SouthBank

Your Rural Bank

ANNUAL REPORT 2021

CONTENTS

Vision

“To be one of the leading countryside banking institutions in the Philippines.“

Mission

SouthBank serves as a catalyst in providing quality financial products and services to its clientele; be an effective agent of financial inclusion as it provides an environment for its employees to grow while ensuring maximum return on investments to its stockholders.

To develop loan and other products that are attuned to the needs and are accessible to the unserved and underserved sectors of society, and to be an effective financial agent of inclusivity in the countryside;

To adopt a unique and operations-based core banking system which will drive the Bank’s digitalization and online banking business in consonance with the Digital Transformation Roadways of Bangko Sentral ng Pilipinas (BSP).

To ensure full compliance with the BSP, Philippine Deposit Insurance Corporation (PDIC) and other regulatory requirements.

About The Bank

South Bank (A Rural Bank), Inc. was originally organized by a group of Cagayan de Oro businessmen in 1993 as Kagay-anon Rural Bank (Cagayan de Oro) Inc. It was the only rural banking institution in Cagayan de Oro City at that time because establishment of bank branches was not yet liberalized.

In 1999, the Bank was acquired by the A Brown Group of Companies, the real estate developer/owner of Xavier Estates. The A Brown conglomerate is headed by Dr. Walter B. Brown, a noted businessman who is also in power, mining, and other businesses. Kagay-anon Rural Bank was then a single-branch banking unit. It was renamed South Bank (A Rural Bank), Inc. by the Brown Group.

In 2004, the Bank was acquired by the Zealep Group of Companies led by Dr. Rafaelita P. Pelaez, and has since grown from one single branch rural bank to seven branches with a fully-organized Head Office. South Bank is a key member of the Zealep Group of Companies owned by the Pelaez family, with interests in education (Liceo de Cagayan University and the Cagayan de Oro Academy of International Education, Inc.), real estate, and finance.

South Bank offers an array of products and services to the public, including various loan and deposit products and other services like G-Cash, True Money, Bills Payment and Point of Sale Transactions (POS).

There are nine members of the Board, headed by Dr. Rafaelita P. Pelaez as Chairman and Mr. Wilhelmino R. Mendoza as President and CEO. The Board has appointed two Independent Directors and there are five non Zealep-related Board Members who compose the Related Party Transactions Committee.

The President and CEO, Wilhelmino R. Mendoza, formerly First Vice President and Area Head of BDO, Region Head of Solidbank and Land Bank of the Philippines, has extensive banking experience and personal advocacies in management and family life apostolates.

Message from the President and CEO

Dear Stockholders and Friends,

In behalf of our Chairman, Dr. Rafaelita P. Pelaez, the members of the Board of Directors and the officers and staff of Management, I am happy to present to you the result of operations of the Bank for the year 2021.

2021 Financial Performance

Total Revenue amounted to P 104.3M; it is P19.3M or 22.7% higher than the P85.1M total revenue in 2020.

We reported a gross income (before tax) of P20.96M up by9.26M or 79.22% from 2020 balance of P11.7M.

Net income of P13.96M is P5.7M or 69%1 higher than 8.3M in 2020.

Provision for losses stood at P8.3M.

Total assets at Year-end 2021 stood at P559M up by P68.3M or 13.9% from P491M in 2020.

Gross Loan Portfolio amounting to P479.5M is P81.2M or 20.4% higher than P398.3M in 2020. Teacher Salary Loans remain to be the Bank's highest grosser at P258.1M, about 54.13% of the Bank's total loan portfolio.

Total Deposits amounting to P363.2M also increased by P41.5M or 13% from the 2019 balance of P321.6M.

On the other hand, total liabilities amounting to P465.4M which include bills payment of P85.47M is P54.5M lower than our balance of P410.4M in 2020.

Total Capital amounting to P93.5M improved by P14M or 17% from the 2019 balance. CAR of 14.47% remains within regulatory requirements.

2021 FACTS & FIGURES

₱20.96

Gross Income
(in million Php)

₱13.96

Net Income
(in million Php)

₱479.5

Gross Loans Portfolio
(in million Php)

₱363.2

Total Deposits
(in million Php)

₱93.5

Total Capital
(in million Php)

Despite the looming shadows of the pandemic which still gripped the economy into a tight lock, and the constant threat from a myriad of competitors, the Bank has successfully closed 2021 with a whooping P 13.9M in net income which is P 5.7M or 69% higher than the P 8.3 balance in 2020, the previous year.

The above financial performance of the Bank, which is the latest of the seven-year sequel of continuous growth in assets and revenue.

Report on Operation

The initial struggles with the 2020-borne pandemic offered us some realization and lessons learned. First, fear can cause paralysis, and paralysis results to loss of control. Despite the risks that face them every hour of the day, our Managers and Account Officers did not shrink from their responsibilities, and that is to be in the field where our clients need them.

Second, that the curse of the virus can be mitigated through physical and mental discipline, and this was

Third, we have, during this year prepared the groundwork for the merger of Cogon and Velez Branch, with the latter as the surviving Branch, and the former's license used to open Pagadian Branch during the first quarter of 2022.

Above all, it is in this year that the Bank's Digitalization Program has taken shape with the integration of our core banking system and the potential game-changer that is SBPay.

A Year of Thanksgiving

For these small victories and for some more to come in the future, honor and thanks are due our officers and staff, the leadership of our Branch Managers and supervisors, the sustained support of our officers at the Head Office and more importantly the constant support of our Chairman and all the Members of the Board.

To them, we owe heartfelt thanks and gratitude.

Again, thank you very much for your support to SBI.

WILHELMINO R. MENDOZA
President and CEO

Financial Highlights:

A Snapshot of the Bank's Performance

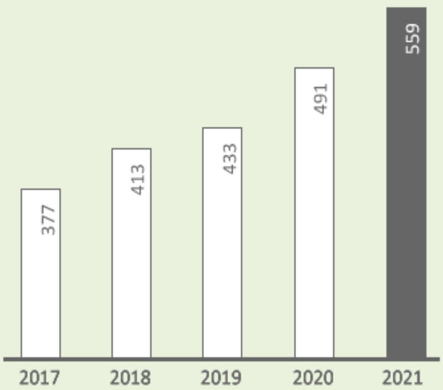
	SOLO		
Minimum Required Data	**2021**	2020	Change
Profitability			
Total Net Interest Income	**Php 58,960,337**	Php 45,680,479	29%
Total Non-Interest Income	**33,925,257**	27,333,276	24%
Total Non-Interest Expenses	**70,667,059**	56,040,695	26%
Pre-Provision Profit	**22,218,535**	16,973,060	30%
Allowance for Credit Losses	**8,258,256**	8,716,980	5%
Net Income	**13,960,279**	8,256,080	69%
Selected Balance Sheet Data			
Liquid Assets[1/]	**101,403,878**	96,569,098	5%
Gross Loans	**479,486,106**	398,332,198	20%
Total Assets	**558,954,881**	490,652,539	13%
Deposit Liabilities	**363,183,527**	321,636,617	12%
Total Equity	**93,513,386**	79,746,200	17%
Selected Ratios			
Return on Equity	**16%**	11%	
Return on Assets	**3%**	2%	
Capital Adequacy Ratio	**14.47%**	13.90%	
Others			
Cash Dividends Declared	**0**	2,990,000	
Headcount	**102**	99	
Officers	**23**	22	
Staff	**79**	77	

1/-Cash on Hand, Due from BSP, Due from Other Banks

Historical Trends & Figures

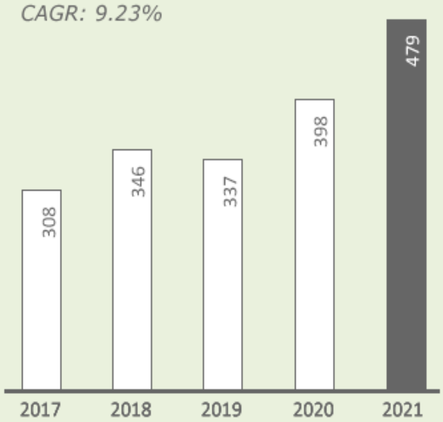
Resources
(in million Php)

CAGR: 8.20%



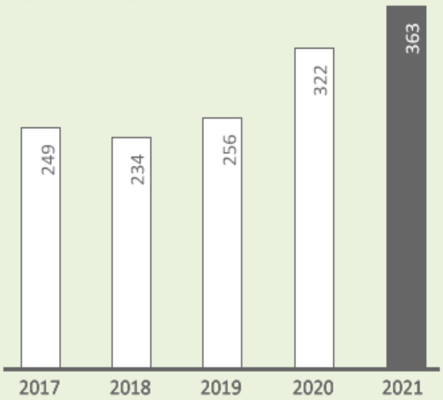
Gross Loan Portfolio
(in million Php)

CAGR: 9.23%



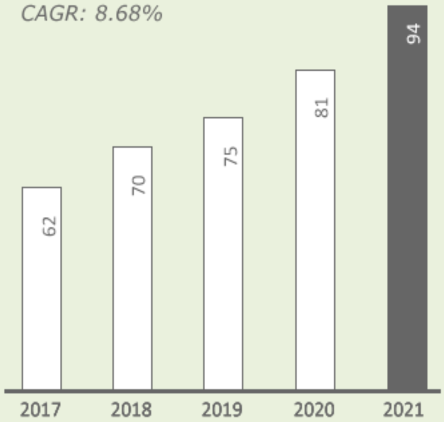
Deposit Liabilities
(in million Php)

CAGR: 7.83%



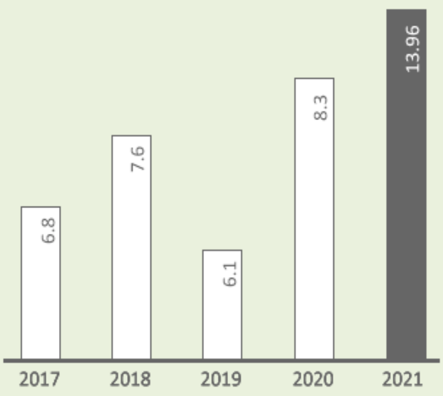
Capital Funds
(in million Php)

CAGR: 8.68%



Net Income
(in million Php)

CAGR: 15.47%



Net Income

₱ 13.96 million

Risk Management

Overall Risk Management Culture and Philosophy

The Bank's risk management framework seeks to ensure that there is an effective process in place to manage risk across the Bank. Risk management is integral to all aspects of the Bank's activities and is the responsibility of all staff. Managers have a particular responsibility to evaluate their risk environment, to put in place appropriate controls and to monitor the effectiveness of those controls. The risk management culture emphasizes careful analysis and management of risk in all business processes.

Risk Appetite and Strategy

South Bank gives emphasis to the seven categories identified to where risk is being weighted. The Bank acts in accordance to this risk statement to where our policy formulation and decision making strategy are anchored to ensure transparency and effective implementation of a sound Banking practice. The Bank has a low appetite for strategic, operational, reputation, and technological risk; and medium appetite for credit, financial risk, and human capital risk. Where we have discretion, the Bank is willing to assume more risk to be able to meet the challenges of an evolving market landscape. The best risk management practices will not prevent challenges but will enable the Bank to operate proactively.

The Bank’s strategic objectives closely align with its mission, vision, and core values that adhere to best practices of a sound Banking institution. The Bank maintains a highly motivated, diverse, talented, and empowered work force and deploys resources to maximize their use and effectiveness. The Bank operates with integrity, maintains strong ethical standards, and adheres to applicable legal and regulatory requirements.

ERM Risk Appetite by Risk Category

Risk Category	Risk Appetite
Strategic	Low
Operation	Low
Credit	Moderate
Financial	Moderate
Reputation	Low
Technology	Low
Human Capital	Moderate

Risk Governance Structure and Risk Management Process

Risk management at South Bank begins at the highest level of the organization. At the helm of the risk management infrastructure is the Board of Directors who is responsible for establishing and maintaining a sound risk management system. The Board of Directors assumes oversight over the entire risk management process and has the ultimate responsibility for all risks taken. It regularly reviews and approves the institution’s tolerance for risks, as well as its business strategy and risk philosophy.

The Bank operates an enterprise-wide risk management framework to address the risks it faces in its banking activities. These risks are identified, assessed and managed at both an enterprise level (‘top-down’) and business level (‘bottom-up’). Part of the framework is to establish a Risk Appetite Statement that articulates the level and type of risk the Bank will accept while conducting its mission. This statement is the result of a careful evaluation of how risks affect the Bank’s ability to achieve its strategic goals. Reporting systems are maintained to provide assurance that the risk appetite is effectively incorporated into management decisions.

Anti-Money Laundering (AML) and Terrorist Financing (TF)

The Bank is committed to uphold the highest standard of integrity and reputation with regards to Anti- Money Laundering and Terrorist Financing Prevention in its operations and manner of doing business. Being a covered person, the Bank shall respect and comply fully with relevant and applicable laws, rules and standards pertaining to Anti Money Laundering and Terrorists Financing Prevention Program.

The Bank has developed and adopted sound risk management policies and practices to ensure that risks associated with ML/TF such as reputational, operational, and compliance risks are identified, assessed, monitored, mitigated, and controlled, as well as to ensure effective implementation of the regulations under BSP, the AMLA, as amended, and its RIRR, to the end that the Bank shall not be used as a vehicle to legitimize proceeds of unlawful activity or to facilitate or finance terrorism.

This sound risk management allows the Bank to have adequate and active Board and Senior Management oversight, acceptable policies and procedures embodied in a Money Laundering and Terrorist Financing Prevention Program (ML/TFPP), appropriate monitoring and Management Information System and comprehensive internal controls and audit.

Notwithstanding the provisions specifying the duties and responsibilities of the Compliance Office and Internal Audit, it is the Bank's Board of Directors' ultimate responsibility to fully comply with the provisions of the rules under the Bank's ML/TFPP. For this reason, it ensures that oversight on the Bank's AML/TF compliance management is adequate.

Senior Management oversees the day-to-day management of the Bank and ensures effective implementation of AML/TF policies approved by the Board and alignment of activities with the strategic objectives, risk profile and corporate values set by the Board. Senior management has established a management structure that promotes accountability and transparency and upholds checks and balances.

Management of the implementation of the Bank's Money Laundering and Terrorist Financing Prevention Program (ML/TFPP) is the primary task of the Compliance Officer, who shall have direct reporting line to the Board of Directors or to any Board-level or approved committee on all matters related to AML and TF compliance and their risk management.

On the other hand, the evaluation of the Bank's risk management related to ML and Terrorist Financing and adherence to internal control mechanisms related to customer identification process is the task of the Internal Audit.

Compliance Risk for AML and TF is monitored manually thru an excel file generator that extracts reportable Covered Transactions (CTR) from the Bank's MIS while tellers are first line defenses that determines possible reportable Suspicious Transactions (STR) by applying enhanced due diligence and based on the provisions of the Bank's MLPP.

The Bank is also compliant with the digitization of customer records and identification of beneficial owners as required by AMLC Resolution No. 149 and 191, respectively.

Corporate Governance

SOUTH BANK (A RURAL BANK), INC. believes in the principles of good governance as derived from leading best practices internationally and on a national level.

SBI affirms its commitment to good corporate governance anchored on the philosophy of integrity, accountability and transparency in the conduct of its business; fairness in its dealings with clients, investors, employees, stockholders and the banking public; professionalism in managing the bank and respect for governing laws and regulations; and adheres to the principle of rational checks and balances and a structured approach to its operating processes.

The Board of Directors and Management, Officers and Staff, of the Bank hereby commit to the principles and best practices contained in its Corporate Governance Manual, and acknowledge that it is a necessary component of a sound strategic business management towards attainment of corporate goals.

Board of Directors

Compliance with the principles of good corporate governance shall start with the Board of Directors or the "Board". It is the Board's responsibility to foster the long-term success of the Bank, and to sustain its competitiveness and profitability in a manner consistent with its fiduciary responsibility, which it shall exercise in the best interest of the Bank, their shareholders and other stakeholders.

The Board is primarily responsible for approving and overseeing the implementation of the Bank's strategic objectives and business plans, risk strategy, corporate governance and corporate values. It shall hold regular and special meetings to discuss senior management's performance vis à vis the Bank's strategic plan and annual budget, as well as policies and developments in the areas of risk management, corporate governance, compliance, and relevant operational functions.

South Bank is headed by competent and working board that oversees the implementation of the Bank's strategic objectives, governance framework and corporate values.

Board Composition

The Board is composed of nine members, all of whom, other than the President and CEO, serve as non- executive directors and operate independently of management. Nominated and voted by shareholders every year, each director serves a one-year term until the election of another set of directors.

The Bank recognizes increasing diversity at the Board level as an essential element in maintaining a competitive advantage and achieving long-term growth and profitability. In determining the appropriate Board composition, Board diversity shall consider professional experience, skills, knowledge, background, moral standing in the community and other distinctions between Directors. All Board appointments are made on merit, in the context of integrity and reputation, skills, experience, independence and knowledge, which the Board as a whole requires to be effective.

Through the Board's Corporate Governance Committee, the Bank ensures that all directors are qualified for election based on their integrity, physical fitness, competence, education, moral standing in the community, and relevant business or banking experience, among others. The Bank does not discriminate against gender, age, nor ethnic, political, religious, or cultural backgrounds.

Director	Position / Type of Director	No. of Years as Director	Total No. of Direct (D) and Indirect (I) Shares held as of December 31, 2021	% to Total Outstanding Shares
Dr. Rafaelita P. Pelaez	Chairman of the Board Non-Executive Director	17	12,524,600.00	27.23
Mr. Wilhelmino R. Mendoza	President and CEO Executive Director	9	4,956,900.00	10.78
Dr. Mariano M. Lerin	Non-Executive Director	17	7,848,800.00	17.06
Dr. Alain Marc P. Golez	Non-Executive Director	17	4,814,000.00	10.47
Engr. Elpidio M. Paras	Non-Executive Director	17	166,500.00	0.36
Dr. Ferdinand A. Rodriguez	Independent Director	6 years & 7 months	500.00	0.00
Dr. Anselmo B. Mercado	Independent Director	6 years & 7 months	500.00	0.00
Mr. Jaime Rafael U. Paguio	Non-Executive Director	6 years & 3 months	100.00	0.00
Atty. Ramon M. Velez	Non-Executive Director	6 years& 9 months	100.00	0.00

Independent, Executive and Non-executive Directors

Independent directors are established to reinforce the Board's independence in order to provide independent and objective judgment on significant corporate matters and ensure that key issues and strategies are objectively reviewed, constructively challenged, thoroughly discussed and rigorously examined. In 2019, two of the nine directors are Independent Directors, which still qualified for the minimum requirement for rural banks.

The President and CEO of the Bank, being an executive director, ensures that orders and resolutions of the Board and BSP circulars, rules and regulations governing rural banks are carried into effect. He shall have direct and immediate supervision over the long-term and daily operations and management of the Bank and shall execute and administer the administrative and operational policies approved by the Board.

The non-executive directors, on the other hand, are not involved in the day-by-day management operations of the Bank to promote independent oversight of management.

Chairman of the Board

The Chairperson is primarily responsible for leading the Board and ensuring its effectiveness. She provides independent leadership to the Board, fosters constructive relationship between Directors, promotes an open environment for critical discussions and constructive debate on key issues and strategic matters, and ensures that the Board of Directors exercises strong oversight over the Bank's business and performance of senior management. She takes a lead role in ensuring that the Board provides effective governance of the Bank and continues to operate at a very high standard of independence with the full support of the director

Board of Directors

Dr. Rafaelita P. Pelaez
Chairman
Non-Executive Director
Filipino, 72

Dr. Rafaelita P. Pelaez has served as the Bank's Chairman and is the majority stockholder since February 2005 when the Pelaez family acquired it in 2004. She is the Chairman of the ZEALEP Group of Companies with business interests in education, real estate and finance among others. Aside from the Bank, among these corporations in which she heads as Chairman are: Liceo de Cagayan University, Zealep, Inc., Gopel Finance Corporation, Factors Lending Corporation, Paseo del Rio, Bently Realty and Development Corporation, Cagayande Oro Academy for International Education, Divine Shepherd Memorial Gardens, and Pelaez-Golez Management Corporation. She holds a Bachelor of Arts degree from the Colegio dela Immaculada Concepcion, a Master of Arts in Literature from the University of San Carlos and Doctor in Management from University of San Jose Recoletos. She has attended the Corporate Governance Seminar conducted by Rural Bankers Association of the Philippines (RBAP).

Wilhelmino R. Mendoza
President and CEO
Executive Director
Filipino, 72

Mr. Wilhelmino R. Mendoza has served as the Bank's President and Chief Executive Officer and Director since December 2013. He has also been Director of Gopel Finance Corporation and Factors Lending Corporation. Mr. Mendoza has worked in the banking industry for more than 40 years and has attended many leadership management and financial trainings and seminars, foremost of which are his attendance in the Pacific Rim Bankers Program at the University of Washington in Seattle, USA and a Leadership Program conducted by the National Defense College of the Philippines at Fort Bonifacio in Taguig, Metro Manila. He worked in various capacities in other banks. He started his banking career at the Philippine National Bank and rose to become manager of Republic Planters Bank. Afterwards he became Vice President and Region Head of Land Bank of the Philippines and Solid bank Corporation. He retired in 2013, as First Vice President and Area Head of BDO Unibank. For a time, he also worked as Senior Vice President and Consultant of A. Brown Company and other affiliates of the said group in Cagayan de Oro. Mr. Mendoza holds a Bachelor of Arts degree from Ateneo de Zamboanga. He has attended the Corporate Governance Seminar and Advance Corporate Governance Course conducted by RBAP last September 2016 and October 2017, respectively.

Dr. Mariano M. Lerin
Non-Executive Director
Filipino, 80

Dr. Mariano M. Lerin has served as a Director of the Bank since 2005 and corporate secretary until 2018. He was President of Liceo de Cagayan University from 2007 until his retirement in 2020. Dr. Lerin held directorship and officership positions in Gopel Finance Corporation, Factors Lending Corporation, Paseo del Rio, Zealep Hotels, Inc., Bently Realty and Development Corporation, Divine Shepherd Memorial Gardens, Zealep Insurance Agency and Allied Services, Inc., Zealep Holdings, Inc. and Propiedades Maternales, Inc as Director; and Cagayan de Oro Academy for International Education as Director and Corporate Secretary. He is an accomplished educator and has been faculty and dean of various schools before joining Liceo de Cagayan University. He was President of Philippine Institute of Certified Public Accountants (PICPA) in 1991 and of ASEAN Federation of Accountants (AFA) in 1996. He has attended various seminars in his field, including Corporate Governance Seminar which was conducted by RBAP in 2016. He holds a Bachelor of Science degree in Commerce from the University of San Carlos, AB Economics from University of San Carlos, Bachelor of Science in Education Major in Economic from University of San Jose Recoletos, Master in Business Administration from University of San Jose Recoletos and Doctor in Management from the University of Sto. Tomas.

