983)
Reversals/reclassifications			
Loans and receivables		(76,150,543)	(4,598,000)
Investment properties	13	8,125,375	(173,444)
Assets held-for-sale		7,768,159	3,311,552
Other resources		0	(100,000)
		(60,257,008)	(1,559,892)
Effect of BSP relief for ACL staggered booking			
Loans and receivables		615,344,658	0
		615,344,658	0
Balances at end of year:			
Loans and receivables	10	1,993,499,292	1,260,412,157
Investment properties	13	24,946,169	17,773,316
Assets held-for-sale	14	4,936,702	4,814,695
Other resources	15	753,145	578,188
		2,024,135,308	**1,283,578,356**

Presented below is the breakdown of allowance for credit and impairment losses for Loans and Receivable as at December 31, 2021:

	Stage 1	Stage 2	Stage 3	Total
Loans and Receivables:				
Loans and discounts:				
Commercial	19,026,746	114,724,831	1,411,490,652	1,545,242,229
Consumption	27,805,678	12,956,358	192,437,257	233,199,293
Real estate	24,773,198	8,487,283	87,497,724	120,758,205
Others	12,244,501	13,125,254	68,929,810	94,299,565
	83,850,123	**149,293,726**	**1,760,355,443**	**1,993,499,292**

An analysis of changes in the gross carrying amount and the corresponding ECL allowances for loans and discounts in 2021 is as follows:

	Stage 1	Stage 2	Stage 3	Total
Commercial				
Gross carrying amount as at January 1, 2021	1,666,947,923	1,436,428,206	2,108,609,152	5,211,985,281
New assets originated or purchased	2,102,650,150	0	0	2,102,650,150
Assets derecognized or repaid	(2,372,864,389)	(18,114,249)	(25,354,144)	(2,416,332,782)
Transfers from Stage 1	0	0	0	0
Transfers to Stage 2	520,628,967	(520,628,967)	0	0
Transfers to Stage 3	0	(298,052,972)	298,052,972	0

	Stage 1	Stage 2	Stage 3	Total
Transfer to Investment Property	0	0	(162,185,019)	(162,185,019)
Amounts written off	0	0	0	0
	1,917,362,651	**599,632,018**	**2,219,122,961**	**4,736,117,630**
ECL allowance as at January 1, 2021 under PFRS 9	16,669,479	51,819,245	1,432,393,406	1,500,882,130
Provisions	0	0	149,600,000	149,600,000
Transfers from Stage 1	2,357,267	0	(2,357,267)	0
Transfers to Stage 2	0	62,905,586	(62,905,586)	0
Transfers to Stage 3	0	0	(105,239,901)	(105,239,901)
Amounts written off	0	0	0	0
	19,026,746	**114,724,831**	**1,411,490,652**	**1,545,242,229**
Consumption				
Gross carrying amount as at January 1, 2021	3,544,195,306	189,760,947	939,339,608	4,673,295,861
New assets originated or purchased	1,413,338,219	0	0	1,413,338,219
Assets derecognized or repaid	(1,800,298,684)	(94,089,848)	(148,553,675)	(2,042,942,207)
Transfers to (from) Stage 1	(292,761,193)	292,761,193	0	0
Transfers to (from) Stage 2	(71,627,585)	71,627,585	0	0
Transfers to (from) Stage 3	0	(292,761,193)	292,761,193	0
Transfer to Investment Property	(517,798)	(37,820,147)	(81,891,206)	(120,229,151)
Amounts written off	0	0	(51,323,343)	(51,323,343)
	2,792,328,265	**129,478,537**	**950,332,577**	**3,872,139,379**
ECL allowance as at January 1, 2021 under PFRS 9	35,441,954	4,964,958	174,552,505	214,959,417
Provisions	0	0	0	0
Transfers to (from) Stage 1	0	0	0	0
Transfers to (from) Stage 2	(7,636,276)	7,636,276	0	0
Transfers to (from) Stage 3	0	355,124	69,208,095	69,563,219
Amounts written off	0	0	(51,323,343)	(51,323,343)
	27,805,678	**12,956,358**	**192,437,257**	**233,199,293**
Real estate				
Gross carrying amount as at January 1, 2021	2,409,707,410	207,839,244	727,669,925	3,345,216,579
New assets originated or purchased	363,620,205	2,292,134	0	365,912,339
Assets derecognized or repaid	(280,006,647)	(40,964,270)	(168,179,370)	(489,150,287)
Transfers to (from) Stage 1	0	0	0	0
Transfers to (from) Stage 2	12,091,728	(12,091,728)	0	0
Transfers to (from) Stage 3	0	(60,633,153)	60,633,153	0
Transfer to Investment Property	0	0	(40,520,711)	(40,520,711)
	2,505,412,696	**96,442,227**	**579,602,997**	**3,181,457,920**

	Stage 1	Stage 2	Stage 3	Total
ECL allowance as at January 1, 2021 under PFRS 9	24,097,074	16,541,352	69,846,018	110,484,444
Provisions	0	0	0	0
Transfers to Stage 1	676,124	(676,124)	0	0
Transfers from Stage 2	0	(7,377,946)	7,377,946	0
Transfers from Stage 3	0	0	10,273,760	10,273,760
Amounts written off	0	0	0	0
	24,773,198	**8,487,282**	**87,497,724**	**120,758,205**
Others				
Gross carrying amount as at January 1, 2021	1,289,581,108	39,738,461	97,774,829	1,427,094,398
New assets originated or purchased	796,348,158	0	0	796,348,158
Assets derecognized or repaid	(1,022,331,054)	(13,303,017)	(20,350,503)	(1,055,984,574)
Transfers from Stage 1	0	0	0	0
Transfers to Stage 2	(48,601,064)	48,601,064	0	0
Transfers to Stage 3	(70,868,674)	0	70,868,674	0
Transfer to Investment Property	0	0	(9,268,709)	(9,268,709)
	944,128,474	**75,036,508**	**139,024,291**	**1,158,189,273**
ECL allowance as at January 1, 2021 under PFRS 9	16,399,737	358,545	32,672,542	49,430,824
Provisions	6,861,022	7,704,554	29,727,443	44,293,019
Transfers to Stage 1	0	0	0	0
Transfers to Stage 2	(5,062,155)	5,062,155	0	0
Transfers from Stage 3	(5,954,103)	0	15,798,534	9,844,431
Amounts written off	0	0	(9,268,709)	(9,268,709)
	12,244,501	**13,125,254**	**68,929,810**	**94,299,565**

The Bank's trading and investment securities have no impairment losses during the year.

17 DEPOSIT LIABILITIES

This account consists of the following deposits:

	2021	2020
Demand	3,087,941,488	2,931,636,150
Savings	6,508,077,857	6,198,683,900
Time	6,030,947,090	9,343,643,281
	15,626,966,435	**18,473,963,331**

Savings deposit liabilities consist of regular and special savings accounts. The regular savings account bears annual interest rate of 0.05 per cent to 0.15 per cent in 2021 and 0.30 per cent and 0.50 per cent in 2020; the special savings account bears annual interest rate ranging from 0.40 per cent and 0.70 per cent in both 2021 and 2020. While the time deposits bear annual interest rates ranging from 0.10 per cent to 0.13 per cent and 1.25 per cent to 5.25 per cent in 2021 and 2020.

Details of interest expense on deposit liabilities follow:

	2021	2020
Demand	8,116,721	10,622,718
Savings	21,467,221	26,674,775
Time	131,282,871	325,780,065
	160,866,813	**363,077,558**

Under BSP Circular No. 997 and 1004, Series of 2018, the MB approved the one-percentage-point increase in the reserve requirements of thrift banks applicable to the Bank, to three per cent in 2020. As at December 31, 2021 and 2020, the Bank is in compliance with such regulations.

Liquidity and statutory reserves pertain to Due from BSP amounting to P3.54 billion and P3.94 billion as of December 31, 2021 and 2020, respectively (see Note 8). The Bank is in compliance with such regulations as of December 31, 2021 and 2020.

The maturity profile of deposit liabilities is disclosed in Note 4.3.

18 ACCRUED INTEREST, TAXES AND OTHER EXPENSES

This account consists of:

	2021	2020
Accrued interest payable	8,662,263	13,829,376
Accrued other taxes and licenses	14,617,219	17,246,341
Insurance payable to PDIC	16,029,989	19,116,994
Outside services and utilities	13,363,337	9,515,925
Staff benefits	6,319,381	4,308,878
Salaries of seconded employees	932,186	1,048,724
Others	15,678,237	24,141,265
	75,602,612	**89,207,503**

Others account include human resource activities, repairs and maintenance, freight, communications and Hazard Pay paid to Outsourced Personnel during Covid-19 Pandemic. Human resource activities include expenses for the Bank's initiatives and performance bonuses given to the employees of the Bank.

19 OTHER LIABILITIES

This account consists of:

	Note	2021	2020
Dividends payable	25.1	22,310,455	31,677,149
Accounts payable		122,815,588	171,924,926
Managers checks and demand drafts outstanding		46,163,769	76,864,814
Withholding taxes payable		5,786,265	10,178,192
Due to the Treasurer of the Philippines		8,983,443	8,983,443
SSS, Medicare, ECC, compensation premiums		3,347,983	3,119,694
Deferred credits		43,674,838	34,948,084
Lease Liabilities	12.1	149,923,830	199,024,285
Miscellaneous		60,361,732	36,498,065
		463,367,903	**573,218,652**

Majority of the outstanding manager's checks as of December 31, 2021 pertains to loan releases near year-end and various dealers and salesman incentive fees which were presented for payment subsequent to December 31, 2021. Accordingly, significant part of managers checks outstanding as of December 31, 2021 and 2020 was already reversed on the succeeding quarter. As at December 31, 2021 and 2020, deferred credits include unearned service fees related to loans and receivables.