Dr. Alain Marc P. Golez
Non-Executive Director
Filipino, 45

Dr. Alain Marc P. Golez has served as a Director of the Bank since 2005.He has also been the Bank's Treasurer from 2005 to 2018. He was elected as President of Liceo de Cagayan University in 2020. He also holds directorship and officership positions in Gopel Finance Corporation, Factors Lending Corporation, Paseo del Rio, Bently Realty and Development Corporation, Divine Shepherd Memorial Gardens, and Pelaez-Golez Management Corporation as Corporate Secretary; Cagayan de Oro Academy for International Education and Golez and Golez Ventures as President; Zealep Holdings, Inc. as Chief Executive Officer;; and Zealep, Inc. and Zealep Insurance Agency and Allied Services as Director. He holds a Bachelor of Arts degree major in English from the University of San Carlos, Master in Entrepreneurship from the Asian Institute of Management and Doctor in Philosophy Major in Commerce from the University of Sto. Thomas. He attended the Corporate Governance Seminar in 2016.

Engr. Elpidio M. Paras
Independent Director
Filipino, 69

Engr. Paras has served as a Director of the Bank since 2005. Engr. Paras is one of Cagayan de Oro City's prominent and pioneering businessmen. He is the President and CEO of UC-1 Corporation, Parasat Cable TV, Inc., Arriba Telecontact Inc. and Paramedix Inc. His newest business establishment, Seven Seas, is a popular and the only water sports adventure park in Cagayan de Oro City. He has been the President of Cagayan De Oro Chamber of Commerce and Chairman of the Board of Trustees of Xavier University in 2007. Engr. Paras holds a Bachelor of Science degree in Mechanical Engineering from De Lasalle University. He attended the Corporate Governance Seminar in 2016.

Dr. Anselmo B. Mercado has served as one of the Bank's Independent Directors since 2016. He is the Chairman of the Board of Water Consumers Cooperative, Cagayan de Oro Cooperative Advisory Committee, and First Community Credit Cooperative Foundation (FCOF). He served as Dean of Xavier University – College of Agriculture and previously held directorship in various institutions. Dr. Mercado holds a Bachelor of Science degree in Agriculture Major in Animal Science from Xavier University, Master of Science in Education, Virginia Polytechnic Institute & State University and Doctor of Philosophy major in Adult and Extension Education from North Carolina State University. He attended the Corporate Governance Seminar in 2016.

Dr. Anselmo B. Mercado
Independent Director
Filipino, 78

Atty. Ramon M. Velez has served as a Director of the Bank since March 9, 2017. He is the Senior Manager for Legal Services of Del Monte Philippines, Inc. He is also engaged in restaurant business and is an avid golfer. Atty. Velez holds a degree in AB Economics from Xavier University and Bachelor of Laws from University of the Philippines. He attended the Corporate Governance Seminar on September 2017.

Atty. Ramon M. Velez
Director
Filipino, 60

Dr. Ferdinand A .Rodriguez has served as one of the Bank's Independent Directors since 2016. He is a Certified Public Accountant and is the Managing Director of FAR Management Consultancy and Accounting Office and the Review Director of Professional Review and Training Center (PRTC) – Cagayan de Oro City. He has been the President of Philippine Council of Deans and Educators in Business in 2016 up to 2017; President of National Association of CPAs in Education in 2014 up to 2015. He was appointed as Second Member of Professional Regulation Commission-Continuing Professional Development Council for Accountancy in 2017. He is also the Regional Director of Philippine Institute of Certified Public Accountants since 2018 and National Director of Association of Certified Public Accountants in Public Practice since January 2019. He holds a Bachelor of Science degree in Accountancy from Polytechnic University of the Philippines, Master of Business Administration from Xavier University and Doctor in Management from Capitol University in Cagayan de Oro City. Recently, he completed academic requirement in Doctor in Business Administration from La Consolacion University Philippines in Malolos, Bulacan.

Dr. Ferdinand A. Rodriguez
Independent Director
Filipino, 56

Mr. Jaime Rafael U. Paguio
Director
Filipino, 66

Mr. Jaime Rafael U. Paguio has served as a director of the Bank since 2016. Currently, he is the President of Allied Power Industries of Mindanao, Inc. (A Power); Senior Vice President of the Cagayan Electric Power and Light Co., Inc. (CEPALCO) and Vice President of the CEPALCO Energy Services Corporation (CESCO). He is past President of the Cagayan de Oro Chamber of Commerce and Industry Foundation, Inc. and the 2020 Vice President for the Manufacturing and Industry Sector of the Cagayan de Oro Chamber of Commerce and Industry Foundation Inc. (Oro Chamber) and holds a Bachelor of Arts degree major in Economics from Xavier University; Finance and Economic Analysis of Energy Projects at the Colorado School of Mines; Electric Utility Management at Swedpower-Vattenfall, Sweden and Finance for Senior Executives at the Asian Institute of Management (AIM). He attended the Corporate Governance Seminar in January 2017.

Atty. Jairo M. Ladera was appointed as the Bank's Corporate Secretary on May 12, 2021. He has been the acting corporate secretary from February 2020 until appointed as full fledge corporate secretary last May 12, 2021. Atty. Ladera holds a Bachelor of Science degree in Accountancy from Xavier University. He also holds a Bachelor of Laws degree from Xavier University and passed the Bar Examination in 2010. Atty. Ladera is a partner of Almirante Ladera and Associates, auditor of Integrated Bar of the Philippines Misamis Oriental Chapter, commissioner at IBP Commission on Bar Discipline. He was former Legal Officer of Department of Agriculture and former Professor of Xavier University and Liceo de Cagayan University College of Law.

Atty. Jairo M. Ladera
Corporate Secretary
Filipino, 36

Board Committees

To aid the effective performance of the Board's function and comply with the principles of good corporate governance, board level committees are established. South Bank's Corporate Governance Manual provides for eight committees to support the Board. The Manual clearly defines the composition, respective purposes, duties and responsibilities, conduct of meetings and other relevant information, approved by the Board for each of the board level committees.

Audit and Compliance Committee

Chairman: Ferdinand A. Rodriguez (ID)

Members: Anselmo B. Mercado (ID)
Mariano M. Lerin
Elpidio M. Paras
Jaime Rafael U. Paguio

Functions: The Audit and Compliance Committee shall assist the Board in the performance of its oversight responsibility for the financial reporting process, system of internal control, audit process, and monitoring of compliance with applicable laws, rules and regulations. It also performs oversight financial management functions, specifically on risk management and internal control functions, it further evaluates and approves the plans of the internal and external auditors.

Related Party Transactions Committee

Chairman: Anselmo B. Mercado (ID)

Members: Ferdinand A. Rodriguez (ID)
Elpidio M. Paras
Jaime Rafael U. Paguio
Ramon M. Velez

Functions:
The Related Party Transactions (RPT) Committee shall assist the Board in ensuring that transactions with related parties are handled in a sound and prudent manner, with integrity and in compliance with applicable laws and regulations, to protect the interest of depositors, creditors and other stakeholders. It shall also oversee that RPTs are conducted on an arm's length basis and that no stake holder is unduly disadvantaged.

Corporate Governance Committee

Chairman: Jaime Rafael U. Paguio

Members: Ferdinand A. Rodriguez (ID)
Elpidio M. Paras
Anselmo B. Mercado (ID)
Mariano M. Lerin

Functions: TheCorporate Governance Committee shall assist the Board in fulfilling its corporate governance responsibilities.

Nomination Committee

Chairman: Wilhelmino R. Mendoza

Co-Chairman: Mariano M. Lerin

Members: Alain Marc P. Golez
Ramon M. Velez
Ferdinand A. Rodriguez

Functions: The Nomination Committee shall review and evaluate the qualifications of all persons nominated to the Board as well as those nominated to other positions requiring appointment by the Board, and assess the effectiveness of the Board's process and procedures in the election or replacement of directors in accordance with the provisions of the Bank's Corporate Governance Manual.

Compensation and Remuneration Committee

Chairman: Rafaelita P. Pelaez

Co-Chairman: Wilhelmino R. Mendoza

Members: Dr. Anselmo B.Mercado (ID)
Mariano M. Lerin
Elpidio M. Paras

Functions: The Compensation and Remuneration Committee shall establish a formal and transparent procedure for developing a policy on executive remuneration and for fixing the remuneration packages of Officers and Directors. The Committee shall also oversee the remuneration of Senior Management and key personnel to ensure that the compensation is consistent with the Bank's culture, strategy, and control environment

Risk Management and Pricing Committee

Chairman: Wilhelmino R. Mendoza

Co-Chairman: Mariano M. Lerin

Members: Alain Marc P. Golez
Elpidio M. Paras
Ferdinand A. Rodriguez (ID)

Functions: The Risk Management and Pricing Committee shall develop appropriate strategies for the prevention of occurrence of risk events and minimizing losses when these happen. It oversees the Bank's risk management system to determine if it remains effective, if authority limits are observed and if immediate corrective actions are taken whenever limits are breached.

Information Technology Committee

Chairman: Elpidio M. Paras

Members: Wilhelmino R. Mendoza
Alain Marc P. Golez
Jaime Rafael U. Paguio
Ferdinand A. Rodriguez (ID)

Functions: The Information Technology Committee shall ensure that the Bank's core system, accounting and management information system, is in place and help the Bank achieve its overall objectives.

Board and Committee Meetings

From the period May 2021 to April 2022 (election year), the member's attendance at Board and Committee meetings are as follows:

DIRECTORS	BOARD			ACC			CG		
	M	A	%	M	A	%	M	A	%
Rafaelita P. Pelaez	8	8	100.00						
Wilhelmino R. Mendoza	8	8	100.00						
Mariano M. Lerin	8	6	75.00	4	2	50.00	1	1	100.00
Alain Marc P. Golez	8	4	50.00						
Elpidio M. Paras	8	8	100.00	4	3	75.00	1	1	100.00
Ramon M. Velez	8	4	50.00						
Jaime Rafael U. Paguio	8	8	100.00	4	4	100.00	1	1	100.00
Anselmo B. Mercado	8	8	100.00	4	3	75.00	1	1	100.00
Ferdinand A. Rodriguez	8	8	100.00	4	3	75.00	1	1	100.00

M = Number of Meetings
A = Meetings Attended

Note: In 2021-2022 election year, only two board-level committees were activated, namely the Audit and Compliance Committee and Corporate Governance Committee, which are the minimum required committees for South Bank in relation to its size and complexity of operation.

Key Officers of the Bank

Senior Management

Wilhelmino R. Mendoza
President and CEO
Filipino, 72

Mr. Wilhelmino R. Mendoza has served as the Bank's President and Chief Executive Officer and Director since 2013. (See complete resume in Board of Directors.)

Sylvia C. Tala-o
Assistant Vice President
Bank Operations Manager
Filipino, 48

Ms. Sylvia C. Tala-o became the Bank's Finance Manager on May 12, 2021. Ms. Tala-o was previously the Bank's Operations Manager. She was promoted as Assistant Vice President on September 13, 2019. Ms. Tala-o joined SBI in 2011. She has been a Compliance Officer, Remedial and Collection Head, Business Manager, Main Office Manager, Credit Unit Head, and Marketing Officer of the Bank. Prior to joining SBI, she has been with Siam Bank from 2002 to 2011 where she held various officer positions. She holds a Bachelor of Science degree in Accountancy from Mindanao State University-Iligan Institute of Technology.

Argine May M. Ramo
Compliance Officer
Filipino, 29

Ms. Argine May M. Ramo was appointed as the Bank's full fledge Compliance Officer in July 2020. Prior to the appointment, she has been in acting capacity for two years since April 2018. Ms. Ramo was the Bank's Internal Auditor in 2017, In-Charge of Office of Velez Branch in 2016, and subsidiary and general bookkeeper from 2014 to 2015. She holds a Bachelor of Science degree in Management Accounting and in Accountancy from Central Mindanao University. Ms. Ramo is a Certified Public Accountant and has attended various seminars that exposed her to banking regulations necessary for the effective management of the Bank's compliance function.

Harmon D. Galigao
Internal Auditor
Filipino, 30

Mr. Harmon D. Galigao became the Bank's Operations Manager on March 30, 2021. He became the Bank's Internal Auditor from 2020 after rejoining the Bank in March 2019 until his appointment as Bank Operations Manager in 2021. Mr. Galigao initially joined the Bank in 2014 as Administrative Teller, Credit Investigator and Appraiser, Account Officer and Assistant Internal Auditor until 2017. Prior to joining the Bank, he has been an Accounting Staff in Priometal Mindanao Corporation and Junior Internal Auditor in He and Sons Corporation. Mr. Galigao holds a Bachelor of Science degree in Accountancy from Pilgrim Christian College.

Ervin S. Balandan
Bank Credit Manager
Filipino, 44

Mr. Ervin S. Balandan was appointed as Bank Credit Manager on June 2020. He joined the Bank in 2017 as Assistant Compliance Officer before being appointed as Credit Officer I in January 2018. Prior to joining the Bank, Mr. Balandan has been the Sales and Purchase Coordinator at Hamy, International in the Middle East from 2013 to 2015 and Operations Manager/Project Coordinator at AGB Development Foundation, Inc. He has also worked in the banking industry under RBT bank, Inc. from 2001-2009.Mr. Balandan holds a degree in AB Economics from Ramon Magsaysay Memorial College and Master in Management from Liceo de Cagayan University.

Ellen S. Flores
Credit Officer
Filipino, 36

Ms. Ellen S. Flores is one of the Bank's Credit Officers. She has been posted in the Credit unit of the Bank since March 2014 and has been a bookkeeper for one year before becoming the Credit Unit Head in 2014. Prior to joining the Bank, Ms. Flores has worked as bookkeeper and accountant at Siam Bank, Inc. (A Rural Bank) from 2008 to 2011 and as bookkeeper at Rural Bank of Talisayan (RBT) Bank from 2011 to 2012. She has also attended various trainings and seminars necessary in the conduct of her current position. Ms. Flores holds a Bachelor of Science degree Major in Banking and Finance from Bukidnon State University.

Gerna Kristel T. Pineda
Administrative Services Unit Head
Filipino, 35

Ms. Gerna Kristel T. Pineda has served as the Bank's Administrative Services Unit Head since 2016. Prior to ASU Head, Ms. Pineda started as Loans Bookkeeper upon joining SBI in 2010; Loans Processor in 2011; Cashier/New Accounts Clerk in 2012 and Internal Auditor in 2014.Ms. Pineda has attended various seminars necessary in the performance of her position. She represents SBI in the People Management Association of the Philippines (PMAP).She has attended a seminar on Digitizing and Simplifying HR and Payroll Performance conducted by PMAP in 2018. Ms. Pineda holds a Bachelor of Science degree in Business Administration and Masters in Business Administration from Ateneo de Cagayan-Xavier University.

Jasmin E. Dumaraog
Accountant
Filipino, 36

Ms. Jasmin E. Dumaraog became the Bank's Accountant on September 1, 2021. She joined South Bank in 2011 as Teller and has risen through the ranks as Bookkeeper, Libona Branch In-Charge of Office, Assistant Internal Auditor and Acting Accountant. She attended various seminars necessary in the performance of her position. Ms. Dumaraog holds a Bachelor of Science degree in Accountancy from University of Bohol.

Branch Heads

Robemar S. Castillon
Information Technology Head
Filipino, 33

Mr. Robemar S. Castillon has served as Head of the Bank's IT Unit since June, 2017. He has been with the Bank since 2012 as IT Specialist. He attended various seminars on regulations governing information and information technology. In 2017, he attended the Credit Information Corporation Trainings and Seminar conducted by CIC and Data Privacy Act Seminar conducted by National Privacy Commission. He has also attended CyberSecurity Awareness Training & Seminar, Cloud Computing and Fujitsu Business Solutions: Technology update conducted by private institutions. Mr. Castillon holds a Bachelor of Science degree in Information Technology from Mindanao University of Science & Technology.

Jusel Ann T. Ylagan[1]
Central Cashier
Filipino, 35

Ms. Jusel Ann L. Ylagan has served as the Bank's Central Cashier since January 2019. Ms. Ylagan joined the Bank in November, 2014 as New Accounts Clerk and has been a Teller and Clearing Clerk. Prior to joining the Bank, she has worked at SM as Customer Service Assistant from 2009 to 2014. Ms. Ylagan holds a Bachelor of Science degree in Information Management from Xavier University – Ateneo de Cagayan University.

[1]Appointed as Branch Operations Officer on March 1, 2022

Julito M. Cuenca
Branch Manager
Velez Branch

Jhoromar M. Roxas
Branch Manager
Cogon Branch

Philnar C. Beta
Branch Manager
Valencia Branch

Roel E. Eguia
Branch Manager
Libona Branch

Milvein O. Luza
Office-in-Charge
Kitaotao Branch

Arnel V. Emar
Branch Manager
Butuan Branch

Aimee F. Corotan
Branch Operations Officer
RNP Branch

Performance Assessment Program

The Bank, thru the Corporate Governance Committee, oversees the periodic evaluation of contribution and performance of its Directors, the Board, board-level committees and senior management. This covers the assessment of the ongoing suitability of each member in accordance to the qualification and disqualification criteria as provided in MORB, taking into account his or her performance as member of the Board and board-level committees.

A yearly self-assessment, using an approved scorecard, is conducted focusing on their performance based on the established performance standards of the Bank that are consistent with the Bank's strategic objectives. These scorecards are given to each Director. Each of them is required to complete the scorecard and return the same. The ratings are tabulated and consolidated. The result is reported to the Board.

Orientation and Education Program

Under the Bank's Corporate Governance Manual, all new Directors must undergo proper orientation upon joining the Board. This ensures that new members are appropriately apprised of their duties and responsibilities before beginning their Directorships.

In addition to the orientation, first time Directors shall, before assuming as such, be required to attend a seminar on corporate governance which shall be conducted by a duly recognized private or government institution. The Directors are required to submit a certification of compliance of this requirement to BSP. They also undergo continuing education that covers update on matters relevant to the Bank.

Senior management officers also undergo orientation prior to beginning their officership and continuing education thru external and internal training program the Bank has set in order to apprise them and to ensure that they continually possess the qualifications for the position.

Retirement

The Board did not set a retirement age for its Directors. While a Director may sit in the Board for a term of one year and may be re-elected, a Director who ascertains that he/she is no longer fit to perform his/her functions shall refuse nomination, if not yet elected, or may opt to retire, if already elected.

Succession Policy

Succession planning is established as part of the Bank's business continuity program to ensure that the Bank's leadership has adequate information and strategy to effectively manage the Bank in the event of unplanned and unexpected changes in the organization. The plan outlines a leadership development and emergency succession plan for the Bank and its commitment to sustaining a healthy functioning organization. It is periodically reviewed and updated and trainings are conducted accordingly.

In the Board, any vacancies may be filled by the vote of at least a majority of the remaining directors, if still constituting a quorum, provided, that any vacancy occurring by reason of removal by stockholders, by expiration of term or increase in the number of directors shall be filled by the stockholders in a regular or special meeting called for the purpose.

Remuneration

Currently, the Bank has no policy on remuneration. However, the Bank's current practices are aligned with labor laws and regulations and competitive with industry standards geared toward retaining and motivating human resource.

The Bank's By-Laws provides that Directors shall not receive any remuneration as Directors, except for reasonable per diems.

Only the President and CEO is entitled to remuneration benefit by virtue of being officer of the Bank. All Directors are entitled to a specific per diem for attendance to board meetings and on board level committee meetings.

The remuneration of the senior management is commensurate to the individual's qualification and experience, nature of job, position and level of responsibilities with reference to approved salary scale. The Bank grants increases based on the Bank's and the individual's performance thru annual appraisal.

The four most highly compensated management officers are the President and CEO, Bank Operations Manager, Valencia Branch Manager and Credit Officer I.

Compliance

The compliance function of the Bank facilitates the effective management of compliance risks or risks of legal or regulatory sanctions, material financial loss, or loss to reputation that a bank may suffer as a result of its failure to comply with laws, rules, related self-regulatory organization standards, and codes of conduct applicable to its activities. The Compliance Function is headed by the Chief Compliance Officer (CCO). The Compliance Function is a separate and independent unit with no business function. It reports to the Board of Directors through the Audit and Compliance Committee.

Internal Audit

The Bank has in place an independent internal audit function who functionally reports to the Audit and Compliance Committee. The Internal Audit is mandated to evaluate the effectiveness as well as recommend appropriate courses of action to senior management and the Board to improve the Bank's risk management, compliance, internal controls and corporate governance process. This encompasses the examination and evaluation of the adequacy and effectiveness of the internal control systems; review of the application and effectiveness of risk management procedures & risk assessment methodologies; review of the management & financial information systems, including the electronic information; Assessment of the accuracy & reliability of the accounting system & of the resulting financial reports; review of the systems & procedures of safeguarding; review of the system assessing capital in relation to the estimate of organizational risk; transaction testing and assessment of specific internal control procedure; and review of the compliance system & the implementation established policies and procedures.

All activities are carried out according to the rules and guidelines as set out in its Manual and Charter and in such a manner that it is consistent with the Standards for the International Standards for the Professional Practice of Internal Auditing and Philippine Standards on Auditing with the professional standards of conduct as per the Code of Professional Ethics for CPAs.

Dividend Policy

The Bank's Corporate Governance Manual provides that the shareholders of the Bank shall have the right to receive dividends subject to the discretion of the Board. The Bank shall be compelled to declare dividends when its retained earnings shall be in excess of 100% of its paid-in capital stock except when justified by definite corporate expansion projects or programs approved by the Board; or when the corporation is prohibited under any loan agreement with any financial institution or creditor, whether local or foreign, from declaring dividends without its consent, and such consent has not been secured; or when it can be clearly shown that such retention is necessary under special circumstances obtaining in the Company, such as when there is a need for special reserve for probable contingencies was not able to declare dividend since the Bank's acquisition.

Related Party Transactions

The Bank has established policies and procedures on Related Party Transactions (RPT) which are embodied in the DOSRI and Related Party Transactions Policy of the Bank1. These include definition of related parties, coverage of RPT policy, guidelines in ensuring arm's-length terms, managing conflict of interest, adoption of materiality thresholds, and internal limits for individual and aggregate exposures. The RPT Committee reviews and endorses to the Board for final approval all material RPTs.

The Related Party Transactions policy applies to South Bank's DOSRI and affiliates, as applicable and intended to ensure that every Related Party Transaction is conducted in a manner that will protect the Bank from conflict of interest which may arise between the Bank and its Related Parties; and proper review, approval, ratification and disclosure of transactions between the Bank and any of its Related Party/ies as required in compliance with legal and regulatory requirements.

The policy provides for the responsibility of the RPT Committee where it requires that any member of the RPT Committee who has a potential interest in any Related Party Transaction shall abstain from the discussion and endorsement of the Related Party Transaction and any member of the Board who has an interest in the transaction must abstain from the deliberation and approval of any Related Party Transactions

Material Related Party Transactions

For the Year 2021

Nature of Transaction / Type of Transaction	Terms	Amount/Contract Price	Outstanding Balance	Rationale for Entering into the Transaction
Management Fees on Human Resource Development	Continuing Contract	P 25,000.00 Monthly Service Fee	Not applicable.	To outsource services on hiring and recruitment and employee orientation.
Office Rental of RNP Pelaez Branch	4 years	54,903.75/ month	Not applicable.	Branch office rental
Office Rental of Velez Branch	1 year	54,832.25/ month	Not applicable.	Branch office rental
Office Rental of Head Office	1 year	14,664.35/ month	Not applicable.	Head Office storage rental
Office Rental – Head Office Annex	1 year	12,840.00/ month	Not applicable.	Head Office Annex office rental
Office Rental of Kitaotao Branch	5 years	33,275.00/ Month	Not applicable.	Branch office rental
Loan Receivables – Various Affiliates	1 year	46,000,000.00	46,000,000.00	Commercial Loans
Related Party	3 years	385,000.00	374,444,33	Loans and Receivables

Corporate Social Responsibility Initiatives

In cooperation with the Christian Family Movement of the Philippines, a Catholic family and community oriented organization, and in partnership with the Bank's affiliate Gopel Finance Corporation, the Bank has sustained its relief program by donating sacks of rice to some 100 families at the Sendong Relocation Center in Sitio, Macapaya, Indahag, Cagayan de Oro.

This has been the Bank's commitment in acknowledging the needs of the neighboring communities especially during this challenging time.

Consumer Protection Practices

The Board of Directors has approved last December 14, 2015 the Financial Consumer Protection Policy of the Bank which provides clear guidance regarding the level of consumer protection risk acceptable to the Bank to maintain a sound Customer Protection Risk Management System that is integrated into the over-all framework for the entire product and service life-cycle. The Bank's Code of Conduct adopted from its holding company, Zealep, reflects the Bank's commitment to ensuring that its customers are always treated fairly and professionally. Consumer protection practices are embedded in the banking operations, and are considered in the development and implementation of products and services.

The Bank follows an operational channel in handling customer complaints. To ensure its effective implementation, it has designated its Branch Heads to serve as the Customer Assistance Officers (CAOs). The CAOs then report to the Administrative Services Unit and/or the Bank Operations Manager for the latter to present and discuss the report on complaints to the Board, which will provide action based on the recommendations of the President/CEO.

In 2021, only two complaints were reported which were quickly addressed by the Bank's consumer assistance officers and administrative services unit.

Products and Services

Deposit Products

Regular Savings Deposit
Kiddie Savers
Basic Deposit
Time Deposit Plus
Demand Deposit
Time Deposit

Loans and Credit

Agricultural Loans
Commercial Loans
Consumer Loans
- Individual Loans to Private Employees
- Salary Loans to Nationally Paid Employees (PNP, Teachers, BJMP)
- Pension Loans

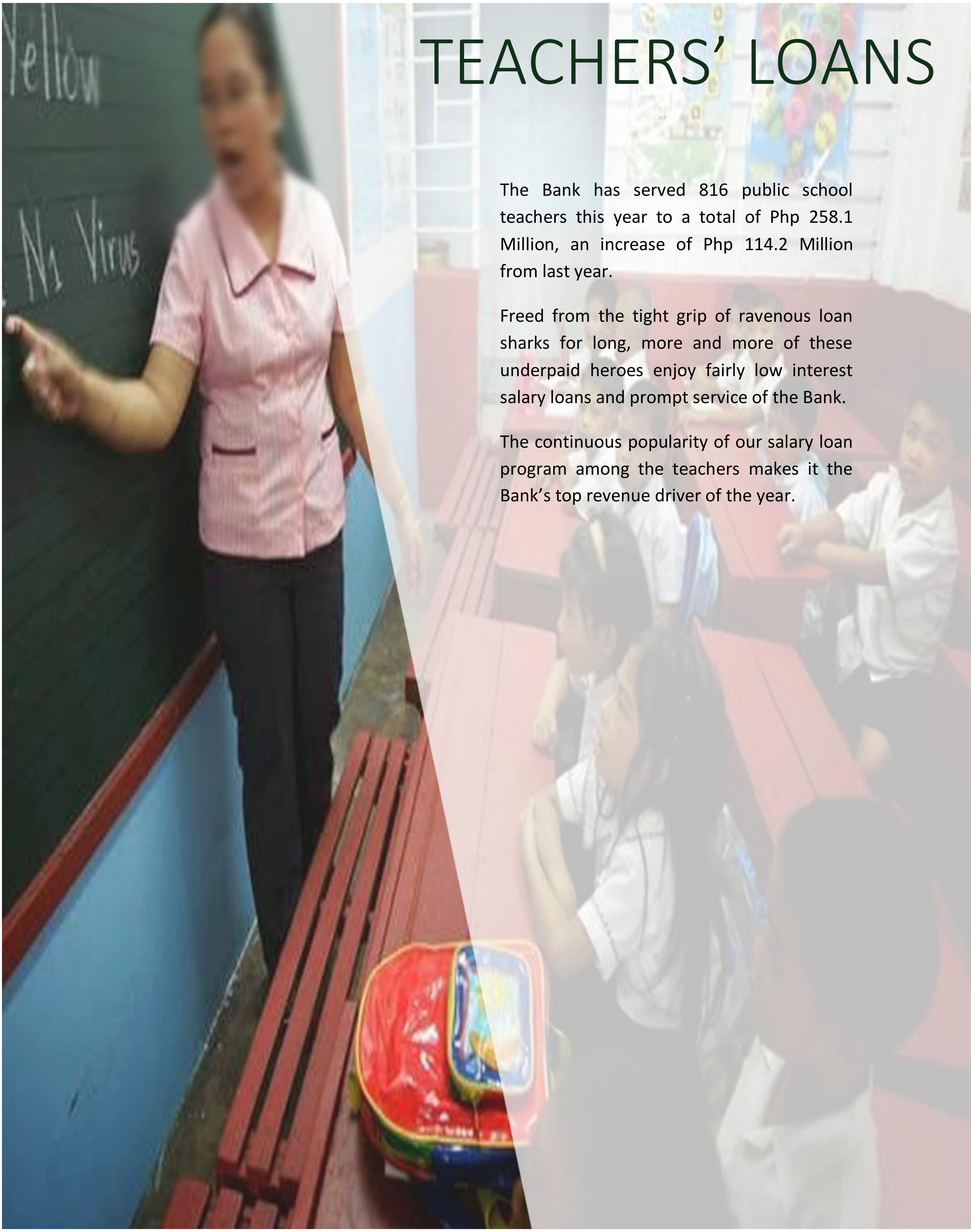
Microfinance Loans
Other Loans
- Vehicle Acquisition Loan
- Building and House Improvement Loan
- Student Educational Assistance Loan (SEAL)

Other Services

Bills Payment
- Parasat
- BUSECO
- CEPALCO
- LDCU

SBI Access Card (powered by GCash)
True Money'
Safety Deposit Box Facility

TEACHERS' LOANS

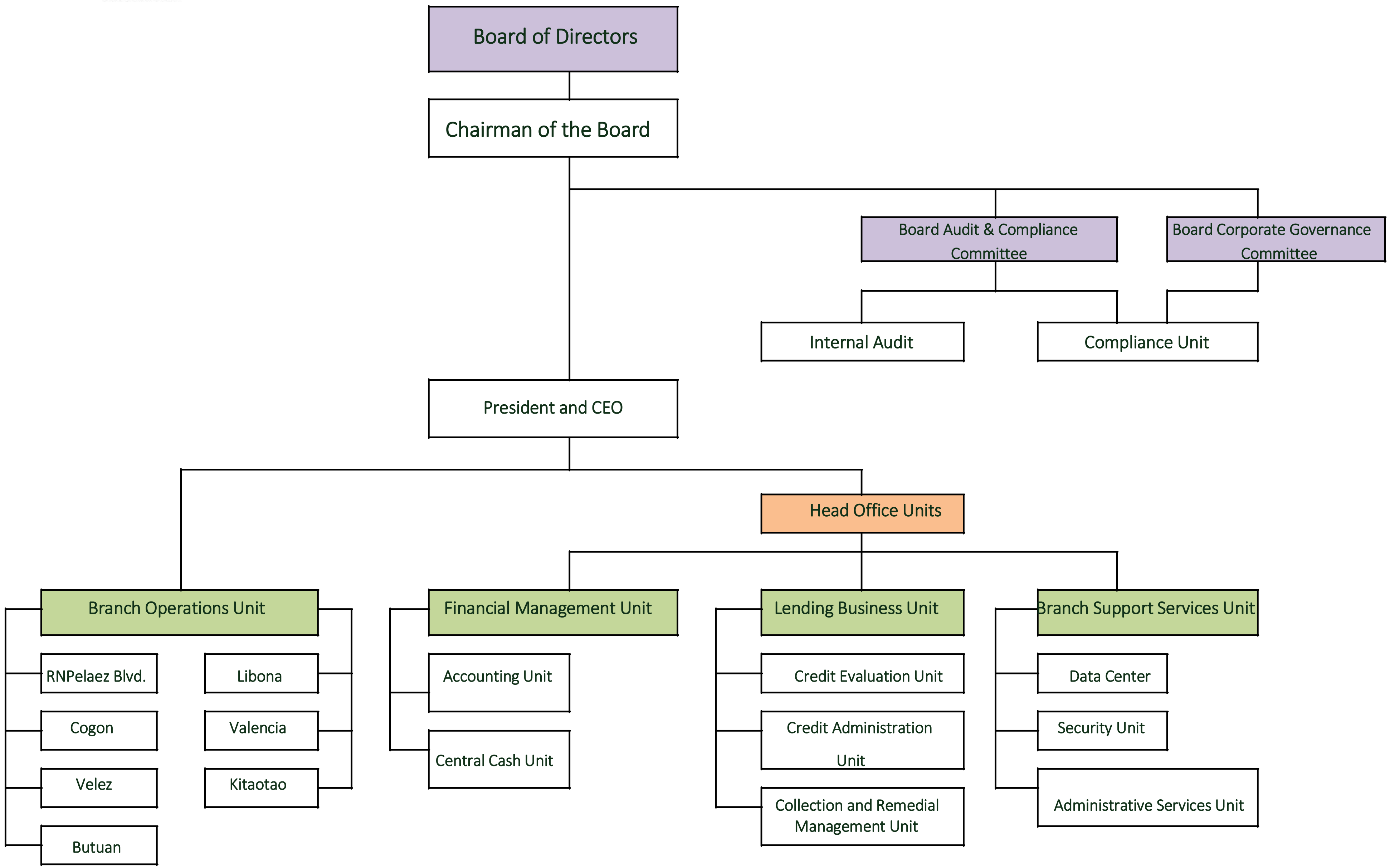


The Bank has served 816 public school teachers this year to a total of Php 258.1 Million, an increase of Php 114.2 Million from last year.

Freed from the tight grip of ravenous loan sharks for long, more and more of these underpaid heroes enjoy fairly low interest salary loans and prompt service of the Bank.

The continuous popularity of our salary loan program among the teachers makes it the Bank's top revenue driver of the year.

Organizational Structure



Major Stockholders

As of December 31, 2021, the following are known to South Bank (A Rural Bank), Inc. to be directly or indirectly the record and beneficial owners of more than 20% of South Bank (A Rural Bank), Inc.'s voting shares:

Title of Class	Name	Nationality	Percentage
Common	Rafaelita P. Pelaez	Filipino	27.23%

Head Office and Branches

South Bank (A Rural Bank), Inc. Head Office & RN Pelaez Branch
Rodelsa Hall, Rodolfo N. Pelaez Boulevard Kauswagan
Cagayan de Oro City 9000
(088) 858-4808/ (088) 858-4832/(08822) 728854

Velez Branch
Southbank Plaza Building, Yacapin-Velez Streets
Cagayan de Oro City 9000
(088) 852-4158

Cogon Branch
Philippine First Insurance Company Bldg.
J.R. Borja - Aguinaldo Street, Cagayan de Oro City 9000
(088) 857-3005

Butuan Branch
Door #A-3 GF, VPH Commercial Building III
Ochoa Avenue, Brgy. Dagohoy Butuan City 8600
+63 977 840 0309

Libona Branch
Brgy. Crossing, Libona, Bukidnon 8706
+63 917 308 5604

Kitaotao Branch
Poblacion, Kitaotao, Bukidnon 8716
+63 917 712 1002

Valencia Branch
DBL Bldg., Alkuino corner Catarata Sts. Poblacion
Valencia City, Bukidnon 8709
+63 977 840 0319

Website

www.southbankinc.com

Audited Financial Statements

REPORT OF INDEPENDENT AUDITORS

The Shareholders and the Board of Directors
South Bank (A Rural Bank) Incorporated
Rodelsa Hall, R.N. Pelaez Boulevard
Kauswagan, Cagayan de Oro City

Opinion

We have audited the accompanying financial statements of South Bank (A Rural Bank) Incorporated, which comprise the statements of financial position as of December 31, 2021 and 2020, and the related statements of comprehensive income, changes in shareholders' equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory notes.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of South Bank (A Rural Bank) Incorporated as of December 31, 2021 and 2020, and of its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards (PFRS), as modified by the application of the financial reporting reliefs issued by the BSP and approved by the SEC.

Basis for Opinion

We conducted our audits in accordance with the Philippine Standards on Auditing (PSA). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Bank in accordance with the Code of Ethics for Professional Accountants in the Philippines together with the ethical requirements that are relevant to our audit of the financial statements in the Philippines, and we have fulfilled our 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 31 to the financial statements which describes the impact of the enactment of the Corporate Recovery and Tax Incentives for Enterprises (CREATE). Our opinion is not modified with respect to this matter.

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

Management is responsible for the preparation and fair presentation of these financial statements in accordance with PFRS, as modified by the application of the financial reporting reliefs issued by the BSP and approved by the SEC, and for such internal control as the 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, the 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 have no realistic alternative but to do so.

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

Auditors· Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omiss1ons, misrepresentations, or the override of internal control.

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

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

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern.

  If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Bank to cease to continue as a going concern.

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

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

Report on Other Legal and Regulatory Requirements

The Bureau of Internal Revenue in its Revenue Regulations 15-2010 requires the Bank to include information on taxes, duties and license fees paid or accrued and other supplemental information during the taxable year in the Notes to Financial Statements. The supplementary information, as discussed in Note 22, is not a required part of the basic financial statements prepared in accordance with the financial reporting standards in the Philippines; nor, a required disclosure or content of the financial statements under the Securities Regulation Code (SRC) Rule 68. Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole and such supplementary infom1ation is the responsibility of the management.

Report on Other Requirement

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The applicable supplementary schedules of the Bank as of and for the year ended December 31, 2021 are in compliance with the requirements of the SRC Rule 68. These are presented for purposes of additional analyses and are not required part of the basic financial statements. The information in such supplementary schedules is the responsibility of the Management and have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

SRD & Co., CPAs
TIN 231-991-011
SEC Accreditation No. 0237-FR-2
Effective August 27, 2019 to August 26, 2022
BOA Accreditation No. 0810
Effective January 29, 2020 to February 6, 2023

For the Firm:

Sabino R. Dapat
Partner
CPA Cert. No. 0006537
TIN 131-516-520
PTR No. 3599121
Issued on February 9, 2022 at Cebu City
BSP Accredited under Category B
Approved on March 19, 2021 (covering financial statements ending 2021 to 2025)
SEC Accreditation No. 6537-SEC
Approved on October 28, 2021 (covering financial statements ending 2021)
BOA Accreditation No. 0810
Effective January 29, 2020 to February 6, 2023
BIR Accreditation No. 13-020911-002-2020
Effective October 7, 2020 to October 7, 2023

April 6, 2022

SOUTH BANK (A RURAL BANK) INCORPORATED

STATEMENTS OF FINANCIAL POSITION

December 31, 2021 and 2020

	Notes		2021		2020 (As restated – Note 30)
ASSETS					
Cash and Other Cash Items	4	**Php**	**9,752,651**	Php	8,900,955
Due from Bangko Sentral ng Pilipinas (BSP)	5		**8,141,565**		8,135,234
Due from Other Banks	6		**83,509,662**		79,532,909
Loans and Other Receivables – net	7		**418,401,794**		349,938,182
Unquoted Debt Securities Classified as Loans	8		**2,577,852**		2,577,852
Investment Properties – net	9		**4,385,136**		5,867,970
Bank Premises, Furniture, Fixtures and Equipment – net	10		**14,264,668**		17,082,750
Other Intangible Assets	11		**2,642,999**		932,565
Deferred Tax Assets	20, 30		**10,772,940**		10,678,962
Other Assets – net	12		**4,505,614**		7,005,160
Total Assets		**Php**	**558,954,881**	Php	490,652,539
LIABILITIES AND SHAREHOLDERS' EQUITY					
Deposit Liabilities	13	**Php**	**363,183,527**	Php	321,636,617
Bills Payable	14		**85,469,979**		66,684,289
Accrued Interest and Other Expenses	15		**7,212,864**		6,288,833
Lease Liability	23		**4,552,697**		5,041,495
Income Tax Payable	20		**1,808,518**		1,603,566
Dividends Payable			**141,518**		2,990,000
Deferred Tax Liability	20, 30		**5,880**		-
Other Liabilities	16, 30		**3,066,512**		6,661,539
			465,441,495		410,906,339
Capital Stock					
Preference Shares – Php 100 par value					
Authorized – 40,000 shares					
Ordinary Shares – Php 100 par value					
Authorized and issued – 460,000 shares	17		**46,000,000**		46,000,000
Share Premium	17		**7,030**		7,030
			46,007,030		46,007,030
Stock Dividends Distributable	17		**14,000,000**		14,000,000
Retained Earnings			**34,703,439**		20,743,160
Cumulative Remeasurement Loss on Retirement Plan	21		**(1,197,083)**		(1,003,990)
			93,513,386		79,746,200
Total Liabilities and Shareholders' Equity		**Php**	**558,954,881**	Php	490,652,539

See accompanying Notes to Financial Statements.

SOUTH BANK (A RURAL BANK) INCORPORATED

STATEMENTS OF COMPREHENSIVE INCOME
For the Years Ended December 31, 2021 and 2020

	Notes		2021		2020
Interest income and other fees					
Loans and other receivables	7	**Php**	**70,169,182**	Php	57,121,083
Deposits with banks and investments	6, 8		**196,494**		634,489
			70,365,676		57,755,572
Interest expense on deposit liabilities	13		**(6,397,697)**		(6,445,720)
Interest expense on bills payable	14		**(4,736,258)**		(5,375,213)
Interest expense on lease liability	23		**(271,384)**		(254,160)
Net interest income			**58,960,337**		45,680,479
Provisions for expected credit losses	7, 12		**(7,124,976)**		(8,716,980)
Provision for impairment loss	9		**(1,133,280)**		-
Net interest income after provision for expected credit and impairment losses			**50,702,081**		36,963,499
Other operating income	19		**33,925,257**		27,333,276
Administrative expenses	19		**(63,669,983)**		(52,603,201)
Profit before income tax			**20,957,355**		11,693,574
Income tax expense	20		**(6,997,076)**		(3,437,494)
Profit			**13,960,279**		8,256,080
Other comprehensive income					
Remeasurement gains (loss) on retirement plan	21		**(257,457)**		43,570
Tax relating to remeasurement loss (gains) on retirement plan	21		**64,364**		(13,071)
			(193,093)		30,499
Total comprehensive income		**Php**	**13,767,186**	Php	8,286,579
Earnings per share	24	**Php**	**30.35**	Php	17.95

See accompanying Notes to Financial Statements.

SOUTH BANK (A RURAL BANK) INCORPORATED

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

For the Years Ended December 31, 2021 and 2020

	Capital Stock	Share Premium	Retained Earnings	Stock Dividends Distributable	Cumulative Remeasurement gains (losses) on retirement plan	Total
January 1, 2020	P 46,000,000	P 7,030	P 15,212,965	P 14,000,000	P 437,042	P 75,657,037
Remeasurement gain (Note 21)					30,499	30,499
Cash dividends declared (Note 17)			(2,990,000)			(2,990,000)
Profit for the year			8,256,080			8,256,080
December 31, 2020, as previously stated	46,000,000	7,030	20,479,045	14,000,000	467,541	80,953,616
Prior period adjustments (Note 25)			264,115		(1,471,531)	(1,207,416)
December 31, 2020, as restated	46,000,000	7,030	20,743,160	14,000,000	(1,003,990)	79,746,200
Remeasurement gain (Note 21)					(193,093)	(193,093)
Profit for the year			13,960,279			13,960,279
December 31, 2021	**P 46,000,000**	**P 7,030**	**P 34,703,439**	**14,000,000**	**(P 1,197,083)**	**P 93,513,386**

See accompanying Notes to Financial Statements.

SOUTH BANK (A RURAL BANK) INCORPORATED

STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2021 and 2020

	Notes		2021		2020
CASH FLOWS FROM OPERATING ACTIVITIES					
Profit before income tax		**Php**	**20,957,355**	Php	11,693,574
Adjustments for:					
Interest Expense	13,14,23		**11,405,339**		12,075,093
Depreciation and amortization	19		**5,792,646**		6,091,569
Provision for expected credit losses	7,12		**7,124,976**		8,716,980
Provision for impairment losses	9		**1,133,280**		-
Provision for retirement benefits	19,21		**613,486**		280,321
Gain on sale of real and other properties acquired	19		**(1,273,400)**		(2,304,872)
Gain on sale of transportation equipment	10,19		**(65,000)**		(660,556)
Operating income before working capital changes			**45,688,682**		35,892,109
Changes in operating asset and liabilities:					
Increase in loans and receivables			**(74,883,442)**		(57,742,775)
Decrease (increase) in other assets			**2,489,047**		(1,809,927)
Increase in deposit liabilities			**41,546,910**		64,912,253
Increase in accrued interest and other expenses			**1,406,112**		830,051
Increase (decrease) in other liabilities			**(2,841,853)**		1,214,683
Cash generated from operations			**13,405,456**		43,296,394
Reimbursement for retirement paid	21		**-**		156,965
Contributions to retirement fund	21		**(1,578,463)**		-
Interest paid			**(11,616,035)**		(12,113,326)
Income taxes paid	20		**(6,880,223)**		(2,635,548)
Net cash provided by (used in) operating activities		**Php**	**(6,669,265)**	Php	28,704,485
CASH FLOWS FROM INVESTING ACTIVITIES					
Net proceeds from sale of real and other properties acquired	9,10	**Php**	**1,459,416**	Php	5,562,215
Net proceeds from sale of transportation equipment	10		**65,000**		100,000
Acquisition of bonds			**-**		(485,905)
Additions to intangible asset	11		**(2,059,780)**		(72,000)
Net additions to bank premises, furniture, fixtures and equipment	10		**(1,672,729)**		(4,636,582)
Net cash provided by (used in) investing activities		**Php**	**(2,208,093)**	Php	467,728
CASH FLOWS FROM FINANCING ACTIVITIES					
Availment of bills payable	14		**74,663,866**		42,275,859
Payments of bills payable	14		**(55,878,176)**		(63,909,581)
Payments of principal in lease liability			**(2,225,070)**		(2,050,540)
Payment of dividends payable			**(2,848,482)**		-
Net cash provided by (used in) financing activities			**13,712,138**		(23,684,262)
NET INCREASE IN CASH AND CASH EQUIVALENTS		**Php**	**4,834,780**	Php	5,487,951
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR					
Cash and other cash items			**8,900,955**		7,677,820
Due from Bangko Sentral ng Pilipinas			**8,135,234**		7,839,910
Due from other banks			**79,532,909**		75,563,417
		Php	**96,569,098**	Php	91,081,147

	Note		2021		2020
CASH AND CASH EQUIVALENTS AT THE END OF YEAR					
Cash and other cash items	4	**Php**	**9,752,651**	Php	8,900,955
Due from Bangko Sentral ng Pilipinas	5		**8,141,565**		8,135,234
Due from other banks	6		**83,509,662**		79,532,909
		Php	**101,403,878**	Php	96,569,098
NON-CASH TRANSACTIONS					
Recognition of right-of-use asset and lease liability		**Php**	**1,464,888**	Php	3,679,895
Transfer of investment properties to sales contract receivable			**215,556**		1,018,912
Foreclosure of loan collaterals			**97,272**		622,868
		Php	**1,777,716**	Php	5,321,675

See accompanying Notes to Financial Statements.