Miscellaneous include payables for the cost of personal and commercial checkbooks and deposit for keys on safety deposit boxes.

20 MATURITY ANALYSIS OF ASSETS AND LIABILITIES

The following table presents the financial assets and financial liabilities analyzed according to whether they are expected to be recovered or settled in less than twelve months and over twelve months from statements of financial position date (in thousands):

	2021			2020		
	Within One Year	Beyond One Year	Total	Within One Year	Beyond One Year	Total
Financial Resources						
Cash and other cash items	757,009	0	757,009	755,528	0	755,528
Due from BSP	3,535,047	0	3,535,047	3,942,949	0	3,942,949
Due from other banks	171,199	0	171,199	340,060	0	340,060
SPURA	466,239	0	466,239	1,173,479	0	1,173,479
Financial assets:						
FVTPL	599,371	0	599,371	150,849	0	150,849
FVTOCI	0	0	0	0	57,204	57,204
Amortized Cost	0	10,900	10,900	0	211,769	211,769
Loans and discounts - gross	3,877,969	8,756,214	12,634,183	3,326,725	11,048,797	14,375,522
Unquoted debt securities - gross	162	339	501	162	501	663
Accrued interest receivable	200,859	0	200,859	180,873	0	180,873
Sales contract receivables	1,304	35,781	37,085	1,029	26,005	27,034

	2021			2020		
	Within One Year	**Beyond One Year**	**Total**	**Within One Year**	**Beyond One Year**	**Total**
Accounts receivable	74,522	0	74,522	74,149	0	74,149
Bills purchased	1,255	0	1,255	3,051	0	3,051
Unearned discount	(3,994)	0	(3,994)	(13,288)	0	(13,288)
	9,680,942	8,803,234	18,484,176	9,935,566	11,344,276	21,279,842
Allowance for credit and impairment losses	0	(1,993,499)	(1,993,499)	0	(1,260,412)	(1,260,412)
	9,680,942	6,809,735	16,490,677	9,935,566	10,083,864	20,019,430
Non Financial Resources						
Bank premises, furniture and fixtures	0	277,941	277,941	0	353,596	353,596
Assets held-for-sale - net	27,197	0	27,197	79,571	0	79,571
Investment properties - net	0	904,618	904,618	0	751,117	751,117
Intangible and other resources –net	0	227,202	227,202	0	360,639	360,639
Deferred tax assets	0	672,845	672,845	0	482,748	482,748
	27,197	2,082,606	2,109,803	79,571	1,948,100	2,027,671
	9,708,139	**8,892,341**	**18,600,480**	**10,015,137**	**12,031,964**	**22,047,101**
Financial Liabilities						
Deposit liabilities	14,405,170	1,221,796	15,626,966	17,024,741	1,449,222	18,473,963
Manager's checks and demand drafts outstanding	46,164	0	46,164	76,865	0	76,865
Accrued interest and other expenses	39,309	0	39,309	50,193	0	50,193
Retirement Liability	72,531	0	72,531	144,072	0	144,072
Other liabilities	417,204	0	417,204	496,354	0	496,354
	14,980,378	1,221,796	16,202,174	17,792,225	1,449,222	19,241,447
Non Financial Liabilities						
Accrued interest and other expenses	36,293	0	36,293	39,015	0	39,015
Income tax payable	7,785	0	7,785	8,487	0	8,487
	44,078	0	44,078	47,502	0	47,502
	15,024,456	**1,221,796**	**16,246,252**	**17,839,727**	**1,449,222**	**19,288,949**

21 EMPLOYEE BENEFITS

21.1 Salaries and Employee Benefits Expense

Expenses recognized for salaries and employee benefits are presented below:

	Note	2021	2020
Salaries and wages		341,609,870	344,000,349
Fringe benefits		83,161,221	79,001,996
Retirement - defined benefit plan	21.2	43,419,134	32,335,490
Short-term medical benefits		9,427,754	8,011,023
		477,617,979	**463,348,858**

Fringe benefits account include Hazard Pay paid to bank's employees during Covid-19 Pandemic amounted to P10.41 million and P7.20 million as at December 31, 2021 and 2020, respectively.

21.2 Post-employment Defined Benefit Plan

(a) Characteristics of the Defined Benefit Plan

The Bank maintains a tax-qualified, non-contributory defined benefit retirement plan that is being administered by a trustee covering all regular employees (see Note 26.6).

The normal retirement age is 65 with a minimum of five years of credited service. The plan also provides for an early retirement at age 60 with a minimum of 15 years of credited service and late retirement after age 60, both subject to the approval of the BOD. Normal retirement benefit is an amount equivalent to 150 per cent of the final monthly covered compensation (average monthly basic salary during the last 12 months of credited service) for every year of credited service.

(b) Explanation of Amounts Presented in the Financial Statements

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

The amounts of retirement benefit obligation recognized in the statement of financial position is determined as follows:

	2021	2020
Present value of retirement obligation	247,637,648	283,394,806
Fair value of plan assets	(175,106,891)	(139,322,322)
	72,530,757	**144,072,484**

The movements of the present value of defined benefits obligation of the Bank follow:

	2021	2020
Balance at beginning of year	283,394,806	194,667,862
Current service cost	37,512,162	27,579,553
Interest expense	11,619,187	10,512,065
Remeasurement – actuarial losses (gains) arising from:		
Change in financial assumptions	(50,831,701)	56,644,648
Experience adjustment Benefits paid	(25,948,414)	(1,170,443)
Benefits paid	(8,108,392)	(4,838,879)
Balance at end of year	**247,637,648**	**283,394,806**

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

The actual return on plan assets amounted to P0.47 million in 2021 and a gain of P5.23 million in 2020.

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

	2021	2020
Cash and cash equivalents	93,507,080	70,023,399
Debt securities	74,192,790	48,902,135
Equity securities	6,794,147	19,560,854
Others	612,874	835,934
	175,106,891	**139,322,322**

The fair values of the above debt and equity securities are determined based on quoted market prices in active market (classified as Level 1 of the fair value hierarchy).

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

	2021	2020
Reported in profit or loss		
Current service cost	37,512,162	27,579,553
Net interest expense:		
Interest expense	11,619,187	10,512,065
Interest income	(5,712,215)	(5,756,128)
	43,419,134	**32,335,490**
Reported in other comprehensive income		
Remeasurement – actuarial losses (gains) arising from:		
Change in financial assumptions	(50,831,701)	56,644,648
Experience adjustment	(25,948,414)	(1,170,443)
Return on plan assets (excluding amounts included in net Interest expense)	5,238,388	525,378
	(71,541,727)	**55,999,583**

Amounts recognized in other comprehensive income were included within item that will not be reclassified subsequently to profit or loss.

In determining the amounts of post-employment defined benefit obligation, the following significant actuarial assumptions were used:

	2021	2020
Discount rates	5.20%	4.10%
Expected rate of salary increases	6.00%	6.00%

Assumptions regarding future mortality experience are based on published statistics and mortality tables. The average remaining working lives of an individual retiring at the age of 65 is 16 years.

These assumptions were developed by management with the assistance of an independent actuary. Discount factors are determined close to the end of each reporting period by reference to the interest rates of zero-coupon government bonds with terms to maturity approximating to the terms of the post-employment obligation. Other assumptions are based on current actuarial benchmarks and management's historical experience.

Risks Associated with the Retirement Plan

The plan exposes the Bank to actuarial risks such as investment risk, interest rate risk, longevity risk and salary risk.

(i) Investment and Interest Risks

The present value of the defined benefit obligation is calculated using a discount rate determined by reference to market yields of government bonds. Generally, a decrease in the interest rate of a reference government bonds will increase the plan obligation. However, this will be partially offset by an increase in the return on the plan's investments in debt securities and if the return on plan asset falls below this rate, it will create a deficit in the plan. Currently, the plan assets are significantly invested in cash and cash equivalents, debt and equity securities. Due to the long-term nature of the plan obligation, a level of continuing investments in equity securities is an appropriate element of the Bank's long-term strategy to manage the plan efficiently.

(ii) Longevity and Salary Risks

The present value of the defined benefit obligation is calculated by reference to the best estimate of the mortality of the plan participants both during and after their employment, and to their future salaries. Consequently, increases in the life expectancy and salary of the plan participants will result in an increase in the plan obligation.

(c) Other Information

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

(i) Sensitivity Analysis

The succeeding table summarizes the effects of changes in the significant actuarial assumptions used in the determination of the defined benefit obligation:

	Impact on Retirement Benefit Obligation		
	Change in Assumption	Increase in Assumption	Decrease in Assumption
December 31, 2021			
Discount rate	+/-0.50%	(19,307,137)	21,555,286
Salary growth rate	+/-0.50%	20,417,970	(18,510,651)
December 31, 2020			
Discount rate	+/-0.50%	(23,796,017)	26,743,443
Salary growth rate	+/-0.50%	25,121,371	(22,654,112)

The sensitivity analysis is based on a change in an assumption while holding all other assumptions constant. This analysis may not be representative of the actual change in the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated. Furthermore, in presenting the above sensitivity analysis, the present value of the defined benefit obligation has been calculated using the projected unit credit method at the end of the reporting period, which is the same as that applied in calculating the defined benefit obligation recognized in the statements of financial position.

(ii) Asset-liability Matching Strategies

The overall investment policy and strategy of the retirement plan is based on the Bank's suitability assessment, as provided by its Trust Services Division of the parent bank, in compliance with the BSP requirements.