1. **General**

South Bank (A Rural Bank) Incorporated is organized under the laws and regulations governing the establishments and operations of rural banks in the Philippines under Republic Act (R.A.) No. 720, as amended by R.A. No. 7353 (Rural Bank Act of 1992). Its primary purpose is to carry out and engage in the business of extending rural credit to small farmers and tenants and to deserving rural industries and enterprises, to have and exercise all authority and powers, to do and perform acts, and to transact all businesses which may be legally had or done by rural banks organized under the aforementioned Act and to do all other things incident thereto and necessary and proper in connection with the said purpose which such territory, as may be determined by the Monetary Board of the Bangko Sentral ng Pilipinas (BSP).

The certificate of incorporation of the Bank issued by the Securities and Exchange Commission (SEC) on November 23, 1993 and shall expire on November 23, 2043.

Under Section 11 of Republic Act (R.A.) No. 11232, an Act providing for the Revised Corporation Code of the Philippines, a corporation shall have perpetual existence unless its articles of incorporation provides otherwise. Corporations with certificate of incorporation issued prior to the effectivity of the Code and which continue to exist shall also have perpetual existence, unless the corporation upon a vote of its stockholders, representing a majority of its outstanding capital stock, notifies the SEC that it elects to retain its specific corporate term pursuant to its Article of Incorporation. The Bank has not signified its intention to retain its corporate term in its article of incorporation.

The registered address of the Bank's head office is at Rodelsa Hall, R.N. Pelaez Boulevard, Kauswagan, Cagayan de Oro City. The Bank has seven (7) branches located in Kitaotao, Libona, and Valencia in Bukidnon, in Cogon and Velez in Cagayan de Oro City, and in Butuan in Caraga Region.

The branch in Butuan started commercial operations on June 5, 2018 using the license to operate of the closed branch in Bulua. All accounts of Bulua branch were merged with the Velez branch on April 26, 2018.

The stockholders of the Bank together with the stockholders of the Rural Bank of Roxas (Mindoro), Inc. (RBRI) have agreed to merge both banks with RBRI stockholders investing 40% into the equity of the merged bank.

As of April 6, 2022, the Bank is still in the process of complying with the documentary requirements required by the BSP relative to the distribution of the shares of stock of the Pelaez family. Thereafter, the Bank will refresh its application for the increase in its authorized capital stock with the SEC. With the SEC's approval of the increase in its authorized capital stock, Management believes that the merger of the Bank with RBRI will proceed soon after.

2. **Summary of Significant Accounting Policies**

<u>Basis of Financial Statement Preparation</u>

The accompanying financial statements have been prepared in accordance with Philippine Financial Reporting Standards, as modified by the application of the following financial reporting reliefs issued by the BSP and approved by the SEC in response to the COVID-19 pandemic:

a. In 2020, the Bank granted its officers and employees of a one (1)-month salary under non-interest bearing salary loan with a term of one (1) year and an option to pay on a semi-monthly basis with first payment due 60 days after the payout or at maturity and extending the maturity of the loan for another 60 days.

b. In 2020, the Bank granted a moratorium or temporary grace period on microfinance loans, salary loans to private employees, commercial, and other loans, corporate loans, and consumer loans (loans to PNP, teachers, and pensioners), and excluding these loans from the computation of past due ratio for a period of one (1) year.

c. The BSP did not impose penalties for delays incurred in the submission of all supervisory reports due to be submitted from March 8, 2020 up to six (6) months thereafter.

d. The BSP did not impose penalties on legal reserve requirement computed under Sec. 255 of the Manual of Regulations for Banks.

The reliefs cover only the 2021 and 2020 transactions or events and do not impact the previous periods.

Also, the accompanying financial statements have been presented in Philippine peso and have been prepared using the historical cost basis. Historical cost is the fair value of the consideration given in exchange for assets and change in fair value of the consideration received in exchange for incurring a liability.

Fair value is the price that will be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at measurement date.

<u>Statement of Compliance</u>
The accompanying financial statements of the Bank have been prepared in conformity with the Financial Reporting Standards in the Philippines (FRSP) for banks, which are substantially the same with the Philippine Financial Reporting Standards (PFRS), as modified by the application of the financial reporting reliefs issued by the BSP and approved by the SEC.

PFRSs are adopted by the Financial Reporting Standards Council (FRSC) from the pronouncements issued by the International Accounting Standards Board (IASB).

The financial statements have been prepared using the measurement bases specified by the PFRS for each type of resources, liabilities, income and expenses. The measurement bases are more fully described in the accounting policies presented in the next page:

<u>Management's Assumptions, Estimates and Judgments</u>
The preparation of the financial statements in conformity with PFRS requires Management to make assumptions, estimates and judgments that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of

making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both the current and future periods.

Adoption of New and Revised Accounting Standards, Amendments to Standards and Interpretations

The accounting policies adopted are consistent with those of prior periods' adoptions except for the adoption of the following amendment effective January 1, 2021. The Bank has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

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

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

  The Bank shall also disclose information about:

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

The adoption of the aforementioned amendment has no material impact on the Bank's financial position and results of operations and did not result in the restatement of prior year financial statements. This may, however, affect the accounting for future transactions or arrangements.

Future Changes in Accounting Policies

The Bank will adopt the improvements to PAS and PFRS in the next page that are relevant to the Bank:

Effective beginning on or after January 1, 2022

- PFRS 3, *Amendments – Reference to the Conceptual Framework*, which are intended to replace a reference to the Framework for the Preparation and Presentation of Financial Statements, issued in 1989, with a reference to the Conceptual Framework for Financial Reporting issued in March 2018 without significantly changing its requirements. The amendments added an exception to the recognition principle of PFRS 3, *Business Combinations* to avoid the issue of potential 'day 2'gains or losses arising for liabilities and contingent liabilities that would be within the scope of PAS 37, *Provisions,* *Contingent Liabilities and Contingent Assets* or Philippine-IFRIC 21, *Levies,* if incurred separately.

Further, the amendments add a new paragraph to PFRS 3 to clarify that contingent assets do not qualify for recognition at the acquisition date.

The amendments are effective for annual reporting periods beginning on or after January 1, 2022 and shall be applied prospectively.

- PAS 16, *Amendments – Plant and Equipment: Proceeds before Intended Use,* which prohibit entities 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 costs of producing those items, in profit or loss.

  The amendment is effective for annual reporting periods beginning on or after January 1, 2022 and must be applied retrospectively to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented when the entity first applies the amendment.

- PAS 37, *Amendments – Onerous Contracts – Costs of Fulfilling a Contract,* which specify which costs an entity needs to include when assessing whether a contract is onerous or loss-making. The amendments apply a “directly related cost approach”. The costs that relate directly to a contract to provide goods or services include both incremental costs and an allocation of costs directly related to contract activities. General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract.

  The amendments are effective for annual reporting periods beginning on or after January 1, 2022.

Annual Improvement to PFRSs 2018-2020 Cycle

- PFRS 9, *Amendment – Financial Instruments, Fees in the ’10 per cent’ test for derecognition of financial liabilities,* which clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other’s behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment.

  The amendment is effective for annual reporting periods beginning on or after January 1, 2022 with earlier adoption permitted.

Effective beginning on or after January 1, 2023

- PAS 1, *Amendments – Classification of Liabilities as Current or Non-current,* which clarify paragraphs 69 to 76 of PAS 1, *Presentation of Financial Statements,* to specify the requirements for classifying liabilities as current or non-current. The amendments clarify:

a. What is meant by a right to defer settlement
b. That a right to defer must exist at the end of the reporting period
c. That classification is unaffected by the likelihood that an entity will exercise its deferral right
d. That only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification

The amendments are effective for annual reporting periods beginning on or after January 1, 2023 and must be applied retrospectively.

- PFRS 17, *Insurance Contracts,* which is a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, PFRS 17 will replace PFRS 4, *Insurance Contracts.* This new standard on insurance contracts applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply.

  The overall objective of PFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in PFRS 4, which are largely based on grandfathering previous local accounting policies, PFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of PFRS 17 is the general model, supplemented by:

  1. A specific adaptation for contracts with direct participation features (the variable fee approach); and
  2. A simplified approach (the premium allocation approach) mainly for short-duration contracts.

  PFRS 17 is effective for reporting periods beginning on or after January 1, 2023, with comparative figures required. Early application is permitted.

The Management is yet to assess the impact that the foregoing amendment, new standards and interpretation are likely to have on the financial statements of the Bank.

The Bank deferred the adoption of PFRS *Practice Statement on Management Commentary*, which provides a broad, non-binding framework for the presentation of management commentary that relates to financial statements that have been prepared in accordance with PFRS.

The Bank could not yet determine the impact of the practice statement on its financial statements. The Bank, however, does not expect material impact on its financial statements when it adopts the aforementioned practice statement.

<u>Foreign Currency Transactions</u>
Transactions in foreign currencies are recorded using the exchange rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are restated using the closing exchange rate at the end of the reporting period. Foreign exchange gains and losses arising from subsequent settlement or restatement of monetary assets and liabilities are included in the statement of comprehensive income.

Cash and Cash Equivalents
Cash and cash equivalents include cash and other cash items, and amounts due from BSP and other banks with maturities of three (3) months or less from dates of placements. Cash is unrestricted from being exchanged or used to settle a liability for at least 12 months after the reporting period.

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three (3) months or less and that are subject to an insignificant risk of change in value. Cash and cash equivalents are valued at face value.

Financial Assets and Financial Liabilities
Financial assets include cash and other cash items, due from BSP and other banks, loans and receivables, unquoted debt securities classified as loans, and other assets. Financial liabilities include deposit liabilities, bills payable, accrued interest and other expenses, lease liability, dividends payable, and other liabilities.

Date of recognition
The Bank recognizes a financial asset or a financial liability when it becomes a party to the contractual provisions of the instrument. All regular way purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace, the financial asset is recognized on the trade date or settlement date.

Initial measurement
Financial assets and financial liabilities are recognized initially at fair value, which is the fair value of the consideration given (asset) or received (liability). Except for investments at fair value through profit and loss (FVTPL), the initial measurement of instruments includes transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability. Transaction costs that are directly attributable to the acquisition of investments at FVTPL are recognized immediately in profit or loss.

Transaction costs include fees and commission paid to agents (including employees acting as selling agents), advisers, brokers and dealers, levies by regulatory agencies and security exchanges, and transfer taxes and duties.

Subsequent measurement
The Bank classifies its financial assets in the following categories: investments at FVTPL, investments at FVTOCI, and investments at amortized cost.

The classification of financial assets depends on the following:

- the business model of the entity whose objective is achieved by collecting contractual cash flows or selling financial assets or both; and
- the contractual terms of the financial asset give rise, on specified dates, to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding. In case of early termination of the contract, a financial asset passes the SPPI criterion regardless of the event or circumstance where the prepayment amount approximates to unpaid amounts of principal and interest plus or minus an amount that reflects the change in a benchmark interest rate.

Financial liabilities are classified at FVTPL and amortized cost. Financial liabilities held for trading are measured at FVTPL, and all other financial liabilities are measured at amortized cost unless designated at FVTPL.

All equity investments in the scope of PFRS 9 are to be measured at fair value in the statement of financial position, with value changes recognized in profit or loss, except for those equity investments for which the Bank has elected to present value changes in other comprehensive income. There is no cost exception for unquoted equities. But despite the fair value requirement for all equity investments, PFRS 9 observes that in limited circumstances, cost may provide an appropriate estimate of fair value.

This would be the case if insufficient more recent information is available to measure fair value or if there is a wide range of possible fair value measurements and cost represents the best estimate of fair value within that range. Indicators that cost might not be representative of fair value include:

- significant change in the performance of the investee compared with budget, plans or milestones;
- changes in expectations that investee's technical product milestones will be achieved;
- a significant change in the market for the investee's products, global economy, economic environment in which the entity operates;
- performance of competitors, matters such as fraud, commercial disputes, litigation, changes in management or strategy; or
- evidence of external transactions in the investee's equity.

The Bank determines the classification at initial recognition when it becomes a party to the contractual provisions of the instrument.

Portfolio Exception
If the Bank manages that group of financial assets and financial liabilities on the basis of its net exposure to either market risks or credit risks, the Bank is permitted to apply an exception to this PFRS for measuring fair value.

That exception permits the Bank to measure the fair value of a group of financial assets and financial liabilities on the basis of the price that would be received to sell a net long position (i.e. an asset) for a particular risk exposure or paid to transfer a net short position (i.e. liability) for particular risk exposure in an orderly transaction between market participants at the measurement date under current market conditions.

Accordingly, the Bank shall measure the fair value of the group of financial assets and financial liabilities consistently with how market participants would price the net risk exposure at the measurement date.

Fair Value Hierarchy
Financial assets and financial liabilities are categorized in accordance with the fair value hierarchy. This hierarchy groups financial assets and financial liabilities into three (3) levels as shown below:

- *Level 1* : quoted prices (unadjusted) in active markets for identical assets or liabilities;
- *Level 2* : inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and

• *Level 3* : inputs for the asset or liability that are not based on observable market data.

As of December 31, 2021 and 2020, the Bank has no financial instruments valued based on Levels 1, 2 and 3.

Effective interest method
It is a method of calculating the amortized cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument, or, where appropriate, a shorter period, to the amortzed cost at initial recognition. When calculating the effective interest rate, the Bank estimates the expected cash flows by considering all the contractual terms of the financial instrument excluding the expected credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs, and all other premiums or discounts. There is a presumption that the cash flows and the expected life of a group of similar financial instruments can be estimated reliably.

However, in those rare cases when it is not possible to reliably estimate the cash flows or the expected life of a financial instrument (or group of financial instruments), the Bank shall use the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).

Income is recognized on an effective interest basis for debt instruments other than those financial assets classified as at FVTPL and FVTOCI.

Due from BSP and other banks
Due from BSP represents the amounts that are placed as reserved deposits with the BSP in lieu of government securities holding to be bought directly from BSP.

Due from other banks represents the balances of deposit accounts maintained with other resident banks excluding loans and advances.

Due from BSP and other banks are carried at face value, which approximates fair value, less any impairment in value.

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not designated as financial assets at FVTOCI or financial assets at FVTPL. These arise when the Bank provides money, goods or services directly to the debtor with no intention of trading the receivables. Included in this category are financial assets arising from direct loans to customers, interbank loans receivables, sales contract receivables and all receivables from customer and other banks.

Loans and receivables are subsequently carried at amortized cost using effective interest method, reduced by unearned interest and discounts, and allowance for expected credit losses.

Gains and losses are recognized in profit or loss when the loans and receivables are derecognized or impaired, as well as through amortization process, except for reclassified financial assets under PFRS 9 and PFRS 7. Increases in estimates of future cash receipts from financial assets that have been reclassified in accordance with PFRS 9 and PFRS 7 shall be recognized as an adjustment to the effective interest rate from the date of the change in estimate. Purchases of securities under reverse repurchase agreements of substantially identical securities with the BSP are included in this category. The difference between the sale and repurchase price is recognized as interest and accrued over the life of the agreements using the straight-line method.

Impairment loss is the estimated amount of loss in the Bank's loan portfolio, based on the evaluation of the estimated future cash flows discounted at the loan's original effective interest rate or the last re-pricing rate for loans issued at variable rates. Impairment is established through an allowance account which is charged to expense. Loans and receivables are written off against the allowance for impairment when the Management believes that the collectability of the principal is unlikely, subject to BSP regulations.

Under existing BSP regulations, non-accruing loans, refer to loan accounts whose principal and/or interest is unpaid for 30 days or more after due date or after these accounts become past due and included as items in litigation. Interest income on these accounts is recognized only to the extent of cash collections received. Loans are not reclassified as accruing until interest and principal payments are brought current or the loans are restructured in accordance with existing BSP regulations, and future payments appear assured.

Section 304 of Manual of Regulations for Banks defines accounts considered as past due. As a general rule, loans, investments, receivables, or any financial asset, including restructured loans, shall be considered past due when any principal and/or interest or installment due, or portions thereof, are not paid at their contractual due date, in which case, the total outstanding balance thereof shall be considered as past due. However, the Bank may provide a cure period on a credit product-specific basis, not to exceed thirty (30) days within which to allow the obligors or borrowers to catch up on their late payment without being considered as past due provided that:

- any cure period policy shall be based on verifiable collection experience and reasonable judgment that support tolerance of occasional payment delays;

- the observance of a cure period policy shall not preclude the timely adverse classification of an account that has developed a material credit weakness; and

- that the Bank shall regularly review the reasonableness of its cure period policy.

Further, for microfinance and other small loans that feature high frequency payments, the cure period allowable by policy shall not exceed ten (10) days.

Allowance for expected credit losses on loans and receivables are set in accordance with BSP's existing guidelines on loan provisioning. (Refer also to Allowance for Expected Credit Losses policy).

Financial assets at FVTPL
Financial assets at FVTPL include financial assets held for trading purposes, financial assets designated upon initial recognition as at FVTPL, and derivative instruments.
A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling or repurchasing it in the near term;

- on initial recognition, it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking; or

- it is a derivative that is not a financial guarantee contract or a designated and effective as a hedging instrument.

Financial assets classified in this category are designated by Management on initial recognition when the following criteria are met:

- The designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognizing gains or losses on them on a different basis; or

- The assets are part of a group of financial assets which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; or

- The financial instrument contains an embedded derivative, unless the embedded derivative does not significantly modify the cash flows or it is clear, with little or no analysis, that it would not be separately recorded.

After initial recognition, investments at FVTPL are measured at fair value except for investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, which shall be measured at cost.

Changes in the fair value and interest components are taken directly to the statement of comprehensive income for the year.

Financial assets (except derivatives, equity investments and debt investment measured at FVTPL by irrevocable election) may be subsequently reclassified out of FVTPL, when the financial asset is reclassified from FVTPL to amortized cost, the fair value at the reclassification date becomes the new carrying amount.

The difference between the new carrying amount of the financial asset at amortized cost and the face value of the financial asset shall be amortized through profit or loss over the remaining life of the financial asset using the effective interest method. An effective interest rate must be determined based on the new carrying amount or fair value at the reclassification date.

When reclassifying the financial asset from FVTPL to FVTOCI, the financial asset continues to be measured at fair value. The fair value at the reclassification date becomes the new carrying amount. An effective interest rate must be determined based on the new carrying amount or fair value at the reclassification date.

The Bank does not have any financial asset or financial liability at FVTPL as of December 31, 2021 and 2020.

Financial Assets at Amortized Cost
Financial assets at amortized cost are non-derivative financial assets with fixed or determinable payments and fixed maturities for which the Bank has a positive intention and ability to hold to maturity. Investments, which include equity instruments intended to be held for an unidentified period, are not included in this classification.

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

- The business model is to hold the financial asset in order to collect contractual cash flows on the specified date; and

- The contractual cash flows are solely payments of principal and interest on the principal amount outstanding.

After initial measurement, investments at amortized cost are measured at amortized cost using the effective interest method, less impairment in value. Amortized cost is calculated by taking into account any discount or premium through periodic amortization charges or credits to income. When the decline in fair value below the amortized cost is other than temporary, i.e., the full collection of principal and interest is not expected on the investments, the amortized cost basis of the particular financial asset shall be adequately provided with allowance for expected credit losses. Gains and losses arising from the changes in fair value are included in the statement of comprehensive income.

When the Bank shall reclassify a financial asset from amortized cost to fair value through profit or loss, the fair value is determined at the reclassification date. The difference between the previous carrying amount and fair value is recognized in profit or loss.

The Bank's loans and receivables and unquoted debt securities classified as loans are included in this category.

Financial Assets at FVTOCI
These are non-derivative financial assets that are designated in this category or are not classified in any other categories. Subsequent to initial recognition, financial assets at FVTOCI are carried at fair value. However, if insufficient more recent information of equity instruments irrevocably elected at FVTOCI is available to measure fair value, or if there is a wide range of possible fair value measurements and cost represents the best estimate of fair value within that range then cost may be the appropriate estimate of fair value.

Changes in the fair value of such assets are reported in other comprehensive income and accumulated in equity section of the statement of financial position until the investment is derecognized or the investment is determined to be impaired.

These financial assets are measured at FVTOCI if both of the following conditions are met:

- The financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and by selling the financial assets; and

- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

When the Bank reclassifies financial assets at FVTOCI to amortized cost, the fair value at reclassification date becomes the amortized cost carrying amount. The cumulative gain or loss previously recognized in other comprehensive income is eliminated and adjusted against the fair value at the reclassification date. The original effective rate is not adjusted.

Further, if the Bank reclassifies the financial assets at FVTOCI to FVTPL, the financial assets continue to be measured at fair value. The fair value at reclassification date becomes the new carrying amount. The cumulative gain or loss previously recognized in other comprehensive income is reclassified to profit or loss at reclassification date.

On derecognition or impairment, the cumulative gain or loss previously accumulated in the equity section is reclassified to the statement of comprehensive income except for equity instruments irrevocably elected at FVTOCI, which shall not be subsequently transferred to the statement of comprehensive income. However, the Bank may transfer the cumulative gain or loss within equity.

Reversal of impairment losses is recognized in other comprehensive income, except for financial assets that are debt securities which are recognized in profit or loss, only if the reversal can be objectively related to an event occurring after the impairment loss was recognized.

Interest earned on holding the investments at FVTOCI is recognized in the statement of comprehensive income using the effective interest method.

The Bank does not have any investments at FVTOCI as of December 31, 2021 and 2020.

Unquoted debt securities classified as loans

These are debt securities issued by the government generally consisting of bonds, treasury bills/notes and certificates of indebtedness issued by the Philippine Government, its political subdivisions and instrumentalities and/or corporations owned and/or controlled by the government, with fixed or determinable payments that are not quoted in an active market. These bonds and other debt instruments may form part of the Bank's reserve against deposit substitutes.

After initial recognition, these are measured at their amortized cost using the effective interest method. A gain or loss arising from the change in the fair value is recognized in the statement of comprehensive income when the security is derecognized or impaired, and through the amortization process.

The Bank has unquoted debt securities classified as loans amounting to P 2,577,852 as of December 31, 2021 and 2020 (Note 8).

Sales contract receivables

Sales contract receivables (SCR) are recorded based on the present value of the installment receivables discounted at the imputed rate of interest. Discount is accreted over the life of the SCR by crediting interest income using the effective interest method. Any difference between the present value of the SCR and the derecognized assets are recognized in profit or loss at the date of sale in accordance with the provisions of PFRS 5, *Revenue from*

Customers, provided, furthermore, that SCR shall be subject to impairment provision of PFRS 9, *Financial Instruments.*

The Bank has sales contract receivable amounting to P 2,603,708 and P 2,964,999 as of December 31, 2021 and 2020, respectively, net of allowance for expected credit losses amounting to P 34,505 and P 91,611, respectively (Note 7).

Financial assets carried at cost
These are investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and the derivatives that are linked to must be settled by delivery of such unquoted equity instruments. These investments are measured at cost.

If there is an objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment shall not be reversed.

The Bank does not have an investment in ordinary share as of December 31, 2021 and 2020.

Financial liabilities at FVTPL
Financial liabilities are classified in this category if these result from trading activities or derivative transactions that are not accounted for as accounting hedges, or when the Bank elects to designate a financial liability under this category. These are remeasured at fair value, with gains or losses recognized in profit or loss.

The Bank has no designated financial liability at FVTPL as of December 31, 2021 and 2020.

Other financial liabilities
This category pertains to financial liabilities that are not held for trading or not designated as at FVTPL upon the inception of the liability. These include liabilities arising from operations or borrowings. Other financial liabilities are subsequently measured at amortized cost using effective interest method.

The Bank's deposit liabilities, accrued interest and other expenses, lease liability, dividends payable, and other liabilities are included in this category.

Financial guarantee contracts
A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the terms of a debt instrument.

Financial guarantee contracts issued by a group entity are initially measured at their fair values and, if not designated as FVTPL, are subsequently measured at a higher of:

- The amount of the obligation under the contract, as determined in accordance with PAS 37; and

- The amount initially recognized less, where appropriate, cumulative amortization recognized in accordance with the revenue recognition policies.

Deposit liabilities
Deposit liabilities are recognized initially at fair value and subsequently measured at amortized cost less settlement payment.

The Bank's deposit liabilities amounted to P 363,183,527 and P 321,636,617 as of December 31, 2021 and 2020, respectively (Note 13).

Bills payable and other borrowed funds
Issued financial instruments or their components, which are not designated at FVTPL, are classified as liabilities under "Bills payable" or other appropriate financial liability accounts, where the substance of the contractual arrangement results in the Bank having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.

Bills payable are initially recognized at fair value equivalent to the issue proceeds (fair value of the consideration received), net of direct issue costs.

The components of issued financial instruments that contain both liability and equity elements are accounted for separately, with the equity component being assigned the residual amount after deducting from the instrument as a whole amount separately determined as fair value of the liability component on the date of issue.

After initial measurement, bills payable and similar financial liabilities not qualified as and not designated as FVTPL are measured at amortized cost using the effective interest rate method. Amortized cost is calculated by taking into account any discount or premium on the issue and fees that are an integral part of the effective interest rate.

The Bank has bills payable outstanding amounting to P 85,469,979 and P 66,684,289 as of December 31, 2021 and 2020, respectively (Note 14).

Accrued interest and other expenses, and other liabilities
Accrued interest and other expenses, and other liabilities are obligations to pay for the goods and services provided to the Bank. These are recognized initially at their nominal value and are subsequently measured in amounts which they are paid.

The Bank has accrued interest and other expenses of P 7,212,864 and P 6,288,833 (Note 15) and other liabilities of P 3,066,512 and P 6,661,539 as of December 31, 2021 and 2020, respectively (Note 16).

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

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

- The Bank retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a “pass-through” arrangement; or

- The Bank has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset or (b) has neither transferred nor retained the risks and rewards of the asset but has transferred the control of the asset.

On derecognition of a financial asset in its entirety, the difference between the asset’s carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognized in other comprehensive income and accumulated in equity is recognized in profit or loss.

On derecognition of a financial asset other than in its entirety (e.g. when the Bank retains an option to repurchase part of a transferred asset or retains a residual interest that does not result in the retention of substantially all the risks and rewards of ownership and the Bank retains control), the Bank allocates the previous carrying amount of the financial asset between the part it continues to recognize under continuing involvement, and the part it no longer recognized on the basis of the relative fair values of those parts on the date of the transfer.

The difference between the carrying amount allocated to the part that is no longer recognized and the sum of the consideration received for the part no longer recognized and any cumulative gain or loss allocated to it that had been recognized in other comprehensive income is recognized in profit or loss.

A cumulative gain or loss that had been recognized in other comprehensive income is allocated between the part that continues to be recognized and the part that is no longer recognized on the basis of the relative fair values of those parts.

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

Impairment of financial assets
Financial assets, other than those at FVTPL and FVTOCI, are assessed based on significant increases in the likelihood or risk of a default occurring since initial recognition (irrespective of whether a financial instrument has been re-priced to reflect an increase in credit risk) instead of evidence of a financial asset being credit-impaired at the reporting date or an actual default occurring.

The Bank shall recognize a loss allowance for expected credit losses on a financial asset that is measured equal to the 12-month expected credit losses or the full lifetime expected credit losses if the credit risk of that financial instrument has increased significantly since initial recognition, as well as to contract assets or trade receivables that do not constitute a financing transaction in accordance with PFRS 15.

Credit losses are the present value of all cash shortfalls. Expected credit losses are an estimate of credit losses over the life of the financial instrument.

When measuring expected credit losses, the Bank considers the following:

- The probability-weighted outcome, wherein the estimate should reflect the possibility that a credit occurs and the possibility that no credit loss occurs.

- The time value of money, wherein the expected credit losses should be discounted.

- Reasonable and supportable information that is available without undue cost or effort.

The Bank uses various sources of data both internal or entity-specific and external in measuring expected credit losses.

For FVTOCI equity investments, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or

- breach of contract, such as a default or delinquency in interest or principal payments; or

- it becomes probable that the borrower will enter bankruptcy or financial re-organization; or

- the disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial assets, such as loans and receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Bank's past experience of collecting payments, an increase in the number of past due loans and receivables, as well as observable changes in national or local economic conditions that correlate with default on loans and receivables.

If there is any objective evidence that an impairment loss has been incurred, the amount of the loss is measured as follows:

<u>Financial assets carried at amortized cost</u>
The amount of the impairment loss recognized is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate. The carrying amount of the asset shall be reduced either directly or through the use of an allowance account. The amount of loss shall be recognized in profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

Financial assets carried at cost

The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of loans and receivables, where the carrying amount is reduced through the use of an allowance account. When a receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss.

Financial Assets at FVTOCI

The cumulative gains or losses previously recognized in other comprehensive income are reclassified to profit or loss in the period the FVTOCI financial asset is derecognized.

In respect of FVTOCI equity securities, impairment losses previously recognized in profit or loss are not reversed through profit or loss rather only reclassification of equity is permitted. Any increase in fair value subsequent to an impairment loss is recognized in other comprehensive income and accumulated under equity.

In respect of FVTOCI debt securities, impairment losses are subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

Offsetting financial instruments

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

Hedge Accounting

Derivatives may be designated as a hedging instrument provided that the following conditions are met:

- At the inception of the hedge, there must be a formal designation and documentation of hedging relationship and the entity's risk management objective and strategy for undertaking the hedge. The documentation shall include identification of the hedging instrument, the hedge item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk.

- The hedge is expected to be highly effective in achieving offsetting changes in fair value or cash flows attributable to the hedged risk, consistently with the originally documented risk management strategy for that particular hedging relationship.

- For cash flow hedges, a forecast transaction that is the subject of the hedge must be highly probable and must present an exposure to variations in cash flows that could ultimately affect profit or loss.

- The effectiveness of the hedge can be reliably measured.

- The hedge is asserted on an ongoing basis and determined actually to have been highly effective throughout the financial reporting periods for which the hedge was designated.

Fair value hedge
Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recognized in profit or loss or other comprehensive income, if the hedging instrument hedges an equity instrument for which the Bank has elected to present changes in fair value in other comprehensive income immediately. The hedging gain or loss on the hedged item shall be adjusted to the carrying amount of the hedged item (if applicable) and be recognized in profit or loss.

If the hedged item is a financial asset (or a component thereof) that is measured at fair value through other comprehensive income, the hedging gain or loss on the hedged item shall be recognized in the profit or loss.

However, if the hedged item is an equity instrument for which the Bank has elected to present changes in fair value in other comprehensive income, those amounts shall remain in other comprehensive income. When hedged item is an unrecognized firm commitment (or a component thereof), the cumulative change in the fair value of the hedged item subsequent to its designation is recognized as an asset or a liability with a corresponding gain or loss recognized in profit or loss.

When a hedged item in a fair value hedge is a firm commitment (or a component thereof) to acquire an asset or assume a liability, the initial carrying amount of the asset or the liability that results from the entity meeting the firm commitment is adjusted to include the cumulative change in the fair value of the hedged item that was recognized in the statement of financial position.

Any adjustment arising from the change in fair value shall be amortized to profit or loss if the hedged item is a financial instrument (or a component thereof) measured at amortized cost. Amortization may begin as soon as an adjustment exists and shall begin no later than when the hedged item ceases to be adjusted for hedging gains and losses.

The amortization is based on a recalculated effective interest rate at the date that amortization begins. In the case of a financial asset (or a component thereof), that is a hedged item and that is measured at fair value through other comprehensive income, amortization applies in the same manner but to the amount that represents the cumulative gain or loss previously recognized instead of by adjusting the carrying amount.

Cash flow hedge
Cash flow hedge is a hedge of the exposure to variability in cash flows that is attributable to a particular risk associated with a recognized asset or liability and could affect profit or loss.

The hedge is accounted for as follows:

a. the separate component of equity associated with the hedged item (cash flow hedge reserve) is adjusted to the lower of the following:

   - the cumulative gain or loss on the hedging instrument from the inception of the hedge; and

   - the cumulative change in fair value (present value) of the hedged item (i.e. the present value of the cumulative change in the hedged expected future cash flows) from the inception of the hedge.

b. the portion of the gain or loss on the hedging instrument that is determined to be an effective hedge (i.e. the portion that is offset by the change in the cash flow hedge reserve calculated) shall be recognized in other comprehensive income.

c. any remaining gain or loss on the hedging instrument (or any gain or loss required to balance the change in the cash flow hedge reserve calculated) is hedge ineffectiveness that shall be recognized in profit or loss.

d. the amount that has been accumulated in the cash flow hedge reserve shall be accounted for as follows:

   - if a hedged forecast transaction subsequently results in the recognition of a non-financial asset or non-financial liability, or a hedged forecast transaction for a non-financial asset or a non-financial liability becomes a firm commitment for which fair value hedge accounting is applied, the Bank shall remove that amount from the cash flow hedge reserve and include it directly in the initial cost or other carrying amount of the asset or the liability. This is not a reclassification adjustment and hence it does not affect other comprehensive income.

   - for cash flow hedges other than those covered by (1), that amount shall be reclassified from the cash flow hedge reserve to profit or loss as a reclassification adjustment in the same period or periods during which the hedged expected future cash flows affect profit or loss.

   - however, if that amount is a loss and the Bank expects that all or a portion of that loss will not be recovered in one or more future periods, it shall immediately reclassify the amount that is not expected to be recovered into profit or loss as a reclassification adjustment.

When the Bank discontinues hedge accounting for a cash flow hedge it shall account for the amount that has been accumulated in the cash flow hedge reserve as follows:

- if the hedged future cash flows are still expected to occur, that amount shall remain in the cash flow hedge reserve until the future cash flows occur or apply.

- if the hedged future cash flows are no longer expected to occur, that amount shall be immediately reclassified from the cash flow hedge reserve to profit or loss as a reclassification adjustment hedged future cash flow that is no longer highly probable to occur may still be expected to occur.

Hedge of a net investment in foreign operations

Hedge is accounted for similarly to cash flow hedges. The gain or loss on the hedging instrument relating to the ineffective portion of the hedge that has been recognized in other comprehensive income shall be reclassified from equity to profit or loss as a reclassification adjustment on the disposal or partial disposal of the foreign operation.

The Bank has no hedging instruments or hedged items in neither domestic nor foreign operations in both years.

Derivatives

Derivatives are initially recognized at fair value on the date in which the derivative transaction is entered into or bifurcated, and are subsequently remeasured at fair value at the end of the reporting period. The resulting gain or loss is recognized in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event, the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

Derivatives are carried as an asset when the fair value is positive and as a liability when the fair value is negative.

The Bank has no derivative transactions, such as foreign exchange forward contracts, interest rate swaps, and cross-currency swaps as of December 31, 2021 and 2020.

Embedded Derivatives

An embedded derivative is separated from the host contract and accounted for as a derivative if all of the following conditions are met:

- The economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract;
- A separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and
- The hybrid or combined instrument is not recognized at FVTPL.

The Bank has no transactions with embedded derivatives as of December 31, 2021 and 2020.

Allowance for Expected Credit Losses

The Bank adopts the expected credit loss (ECL) model in measuring credit impairment, in accordance with the provisions of PFRS 9 and Appendix 15 of the MORB. In this respect, the Bank recognizes credit impairment/allowance for credit losses even before an objective evidence of impairment becomes apparent. It considers past events, current conditions, and forecasts of future economic conditions in assessing impairment.

The ECL model on credit exposures covered by PFRS 9 includes the following:

- Loans and receivables that are measured at amortized cost;
- Vestments in debt instruments that are measured at amortized cost or at FVTOCI; and
- Credit commitments and financial guarantee contracts that are not measured at FVTPL.

Credit exposures are classified into three (3) stages using the following time horizons in measuring ECL:

Stage of Credit Impairment	Characteristics	Time Horizon in measuring ECL
Stage 1	Credit exposures that are considered "performing" and with no significant increase in credit risk since initial recognition or with low credit risk	Twelve (12) months
Stage 2	Credit exposures that are considered "under-performing" or not yet non-performing but with a significant increase in credit risk since initial recognition	Lifetime
Stage 3	Credit exposures with objective evidence of impairment, thus, considered as "non-performing"	Lifetime

Allowance for expected credit losses is maintained at a level considered adequate to provide for potential losses on receivables and other resources. The allowance is increased by provisions charged to expense and reduced by net write-offs and reversals.

The level of allowance is based on the Management's evaluation of potential losses after consideration of the prevailing and anticipated economic conditions, the evaluation of potential losses based on existing guidelines of the BSP and the Management's judgment as to identifiable losses on specific accounts based on past collection experience, collateral position and account documentation.

The BSP requires banks to observe certain criteria and guidelines based largely on the classification of loans in establishing the allowance for expected credit losses. Loans and receivables are written-off against the allowance for expected credit losses when Management is satisfied that such accounts are worthless.

Loans and other credit accommodations with unpaid principal and/or interest shall be classified and provided with allowance for expected credit losses (AECL) based on the number of days of missed payments as shown below:

For individually assessed unsecured loans and other credit exposures:

Number of days unpaid/ with missed payment	Classification	Stage	AECL
31- 90 days	Substandard (Underperforming)	2	10%
91 – 120 days	Substandard (Non-performing)	3	25%
121 - 180 days	Doubtful	3	50%
181 days and over	Loss	3	100%

For individually assessed secured loans and other credit exposures:

Number of days unpaid/ with missed payment	Classification	Stage	AECL
31- 180 days	Substandard (Under and non-performing)	2	10%
181 - 365 days	Substandard (Non-performing)	3	25%
Over a year - 5 years	Doubtful	3	50%
Over 5 years	Loss	3	100%

When there is imminent possibility of foreclosure and expectation of loss for loans aged 31 to 180 days, the minimum allowance shall be increased to 25%.

For collectively assessed unsecured loans and other credit accommodations:

Number of days unpaid/ with missed payment	Classification	Stage	AECL
1- 30 days	Especially mentioned	2	2%
31 - 60 days	Substandard	2 or 3	25%
61 - 90 days	Doubtful	3	50%
Over 90 days	Loss	3	100%

For collectively assessed secured loans and other credit accommodations:

Number of days unpaid/ with missed payment	Classification	AECL (Secured by Real Estate)	Stage	AECL (Other securities)
31 - 90 days	Substandard (Underperforming)	10%	2	10%
91 - 120 days	Substandard (Non-performing)	15%	3	25%
120 - 360 days	Doubtful	25%	3	50%
361 days - 5 years	Loss	50%	3	100%
Over 5 years	Loss	100%	3	100%

Individually and collectively assessed secured loans and advances where the quality of physical collaterals or financial guarantees securing the loans and advances are determined to be insufficient, weak or without recoverable values shall be treated as if these are unsecured.

Loans with no missed payments are provided with one (1%) allowance for expected credit losses. These loans are in stage 1 of credit impairment.

For accounts receivable other than loans and receivables that have been outstanding for more than 360 days are provided with 100% allowance for expected credit losses.

Specific allowance for probable losses on microfinance loans is set up immediately in accordance with the Performance at Risk (PAR) number of days of missed payment as follows:

No. of days of missed payment	Classification	AECL
PAR 1 – 30	Especially mentioned	2%
31 – 60 and/or loans restructured once	Substandard	25%
61 – 90	Doubtful	50%
91 or more and/or loans restructured twice	Loss	100%

Provided, that a general provision for losses for microfinance loans equivalent to one (1) percent of the outstanding balance of microfinance loans not subject to the foregoing provisioning less microfinance loans which are considered non-risk under existing laws/rules/regulations, if any, shall be set up.

Investment Properties

Investment properties pertain to land and buildings held to earn rentals and/or for capital appreciation (including property under construction for such purposes). These are initially measured at cost, including transaction costs, and subsequently carried at cost less accumulated depreciation and any impairment in value. Initial direct costs incurred in negotiating and arranging the lease are added to the carrying amount of the leased asset and recognized on a straight-line basis over the lease term.

Investment properties also include real and other properties acquired (ROPA) or those land and buildings acquired by the Bank from defaulting borrowers. For these assets, cost is recognized at fair value of the investment property unless the exchange transaction lacks commercial substance or the fair value of neither the asset received nor the asset was given up is reliably measured.

The difference between the fair value of the asset received and the carrying amount of the loan settled through foreclosure of investment property is recognized as gain on foreclosure of investment properties in the statement of comprehensive income.

Appraisal of properties is conducted by independent firm of appraisers and internal appraisers of the Bank to determine if the Bank's investment properties are impaired.

An investment property is derecognized upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from the disposal. Any gain or loss arising from the derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognized.

Real and Other Properties Acquired (ROPA)

ROPA in settlement of loans through foreclosure or dation in payment is recognized upon:

- Entry of judgment in case of judicial foreclosure;
- Execution of the Sheriff's Certificate of Sale in case of extrajudicial foreclosure; and
- Notarization of the Deed of Dacion in case of dation in payment (dacion en pago).

These are recorded initially at the carrying amount of the loan (i.e., outstanding loan balance adjusted for any unamortized premium or discount less allowance for probable losses computed based on PFRS 9 provisioning requirements) plus recorded accrued interest less allowance for probable losses plus transaction costs incurred upon acquisition (such as non-refundable capital gains tax and documentary stamp tax paid in connection with the foreclosure/purchase of the acquired real estate property).

Provided, that when the booked amount of ROPA exceeds the appraised value of the acquired property, an allowance for probable losses equivalent to the excess of the amount booked over the appraised value shall be set up. Provided, further, that if the carrying amount of ROPA exceeds P 5 million, the appraisal of the foreclosed/purchased asset shall be conducted by an independent appraiser acceptable to the BSP.

The carrying amount of ROPA is allocated to land, building, other non-financial assets and financial assets (e.g. receivable from third party or equity interest in an entity) based on their fair values, which the allocated carrying amounts become their initial costs.

Subsequently, ROPA is accounted for as follows:

a. Land and buildings shall be accounted for using the cost model under PAS 40, *Investment Property;*
b. Other non-financial assets shall be accounted for using the cost model under PAS 16, *Property, Plant and Equipment;*
c. Land, buildings and other non-financial assets shall be subjected to the impairment provisions of PAS 36, *Impairment of Assets;*
d. Financial assets shall be initially booked and classified according to intention (i.e., FVTPL, FVTOCI, at Amortized Cost, Unquoted Debt Securities Classified as Loans or Loans and Receivable) and accounted for in accordance with the provisions of PFRS 9, *Financial Instruments: Recognition and Measurement;* and
e. ROPAs that comply with the provisions of PFRS 5, *Non-Current Assets Held for Sale,* shall be reclassified and accounted for as such.

BSP requires that claims arising from deficiency judgments rendered in connection with the foreclosure of mortgaged properties shall be lodged under the real account “Deficiency Judgment Receivable” while probable claims against the borrower arising from the foreclosure of mortgaged properties shall be lodged under the contingent account “Deficiency Claims Receivable”.

Before foreclosing or acquiring any property in settlement of loans, it must be properly appraised to determine its true economic value. An in-house appraisal of all ROPAs is made at least every other year: provided, that immediate re-appraisal is conducted on ROPAs which materially decline in value.

Financial institutions that accept non-cash payments for interest on their borrowers’ loans shall book the acquired assets as ROPA. The amount booked as ROPA is equal to accrued interest less allowance for probable losses; provided, that where the booked amount of ROPA exceeds the appraised value of the acquired property, an allowance for probable losses equivalent to the excess of the amount booked over the appraised value shall be set up. The carrying amount of ROPA is allocated in accordance with the BSP Circular 494, item (c) 2 and subsequently accounted for in accordance with item (c) 3 of the same Circular.

The Bank has recognized ROPA accounted for as investment properties amounting to P 4,385,136 and P 5,867,970 as of December 31, 2021 and 2020, respectively (Note 9), and accounted for as bank premises, furniture, fixtures and equipment amounting to P 133,333 and P 1,013,333 as of December 31, 2021 and 2020, respectively (Note 10).

Intangible Assets

Intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses. Internally-generated intangible assets are expensed as incurred.

An internally-generated intangible asset arising from development (or from the development phase of an internal project) is recognized if, and only if, all of the following have been demonstrated:

- Technical feasibility of completing the intangible asset so that it will be available for use or sale;
- Intention to complete the intangible asset and use or sell it;
- Ability to use or sell the intangible asset;
- How the intangible asset will generate probable future economic benefits;
- Availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- Ability to measure reliably the expenditure attributable to the intangible asset during its development;

The useful lives of the intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired.

The amortization period and amortization method are reviewed at every financial year-end. Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash generating unit level. Such intangibles are not amortized.