(iii) Funding Arrangements and Expected Contributions

The plan is currently underfunded by P 72.53 million based on the latest actuarial valuation. While there is no minimum funding requirement in the country, the size of the underfunding may pose a cash flow risk in about five to 16 years' time when a significant number of employees is expected to retire.

The weighted average duration of the defined benefit obligation at the end of the reporting period is 16 years.

The Bank expects to contribute P33.66 million to the retirement plan in 2022.

21.3 Retirement Benefits of Key Management Personnel

The Bank's retirement benefits are covered by the parent bank in as much as the officers and employees of the Bank are seconded. The parent bank has a funded non-contributory defined benefit retirement plan (the "Parent Bank Plan").

Contributions and costs are determined in accordance with the actuarial studies made for the plan. Annual cost is determined using projected unit credit method.

All officers and employees of the parent bank, including those assigned in subsidiaries but excluding those hired on a temporary, seasonal, consulting, and contractual basis are eligible for membership in the Plan. Retiring members shall be entitled to retirement benefits equivalent to a certain percentage of the final effective gross monthly compensation as defined in the plan multiplied by the number of years of service, with one complete month treated as 1/12 of a year. In determining percentage, the entire period of credited service shall be considered. Any member who is involuntarily separated from the service of the Bank for reasons not due to his own fault, misconduct, or voluntary resignation shall be entitled to 100 per cent of the accrued retirement benefits or the benefits due him under the Labor Code, whichever is greater. In the event of death or separation from the service of member due to incapacity or disability not due to intentional causes or self-inflicted injuries of the member, a member or his beneficiaries, regardless of such member's length of credited service, shall be paid his accrued retirement benefits or 100 per cent of his gross monthly compensation per year of service, whichever is higher.

Claims for settlement of benefits shall be filed with the Board of Trustees (BOT) in a prescribed form to be accomplished by the member, in case of retirement, separation, or disability, or by his designated beneficiaries in case of death.

The control, administration of the retirement plan and management of the fund is vested in the BOT. The retirement plan's accounting and administrative functions are undertaken by the Operations Department under UCPB Trust Banking Division.

The parent bank's latest actuarial valuation date is as of December 31, 2021. Valuations are obtained on a periodic basis.

As at December 31, 2021 and 2020, the principal actuarial assumptions used in determining net retirement liability for the parent bank's retirement plan are shown below:

	2021	2020
Average working life	15 years	15 years
Discount rate	5.00%	4.00%
Future salary increases	3.00%	5.00%

The major categories of plan assets of the parent bank at carrying values follow (amounts in thousands):

	2021	2020
Government and other debt securities	0	571,869
Quoted equity securities	0	1,233,369
Cash and other assets	3,560,466	1,372,613
	3,560,466	**3,177,851**

A portion of these plan assets will be used to fund the retirement of the employees seconded to the Bank.

Included in the Salaries and employee benefits under Other Operating Expenses section of the statements of income is the salaries and benefits of seconded employees of the parent bank:

	2021	2020
Salaries and wages	8,325,417	10,194,152
Other fringe benefits	1,116,740	2,149,070
Retirement expense	3,006,748	1,034,899
	12,448,905	**13,378,121**

Retirement expense pertains to the amount of contributions charged by the parent bank to the Bank.

22 MISCELLANEOUS INCOME

This account consists of:

	Note	2021	2020
Gain on sale of AFS-FVOCI		1,122,890	4,530,382
Gain on sale of bank premises, furniture, fixtures and equipment	11	1,279,733	1,600,546
Rental income		1,389,893	73,184
Recovery of Written off Accounts		3,609,606	3,076,392
Bancassurance Income		2,250,000	2,285,575
Others		4,222,277	3,927,928
		13,874,399	**15,494,007**

Others includes income on checkbook re-order amounting to P3.91 million and gain on sale of deferred assets-leased vehicles to managerial employees and officers amounting to P310,162.

23 MISCELLANEOUS EXPENSES

This account consists of:

	2021	2020
Communications	37,645,555	34,213,639
Stationery and supplies used	9,016,835	8,733,369
Appraisal expenses	3,347,338	1,544,596
Banking and supervision fees	6,210,779	6,227,217
Freight expenses	3,562,190	3,232,827
Fines, penalties and other charges	22,305,893	6,566,431
Advertising and publicity	553,089	752,448
Commission fees	15,279,520	8,420,379
Semi-Expendable Items	560,829	1,105,046
Others	2,251,829	2,392,334
	100,733,857	**73,188,286**

Others include donation, membership fees and dues, periodicals and magazines subscriptions.

24 TAXES

Under Philippine tax laws, the Bank is subject to percentage and other taxes (presented as Taxes and licenses under Other Operating Expenses section of the statements of income) as well as income taxes. Percentage and other taxes paid consist principally of gross receipts tax (GRT) and documentary stamp taxes (DST). The Bank's liability for GRT and DST is based on the related regulations issued by the authorities.

Provision for income tax includes corporate income tax, as discussed in the succeeding sections, final taxes paid at the rate of 20 per cent, which is final withholding tax on gross interest income from government securities and other deposit substitutes.

Under current tax regulations, the regular corporate income tax (RCIT) rate applicable is 25 per cent. Interest allowed as deductible expense is reduced by an amount equivalent to certain percentage of interest income subject to final tax. Minimum corporate income tax (MCIT) of 1 per cent on modified gross income is computed and compared with the RCIT. Any excess of the MCIT over the RCIT is deferred and can be used as a tax credit against future regular income tax liability for the next three consecutive years. In addition, any net operating loss carry over is allowed as a deduction from taxable income in the next three years.

The components of tax expense as reported in the statements of income are as follows:

	2021	2020
Reported in profit or loss:		
Current tax expense:		
RCIT at 25 per cent	24,739,893	22,645,896
Adjustment in 2020 income taxes Rate due to Create	(4,550,217)	
Final tax at 20 per cent	18,015,000	29,798,845
	38,204,676	52,444,741
Deferred tax income relating to origination and reversal of temporary differences	(37,216,644)	(40,198,078)
	988,032	**12,246,663**
Reported in other comprehensive loss		
Deferred tax income relating to origination and reversal of temporary differences	**(17,885,432)**	**16,799,875**

The reconciliation of tax on pretax profit computed at the applicable statutory rates to tax expense attributable to continuing operations follows:

	2021	2020
Tax on pretax profit at 25 per cent	1,393,373	8,997,249
Adjustment in 2020 income taxes Rate due to Create	(4,550,217)	0
Adjustments for income subjected to lower income tax rates	(4,503,750)	(14,899,422)
Tax effects of:		
Non-deductible expense	8,524,237	17,593,557
Non-taxable income	124,389	555,279
	988,032	**12,246,663**

The components of the net deferred tax assets follow:

	Statements of Financial Position		Statements of Income		Statements of Comprehensive Income	
	2021	2020	2021	2020	2021	2020
Deferred tax assets:						
Allowance for impairment	649,693,443	383,455,642	35,093,994	29,673,253	0	0
Accumulated depreciation on investment properties	42,807,929	41,515,812	10,119,222	10,639,027	0	0
Post-employment defined benefit obligation	18,132,689	43,221,745	0	0	(17,885,432)	16,799,875
Unrealized losses on mark to market of FVTPL	141,487	276,815	(135,328)	(170,512)	0	0
Lease Liabilities	37,480,958	59,758,917	(3,301,460)	(10,862,032)	0	0
Unearned Bancassurance	9,553,606	10,114,328	0	4,039,328	0	0
Past service cost	0	438,340	(438,340)	0	0	0
	757,810,112	538,781,599	41,338,088	33,319,064	(17,885,432)	16,799,875
Deferred tax liabilities:						
Right –of-use asset	(28,759,509)	(47,883,453)	2,071,023	10,287,120	0	0
Accumulated unrealized gain on foreclosure	(55,476,700)	(8,150,346)	(5,463,754)	(2,184,850)	0	0
Past service cost	(728,713)	0	(728,713)	(1,223,255)	0	0
	(84,964,922)	(56,033,799)	(4,121,444)	6,879,015	0	0
Net Deferred Tax Assets	**672,845,190**	**482,747,800**				
Deferred Tax Income			**37,216,644**	**40,198,079**	**(17,885,432)**	**16,799,875**

The Bank is subject to the minimum corporate income tax (MCIT) which is computed at 1 per cent of gross income net of allowable deductions, as defined under the tax regulations or to RCIT, whichever is higher. No MCIT was reported in 2021 and 2020 as the RCIT was higher than MCIT in both years.

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

25 EQUITY

25.1 Capital Stock

As at December 31, 2021 and 2020, the Bank has a total authorized capital stock consisting of 8,000,000 shares at P100 par value per share. As of those dates, total issued and outstanding shares consists of 7,172,491 shares amounting to P717.25 million. There were no movements in the paid-up capital and issued for both years.

On July 9, 2014, the Bank's BOD approved the declaration of cash dividend amounting to P1.00 billion or P139.72 per share payable to stockholders of record as at December 31, 2013. Such cash dividend declaration was approved by the BSP on October 28, 2014.

On November 27, 2017, the Bank's BOD approved the declaration of cash dividend amounting to P500.00 million to stockholders of record as at December 31, 2016 and is to be paid in two tranches on December 15, 2018 for the amount of P250.00 million and on December 15, 2019 for the amount of P250.00 million. No dividends were declared for 2020.