The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether an indefinite life assessment continues to be supportable. If not, the change in useful life assessment from indefinite to finite is made prospectively.

The Bank has intangible asset amounting to P 2,642,999 and P 932,565 as of December 31, 2021 and 2020, respectively (Note 11).

Bank Premises, Furniture, Fixtures and Equipment

Bank premises, furniture, fixtures and equipment are initially measured at cost and subsequently carried at cost less accumulated depreciation and any accumulated impairment losses. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts and any resulting gain or loss resulting from disposal is included in the statement of comprehensive income. Each item of bank premises, furniture, fixtures and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The initial cost of bank premises, furniture, fixtures and equipment consists of its purchase price including import duties, non-refundable purchase taxes and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Directly attributable cost can include the following:

- Costs of employee benefits (as defined in PAS 19, *Employee Benefits (Revised)*) arising directly from the construction or acquisition of the item of bank premises, furniture, fixture and equipment;
- Cost of site preparation;
- Initial delivery and handling;
- Installation and assembly;
- Cost of testing whether the asset is functioning properly, after deducting the net proceeds from selling any items produced while bringing the asset to that location and condition; and
- Professional fees.

The costs below are not costs of an item of bank premises, furniture, fixture and equipment rather recognized as an expense when they are incurred:

- Cost of opening a new facility;
- Cost of introducing a new product or service (including costs of advertising and promotional activities);
- Cost of conducting business in a new location or with a new class of customer (including costs of staff training); and
- Administration and other general overhead costs.

Expenditures incurred after the bank premises, furniture, fixtures and equipment have been put into operation, such as repairs and maintenance and overhaul costs, are normally charged to income 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 is computed on a straight-line basis over the estimated useful lives of the assets as presented below:

Leasehold and improvements	10 years
Information technology equipment	3 years
Office equipment	3 years
Furniture and fixtures	3-5 years
Transportation equipment	5 years

The useful lives, depreciation method and residual values, if any, are reviewed periodically to ensure that the period and method of depreciation are consistent with the expected pattern of economic benefits from items of bank premises, furniture, fixtures and equipment.

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.

If there is an indication that there has been a significant change since the last annual reporting date in the pattern by which an entity expects to consume an asset's future economic benefits, the Bank shall review its present depreciation method and, if current expectations differ, change the depreciation method to reflect the new pattern. The Bank shall account for the change as a change in an accounting estimate.

Factors such as a change in how an asset is used, significant unexpected wear and tear, technological advancement, and changes in market prices may indicate that the residual value or useful life of an asset has changed since the most recent annual reporting date.

If such indicators are present, an entity shall review its previous estimates and, if current expectations differ, amend the residual value, depreciation method or useful life. The Bank shall account for the change in residual value, depreciation method or useful life as a change in an accounting estimate.
Fully depreciated assets are retained in the accounts until they are no longer in use and no further charge for depreciation is made for those assets.

An item of bank premises, furniture, fixtures and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising from the disposal or retirement of an item of bank premises, furniture, fixtures and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

Construction in Progress
Costs incurred during the period that are directly attributable to the ongoing construction of building are capitalized as construction in progress which shall be reported as part of property and equipment. The asset shall not be depreciated until it is classified as owner-occupied property.

Property under construction or development for future use as an investment property is classified and accounted for under investment property.

Non-current Assets Held for Sale
Non-current assets held for sale include ROPAs in which the carrying amounts will be recovered principally through a sale transaction rather than through continuing use. These assets are available for immediate sale in their present condition and completion of the sale is expected within one (1) year from the date of classification. Non-current assets held for sale are measured at the lower of its carrying amount or fair value less cost to sell. These assets are not depreciated but subject to impairment in value.

Borrowing Costs
Borrowing costs are recognized on the basis of the effective interest method and are included in finance costs.

These are directly expensed in profit or loss in the period in which these are incurred except those that are directly attributable to the construction of buildings 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), which are being capitalized during the period of construction or production. Capitalization ceases when the construction or production are substantially complete.

When all of the activities necessary to prepare an asset for its intended use or sale are substantially complete, specific borrowings originally intended to develop such qualifying asset are treated as part of general borrowings.

For income tax purposes, borrowing costs are treated as deductible expenses during the period such were incurred.

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

Impairment of Non-Financial Assets

The carrying values of investment properties, bank premises, furniture, fixtures and equipment are reviewed at the end of each reporting period to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated in order to determine the extent of impairment, if any.

For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). As a result, assets are tested for impairment either individually or at the cash-generating unit level.

An impairment loss is recognized whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. All impairment losses are recognized in profit or loss.

The recoverable amount is the greater of the asset's fair value less cost to sell and value in use. Fair value less cost to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties less cost of disposal.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation and amortization, if no impairment loss had been recognized. All reversals of impairment are recognized in profit or loss.

Related Parties

Related parties include entities and individuals that directly or indirectly, through one or more intermediaries, control or are controlled by or under common control with the Bank, including holding companies, subsidiaries and fellow subsidiaries. Persons or close members of the families of these persons are also related parties if these persons have significant influence over the Bank or they are members of the key management personnel, including directors and officers of the Bank. Post-employment defined benefit plan for the benefit of employees of either the Bank or an entity related to the Bank is also considered as a related party. The Bank takes into consideration the substance of the relationship of the related party over its legal form.

Provisions

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

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate of the amount required to settle the obligation. The provision shall be reversed if it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be reliably measured. The amount recognized for the reimbursement shall not exceed the amount of the provision.

Contingencies

Contingent liabilities are not recognized in the financial statements as liabilities. These are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote.

Contingent assets are not recognized in the financial statements as assets but disclosed when an inflow of economic benefits is probable. When the inflow of economic benefits is certain, an asset is recognized.

Events After the End of the Reporting Period

Post year-end events that provide additional information about the Bank's position at the end of the reporting period (adjusting events) are reflected in the financial statements. Post year-end events that are not adjusting events are disclosed in the notes to the financial statements when material.

Capital Funds

Share capital is classified as equity. Equity instruments are measured at the fair value of the cash or other resources received or receivable, net of direct costs of issuing the equity instruments. If payment is deferred and the time value of money is material, the initial measurement is on a present value basis.

The Bank's share capital includes ordinary shares. Shareholders have the right to vote and receive dividends whenever declared. Any cash dividends due on delinquent shares shall be first applied to the unpaid balance on the subscription, plus other incidental costs and expenses.

Stock dividends distributable represent the unissued stock dividends declared by the Bank payable to the Bank's holder of common shares.

Preferred shares are classified as equity if they are non-redeemable, or redeemable only at the Bank's option, and any dividends thereon are discretionary. These are determined using the nominal values of shares that have been issued. Dividends thereon are recognized as distributions within equity upon approval by the Bank's Board of Directors. Preferred shares are classified as a liability if they are redeemable on a specific date or at the option of the shareholders, or if dividend payments are not discretionary.

Retained earnings includes all current and prior period results of operations as reported in profit or loss section of the statement of comprehensive income. Prior period adjustments to surplus would include adjustments relating to changes in accounting policies and errors in which retrospective restatement of financial statements is practicable.
Cumulative remeasurement gain on retirement plan comprises of experience adjustments (the effect of differences between the previous actuarial assumptions and what has actually occurred) and the effects of changes in actuarial assumptions. This is recognized in the statement of financial position immediately, with a charge to other comprehensive income in the period in which it occurs.

Revenue Recognition
The Bank shall account for a contract with borrowers using the five (5) step model under PFRS 15, as shown below:

(1) the parties to the contract have approved the contract (in writing, orally or in accordance with other customary business practices) and are committed to perform their respective obligations;
(2) the Bank can identify each party's rights regarding the goods or services to be transferred;
(3) the Bank can identify the payment terms for the goods or services to be transferred;
(4) the contract has commercial substance (i.e. the risk, timing or amount of the entity's future cash flows is expected to change as a result of the contract); and
(5) it is probable that the entity will collect the consideration to which it will be entitled in exchange for the goods or services that will be transferred to the customer. In evaluating whether collectability of an amount of consideration is probable, the Bank shall consider only the customer's ability and intention to pay that amount of consideration when it is due. The amount of consideration to which the Bank will be entitled may be less than the price stated in the contract if the consideration is variable because the entity may offer the customer a price concession.

Revenue is measured at fair value of the consideration received or receivable. Specific recognition criteria are applied to each of the following significant categories of revenue:

Sale of ROPA/Profit from assets sold or exchanged
Revenue from sale of properties is recognized when:

- the Bank has transferred to the buyer the significant risks and rewards of ownership of the properties;
- the Bank retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the properties sold;
- the amount of revenue can be reliably measured;
- it is probable that the economic benefits associated with the transaction will flow to the Bank; and

- the costs incurred or to be incurred in respect of the transaction can be reliably measured.

Realized income on installment sales is computed based on collections multiplied by the gross profit rates on individual sales contracts.

Interest
Interest income from bank deposits is recognized when earned. Interest income from investments is recognized when it is probable that the economic benefits will flow to the Bank and the amount of income can be reliably measured.

Interest income is accrued on a timely basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Penalties
Penalties are recognized only upon collection or accrued when there is reasonable assurance of collection.

Service charges and fees
Fees earned from providing services are recognized when the service is completed. Service charges and fees that are directly related to acquisition and origination of loans are included in the cost of receivable and are amortized over the term of the loan taking into account the effective interest method.

<u>Leases – the Bank as Lessee</u>
At the commencement date, the Bank recognize a right-of-use asset and a lease liability for all of its leases, except for short-term leases and leases for which the underlying asset is of low value.

The cost of right-of-use asset comprises:

a. The amount of the initial measurement of the lease liability;
b. Any lease payments made at or before the commencement date, less any lease incentives received;
c. Any initial direct cost incurred by the Bank; and
d. An estimate of costs to be incurred by the Bank in dismantling and removing the underlying asset to the condition required by the terms and conditions of the lease, unless those cost are incurred to produce inventories. The Bank incurs the obligation for those costs either at the commencement date or as a consequence of having used the underlying asset during a particular period.

Subsequently, the right-of-use asset is accounted for using the cost model applying the requirements of PAS 16, *Property, Plant and Equipment,* wherein the cost is reduced for any accumulated depreciation and any accumulated impairment losses and adjusted for any remeasurement of the lease liability.

If the underlying asset is accounted for as investment property measured at fair value, the Bank shall also apply the fair value model to the right-of-use asset. If the underlying asset relate to a class of property, plant and equipment to which the Bank applies the revaluation model, the Bank may elect to apply the revaluation model to all of the right-of-use assets that relate to that class of property, plant and equipment.

Lease liability is the present value of the lease payments that are not paid at the commencement date but are payable over the lease term, which is discounted using the interest rate implicit in the lease, if readily determinable, or the Bank's incremental borrowing rate.

Subsequently, the carrying amount of the lease liability is:

a. Increased to reflect interest on the lease liability;
b. Reduced to reflect the lease payments made; and
c. Remeasured to reflect any reassessment of lease modifications or to reflect revised in-substance fixed lease payments.

Short-term leases are leases that, at the commencement date, has a lease term of 12 months or less except for leases that contains a purchase option. Lease payments on short-term leases and leases for which the underlying asset is of low value, which are elected by class, are accounted as expense in the statement of comprehensive income on either a straight line basis over the lease term or another systematic basis which is more representative of the time pattern in which the economic benefits from the leased assets are consumed.

<u>Earnings Per Share</u>
Earnings per share is computed by dividing the net income for the year attributable to members by the weighted average number of ordinary shares outstanding during the year, after adjustments for any subsequent share dividends declared to shareholders and dividends payable to preference shareholders.

<u>Employee Benefits</u>
Short-term Employee Benefits
This includes salaries, wages, paid vacation and sick leaves, bonuses, government dues and non-monetary benefits such as medical and dental, which are recognized as an expense in the period in which the service has been rendered by the employees.

Long-term Employee Benefits
This includes employee benefits other than termination benefits such as long-term compensated absences, long-service benefits and long-term disability benefits which are recognized as an expense at the date they are incurred.

Termination Benefits
Termination benefits are recognized when, and only when, the Bank is demonstrably committed to either terminate the employment of an employee or group of employees before the normal retirement date or to provide termination benefits as a result of an offer made in order to encourage voluntary redundancy. These benefits are discounted when they fall due after more than 12 months.

Retirement Costs
Retirement benefits are actuarially determined using the projected unit credit cost method which reflects the services rendered by employees up to valuation date and incorporates assumptions concerning employees' projected salaries. Retirement costs include current

service cost plus amortization of past service cost, experience adjustments and changes in actuarial assumptions.

Advertising and Promotional Activities

Advertising and promotional activities in introducing the services of the Bank are recognized as an expense in profit or loss when incurred.

Cost and Expense

Costs and expenses are recognized in profit or loss upon utilization of goods and services at the date they are incurred.

Income Tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the end of the reporting period.

Deferred income tax is provided, using the liability method, on all temporary differences at the end of the reporting period between tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognized for all taxable temporary differences. Deferred income tax assets are recognized for all deductible temporary differences, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized.

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

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

Current and deferred tax are recognized in profit or loss, except when they relate to items that are recognized in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognized in other comprehensive income or directly in equity, respectively.

3. Summary of Significant Accounting Judgments and Estimates

In preparing the financial statements of the Bank, the Management has made its best judgments and estimates relating to certain amounts, giving due consideration to materiality. The effects of any change in estimates are reflected in the financial statements as they become reasonably determinable.

Estimates and judgments 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.

The Bank believes that the following represent a summary of these significant judgments and estimates and related impact and associated risks in its financial statements:

Determination of functional currency
Based on the economic substance of the underlying circumstances relevant to the Bank, the functional currency of the Bank has been determined to be the Philippine peso.

The Philippine peso is the currency of the primary economic environment in which the Bank operates. It is the currency that mainly influences the Bank's revenue and expenses.

Unquoted debt securities classified as loans
The Bank classifies financial assets by evaluating, among others, whether the asset is quoted or not in an active market. Included in the evaluation on whether a financial asset is quoted in an active market is the determination on whether quoted prices are readily and regularly available, and whether those prices represent actual and regularly occurring market transactions on an arm's length basis. If Management believes that there is no reference to market value, the said financial asset will be classified as "unquoted debt securities classified as loans".

As of December 31, 2021, and 2020, the Bank's unquoted debt securities classified as loans amounted to P 2,577,852 (Note 8).

Estimating allowance for expected credit losses on loans and other receivables
The Bank reviews its problem loans and other receivables at each reporting date to assess whether an allowance for credit impairment should be recorded in the statement of comprehensive income. In particular, judgment by Management is required in the estimation of the amount and timing of future cash flows when determining the level of allowance required. Such estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

In addition to specific allowance against individually significant loans and other receivables, the Bank also makes a collective impairment allowance against exposures which, although not specifically identified as requiring a specific allowance, have a greater risk of default than when originally granted. This collective allowance is based on any deterioration in the internal rating of the loan or investment since it was granted or acquired.

These internal ratings take into consideration of factors such as any deterioration in country risk, industry, and technological obsolescence, as well as identified structural weaknesses or deterioration in cash flows.

The Bank, however, is required by the BSP to set up an allowance for expected credit losses on loan accounts based on its existing loan loss provisioning. As of December 31, 2021, and 2020, the allowance for expected credit losses on loans and other receivables amounted to P 41,878,819 and P 34,787,861, respectively (Note 7).

Further, the Bank has written-off loans and receivables amounting to P 1,901,744 in 2020 and none in 2021 (Note 7).

Estimating allowance for expected credit losses on accrued interest and accounts receivables

Provisions are made for accounts identified to be doubtful of collection. The level of this allowance is evaluated by Management on the basis of factors that affect the collectibility of the accounts.

The Bank's allowance for expected credit losses on accrued interest and accounts receivables aggregated to P 61,633 and P 27,615 as of December 31, 2021 and 2020, respectively (Note 12).

Recognition of deferred income taxes
Deferred tax assets are recognized for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Significant Management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profits together with future tax planning strategies.

As of December 31, 2021, and 2020, the Bank has deferred tax asset amounting to P 10,772,940 and P 10,678,962, respectively. Deferred tax liability of P 5,880 as of December 31, 2021 and none in 2020 (Notes 20 and 30).

Estimating useful lives of investment properties, bank premises, furniture, fixtures and equipment, and intangible assets
Useful lives of investment properties, bank premises, furniture, fixtures, and equipment, and intangible assets are estimated based on the periods over which the assets are expected to be available for use. Such estimation is based on a collective assessment of similar businesses, internal technical evaluation and experience with similar assets.

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

It is possible, however, that future results of operations could be materially affected by changes in the amounts and timing of recorded expenses brought about by changes in the factors mentioned above. A reduction in the estimated useful life of any item of investment properties and bank premises, furniture, fixtures and equipment would increase the recorded operation expenses and decrease the carrying value of investment properties and bank premises, furniture, fixtures and equipment and intangible assets and vice versa.

There is no change in the estimated useful lives of investment properties and bank premises, furniture, fixtures and equipment in both years.

The net book value of investment properties amounted to P 4,385,136 and P 5,867,970 as of December 31, 2021 and 2020, respectively (Note 9).

The net book value of bank premises, furniture, fixtures and equipment amounted to P 14,264,668 and P 17,082,750 as of December 31, 2021 and 2020, respectively (Note 10).

The net book value of intangible assets amounted to P 2,642,999 and P 932,565 as of December 31, 2021 and 2020, respectively (Note 11).

Present value of retirement obligation
The cost of defined benefit pension plan and other post-employment benefits is determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, expected rates of return on plan assets, future salary increases, mortality rates and future pension increases. Due to the long term nature of the plan, such estimates are subject to significant uncertainty.

The assumed discount rates were determined using the market yields on Philippine government bonds with terms consistent with the expected employee benefit payout as of the end of reporting period.

The Bank has pension asset of P 23,519 as of December 31, 2021 (Notes 12 and 21) and accrued retirement obligation of P 748,365 as of December 31, 2020 (Notes 16, 21 and 30).
Impairment of investment properties, bank premises, furniture, fixtures and equipment and intangible assets
The Bank assesses impairment on assets whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The factors that the Bank considers important which could trigger an impairment review include the following:

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

The Bank recognizes an impairment loss whenever the carrying amount of an asset exceeds its recoverable amount. The recoverable amount is computed using the value in use approach. Recoverable amounts are estimated for individual assets or, if it is not possible, for the cash-generating unit to which the asset belongs.

In 2021, the Bank has recognized provisions for impairment losses on ROPA accounted for as investment properties amounting to P 1,133,280 (Note 9).

Provisions and contingencies
The Bank provides for present obligations (legal and constructive) when it is probable that there will be an outflow of resources embodying economic benefits that will be required to settle said obligations.

An estimate of the provision is based on known information at the reporting date, net of any estimated amount that may be reimbursed by the Bank. If the effect of the time value of money is material, provisions are discounted using a current pretax rate that reflects the risks specific to the liability. The amount of provision is being re-assessed at least on an annual basis to consider new relevant information.

The Bank has not recognized any provision in both years.

4. Cash and Other Cash Items

	2021	2020
Cash in vault	**P 8,822,013**	P 7,866,998
Checks and other cash items	**930,638**	1,033,957

	P	**9,752,651**	P	8,900,955

Cash in vault refers to the total amount of cash in the Bank's vault in the form of notes and coins under the custody of cashier or cash custodian or treasurer, including notes in the possession of tellers.

Checks and other cash items refer to the Bank's checks drawn on other banks received after the clearing cut-off time until the close of regular banking hours and cash placed in the Bank's G-cash wallet.

5. Due from Bangko Sentral Ng Pilipinas

This consists of a savings deposit with the Bangko Sentral Ng Pilipinas (BSP), which forms part of the statutory reserve requirement of the Bank and serve as clearing account for interbank claims. Due from BSP amounted to P 8,141,565 and P 8,135,234 as of December 31, 2021 and 2020, respectively (Note 13).

Deposits maintained by banks with the BSP in compliance with the reserve requirement no longer earn interest since the effectivity of BSP Circular Nos. 830 and 832, Series of 2014.

6. Due from Other Banks

		2021		**2020**
Savings deposits	**P**	**27,999,995**	P	24,188,886
Demand deposits		**18,227,514**		14,041,261
Time deposits		**37,282,153**		41,302,762
	P	**83,509,662**	P	79,532,909

Savings deposits earn interest at 0.5% to 6% in 2021 and 0.5% to 1.25% in 2020, and time deposits earn 1.75% to 4.5% in 2021 and 0.5% to 2.88% in 2020.

Interest income earned from due from other banks amounted to P 196,494 in 2021 and P 628,193 in 2020 (Note 22).

Interest accrued on time deposit placements as at December 31, 2021 and 2020 amounted to P 20,318 and P 38,928, respectively (Note 12).

7. Loans and Other Receivables – net

		2021		**2020**
Loans and receivables	**P**	**473,879,815**	P	388,780,989
Other agricultural credit loans		**2,968,078**		6,494,599
		476,847,893		395,275,588
Sales contract receivables (Note 9)		**2,638,213**		3,056,610
		479,486,106		398,332,198
Unearned interest and discounts		**(19,205,493)**		(13,606,155)
Allowance for expected credit losses				
Loans and receivables		**(41,844,314)**		(34,696,250)
Sales contract receivables (Note 9)		**(34,505)**		(91,611)
	P	**418,401,794**	P	349,938,182

The movements of the allowance for expected credit losses on loans and receivables, and sales contract receivables are presented in the next page:

	2021					
		Loans and Receivables		**Sales Contract Receivables**		**Total**
Balance, January 1	**P**	**34,696,250**	**P**	**91,611**	**P**	**34,787,861**
Add: Provisions during the year		**7,148,064**		**-**		**7,148,064**
Less: Reversal of allowance		**-**		**(57,106)**		**(57,106)**
	P	**41,844,314**	**P**	**34,505**	**P**	**41,878,819**

	2020					
		Loans and Receivables		**Sales Contract Receivables**		**Total**
Balance, January 1	P	27,934,404	P	-	P	27,934,404
Add: Provisions during the year		8,628,449		91,611		8,720,060
Recovery of accounts		35,141		-		35,141
Less: Accounts written-off		(1,901,744)		-		(1,901,744)
	P	34,696,250	P	91,611	P	34,787,861

The allowance for expected credit losses have been determined with due consideration to the BSP's existing guidelines on loan provisioning.

The Bank recognized provision for expected credit losses on its loans and receivables, and sales contract receivables, net of reversal, amounting to P 7,090,958 in 2021 and P 8,720,060 in 2020.

On June 26, 2020, the Board of Directors has unanimously approved to write-off through allowance its loans and receivables amounting to P 1,901,744. No accounts were written off in 2021.

The Management believes that there is no indication that additional provisions for expected credit losses or recoveries in excess of the recognized allowance for expected credit losses or recoveries as of December 31, 2021 and 2020 are necessary.

Percentage of total loans and receivables to total assets is 75% and 71% as of December 31, 2021 and 2020, respectively.