On 4 January 2021, we received a letter dated 20 November 2020 from the Governance Commission for Government-Owned and Controlled Corporation (GCG) categorizing the UCPB Savings Bank (UCPBS) as a Government Financial Institution (GFI), and thus covered by Republic Act No. 9656 (Dividends Law)

On February 23, 2021, UCPBS wrote to the Department of Finance (DOF) requesting that UCPBS be exempted from declaring and remitting at least 50 per cent of its annual net earnings as cash, stock, or property dividends to the National Government on the followings grounds pursuant to 2016 Implementing Rules and Regulations (2016 IRR) issued by the DOF:

First, the IRR provides that the rules shall apply to all Government-Owned or Controlled Corporations[1] ("GOCCs"), which shall include financial institutions owned or controlled by the National Government but shall exclude Acquired Asset Corporations[2]. We submit that UCPBS is an Acquired Asset Corporation, and thus excluded from the GOCCs required to declare and remit dividends to the National Government.

[1] "Government-Owned or -Controlled Corporations ("GOCCs")", refer to corporations organized as a stock or non-stock corporation vested with functions relating to public needs, whether governmental or proprietary in nature, and owned by the National Government directly or through its instrumentalities either wholly or, where applicable as in the case of stock corporations, to the extent of at least 51% of its capital stock. This term shall also include financial institutions owned or controlled by the National Government but shall exclude acquired asset corporations, state universities and colleges. (Sec. 3 G)

[2] Acquired Asset Corporation" refers to a corporation: (1) which is under private ownership, the voting or outstanding shares of which were: (i) conveyed to the Government or to a government agency, instrumentality or corporation in satisfaction of debts whether by foreclosure or otherwise, or (ii) duly acquired by Government through a final judgment in sequestration proceedings; or (2) which is a subsidiary of a government corporation organized exclusively to own or manage, or lease, or operate specific physical assets acquired by a government financial institution in satisfaction of debts incurred therewith, and which in any case by law or enunciated policy is required to be disposed of to private ownership within a specified period of time. (Sec. 3 B)

Second, Section 7 (b) of the IRR allows a downward adjustment in the Dividend rate below the minimum 50 per cent in the following cases: (i) where there is a presence of a deficit as reflected in the GOCC's latest Statement of Equity; (ii) where the GOCC's viability or the purpose for which the GOCC has been established will be impaired by the payment of the required Dividends; (iii) where the declaration and remittance of Dividends at the minimum Dividend rate will result in a breach in minimum regulatory requirements (e.g. capital level and ratios as may be required by BSP); and, (iv) for GOCCs governed by the Batas Pambansa Blg. 68 (or the Corporation Code of the Philippines), where declaration and remittance of Dividends at the minimum Dividend rate exceeds the unrestricted retained earnings of the GOCC.

We submit that the present condition of the bank warrants a significant reduction in, if not an exemption from the dividend requirement as it continues to be challenged by the quality of its loan portfolio because of the effects of the Covid-19 pandemic.

To date, we are still waiting for a reply from the DOF on the Bank's request for such exemption.

Unclaimed dividends included in Other Liabilities account amounted to P22.31 million and P31.68 million as of December 31, 2021 and 2020, respectively (see Note 19).

As at December 31, 2021 and 2020, the Bank has 177 stockholders owning 100 or more shares each of the Bank's capital stock respectively.

25.2 Revaluation Reserves

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

	Financial Asset at FVOCI (see Note 9.2)	Post-employment Defined Benefit Obligation (see Note 21.2)	Total
Balance as of January 1, 2021	656,113	(113,501,844)	(112,845,731)
Remeasurements of defined benefit post-employment plan	0	71,541,727	71,541,727
Fair value loss on financial assets at FVOCI	(656,113)	0	(656,113)
Other comprehensive loss before tax	(656,113)	71,541,727	70,885,614
Tax expense	0	(17,885,432)	(17,885,432)
Other comprehensive loss after tax	(656,113)	53,656,295	53,000,182
Balance as of December 31, 2021	**0**	**(59,845,549)**	**(59,845,549)**

	Financial Asset at FVOCI	Post-employment Defined Benefit Obligation	Total
Balance as of January 1, 2020	(3,355,701)	(74,302,137)	(77,657,838)
Remeasurements of defined benefit post-employment plan	0	(55,999,583)	(55,999,583)
Fair value loss on AFS financial assets	4,011,814	0	4,011,814
Other comprehensive loss before tax	4,011,814	(55,999,583)	(51,987,769)
Tax expense	0	16,799,875	16,799,875
Other comprehensive loss after tax	4,011,814	(39,199,708)	(35,187,894)
Balance as of December 31, 2020	**656,113**	**(113,501,844)**	**(112,845,731)**

25.3 Surplus Reserves

Pursuant to the requirements of the BSP under Circular No. 1011, the Bank shall recognize general loan loss provisions equivalent to one percent of all outstanding loans as of the end of the reporting period, except for accounts considered as credit risk-free under the existing BSP regulations. In cases when the computed allowance for ECL on those exposures is less than one percent of general loan loss provisions required, the deficiency is recognized through appropriation from the Bank's available surplus. As at December 31, 2021 and 2020, the bank's appropriated surplus pertaining to the General loan loss provisions (GLLP) amounted to P5.71 million and 50.48 million, respectively.

26 RELATED PARTY TRANSACTIONS

Parties are considered to be related if a party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subjected to common significant influence. Related parties may be individuals or corporate entities. Transactions between related parties are based on terms similar to those offered to non-related parties.

The account balances with respect to related parties included in the financial statements are as follows:

		Elements of Transactions				
		Statements of Financial Position		Statements of Income		
Related Party	Nature of Transaction	2021	2020	2021	2020	Terms and Conditions
Parent Bank						
	Due from other banks	77,001,710	230,369,874	0	0	on-demand; 0.25%; unsecured
	Interest Income	0	0	51,616	109,377	1-7days; 2.53125% to 2.5625%; unsecured
	Interest Expense	0	0	64,520	136,721	1-4 days; 2.25%-2.28% unsecured
	Compensation and fringe benefits	0	0	12,448,905	13,378,121	non-interest bearing; unsecured
	Rent expense	0	0	11,400,499	10,957,348	non-interest bearing; unsecured
UCPB-CIIF Finance and Development Corporation						
	Deposit liabilities	3,485,729	2,646,414	0	0	on-demand; interest bearing; unsecured
	Interest expense	0	0	0	341	on-demand; interest bearing; unsecured

Details of the foregoing transactions follow:

26.1 Bank Deposits

The Bank has deposit accounts with the parent bank amounting to P77 million and P230.37 million as at December 31, 2021 and 2020, respectively, which are presented as part of Due from Other Banks in the statements of financial position. These bank deposits earn interest at the parent bank's regular savings account rate of 0.25 per cent. These deposits made substantially on the same terms as transactions entered into with other third-party individuals and businesses of comparable risks. The related interest income from these deposits amounted to P0.05 and P0.10 million 2021 and 2020.

26.2 Expenses Paid to the Parent Bank

a. The Bank incurs compensation and fringe benefits expenses for its seconded employees from the parent bank who occupy key management positions at the Bank. In 2021 and 2020, the parent bank charged the Bank expenses amounting to P12.44 million and P13.38 million, respectively.

b. The Bank incurred rent expense amounting to P11.40 million and P10.95 million in 2021 and 2020, respectively, for the lease of its Head Office premises to the parent bank. The lease covers the period from April 2012 to August 2024 for P0.95 million per month.

26.3 Key Management

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 Management Committee to constitute key management personnel for purposes of PAS 24, *Related Party Disclosures*. The remuneration of directors and other members of key management personnel included in the statements of income follow:

	2021	**2020**
Short-term benefits	9,442,157	12,343,222
Post-employment benefits	3,006,748	1,034,899
	12,448,905	**13,378,121**

Deposit liabilities to key management personnel amounted to P7.45 million and P6.72 million for 2021 and 2020, respectively. Interest expense incurred on the deposit liabilities for 2021 and 2020 amounted to P50,295 and P182,137 respectively.

Short-term employee benefits include salaries and other non-monetary benefits.

26.4 Transactions with Retirement Plan

On December 20, 2012, the SEC issued Memorandum Circular No. 12 providing for guidelines on the disclosure of transactions with retirement benefit funds. Under the said circular, a reporting entity shall disclose information about any transaction with a related party (retirement plan, in this case) and outstanding balances necessary for an understanding of the potential effect of the relationship on the financial statements.

The Bank's retirement plan for its defined benefit post-employment plan maintained for qualified employees, is administered and managed by the UCPB Trust Banking Division under a trust agreement. The carrying amount and the composition of the plan assets as of December 31, 2021 and 2020, as well as the amounts contributed by the Bank, are shown in Note 21.2.

The total deposits of the retirement fund to the Bank amount to P93.47 million and P24.90 million as of December 31, 2021 and 2020, respectively. The related interest expense recognized by the Bank from these deposits amounted to P 0.83 million and P0.10 million in 2021 and 2020, respectively.

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

27 COMMITMENTS AND CONTINGENT LIABILITIES

The following are the significant commitments and contingencies involving the Bank:

a. In the normal course of the Bank's operations, there are outstanding commitments and contingent liabilities, such as guarantees and commitments to extend credit, which are not reflected in the financial statements. (See note 30.7 for details)

b. There are other commitments, guarantees and contingent liabilities that arise in the normal course of the Bank's operations that are not reflected in the financial statements. The Bank recognizes in its books any losses and liabilities incurred in the course of its operations as soon as these become determinable and quantifiable.

As of December 31, 2021 and 2020, management is of the opinion that losses, if any, from the foregoing items will not have a material effect on the Bank's financial statements.

28 EVENTS AFTER THE REPORTING PERIOD

28.1 *UCPB-LBP Merger*

On March 1, 2022 the legal merger of United Coconut Planters Bank and the Land Bank of the Philippines became effective, pursuant to the Executive Order No. 142 s2021, entitled as "Approving the Merger of Land Bank of the Philippines (LBP) and the United Coconut Planters Bank (UCPB), and the acquisition by the LBP of the Special Preferred Shares of the Philippine Deposit Insurance Corporation (PDIC) in the UCPB", as signed by President Rodrigo R. Duterte on June 25, 2021.

29 OTHER MATTERS

29.1 Impact of COVID-19 Pandemic on Bank's Business

The COVID-19 pandemic started to become widespread in the Philippines in early March 2020. The measures taken by the government to contain the virus have affected economic conditions and the Bank's business operations.

At the start of the pandemic, the Bank acted quickly and implemented its business continuity plan ("BCP"). The Bank's BCP ensures that UCPB Savings Bank will be able to deliver its products and services in the event of extreme duress including medical issues and/or government control measures. The Bank has also adopted and implemented precautionary measures to ensure the safety of its employees, clients, and agency personnel. In this age of pandemic, the need to further improve the digital platform arises. The Bank has allowed work-from-home arrangements and meetings online via the appropriate platforms to minimize unnecessary physical contact.

The Bank expects slower growth in 2021 as the economy rebounds. The Bank will continue to focus on its products, processes, and people. Further, will strengthen its relationships with Small and Medium-sized Enterprises business, offer product bundling and cross-selling. In terms of process, the Bank remains committed to taking a customer-driven and personalized marketing approach, reduce turn-around times, and revisit its loan policies to adopt best practices. The Bank supports the training of its people via online courses, strengthen rewards and recognition systems, and upskill employees.

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

30 SUPPLEMENTARY INFORMATION REQUIRED BY THE BANGKO SENTRAL NG PILIPINAS

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

30.1 Selected Financial Performance Indicators

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

	2021	2020
Return on average equity	0.36%	1.20%
Net interest margin	5.40%	4.74%
Return on average assets	0.04%	0.15%

The Bank's financial performance indicators are computed based on regulatory capital submitted to the BSP as required by Subsection X190.4*, Disclosure Requirement in the Notes to the Audited Financial Statements*, of the Manual of Regulations for Banks.

30.2 Capital Instruments Issued

As of December 31, 2021, the Bank has no capital instruments considered in the computation of the Bank's regulatory and qualifying capital in accordance with Circular 781, *Basel III Implementing Guidelines on Minimum Capital Requirements, which may include*, instruments recorded as part of equity or a financial liability qualifying as Tier 2 capital.

30.3 Significant Credit Exposures as to Industry / Economic Sector

As at December 31, 2021 and 2020, the information on the concentration of loans and discounts as to industry follows (in thousands, except for percentages):

	2021		2020	
	Amount	**%**	**Amount**	**%**
Loans to individuals primarily for personal use purposes	3,923,881	31.05	5,126,124	36.50
Real estate activities	4,168,783	32.99	4,349,331	30.25
Wholesale and retail trade, repair of motor vehicles	1,808,621	14.31	1,837,811	12.78
Financial and insurance activities	544,569	4.31	648,208	4.51
Agriculture, forestry and fishing	778,550	6.16	1,113,567	7.74
Education	62,577	0.50	160,590	1.12
Transportation and storage	192,069	1.52	73,523	0.51
Construction	130,662	1.03	138,816	0.97
Others	1,025,726	8.12	930,602	6.47
	12,635,438	**100.00**	**14,378,572**	**100.00**

The maturity profile of loans and receivables is disclosed in Note 4.3.

30.4 Credit Status of Loans

The breakdown of receivable from customers as to status is shown below and in succeeding page (in thousands).

	2021		
	Performing	**Non-performing**	**Total Loan Portfolio**
Gross Carrying Amount			
Corporate	2,477,894	2,258,224	4,736,118
Consumer	6,173,269	1,726,051	7,899,320
Allowance for ECL	(221,132)	(1,706,626)	(1,927,758)
Net Carrying Amount	**8,430,031**	**2,277,649**	**10,707,680**

	2020		
	Performing	Non-performing	Total Loan Portfolio
Gross Carrying Amount			
Corporate	3,103,376	2,108,609	5,211,985
Consumer	7,438,870	1,727,717	9,166,587
Allowance for ECL	(173,208)	(1,038,181)	(1,211,389)
Net Carrying Amount	**10,369,038**	**2,798,145**	**13,167,183**

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

	2021	2020
Total NPLs	3,984,274,716	3,836,326,245
NPLs fully covered by allowance for credit and impairment losses	(1,037,472,187)	(569,822,941)
	2,946,802,529	**3,266,503,304**

Under banking regulations, NPLs shall, as a general rule, refer to loan accounts whose principal and/or interest remain unpaid for 30 days or more after due date or after they have become past due in accordance with existing rules and regulations. This shall apply to loans payable in lump sum and loans payable in quarterly, semi-annual or annual installments, in which case, the total outstanding balance thereof shall be considered nonperforming.

In the case of receivables that are payable in monthly installments, the total outstanding balance thereof shall be considered nonperforming when three or more installments are in arrears. In the case of receivables that are payable in daily, weekly or semi-monthly installments, the total outstanding balance thereof shall be considered nonperforming at the same time that they become past due in accordance with existing BSP regulations [i.e., the entire outstanding balance of the receivable shall be considered as past due when the total amount of arrearages reaches ten (10) percent of the total receivable balance]. Restructured receivables, which do not meet the requirements to be treated as performing receivables shall also be considered as NPLs.

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

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

Restructured receivables by contractual maturity dates are analyzed as follows:

	2021	2020
Due within one year	58,033,811	48,071,481
Due beyond one year but not beyond five years	521,396,986	65,445,852
Due beyond five years	467,008,383	985,228,282
	1,046,439,180	**1,098,745,615**

Restructured receivables earn annual interest rates ranging from seven per cent to 30 per cent both in 2021 and 2020.

30.5 Information on related party loans broken down as follows:

In the ordinary course of business, the Bank can enter into loan and other transactions with the parent bank and with certain directors, officers, stockholders, and related interests (DOSRI). Under the Bank's policy, these loans and other transactions are made substantially on the same terms as with other individuals and businesses of comparable risks and were subject of prior Board approval and entailing BSP reportorial requirements.

Existing BSP regulations also limit the total amount of credit exposure to each of the Bank's DOSRIs, at least 70.00 per cent of which must be secured, to the total of their respective deposits and book value of their respective unencumbered deposits and, if any, book value of their respective paid-in capital contribution in the Bank. In the aggregate, the Bank's total credit exposure to all its DOSRIs should not exceed its net worth or 15 per cent of its total loan portfolio, whichever is lower, with any unsecured portion thereof not exceeding the lower between 30 per cent of the aggregate limit or of the total actual exposure. However, loans and other credit accommodations to DOSRIs that are secured by assets considered by the BSP as non-risk are exempt from these ceilings. As of December 31, 2021 and 2020, the Bank's credit exposures to DOSRI are within the said regulatory limits.

BSP Circular No. 423 dated March 15, 2004, as amended by BSP Circular No. 914 dated June 23, 2016, provide the rules and regulations governing credit exposures to DOSRI. The following table shows information relating to the loans, other credit accommodations and guarantees classified as DOSRI accounts under regulations existing prior to BSP Circular No. 423 and new DOSRI loans and other credit accommodations granted under said circular as of December 31:

	2021	2020
Total outstanding DOSRI loans	22,103,028	6,220,067
Unsecured DOSRI loans	21,494,295	5,517,539
Percent of DOSRI loans to total loans	0.17%	0.04%
Percent of unsecured DOSRI loans to total DOSRI loans	97.25%	88.71%
Percent of past due DOSRI loans to total DOSRI loans	2.12%	0.0%
Percent of non-performing DOSRI loans to total DOSRI loans	0.43%	0.39%

In 2021 and 2020, total interest income on DOSRI loans amounted to P 1.73 million and P0.41 million, respectively.

30.6 Secured Liabilities and Assets Pledged as Security

As of December 31, 2021, the Bank has no assets pledged as security for liabilities.

30.7 Nature and Amount of contingencies and commitments

The following is the summary of the Bank's commitments and contingent liabilities at their equivalent peso contractual amounts:

	2021	2020
Late deposits	2,711,135	11,208,529
Items held for safekeeping	56,536	70,812
Others	8,936	9,483

Late deposits are payments or deposits received after the prescribed clearing cut-off time.

31 SUPPLEMENTARY INFORMATION REQUIRED BY THE BUREAU OF INTERNAL REVENUE

Presented in the succeeding page is the supplementary information which is required by the Bureau of Internal Revenue (BIR) under its existing Revenue Regulation No. 15-2010 (RR) to be disclosed as part of the notes to financial statements. This supplementary information is not a required disclosure under PFRS.

The information on taxes, duties and license fees paid or accrued during the taxable year required under RR No. 15-2010 are as follows:

(a) Gross Receipts Tax

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

The Bank reported total GRT amounting to P69,498,587 in 2021 and is shown as part of Taxes and Licenses in the 2021 statement of income [see Note 31(e)].

(b) Taxes on Importation

The Bank did not have any importations in 2021.

(c) Excise Taxes

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

(d) Documentary Stamp Tax

Documentary stamp taxes (DST) paid and accrued in 2021 is presented below.

On loan documents	76,281,764
On mortgages, pledges, and deed of trust	2,347,960
On leases and other hiring agreements	7,014
On telegraphic transfer	19,563
	78,656,301

For the year ended December 31, 2021, DST affixed amounted to P78.66 million, of which P30.75 million were charged to the Bank's clients; hence, not reported as part of taxes and licenses [see Note 31(e)].