The loans earned annual interest rates which ranged from 3% to 42% in both years. On the other hand, sales contract receivables earned annual interest rates of 10% to 18% in both years. Interest earned on loans and other receivables amounted to P 70,169,182 and P 57,121,083 in 2021 and 2020, respectively, as summarized below:

		2021		**2020**
Salary	**P**	**53,016,275**	P	39,383,626
Microfinance		**5,496,443**		4,167,517
Commercial		**5,081,090**		6,212,486
Agricultural and agrarian		**779,832**		1,700,201

Other purpose loans		**5,795,542**		5,657,253
	P	**70,169,182**	P	57,121,083

Accrued interest on loans and other receivables to P 1,336,615 and P 3,597,455 as of December 31, 2021 and 2020, respectively (Note 12).

Loans and other receivables carry nominal interest rates as follows:

	2021	2020
Maturing in:		
1 year	**3% - 42%**	3% - 42%
2 to 5 years	**3% - 22%**	3% - 22%

Non-performing loans and other receivables include past due and items in litigation aggregating to P 44,810,930 and P 39,275,063 as of December 31, 2021 and 2020, respectively, as follows (Note 28):

	2021	2020
Past due	**P 36,459,070**	P 32,911,187
Items in litigation	**8,351,860**	6,363,876
	P 44,810,930	P 39,275,063

The following table shows the breakdown of loans and other receivables as to term:

		2021	%		2020	%
Short-term (one (1) year or less)	**P**	**94,453,248**	**21**	P	59,220,651	15
Medium-term (over one (1) year to five (5) years)		**380,032,858**	**79**		339,111,547	85
	P	**479,486,106**	**100**	P	398,332,198	100

The Bank holds collaterals against the loans and other receivables from customers in the forms of real estate, chattel mortgages and others. It holds and annotates original documents such as certificates of registration for chattel mortgages and certificates of title for real properties. It requires insurance policy on collaterals in favor of the Bank. The breakdown of the Bank's secured and unsecured loans and receivables, and sales contract receivables are as follows:

		2021	%		2020	%
Secured						
Real estate mortgage	**P**	**7,150,802**	**-**	P	11,685,862	3
Chattel mortgage		**9,323,597**	**3**		9,049,325	2
Others		**46,133,333**	**10**		46,500,000	12
		62,607,732	**13**		67,235,187	17
Unsecured		**416,878,374**	**87**		331,097,011	83
	P	**479,486,106**	**100**	P	398,332,198	100

Unsecured loans are guaranteed by co-makers, who in the event of default will assume the loan balance.

The table in the next page shows the breakdown of loans and receivables, and other agricultural credit loans as to status per product line:

	2021			
	Performing	Non-performing	Total	%
Salary	P 326,024,901	P 21,945,989	**P 347,970,890**	**73**
Commercial	49,210,989	12,732,084	**61,943,073**	**13**
Microfinance	10,771,977	1,898,762	**12,670,739**	**3**
Agricultural and agrarian	1,492,551	1,475,527	**2,968,078**	**-**
Other purpose loans	44,536,545	6,758,568	**51,295,113**	**11**
	P 432,036,963	P 44,810,930	**P 476,847,893**	**100**

	2020			
	Performing	Non-performing	Total	%
Salary	P 247,798,347	P 14,371,100	P 262,169,447	66
Commercial	50,384,725	13,852,909	64,237,634	16
Microfinance	14,441,803	837,489	15,279,292	4
Agricultural and agrarian	3,962,245	2,532,354	6,494,599	2
Other purpose loans	39,413,405	7,681,211	47,094,616	12
	P 356,000,525	P 39,275,063	P 395,275,588	100

The BSP considers that loan concentration exists when the total loan exposure to a particular industry exceeds 30% of the total loan portfolio. Information on the concentration of loans as to industry/economic activity are as follows:

	2021	%	2020	%
Education	**P 262,860,589**	**55**	P 146,667,148	37
Administrative and support service activities	**84,192,919**	**18**	76,088,008	19
Financial intermediation	**51,265,819**	**11**	28,677,353	7
Real estate activities	**11,622,373**	**2**	11,044,008	3
Wholesale and retail trade; repair of motor vehicles and motorcycles	**8,776,841**	**2**	9,371,347	2
Transportation and storage	**6,030,584**	**1**	8,304,159	2
Agriculture, forestry and fishing	**3,891,220**	**1**	7,067,136	2
Private household with employed persons	**1,332,988**	**-**	25,451,511	7
Construction	**-**	**-**	123,860	-
Mining and quarrying	**-**	**-**	107,147	-
Water supply, sewerage, waste management and remediation activities	**-**	**-**	101,430	-
Other service activities	**46,874,560**	**10**	82,272,481	21
	P 476,847,893	**100**	P 395,275,588	100

Based on the foregoing information, the Bank has the highest concentration of credit in education as of December 31, 2021 and 2020.

The Bank analyzes the credit risk concentration to an individual borrower, related group of accounts, industry, geographic, internal rating buckets, currency, term and security. To mitigate risk concentration, the Bank constantly checks for breaches in regulatory and internal limits.

Estimates of fair value of collaterals are based on the appraised value of collaterals at the time of borrowing as determined by the in-house appraisers of the Bank. The fair value of collaterals held against loans and receivables are shown in the next page:

		2021	%		2020	%
Real estate mortgage	**P**	**22,328,359**	**28**	P	66,957,029	54
Chattel mortgage		**10,097,137**	**13**		9,504,003	8
Others		**46,133,333**	**59**		46,500,000	38
	P	**78,558,829**	**100**	P	122,961,032	100

Loans and receivables with total carrying amount of P 87,009,979 and P 78,452,105 as of December 31, 2021 and 2020, respectively, were collateralized to secure bills payable (Note 14).

In accordance with Section X345 of the MORB, the total outstanding loans, other credit accommodations and guarantees to directors, officers, stockholders and related interests (DOSRI) shall not exceed 15% of the total loan portfolio of the Bank or 100% of its net worth, whichever is lower. However, in no case shall the total unsecured loans, other credit accommodations and guarantees to the said DOSRI exceed 30% of the aggregate ceiling or the outstanding loans, other credit accommodations and guarantees, whichever is lower.

As at December 31, 2021 and 2020, loans and other credit transactions with certain DOSRI amounting to P 46,000,000 and P 46,500,000, respectively, represented 9.65% and 11.76%, respectively (Note 18), of the total outstanding loan portfolio, and 49% and 58%, respectively, of the Bank's net worth.

All DOSRI loans as at December 31, 2021 and 2020 were fully secured by deeds of assignment on deposits and chattel mortgage.

8. Unquoted Debt Securities Classified as Loans

		2021		2020
Balance, January 1	**P**	**2,577,852**	P	2,091,947
Addition, net of amortization		**-**		485,905
Balance, December 31	**P**	**2,577,852**	P	2,577,852

Agrarian reform bonds are bonds issued by Land Bank of the Philippines exclusively for lending to the agriculture and agrarian reform sector. These bonds are 10-year Agrarian Reform Coupon Bonds (ARCBs) with terms and maturities from January 22, 2009 to June 28, 2029. These bonds carry interest rates based on a 91-day treasury bill rate prevailing in the market.

These bonds were acquired by the Bank in compliance with the 25% mandatory agriculture and agrarian reform credit allocation required in Section X341.3 and X341.4 of the MORB.

Interest income earned from unquoted debt securities classified as loans amounted to P 6,296 in 2020 and none in 2021 (Note 22).

The contractual maturity dates as at December 31, 2021 and 2020 of the investment in UDSCL are as follows:

		2021		2020
Due within 1 year	**P**	**2,253,915**	P	2,199,926
Due beyond 1 year		**323,937**		377,926
	P	**2,577,852**	P	2,577,852

9. Investment Properties

These are real and other properties acquired (ROPA) consisting of land and buildings, and any improvements thereon held for capital appreciation which amounted to P 4,385,136 and P 5,867,970 as of December 31, 2021 and 2020, respectively, net of accumulated depreciation.

Movements of investment properties are shown below:

		Land		Building		2021 Total
Cost						
January 1	P	5,867,970	P	-	**P**	**5,867,970**
Additions		34,114		-		**34,114**
Disposals		(383,668)		-		**(383,668)**
December 31		5,518,416		-		**5,518,416**
Accumulated impairment losses						
January 1		-		-		-
Provisions		1,133,280		-		**1,133,280**
December 31		1,133,280		-		**1,133,280**
Net book value	P	4,385,136	P	-	**P**	**4,385,136**

		Land		Building		2020 Total
Cost						
January 1	P	8,231,756	P	89,610	P	8,321,366
Additions		622,858		-		622,858
Disposals		(2,057,342)		-		(2,057,342)
Transferred to sales contract receivable		(929,302)		(89,610)		(1,018,912)
December 31		5,867,970		-		5,867,970
Accumulated depreciation						
January 1		-		89,610		89,610
Transferred to sales contract receivable		-		(89,610)		(89,610)
December 31		-		-		-
Net book value	P	5,867,970	P	-	P	5,867,970

In 2021, the Bank recognized an impairment loss on its investment properties amounting to P 1,133,280 since the recoverable amounts of certain foreclosed properties fall below their respective carrying amounts.

The appraised values of the investment properties as at December 31, 2021 and 2020 amounted to P 10,539,466 and P 12,130,661, respectively, determined by independent appraisers and in-house appraisers on the basis of recent market prices of similar properties in the same area as the investment properties while taking into account the economic conditions prevailing at the time the valuations were made.

In accordance with Section 382 of the MORB, if the carrying amount of ROPA exceeds P 5 million, the appraisal of the foreclosed purchased asset shall be conducted by an independent appraiser acceptable to the BSP. As at December 31, 2021 and 2020, the Bank has no ROPA with carrying amount in excess of P 5 million.

In 2021 and 2020, parcels of land with carrying amount of P 383,668 and P 2,057,342, respectively, were sold in cash for net proceeds of P 759,416 and P 3,482,215, respectively. Accordingly, realized gain on cash sales amounted to P 375,748 and P 1,424,873 in 2021 and 2020, respectively (Note 19).

In 2020, the Bank sold investment properties costing P 929,302 for P 3,102,234 which resulted to a deferred gain of P 2,172,932 (Note 16). The realized gains from investment properties sold on installment are as follows:

	2021	2020
From 2020 disposal (Notes 16 and 19)	**P 123,281**	P 640,174
From 2018 disposal (Notes 16 and 19)	**95,935**	58,679
From 2017 disposal (Notes 16 and 19)	**181,152**	181,846
	P 400,368	P 880,699

Sales contract receivables amounted to P 2,638,213 and P 3,056,610 as of December 31, 2021 and 2020, respectively, with allowance for expected credit losses of P 34,505 and P 91,611 as of December 31, 2021 and 2020, respectively, (see Note 7). Further, deferred gain amounted to P 1,826,962 and P 1,831,770 as of December 31, 2021 and 2020, respectively (Note 16).

The Bank realized no other income from the investment properties other than the gain on sale of investment properties. Litigation expenses incurred on the assets acquired amounted to P 343,945 and P 189,822 in 2021 and 2020, respectively and are reported in administrative expenses in the statement of comprehensive income (Note 19).

10. Bank Premises, Furniture, Fixtures and Equipment

	Leasehold Improvements	Information Technology Equipment	Furniture, Fixtures and Equipment	Transpor-tation Equipment	Right-of-Use Asset (Note 23)	2021 Total
Cost						
January 1	P 12,353,545	P 6,961,947	P 6,346,049	P 5,477,156	P 9,145,134	**P 40,283,831**
Additions	316,678	901,502	454,549	63,158	1,464,888	**3,200,775**
Derecognition	-	(221,602)	(143,824)	-	(3,015,638)	**(3,381,064)**
Disposals	-	-	-	(1,453,058)	-	**(1,453,058)**
December 31	12,670,223	7,641,847	6,656,774	4,087,256	7,594,384	**38,650,484**
Accumulated Depreciation						
January 1	7,081,650	4,789,210	5,106,941	1,886,313	4,336,967	**23,201,081**
Depreciation (Note 19)	1,024,715	996,334	454,257	996,280	1,971,714	**5,443,300**
Derecognition	-	(221,602)	(143,824)	-	(3,015,638)	**(3,381,064)**
Disposals	-	-	-	(877,501)	-	**(877,501)**
December 31	8,106,365	5,563,942	5,417,374	2,005,092	3,293,043	**24,385,816**

Net book value	P 4,563,858	P 2,077,905	P 1,239,400	P 2,082,164	P 4,301,341	**P 14,264,668**

	Leasehold Improvements	Information Technology Equipment	Furniture, Fixtures and Equipment	Transpor-tation Equipment	Right-of-Use Asset (Note 23)	2020 Total
Cost						
January 1	P 11,665,442	P 5,871,417	P 5,931,766	P 5,446,789	P 5,465,239	P 34,380,653
Additions	688,103	1,090,530	414,283	2,443,666	3,679,895	8,316,477
Disposals	-	-	-	(2,413,299)	-	(2,413,299)
December 31	12,353,545	6,961,947	6,346,049	5,477,156	9,145,134	40,283,831
Accumulated Depreciation						
January 1	5,934,343	4,006,538	4,694,903	1,221,915	2,507,886	18,365,585
Depreciation (Note 19)	1,147,307	782,672	412,038	1,558,253	1,829,081	5,729,351
Disposals	-	-	-	(893,855)	-	(893,855)
December 31	7,081,650	4,789,210	5,106,941	1,886,313	4,336,967	23,201,081
Net book value	P 5,271,895	P 2,172,737	P 1,239,108	P 3,590,843	P 4,808,167	P 17,082,750

In 2019, the Bank has foreclosed six (6) trucks with aggregate carrying amount of P 3,460,000. These trucks are accounted for as transportation equipment under bank premises, furniture, fixtures and equipment. In 2020, three (3) of these trucks with net carrying amount of P 1,519,444 at the time of disposal are sold for P 2,080,000, resulting to a gain on sale of P 560,556.

In 2021, one (1) truck with a net carrying amount of P 360,000 was sold in cash for P 700,000, which resulted to a gain of P 340,000 (Note 19). Further, another truck with a net carrying amount of P 155,556 was sold on installment for P 700,000, which resulted to a deferred gain of P 544,444 (Note 16).

In 2021, the Bank has foreclosed a motorcycle with a carrying amount of P 60,000, which is accounted for as transportation equipment, and subsequently sold within the year for P 68,400 through installment. The deferred gain from the disposal amounted to P 8,400 (Note 16). The realized gain from the sale of trucks and motorcycle amounted to P 157,284 in 2021 (Note 16).

The carrying amount of the foreclosed transportation equipment accounted for as bank premises, furniture, fixtures and equipment amounted to P 133,333 and P 1,013,333 as of December 31, 2021 and 2020, respectively.

Further, fully depreciated transportation equipment costing P 269,900 and P 473,299 in 2021 and 2020, respectively, are sold for P 65,000 and P 100,000, respectively. Accordingly, gain on sale of these transportation equipment amounted to P 64,999 in 2021 and P 100,000 in 2020 (Note 19).

The foregoing properties were not pledged as collaterals to secure any liabilities of the Bank.

Total gross carrying amount of fully depreciated assets still in use amounted to P 10,309,917 and P 8,646,374 as of December 31, 2021 and 2020, respectively.

Management believes that there is no indication of impairment on the Bank's premises, furniture, fixtures and equipment and that their net carrying amounts can be recovered through use in operations.

The Bank has no contractual commitment to purchase any items of the Bank's premises, furniture, fixtures and equipment in both years.

Under BSP rules, investments in bank premises, furniture, fixtures and equipment should not exceed 50% of the Bank's unimpaired capital. As at December 31, 2021 and 2020, the Bank's investment in its bank premises, furniture, fixtures and equipment were 15.06% and 21.16% of its unimpaired capital, respectively, and has satisfactorily complied with this BSP requirement.

11. Other Intangible Assets

	2021	2020
Cost		
January 1	**P 3,904,861**	P 3,845,336
Additions	**2,059,780**	72,000
Derecognition/Reclassification	**-**	(12,475)
December 31	**5,964,641**	3,904,861
Accumulated amortization		
January 1	**2,972,296**	2,622,553
Amortization (Note 19)	**349,346**	362,218
Derecognition/Reclassification	**-**	(12,475)
December 31	**3,321,642**	2,972,296
Net book value	**P 2,642,999**	P 932,565

Other intangible assets consist of the Bank's acquired accounting software and other software licenses.

12. Other Assets

	2021	2020
Accrued interest receivables (see Notes 6 and 7)	**P 1,356,933**	P 3,636,383
Prepaid expenses	**1,104,698**	1,005,047
Stationeries and supplies	**674,306**	959,321
Accounts receivable	**89,220**	203,822
Petty cash fund	**26,000**	26,000
Pension asset (Notes 21 and 30)	**23,519**	-
Others	**1,292,571**	1,202,202
	4,567,247	7,032,775
Allowance for expected credit losses on accounts receivables	**(27,615)**	(27,615)
Allowance for expected credit losses on accrued interest receivables	**(34,018)**	-
	P 4,505,614	P 7,005,160

Movements of allowance for expected credit losses on accounts receivables and accrued interest receivables are presented in the next page:

	Accounts Receivables	Accrued Interest Receivables	2021	2020
Balance, January 1	P 27,615	P -	**P 27,615**	P 49,323
Provisions	-	34,018	**34,018**	-
Less: Write-off	-	-	**-**	(18,628)
Reversals	-	-	**-**	(3,080)
Balance, December 31	P 27,615	P 34,018	**P 61,633**	P 27,615

Accounts receivable and accrued interest receivable as at December 31, 2021 and 2020 were all due within one (1) year from the respective financial reporting dates. These include receivable from employees and accrued interest on time deposits, and loans receivables.

Prepayments include prepaid expenses for fire, money security, vehicle insurances and fidelity bonds of the authorized and accountable officers of the Bank and membership fee of Bancnet, Inc.

Others include refundable rental deposits amounting to P 345,827 and P 322,537 as of December 31, 2021 and 2020, respectively (Note 23) and other miscellaneous deposits amounting to P 509,000 in both years.
Management believes that there are no additional provisions for expected credit losses or recoveries in excess of the recognized allowance for expected credit losses or recoveries as of December 31, 2021 and 2020 are necessary.

13. Deposit Liabilities

	2021	2020
Demand deposits	**P 18,029,300**	P 16,612,642
Savings deposits	**210,916,337**	178,178,960
Time deposits	**134,237,890**	126,845,015
	P 363,183,527	P 321,636,617

The following table shows the breakdown of time deposits as to maturity:

	2021	2020
Short-term (one (1) year or less)	**P 14,092,241**	P 121,845,015
Medium-term (over one (1) year to five (5) years)	**120,145,649**	5,000,000
	P 134,237,890	P 126,845,015

Savings and time deposit liabilities bear fixed annual interest rates that ranges from 0.50% to 6% in 2021 and 0.50% to 5% in 2020. Interest expense on deposit liabilities amounted to P 6,397,697 in 2021 and P 6,445,720 in 2020. Demand deposit liabilities do not incur interest.

In 2020, BSP Circular No. 1092-2020 prescribes the applicable statutory reserves requirement against the rural bank’s deposit and deposit substitute liabilities in local currency were decreased to 2% for savings, demand and certificates of time deposits (CTDs) (short-term and long-term non-negotiable tax exempt CTDs), and for long-term negotiable CTDs.

The statutory reserve requirements as of December 31 are shown below:

		2021		2020
Due from BSP (see Note 5)	**P**	**8,141,565**	P	8,135,234
Savings deposits		**210,916,337**		178,178,960
Time deposits		**134,237,890**		126,845,015
		345,154,227		305,023,975
Reserve rate		**2%**		2%
Required statutory/legal reserve		**6,903,085**		6,100,480
Demand deposit		**18,029,300**		16,612,642
Reserve rate		**2%**		2%
Required statutory/legal reserve		**360,586**		332,253
Total required statutory/legal reserve	**P**	**7,263,671**	P	6,432,733

Reserves are required to be kept in the form of deposits placed in banks' Demand Deposit Accounts (DDA) with the BSP.

14. Bills Payable

		2021		2020
Balance, January 1	**P**	**66,684,289**	P	88,318,011
Availment		**74,663,866**		42,275,859
Payment		**(55,878,176)**		(63,909,581)
Balance, December 31	**P**	**85,469,979**	P	66,684,289

In 2015, the Bank has applied for a term loan rediscounting facility amounting to P 40 million with the Land Bank of the Philippines with a purpose of augmenting its working capital. Availability end and expiry are dated May 20, 2016 and May 31, 2026, respectively. Interest rates of the loan range from 5% to 7.50% per annum in 2021 and 6.50% to 8.10% per annum in 2020. The line of credit is collateralized by assignment of sub-borrowers' promissory notes and all underlying capital.

Loans and receivables with total carrying amount of P 87,009,979 and P 78,452,105 as of December 31, 2021 and 2020, respectively, were collateralized to secure bills payable (see Note 7).

Interest expense on bills payable amounted to P 4,736,258 in 2021 and P 5,375,213 in 2020.

15. Accrued Interest and Other Expenses

		2021		2020
Accrued interest	**P**	**3,259,580**	P	3,741,660
Accrued taxes (Note 22)		**1,387,537**		1,238,567
Other accrued expenses		**2,565,747**		1,308,606
	P	**7,212,864**	P	6,288,833

Accrued taxes pertain to the gross receipts tax due from banking and non-banking transactions of the Bank.

Other accrued expenses include staff benefits, utility bills, professional fees, PDIC insurance fee, security services and others.

16. Other Liabilities

	2021	2020 (As restated – Note 30)
Deferred gain (see Notes 9 and 10)	**P 1,826,962**	P 1,831,770
Accounts payable	**723,015**	3,665,294
SSS, HDMF and Philhealth premiums	**331,449**	268,377
Withholding taxes payable (Note 22)	**120,436**	91,042
Accrued retirement obligation (Notes 21 and 30)	**-**	748,365
Others	**64,650**	56,691
	P 3,066,512	P 6,661,539

Movements of deferred gain for the year ended December 31 are as follows:

	2021	2020
Balance, January 1	**P 1,831,770**	P 538,837
Additions: Deferred during the year (see Notes 9 and 10)	**552,844**	2,172,932
Less: Realized during the year		
From 2021 disposals (see Notes 10 and 19)	**(157,284)**	-
From 2020 disposals (see Notes 9 and 19)	**(123,281)**	(640,174)
From 2018 disposals (see Notes 9 and 19)	**(95,935)**	(58,679)
From 2017 disposals (see Notes 9 and 19)	**(181,152)**	(181,846)
Balance, December 31	**P 1,826,962**	P 1,831,770

17. Share Capital

	2021	2020
Authorized share capital – 100 par value per share		
Preferred shares – 40,000 shares	**P 4,000,000**	P 4,000,000
Common shares – 460,000 shares	**46,000,000**	46,000,000
	50,000,000	50,000,000
Outstanding common shares – issued and fully paid – 460,000 shares	**46,000,000**	46,000,000
Share premium	**7,030**	7,030
	P 46,007,030	P 46,007,030

Preferred shares are available only for subscription by the government and, in case of sale to private shareholders, shall automatically become convertible to common shares as provided for by RA No. 720, as amended. Preferred shares are non-voting and preferred only as to assets upon liquidation and share in dividend distribution up to a maximum of 2% without preference.