(e) Taxes and Licenses

The details of the taxes and licenses in 2021 are as follows:

	Note	
GRT	31(a)	69,498,587
DST	31(d)	47,908,304
License and permit fees		5,973,038
Fringe benefit tax		637,602
Others		65,464
		124,082,995

(f) Withholding Taxes

The details of total withholding taxes in 2021 are shown below.

Compensation and benefits	25,865,477
Expanded	8,175,758
Business Tax	9,860,444
Final	25,625,146
	69,526,825

(g) Deficiency Tax Assessments and Tax Cases

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.

OBSERVATIONS AND RECOMMENDATIONS

A. FINANCIAL ISSUES

1. The true economic value of 391 Real and Other Properties Acquired (ROPA) recognized at P1 nominal value under Investment Property account were not faithfully represented due to absence of appraisals, while 287 acquired properties were also without regular appraisals, contrary to the provisions of BSP Circular No. 520 Series of 2006 and UCPBS's ROPA Manual.

1.1. Section (c) – 5 of BSP Circular No. 520 Series of 2006 on the Appraisal of Properties states that:

Before foreclosing or acquiring any property in settlement of loans, it must be properly appraised to determine its true economic value. If the amount of ROPA to be booked exceeds P5 million, the appraisal must be conducted by an independent appraiser acceptable to the BSP. An in-house appraisal of all ROPAs shall be made every other year; Provided, that immediate reappraisal shall be conducted on ROPAs which materially decline in value.

1.2. In line with the BSP Circular, the UCPB Savings Bank Inc.'s (UCPBS) ROPA Manual on the appraisal requirement for acquired properties provides the following:

Item C, Chapter I:

Appraisal must be conducted before foreclosing or acquiring any property in settlement of loans to determine its true economic value. Likewise, the title and tax declaration must be verified.

Appraisal of properties exceeding P5 MM must be conducted by an independent appraiser acceptable to the BSP.

Item 2 of Chapter III.B:

Regular appraisal of all ROPAs shall be conducted by the Bank's in-house appraisers at least every other year. However, acquired assets exceeding P5MM must be appraised by an independent appraiser acceptable to the BSP.

1.3. As at December 31, 2021, the Investment Property account of the UCPBS has a balance of P1.100 billion consisting of Land and Building amounting to P575.100 million and P525.695 million, respectively, as shown below:

Particulars	Cost	Accumulated depreciation	Allowance for impairment	Net book value
Land	525,695,115	0	22,229,051	503,466,064
Building	575,100,963	171,231,718	2,717,119	401,152,126
Total	**1,100,796,078**	**171,231,718**	**24,946,170**	**904,618,190**

1.4. As at December 31, 2021, the Bank has a total ROPA inventory of 1,210 properties. Verification was made to establish whether the ROPA of the Bank were regularly appraised in accordance with the above regulations. Review revealed the following:

a. Six lots were recognized in the books of accounts at a nominal value of P1 per lot because these were not appraised contrary to the provisions of BSP Circular No. 520 and the UCPBS ROPA Manual. These properties were repossessed through the process of merger of various rural banks to the then United Rural Bank, now UCPB Savings Bank.

b. 390 lots were recognized at nominal value of P1 each despite the availability of their appraised values aggregating P87.059 million. The latest appraisal values of these 390 lots ranges from P1,125 up to P8.648 million.

1.5. Also, we noted that 287 acquired properties were not regularly appraised at least every other year, contrary to the provisions of BSP Circular No. 520 and UCPBS ROPA Manual, to wit:

Particulars	No. of properties	Reported balance
ROPA exceeding P5 million	12	131,944,312
ROPA below P5 million	275	39,136,011
Total	**287**	**171,080,323**

1.6. The latest appraisal of ROPA exceeding P5 million were made in 2018 and 2019 while appraisal of ROPA below P5 million were conducted from 2009 to 2019. This is not consistent with the Bank policy which requires the regular conduct of appraisal of ROPA to determine the true economic value of properties and to identify accounts which has materially declined in value that may need provisions for impairment.

1.7. This is a reiteration of the 2019 audit observation. Management disclosed that the updating of the ROPA appraisal was delayed due to the declaration of lockdowns and quarantine restrictions in the different local government units.

1.8. The absence of regular appraisal of acquired assets is not in accordance with BSP Circular No. 520 and UCPBS ROPA Manual. Due to the absence of updated appraisal reports, the true economic value of the ROPA accounts recorded under Investment Property was not determined as at year end.

1.9. **We recommended and Management agreed to conduct periodic appraisal of ROPA accounts to establish the true economic value of acquired assets recognized under Investment Property in accordance with BSP Circular No. 520 and UCPBS ROPA Manual.**

B. NON-FINANCIAL ISSUES

2. The Loan to Value/Loan to Collateral Ratio of the real estate loans granted in CY2021 totaling P143.922 million is not consistent with the requirements of the UCPBS Real Estate Loan Manual, thereby exposing the Bank to possible risk of financial loss.

2.1. Chapter I Section C.2 of the UCPBS Real Estate Loan Manual provides the product features specifically the provision of the bank for the maximum loan to value ratio:

Details	*Regular Housing Loan - Direct*	*Regular Housing Loan – Accredited Developers*
Maximum loan to value ratio or LTV or loan to collateral ratio LCR **BSP cir. 855 –Guidelines on Sound Credit Risk Management Practices dated October 29, 2014 considers a loan secured up to maximum sixty per cent (60%) real estate collateral loan value. Exposure in excess of 60% Loan-to- Value (LTV) Ratio / Loan-to-Collateral Ratio (LCR) shall be considered unsecured.*	***70%** - for lot only* ***80%** - for loans to be used for construction, improvement or acquisition of residential property which is rented, occupied and intended to be occupied by the borrower*	*70% - acquisition of vacant lot 80% house and lot, townhouse, condo unit* *In case there is a MOA between the bank and the accredited Developer maximum LTV / LCR shall apply or prevail*

2.2. Further, Section C.3 of the same Manual provides the guidelines for the acceptability and non-acceptability of real estate collateral as follows:

1. *To the extent possible, all real estate loans shall be secured by collaterals acceptable to the Bank.*

2. *The Consumer Lending Division must ensure that the unit/ property offered as collateral are acceptable and desirable as per Bank's policy and guidelines. The Bank shall maintain a list of what it considers acceptable collaterals which shall be updated as necessary.*

3. *All collaterals offered as security to loan accommodations shall always be appraised to determine their acceptability and value except housing units/lots from accredited projects of accredited developers for which a general appraisal shall be conducted by the Bank.*

   Appraisal of value of real estate collaterals shall be done by the Bank's internal appraisal unit CAID-CMD or any acceptable external appraisal agencies contracted by the Bank. Collateral appraisals shall be governed by the Procedures Manual of CAID-CMD.

2.3. As at December 31, 2021, the Loans and receivables account balance of the UCPBS amounted to P12.635 billion which includes real estate loans totaling P3.181 billion.

2.4. Review showed that out of the P3.181 billion real estate loans, 187 loan accounts with a total of P369.566 million were granted in 2021. Of the 187 loans granted, 76 loans amounting to P143.922 were not covered with sufficient collaterals. The Loans to Value (LTV)/Loan to Collateral Ratio (LCR) is more than 80 per cent contrary to the UCPBS Real Estate Loan Manual. Details are shown below:

Particulars	No. of accounts	Loan amount	Collateral value	Average LTV/LCR
Loans fully secured with collaterals	111	225,644,147.52	388,851,920.81	58.03%
Loans not sufficiently covered with collaterals	76	143,922,146.67	164,435,443.84	87.53%
Total	**187**	**369,566,294.19**	**553,287,364.65**	

2.5. The LTV/LCR of the loans not fully secured by collaterals ranges from 80.34 per cent to 220.68 per cent and the average LTV/LCR is 87.53 per cent. Maximum loan to value ratio in excess of 80 per cent, beyond the rate imposed in the Bank's policy, reflects that the loan is not sufficiently covered with collaterals.

2.6. Under the existing policy of the Bank, appraisal of value of real estate collaterals, assessment and approval of loans are made by the Credit Management Division (CMD) while the booking of loans is handled by Loans Operations Division (LOD). The Consumer Lending Division (CLD) markets the consumer loans such as Real estate, auto loans and cash loans to the clients. The CLD with the help of Credit Appraisal and Investigation Department (CAID-CMD) assesses and assures that the Real estate loans are secured by corresponding collaterals. The policy also requires that the CLD must ensure that the unit/ property offered as collateral are acceptable and desirable as per Bank's policy and guidelines. It was however noted that despite the existing policy and procedures of the Bank in the granting of real estate loans, 76 were granted with LCR of more than 80%, inconsistent with the REL Manual,

2.7. Management informed that the collateral value indicated in the Schedule of Loans and receivables is the value of the security offered at the time of loan grant/booking date, and that collaterals of real estate loans are usually appraised every two years, or upon occurrence of loan restructuring.

2.8. Management further commented that all REL granted by the Bank are fully compliant to the requirement of the BSP under Circular 855 and the 76 accounts with average collateral cover of 87 per cent are in accord with the REL Manual as duly approved by the Bank's Board of Directors. They stated that under Chapter I Section C.2. of the Revised REL Manual, it is provided that Direct Loans are required to be covered with up to 80 per cent loan to value ratio, while for Developer Generated accounts - *in case there is a MOA between the bank and the accredited Developer maximum LTV / LCR shall apply or prevail.*

2.9. Management asserted that real estate loan accounts which exceeded the Bank's required LTV/LCR were from Developer Generated accounts. However, CMD admitted that the Loan Operating System, an in-house database used to maintain and monitor loans and their related collaterals, has a limitation in sorting the loan classification and type. As such, they were not able to determine whether the 76 accounts were Developer Generated Accounts. The team requested for the submission of additional schedule and supporting documents to verify whether the 76 accounts are Developer Generated, however, no supporting documents were made available.

2.10. It was also noted that 63 accounts or clients have multiple loans secured by a single collateral. This, however, was not indicated or properly reported in the Schedule of Loans and receivables which hindered the Bank to monitor the accounts and to evaluate the sufficiency of the collateral covering the multiple loan accounts. Although Management can access the client's information through the Customer Information System (CIS) and Credit Approval Memorandum (CRAM), the systems is not capable of generating information showing that a particular client has exceeded the required LTV/LCR.

2.11. Management committed to maintain a separate schedule for the loan accounts with multiple loans covered by a single collateral for easy monitoring and to ensure sufficiency of the collaterals in 2022.

2.12. The LTR/LCR of the 76 real estate loans exceeding the Bank's requirement implies insufficiency of the value of collaterals submitted as security of the loans which is an internal control breakdown and is contrary to the Real Estate Manual. Also, it exposes UCPBS to possible risk of financial loss.

2.13. **We recommended and Management agreed to:**

a. Require Credit Management Division to investigate loan accounts with insufficient collateral values and undertake necessary action to comply with the Bank's policy;

b. Prepare a separate schedule for the accounts with multiple loans for proper monitoring and to ensure sufficiency of the collaterals; and

c. Ensure that all real estate loans granted are properly and sufficiently covered with collaterals acceptable to the Bank in compliance with UCPBS Real Estate Loan Manual.

3. Several paid vouchers were not appropriately approved and were not supported with the required documents contrary to the provisions of COA Circular Nos. 2006 – 004 and 2012 – 001, which poses internal control breakdown and exposes the Company to possible risk of financial loss.

3.1. COA Circular No. 2012-001 dated June 14, 2012 enumerated the following general requirements for all types of disbursements:

1. *Certificate of availability of funds issued by the Chief Accountant*
2. *Existence of lawful and sufficient allotment duly obligated as certified by authorized officials (except for government-owned and controlled corporations/government financing institutions)*
3. *Legality of transaction and conformity with laws, rules or regulations*
4. *Approval of expenditure by Head of Office or his authorized representative*
5. *Sufficient and relevant documents to establish validity of claim*

3.2. Further, COA Circular No. 2006 – 004 dated January 31, 2006 provides required forms such as Disbursement Vouchers (DVs) and Budget Utilization Request (BUR) necessary in processing claims chargeable against the corporate funds of government owned and/or controlled corporations.

3.3. Review of the disbursements made by UCPBS in 2021 revealed that the documentary requirements for government transactions under COA Circular No. 2012-001 were not complied with. We also noted that the Company is not yet using the prescribed forms in recording budget utilization and disbursements provided under COA Circular No. 2006 – 004. To-date, they still follow their existing policies and practices as a private company since they are still under transition as a GOCC.

3.4. As at December 31, 2021, UCPBS reported operating expenses totaling P1.022 billion, details as follows:

Particulars	Amount
Salaries and employee benefits	477,617,979
Taxes and licenses	124,082,995
Depreciation and amortization	155,483,995
Occupancy	36,658,950
Insurance	52,723,529
Security, messengerial and janitorial	37,718,870
Litigation	22,761,907
Transportation and travel	9,275,141
Entertainment, amusement and recreation	2,281,388
Management and other professional fees	3,140,952
Miscellaneous	100,733,857
Total	**1,022,479,563**

3.5. We have post-audited sample vouchers of the Head Office and 12 branches for CY 2021. Scrutiny of the Cash Disbursement Vouchers (CDV) and request for payment forms and the related supporting documents revealed the following deficiencies:

a. UCPBS's pro-forma CDV and request for payment form does not provide the following required certifications by authorized officer/s which are general requirements for all types of disbursements in accordance with COA Circular No. 2012 – 001:

ii. Availability of funds by the Chief Accountant
iii. Expenses are necessary and lawful
iv. Supporting documents are complete and amount claimed is proper

b. Payments for office supplies and accountable forms amounting to P9.017 million were only supported with official receipt or customer credit advice, sales invoice, delivery receipt, supplies requisition form and budget certification. The purchase of supplies is centralized at the Head Office and are allocated and distributed to the departments and branches. The following required documents were not attached to the vouchers: (1) Request for quotation, (2) proofs of non-availability of stock in PS-DBM, (3) abstract of canvass; (4) inspection and acceptance report signed "Inspected By" by the authorized agency inspector and signed "accepted by" by the authorized end- user to whom the item was delivered or the property officer if item is for stock. This is contrary to Section 9.2 of COA Circular No. 2012 – 001, which provides for the basic requirements common to all purchases under alternative mode of procurement.

c. No certification was issued by the Head of Agency or his authorized representatives for telephone billings totaling P7.538 million to certify that the calls are official in nature in violation of Section 6.2 of COA Circular No. 2012 – 001.

d. The Management uses the Travel Assignment Order (TAO) form in lieu of the required itinerary of travel prescribed in Section 1.1.4 of COA Circular No. 2012 - 001. It was also noted that the TAO is not pre-numbered and no certification from the immediate superior stating that the travel is necessary, the period covered is reasonable and the expenses claimed is proper.

e. Vouchers were not supported with BUR contrary to COA Circular No. 2006 – 004 which requires the preparation of BUR in three copies to support the disbursements.

f. The Management prepares a CDV or request for payment form in lieu of DVs contrary to COA Circular No. 2006 – 004 which requires the preparation of DVs in three copies.

3.6. Management committed to align their existing processes with the requirements of COA and will send Bank officers and employees to seminars pertaining to the disbursement of expenses to ensure compliance and proper implementation of the requirements of the aforementioned COA issuances.

3.7. COA Circular No. 2012-001 provides guidelines to properly manage, expend or utilize government resources in accordance with laws, rules and regulations. The aforementioned deficiencies and the absence of guidelines aligned with the COA regulations exhibit internal control weaknesses and expose the Bank to possible risk of financial loss.

3.8. **We recommended and Management agreed to:**

a. Ensure that all documentary requirements and proper approval of authorized officers are secured prior to the payment of claims/expenses;

b. Align the Company's policies and procedures with the provisions of COA Circular Nos. 2006 – 004 and 2012 – 001 in recording budget utilization and processing of disbursements using the prescribed forms; and

c. Adopt the pro-forma disbursement vouchers and budget utilization requests provided under COA Circular No. 2006 – 004 which includes, among others, certifications on the following: (i) availability of funds; (ii) expenses are necessary and lawful; (iii) supporting documents are complete; and (iv) amount claimed is proper.

4. The accountable officers for money and property of eight UCPBS Branches were not property bonded contrary to the provisions of Presidential Decree No. 1445 and Treasury Circular No. 02-2019.

4.1. Section 101 of Presidential Decree No. 1445 also known as the "Government Accounting Code of the Philippines" covering the bond requirement for every accountable officer requires that:

> *1. Every officer of any government agency whose duties permit or require the possession or custody of government funds or property shall be accountable therefor and for the safekeeping thereof in conformity with law.*
>
> *2. Every accountable officer shall be properly bonded in accordance with law.*

4.2. Treasury Circular No. 02 – 2019 dated April 19, 2019 provides the following:

> *4.6 **Extent of Liability and Condition of Bond** - Accountable officer whose fidelity is insured in the Fidelity Fund shall, from the moment he/she assumes the duties of the office, is considered bonded to the government for the faithful performance of all duties imposed upon him/her by law, and for the faithful accounting of all public funds and properties coming into his/her possession, custody or control by appropriation, collection, transfer or otherwise, as well as for the lawful payment, disbursement and expenditure or transfer of all such public funds or properties in his/her custody, possession or under his/her control as accountable or responsible. The Fidelity Fund shall be available for the purpose of replacing defalcations, shortages, unrelieved losses in the accounts of bonded accountable officers, for the payment of fees and costs incident to civil proceedings brought against them to recover sums paid on their account from said Fund.*
>
> *X x x.*
>
> *5.1 **Amount of Bond** – The amount of bond shall be based on the total accountability (cash, property and accountable forms) of the accountable officer as determined by the Head of Agency. Provided, the individual maximum amount of bond of each accountable officer shall not exceed Eleven Million Pesos (P11M). However, the Head of Agency may assign to other accountable officers the excess accountability for which a separate Fidelity Bond shall be secured.*

4.3. Verification of accounts disclosed that accountabilities of 28 accountable officers (AOs) of the Head Office and 327 AOs in branches are covered with fidelity bonds from the Bureau of Treasury from July 30, 2021 to July 30, 2022.

4.4. However, validation revealed that the approved amount of bond of 13 accountable officers in eight branches is not sufficient to cover their actual cash accountabilities. Details is as follows:

Branch	Accountable officers	Approved Amount of Bond	Maximum cash accountability	Actual cash accountability, as at December 31, 2021	Accountability not covered with fidelity bond
Alabang	BOO	225,000	500,000	1,737,928	(1,237,928)
Rizal Avenue	BOO	500,000	1,000,000	6,427,600	(5,427,600)
Rizal Avenue	Teller	500,000	1,000,000	2,229,800	(1,229,800)
Kalayaan	BOO	225,000	500,000	2,845,329	(2,345,329)
Kalayaan	Teller	500,000	1,000,000	1,144,100	(144,100)
Sta. Cruz	BOO	225,000	500,000	2,220,686	(1,720,686)
Sta. Cruz	Senior Teller	750,000	2,500,000	3,961,700	(1,461,700)
La Trinidad	BOO	750,000	2,500,000	3,668,642	(1,168,642)
La Trinidad	Teller	750,000	2,500,000	4,421,600	(1,921,600)
Cagayan de Oro	BOO	225,000	500,000	2,362,493	(1,862,493)
Cagayan de Oro	Senior Teller	750,000	2,500,000	3,411,300	(911,300)
Davao	BOO	750,000	2,500,000	3,195,614	(695,614)
Davao	Teller	750,000	2,500,000	2,508,100	(8,100)

4.5. The Branch Operations Officers (BOO) are primarily accountable for the Cash in Vault of the Branch while Tellers are primarily accountable for the Cash in the ATM of the branches. However, their existing fidelity bond are not sufficient to cover their actual cash accountability, contrary to the above-cited law and regulation.

4.6. Management informed that the fidelity bond adopted by the UCPBS branches was based on the approved matrix provided by the Head Office. The Head Office committed to improve their policy and they are studying for the revision of the fidelity bond matrix to comply with the bond requirements under PD 1445 and Treasury Circular No. 02 – 2019. Management took note of the highest accountability per position especially for the BOO. Revisions shall be made upon renewal of policies this June 2022.

4.7. The amount of fidelity bonds of accountable officers which is not based on the total accountability handled is contrary to the provisions of the PD No. 1445 and Treasury Circular No. 02-2019. The fidelity bond not sufficient to cover the total accountabilities of accountable officers preclude the Bank of full indemnification in case of losses or misuse of funds and other untoward incidents.

4.8. **We recommended and Management agreed to consider the maximum level of accountability in the application for fidelity bond of all cash and property accountabilities of accountable officers pursuant to the provisions of Treasury Circular No. 02-2019.**

5. UCPBS has not yet prepared the GAD Agenda 2020-2025 contrary to PCW Memorandum Circular No. 2018 – 04, hence has no strategic framework and plan on gender mainstreaming, and achieving women's empowerment and gender equality.

5.1. Section 3 of Philippine Commission on Women (PCW) Memorandum Circular No. 2018 – 04 dated September 19, 2018 provides the revised guidelines for the preparation of the Gender and Development (GAD) Agenda, to wit:

> *3.1 The GAD Agenda is the agency's It shall:*
>
> *3.1.1 serve as the basis in identifying programs, activities, and projects to be undertaken to achieve the GAD goals and outcomes;*
>
> *3.1.2 provide monitoring and evaluation (M&E) framework for assessing GAD results and outcomes that shall be the basis for strengthening the mainstreaming of a GAD perspective in the agency's operations and programs; and*
>
> *3.1.3 be formulated in a participatory, consultative and inclusive process. It shall consider the results from consultations with women target beneficiaries as well as women's groups/organizations working on the sector and other concerned stakeholders, and the identified gaps resulting from gender analysis.*

5.2. The GAD Agenda is a two-part document consisting of the GAD Strategic Framework (GADSF) and the GAD Strategic Plan (GADSP) for six years timeframe. The following steps are necessary in the formulation of GAD Agenda:

a. Organizing the Planning Team
b. Conducting Gender Analysis
c. Setting the Agency's GAD Vision and Mission
d. Formulating the GAD Goals
e. Prioritizing Gender Issues and/or GAD Mandates per GAD Goal
f. Outlining the GAD Outcomes, Indicators, Baseline Data, and Targets per GAD Goal
g. Translating the GAD Outcomes into GAD Programs, Projects, and/or Activities

5.3. In 2021, the Management attended GAD Orientation with PCW and established their GAD Focal Point System (GFPS). Also, the Management was able to conduct gender analysis for the Bank's personnel per division. However, Management was not yet able to prepare the Bank's GAD Agenda.

5.4. According to management, a meeting with PCW was held last May 20, 2022 and the Bank was advised to institutionalize its GFPS and set up the Bank's GAD Agenda; register to Gender Mainstreaming Monitoring System; and require the GFPS to attend capacity building trainings conducted by the PCW.

5.5. The multi-year GAD Agenda will serve as basis for the annual GAD Plans and Budgets of the agency; hence, it is necessary that the Management prepare their GAD Agenda in accordance with PCW Memorandum Circular No. 2018 – 04. The absence of the two-part document will hamper the setting and monitoring of the Bank's GAD initiatives towards the achievement of their gender equality and women's empowerment (GEWE) goals.

5.6. **We recommended and Management agreed to prepare the Bank's GAD Agenda following the steps provided under PCW Memorandum Circular No. 2018 – 04.**

Corona Virus Disease 2019 (COVID – 19) Related Programs/Projects/Activities
Payment of hazard pay

6. In 2021, the Bank paid hazard pay totaling P10.41 million to its employees who are holding critical positions and reported for work during the Enhanced Community Quarantine (ECQ) and Modified ECQ (MECQ). Payment of hazard pay was made in accordance with Administrative Order No. 26 and DBM Budget Circular NO. 2020 – 1.

Procurement of disinfection service, supplies and protective equipment

7. On May 16, 2020, the Department of Labor and Employment (DOLE) issued Labor Advisory No. 18 Series of 2020 Guidelines on the Cost of COVID – 19 Prevention and Control Measures, which provides, under Section 2 of the Advisory, that all employers shall shoulder the cost of COVID – 19 prevention and control measures such as but not limited to the following: testing, disinfection facilities, hand sanitizers, personal protective equipment (PPEs i.e., face mask), signage, proper orientation and training of workers including information, education and communication materials on COVID – 19 prevention and control.

7.1. In compliance with the DOLE advisory, the Bank paid a total of P325,497 in 2021 for disinfection service, supplies and protective equipment intended for the prevention of COVID – 19. Payments for these expenses were sourced from the Bank's approved CY 2021 regular budget for operating expenses. The procurement was in accordance with existing regulations.

Provision for shuttle services for employees reporting for work

8. On April 30, 2020, the DOLE and the Department of Trade and Industry issued the Interim Guidelines on Workplace Prevention and Control of COVID-19. Item 5, Section V thereof, requires employers, where applicable, to provide shuttle services and/or decent accommodation on near-site location to lessen travel and people movement. The UCPBS provided shuttle service and hotel accommodation to Bank employees who were required to report for work on a skeletal work force during the implementation of community quarantine in 2021, in compliance with the issued interim guidelines. The total transportation and accommodation expenses incurred in the periods mentioned amounted to P608,952.

Compliance with Tax Laws

9. Information on taxes, duties and license fees paid or accrued during the taxable year 2021 were disclosed in Note 31, Supplementary Information Required by the Bureau of Internal Revenue to the Financial Statements. The taxes withheld from compensation, benefits and other sources amounting to P69.527 million were remitted to the Bureau of Internal Revenue in accordance with the deadlines on payment/remittance of taxes prescribed under the National Internal Revenue Code.

SSS, Philhealth and Pag-IBIG Premiums

10. In 2021, the Bank complied with Republic Act No. 8282 on the collection and remittance of contributions to SSS as follows:

a. Mandatory monthly contribution of covered employees and employer in accordance with Section 18; and

b. Remittance of employees' and employer's contributions and employees' compensation premium within the due date pursuant to Section 19.

11. UCPBS also complied with Section 18, Rule III, Title III, of the implementing Rules and Regulations of RA No. 7875, as amended, in the payment of national health insurance premium contributions to the PhilHealth. The Bank also complied with Sections 2 and 3, Rule VII, of the Implementing Rules and Regulations of RA No. 9679 in the collection and remittance to the Pag-IBIG Fund.

STATUS OF IMPLEMENTATION OF PRIOR YEARS' AUDIT RECOMMENDATIONS

Out of the 19 audit recommendations embodied in the prior years' Annual Audit Reports, 11 were fully implemented, and eight were partially implemented of which five were reiterated in Part II of this Report. The other audit observations with the corresponding partially implemented audit recommendations is presented below:

Reference	Audit		Status of Implementation
	Observations	Recommendations	
CY 2019 AAR Observation No. 2 Page 99 to 102	Past due loans amounting to P4.239 billion exceeded the CY 2021 target by 5.65 per cent which exposes the Bank to higher risk of loss.	Implement measures to improve collection efficiency, and exhaust all possible actions to collect past due accounts to achieve its approved annual target.	Partially implemented Management's Collection Team worked on 37 Real Estate Loan (REL) accounts with total outstanding balance of P96M for restructuring, 17 accounts with total outstanding balance of P52M in process, 8 accounts have been approved and to be booked in January 2022, 13 accounts amounting to P25M have already been booked. Similarly, 31 REL past due accts amounting to P64M have been processed for buyback by their respective developers. On the other hand, 200 past due Auto Loan accounts amounting to P120M have been repossessed to help reduce the Bank NPL.
CY 2020 AAR Observation No. 4 Page 103 to 104	Unserviceable properties costing P35.911 million as at December 31, 2021 were not disposed contrary to	a. Properly dispose the unserviceable assets and de-recognize these from the books; and	Partially Implemented The Management revised their initial timeline to the following action plan

Reference	Audit		Status of Implementation
	Observations	Recommendations	
	Presidential Decree No. 1445.		for the remaining undisposed items: a. April 2022 – Reconcile items with FATMD and re-visit items with high net book value. Inventory of IT Equipment and coordinate with ITD on the disposition/status. b. May 2022 – Request for appraisal, if necessary. c. June 2022 – Approval for disposal. d. June to July 2022 – Publication for disposal and public bidding. Recommendation and approval for write-off/junk/condemn for remaining undisposed FFEs.
		b. Consider revisiting the existing provision of the USB ROPA Manual on disposal of unserviceable properties and align with PD 1445.	Partially implemented The existing policy for the disposal of FFE's to align with PD1445 was already taken up with the Operations Committee. The proposed new policy will be also presented to the Asset Disposal Committee for concurrence.

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