There were no issued preferred shares for the year ended December 31, 2021 and 2020.

On December 22, 2020, the Board of Directors approved in its Board Resolution No. 020-146, the declaration of cash dividends of P 6.50 for every share issued and outstanding or a total of P 2,990,000 to all shareholder of record as of December 1, 2020.

In 2018, the Board of Directors approved the increase in its authorized share capital from P 50 million to P 200 million by way of stock dividend declaration. Likewise, the Board approved the declaration of stock dividends aggregating to P 14 million, which was presented as stock dividends distributable as of December 31, 2021 and 2020.

The retained earnings available for declaration as at December 31, 2021 and 2020 are shown below:

	2021	2020
Available retained earnings, January 1	**P 10,317,548**	P 7,210,267
Net income during the year	**13,943,167**	8,256,080
Add (Less) Capital adjustments:		
Effect of deferred income tax (Note 20)	**(88,099)**	(2,158,799)
Retained earnings available for dividend declaration	**24,172,616**	13,307,548
Cash dividends declared	**-**	(2,990,000)
Net amount available for dividend declaration	**P 24,172,616**	P 10,317,548

On May 29, 2019, the BSP approved the declaration of the stock dividend by the Bank but is still pending for distribution due to the pending application for increase in authorized share capital.
As of March 25, 2022, the Bank's application for increase in authorized share capital was put on hold until the Bank has fully accomplished the documentary requirements required by the BSP relative to the shareholdings of the Pelaez family (see Note 1)

18. Related Party Transactions

a. Under the General Banking Act and BSP regulations, the aggregate amount of loans to DOSRI should not exceed the total capital funds or 15% of the total loan portfolio of the Bank, whichever is lower, except with prior approval from the Monetary Board. In addition, the amount of direct credit accommodations to DOSRI, of which 70% must be secured, should not exceed the book value of their respective investments in the Bank.

   As at December 31, 2021 and 2020, information about the loans and other credit transactions with certain DOSRI are as follows:

	2021	2020
Loans and other credit transactions with certain DOSRI (see Note 7)	**P 46,000,000**	P 46,500,000
Outstanding total loan portfolio (see Note 7)	**P 476,847,893**	P 395,275,588
Percent of DOSRI loans to total loan portfolio (see Note 7)	**9.65%**	11.76%
Percent of unsecured DOSRI loans to total DOSRI loans	**0.00%**	0.00%
Percent of past due DOSRI loans to total DOSRI loans	**0.00%**	0.00%
Percent of non-performing DOSRI loans to total DOSRI loans	**0.00%**	0.00%

The significant transactions with related parties and their effect on the Bank's financial statements for the years ended December 31 are shown below:

		Loans and other receivables					
Related Parties	Relation-ship	Net Volume	2021	Net Volume	2020	Terms	Condition
GFC	Related interest	P -	**P 20,000,000**	P 5,000,000	P 20,000,000	1 year; payable monthly	Fully secured
DSMG	Related interest	-	**13,500,000**	-	13,500,000	8 months; payable	Fully secured

						monthly	
LDCU	Related interest	-	**10,000,000**	-	10,000,000	1 year; payable monthly	Fully secured
FLC	Related interest	(500,000)	**2,500,000**	200,000	3,000,000	1 year; payable monthly	Fully secured
	Total	(P 500,000)	**P 46,000,000**	P 5,200,000	P 46,500,000		

Related Parties	Relationship	Deposit liabilities Volume	2021	Volume	2020	Condition
GFC	Related interest	(P 1,674,535)	**P 22,445,559**	P 4,931,262	P 24,120,094	Assigned
DSMG	Related interest	(813,846)	**15,719,874**	(6,310,448)	16,533,720	Assigned
LDCU	Related interest	477,024	**12,911,052**	(9,880,059)	12,434,028	Assigned
FLC	Related interest	(2,308,908)	**4,003,470**	900,390	6,312,378	Assigned
PDR	Related interest	-	**461,538**	-	461,538	Assigned
	Total	(P 4,320,265)	**P 55,541,493**	(P 10,358,855)	P 59,861,758	

Gopel Finance Corporation (GFC), Factors Lending Corporation (FLC), Liceo de Cagayan University (LCU), Divine Shepherd Memorial Gardens (DSMG), Paseo del Rio (PDR) and Zealep Hotels, Inc. (ZHI) are companies controlled by the same key management personnel of the Bank.

The outstanding accounts with the related interests shall be settled in cash. Impairment assessment is made each financial year through a review of the financial position of a related interest and market in which the related interest operates. Management believes that the aforementioned accounts are recoverable within the Bank's normal operating cycle.

b. Short-term employee benefits to key management personnel, which include salaries, 13th month pay and other short-term benefits, charged to operations amounted to P 10,354,834 in 2021 and P 8,863,052 in 2020.

c. No post-employment and other long-term benefits, termination benefits and share-based payments have been paid to key management personnel except for directors' and committee members' fee paid amounting to P 462,000 in 2021 and P 512,000 in 2020 (Note 19).

19. Income and Expenses

Other operating income

	2021	2020
Service charges, fees and commissions	**P 19,947,484**	P 15,754,248
Gain on sale of real and other property acquired (see Notes 9 and 10)	**1,273,400**	2,865,428
Gain on sale of bank premises, furniture, fixtures and equipment (see Note 10)	**64,999**	100,000
Miscellaneous income	**12,639,374**	8,613,600
	P 33,925,257	P 27,333,276

Service charges, fees and commissions refer to income from intermediation services such as those relating to deposit and lending services.

Gain on sale of real and other properties acquired represents income from foreclosed properties, whether accounted for investment properties or bank premises, furniture and fixtures, that were subsequently sold. It is determined as the difference between the present value of the net disposal proceeds and the carrying amount of the asset, which is recognized in profit or loss in the period of disposal.

Miscellaneous income refers to the following:

	2021	2020
Penalties on past due loans	**P 3,674,329**	P 1,740,716
Notarial fees	**1,182,300**	812,328
Interest income from SCR	**1,199,252**	195,162
Insurance	**553,341**	774,555
Tax savings	**480,534**	-
Bank commission	**371,027**	-
Checkbook	**332,984**	238,922
Others	**4,845,607**	4,851,917
	P 12,639,374	P 8,613,600

Others include passed-on GRT, inspection and filing fees collected relative to the loans released, rental income from safety deposit boxes, income from POS and other charges.

Administrative expenses

	2021	2020
Salaries and wages	**P 19,718,869**	P 18,172,091
Employees' benefits	**10,724,752**	6,850,515
Taxes and licenses (Note 22)	**7,870,026**	6,118,093
Depreciation and amortization (see Notes 10 and 11)	**5,792,646**	6,091,569
Security, clerical, messengerial and janitorial services	**1,960,300**	1,610,355
SSS, PHIC, and HDMF contributions	**1,889,078**	1,588,036
Fuel and lubricants	**1,689,325**	1,471,633
Information technology	**1,599,650**	202,314
Management and other professional fees	**1,513,397**	1,360,154
Insurance	**1,491,168**	1,142,318
Rent (Note 23)	**1,437,244**	1,039,655
Stationeries and supplies	**1,129,662**	891,341
Light, power and water	**1,074,942**	945,454
Postage, telephone, cables and telegrams	**981,500**	883,296
Entertainment, amusement and recreational (Note 26)	**904,801**	999,589
Repairs and maintenance	**867,253**	893,699
Penalties (Note 22)	**699,940**	21,400
Provisions for retirement benefits (Note 21)	**613,486**	280,321
Directors' and committee members' fee (see Note 18)	**462,000**	512,000
Litigation costs (see Note 9)	**343,945**	189,822
Transportation and travel	**279,319**	591,626
Donations and charitable contributions	**99,807**	113,164
Membership fees and dues	**32,694**	29,959
Fees and commissions	**5,000**	121,601
Accounts written-off	**-**	17,232
Miscellaneous	**489,179**	465,964
	P 63,669,983	P 52,603,201

Miscellaneous include advertising, BSP supervision fees, periodicals and magazines, freight charges, and other expenses.

20. Income Tax

Deferred tax liability relates to pension asset which amounted to P 5,880 as of December 31, 2021 and none in 2020.

Deferred tax assets as of December 31 relate to the following:

	2021	2020
Allowance for expected credit losses	**P 10,485,113**	P 10,444,643
Allowance for impairment loss - ROPA	**283,320**	-
Effect of PFRS 16	**4,507**	9,810
Accrued retirement obligation	**-**	224,509
	P 10,772,940	P 10,678,962

Significant components and the reconciliation of income tax expense to profit before income tax at the applicable statutory income tax rate to income tax expense at the Bank's effective income tax rate for the year ended December 31 are presented below:

	2021	2020
Profit before income tax	**P 20,957,355**	P 11,693,574
At applicable statutory income tax rate of 25% in 2021 and 30% in 2020	**5,239,339**	3,508,072
Changes in income tax resulting from:		
Expenditures not allowable for income tax purposes	**2,965,976**	3,453,711
Expenditures allowable for income tax purposes	**(950,883)**	(1,175,143)
Income not taxable for income tax purposes	**(120,133)**	-
Interest income already subjected to final tax	**(49,124)**	(190,347)
Income tax expense – current	**7,085,175**	5,596,293
Tax effects of net movement in items giving rise to:		
Deferred tax assets relating to:		
Accrued retirement obligation	**224,509**	-
Effect of PFRS 16	**5,302**	12,762
Allowance for expected credit losses	**(40,470)**	(2,049,525)
Allowance for impairment loss	**(283,320)**	-
Deferred tax liability relating to:		
Pension asset	**5,880**	(122,036)
Income tax expense – deferred (see Note 17)	**(88,099)**	(2,158,799)
	P 6,997,076	P 3,437,494

The reconciliation of the Bank's income tax payable for the year ended December 31, 2021 and 2020 is as follows:

	2021	2020
Balance, January 1	**P 1,603,566**	(P 1,357,179)
Provision for income tax – current	**7,085,175**	5,596,293
Payments during the years	**(6,880,223)**	(2,635,548)
Balance, December 31	**P 1,808,518**	P 1,603,566

21. Retirement Benefits

The Bank has an unfunded, non-contributory defined benefit retirement plan, covering all regular employees entitled to benefits based on a specific level of benefit for every year of service as provided under R.A. 7641. The Bank's latest actuarial valuation was conducted by Insular Life Assurance Co., Ltd. for the year ended December 31, 2020 (Note 30).

Retirement costs charged to operations amounted to P 613,486 in 2021 and P 280,321 in 2020 (see Note 19). The Bank reported pension asset amounting to P 23,519 as of December 31, 2021, which is recorded under other assets (see Note 12) and accrued retirement obligation amounting to P 748,365 as of December 31, 2020, which is recorded under other liabilities (see Note 16).

The principal assumptions used for the purpose of the actuarial valuation were as follows:

	2021	2020
Discount rate	3.90%	3.90%
Expected rate of salary increase	3.00%	3.00%
Expected return on plan assets	5.24%	5.24%

Provision for retirement benefits for the years ended December 31 (see Note 19) includes the following:

		2021		2020 (As Restated – Note 30)
Current service cost	**P**	**623,369**	P	286,648
Interest cost on benefit obligation		**142,897**		82,279
Interest income on plan asset		**(152,780)**		(88,606)
		613,486		280,321
Prior period adjustment (Note 30)		**-**		253,350
	P	**613,486**	P	533,671

Present values of defined benefit obligation were computed as follows:

		2021		2020 (As Restated – Note 30)
Beginning	**P**	**3,664,025**	P	1,570,217
Current service cost		**623,369**		286,648
Interest cost on benefit obligation		**142,897**		82,279
Benefits paid from plan assets		**(118,513)**		-
Prior period adjustments:				
Additional current service cost (Note 30)		**-**		318,565
Benefits paid from plan assets		**-**		(9,455)
Remeasurement loss (Note 30)		**-**		1,415,771
	P	**4,311,778**	P	3,664,025

Fair values of plan assets were computed as follows:

	2021	2020 (As Restated – Note 30)
Beginning	**P 2,915,660**	P 2,953,520
Contributions	**1,578,463**	-
Reimbursement	-	(156,965)
Benefits paid	**(118,513)**	-
Interest income from plan asset	**152,780**	88,606
Remeasurement gain (loss) from plan asset	**(193,093)**	30,499
Prior period adjustments:		
Additional interest income (Note 30)	-	65,215
Benefits paid from plan assets	-	(9,455)
Remeasurement loss (Note 30)	-	(55,760)
	P 4,335,297	P 2,915,660

Actual return on plan assets amounted to a loss of P 40,313 in 2021 and a gain of P 128,560 in 2020.

The movement of cumulative remeasurement loss under equity is as follows:

	2021			2020 (As restated – Note 30)		
	(Loss)	Deferred tax	Amount	Gain (loss)	Deferred tax	Amount
Balance, January 1	**(P 1,434,273)**	**P 430,283**	**(P 1,003,990)**	P 624,344	(P 187,302)	P 437,042
Remeasurement gain (loss) on FVPA	**(257,457)**	**64,364**	**(193,093)**	43,570	(13,071)	30,499
Priorperiod adjustments:						
Remeasurement loss on DBO (Note 30)				(2,022,530)	606,759	(1,415,771)
Remeasurement loss on FVPA (Note 30)				(79,657)	23,897	(55,760)
Balance, December 31	**(P 1,691,730)**	**P 494,647**	**(P 1,197,083)**	(P 1,434,273)	P 430,283	(P 1,003,990)

Accrued retirement liability (pension asset) as of December 31, 2021 and 2020 is as follows:

	2021	2020 (As Restated – Note 30)
Present value of defined benefit obligation	**P 4,311,778**	P 3,664,025
Fair value of plan assets	**4,335,297**	2,915,660
	(P 23,519)	P 748,365

The movements in net retirement benefit liability (asset) for the years ended December 31 recognized in the statement of financial position are as follows:

	2021	2020 (As Restated – Note 30)
Balance, January 1	**P 748,365**	(P 1,383,303)

Provision for retirement benefits (see Notes 19 and 22)	**613,486**	280,321
Remeasurement (gain) loss on FVPA	**193,093**	(30,499)
Reimbursement from plan asset	**-**	156,965
Contributions	**(1,578,463)**	-
Prior period adjustments:		-
Remeasurement loss on DBO (Note 30)	**-**	1,415,771
Additional provision for retirement benefits (Note 30)	**-**	253,350
Remeasurement loss on FVPA (Note 30)	**-**	55,760
Balance, December 31	**(P 23,519)**	P 748,365

22. Supplementary Information Required under RR 15-2010

Based on RR 15-2010

In compliance with the requirements set forth in RR 15-2010, presented below are the information on revenue taxes paid and accrued by the Bank during the taxable year:

Percentage tax

The Bank is a non-VAT registered entity and subjects its income with percentage taxes in accordance with Section 121 of the National Internal Revenue Code. The Bank's percentage tax amounted to P 5,513,012 and P 4,340,707 in 2021 and 2020, respectively.

Accrued percentage tax recorded under accrued taxes amounted to P 1,387,537 and P 1,238,567 as of December 31, 2021 and 2020, respectively (see Note 15).

Taxes and Licenses

This includes other taxes, local and national, paid or accrued for the years ended December 31, and lodged under the taxes and licenses account as shown below (see Note 19):

	2021	2020
Local		
Business permits and other fees	**P 494,389**	P 454,915
Real property taxes	**18,518**	50,403
Community tax certificates	**6,643**	8,320
National		
Percentage taxes	**5,513,012**	4,340,707
Documentary stamps taxes	**1,782,116**	1,230,227
BIR annual registration fees	**3,500**	3,500
Others		
Others	**51,848**	30,021
	P 7,870,026	P 6,118,093

Withholding Taxes

The amounts of withholding taxes paid or accrued for the years ended December 31 are presented below:

	Compensation		Expanded		Final		Total	
	2021	**2020**	**2021**	**2020**	**2021**	**2020**	**2021**	**2020**
January 1	**P 15,000**	P 31,000	**P 24,386**	P 20,563	**P 51,656**	P 40,273	**P 91,042**	P 91,836
Withheld during the year	**180,000**	138,000	**434,687**	242,173	**1,168,376**	1,107,720	**1,783,063**	1,487,893

Paid during the year	**(180,000)**	(154,000)	**(425,676)**	(238,350)	**(1,147,993)**	(1,096,337)	**(1,753,669)**	(1,488,687)
December 31	**P 15,000**	P 15,000	**P 33,397**	P 24,386	**P 72,039**	P 51,656	**P 120,436**	P 91,042

Accrued withholding taxes are recorded under other liabilities (see Note 16).

Income Tax

The Bank is not engaged in multiple activities with tax relief under special laws and international treaty. The Bank's income and expenses are subject to normal income tax rate of 25% in 2021 and 30% in 2020 except for the following income and expenses:

a. Interest income which are non-taxable for income tax purposes amounting to P 196,494 in 2021 and P 634,489 in 2020 were subjected to final withholding taxes of 20% (see Notes 6 and 8).

b. Expenses which are non-deductible for income tax purposes are as follows:

	2021	2020
Provisions for expected credit and impairment losses (see Notes 7, 9, and 12)	**P 8,258,256**	P 8,716,980
Depreciation on right of use asset (see Note 10)	**1,971,714**	1,829,081
Penalties (see Note 19)	**699,940**	21,400
Provisions for retirement benefits (see Notes 19 and 21)	**613,486**	280,321
Interest on lease liability (see Note 23)	**271,384**	254,160
Interest arbitrage	**49,124**	261,727
Representation expense (see Notes 19 and 26)	**-**	148,701
	P 11,863,904	P 11,512,370

Penalties in 2020 pertain to late remittances of mandatory government dues, documentary stamps tax and capital gains tax, penalties sanctioned by the BSP for non-compliance, telephone bills and other charges (see Note 19). In 2021, penalties recorded were due to erroneous FRP reporting on 2019 and compromise penalty during BIR audit examination in 2018.

23. Lease Arrangements

The Bank entered into lease agreements for its offices from various lessors at monthly rentals subject to escalation rates ranging from 5% to 10% provided for in its contracts of lease. These operating lease agreements have a term ranging from one to twenty years and are renewable under certain terms and conditions. Refundable rental deposits amounted to P 345,827 and P 322,537 as of December 31, 2021 and 2020, respectively (see Note 12).

Upon adoption of PFRS 16 on January 1, 2019, the Bank applied a single recognition and measurement approach for all leases except for short-term leases and leases of low-value assets. Rent expenses incurred will no longer be charged directly to operations but instead, a right-of-use (ROU) asset and a lease liability is recognized in the statements of financial position.

The right-of-use assets were recognized based on the amount equal to the lease liabilities, adjusted for any related prepaid and accrued lease payments previously recognized. Lease liabilities were recognized based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application.

The adoption of PFRS 16 will not have an impact on equity in 2019, since the Company elected to measure the right-of-use assets at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognized in the statement of financial position immediately before the date of initial application.

Subsequent from January 1, 2019, PFRS 16 requires the Bank to depreciate the ROU asset while each lease payment is split between the repayment of the lease liability and interest. The Bank depreciates the ROU asset on a straight-line basis over the remaining lease term of the contract and recorded as part of "Bank Premises, Furniture, Fixtures and Equipment" account (see Note 10).

In 2021 and 2020, the Bank entered into a renewed lease arrangement with a total present value of lease payments amounting to P 1,464,888 and P 3,679,895, respectively. Further, in 2021, the Bank derecognized the right-of-use asset on the expired lease contracts aggregating to P 3,015,638 (see Note 10).

Depreciation expense for ROU asset charged to operation amounted to P 1,971,714 in 2021 and P 1,829,081 in 2020 (see Notes 10 and 19), while the interest expense on lease liability charged to operations amounted to P 271,384 in 2021 and P 254,160 in 2020. Rent expense charged to operation for short-term leases and leases of low-value assets amounted to P 1,437,244 in 2021 and P 1,039,655 in 2020 (see Note 19).

The Bank's outstanding lease liability amounted to P 4,552,697 and P 5,041,495 as of December 31, 2021 and 2020, respectively.

24. Earnings Per Share and Basic Ratios

Earnings per share is computed by dividing the profit for the year attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year, after adjustments for any subsequent share dividends declared.

		2021		2020
Profit for the year attributable to ordinary equity	**P**	**13,960,279**	P	8,256,080
Weighted average number of common shares outstanding		**460,000**		460,000
Earnings per share	**P**	**30.35**	P	17.95

There were no dilutive potential ordinary shares for years ended December 31, 2021 and 2020. Therefore, the Bank's basic and diluted earnings per share were equal for the years ended December 31, 2021 and 2020. There were also no movements in shares outstanding in both years.

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

	2021	2020
Return on average equity	**16.10%**	9.75%
Return on average assets	**2.66%**	1.79%
Net interest margin	**12.72%**	11.43%

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

The minimum liquidity ratio (MLR) of 20% shall be complied with on an ongoing basis absent a period of financial stress effective January 1, 2019.

The Bank's MLR as of December 31, 2021 and 2020 are shown below:

	2021	2020
Eligible stock of liquid assets	**P 100,771,072**	P 96,215,097
Total qualifying liabilities	**403,072,786**	359,900,398
MLR	**25%**	27%

Leverage Ratio
Under existing regulations, banks are required to maintain a leverage ratio of not less than 5% and shall be complied with at all times.

The leverage ratio intends to restrict the build-up of leverage in the banking sector to avoid destabilizing deleveraging processes which can damage the broader financial system and the economy.

The Bank's leverage ratio as reported to the BSP are as follows:

	2021	2020
Total capital	**P 93,513,386**	P 79,746,200
Total asset	**558,954,881**	490,652,534
	16.73%	16.25%

25. Risk-Based Capital Ratio

The BSP requires rural banks to maintain the following risk based capital ratios:

- Capital adequacy ratio (CAR), expressed as a percentage of total qualifying capital to risk-weighted assets, shall not be less than ten percent (10%)
- Tier 1 capital ratio, expressed as a percentage a percentage of Tier 1 capital to risk-weighted assets, shall not be less than seven and a half percent (7.5%)
- Common equity tier 1 (CET1) ratio, expressed as a percentage of common equity tier 1 capital to risk-weighted assets, shall not be less than six percent (6.0)

As of December 31, 2021, and 2020, the Bank's risk-based capital adequacy ratio is 14.47% and 13.90%, respectively.

	2021	2020
Tier 1 (core) capital		
Common shares	**P 46,000,000**	P 46,000,000
Additional paid-in capital	**7,030**	7,030

Stock dividends distributable		**14,000,000**		14,000,000
Surplus		**20,743,160**		12,487,080
Undivided profits		**13,960,279**		8,256,080
		94,710,469		80,750,190
Less: Deferred tax asset, net of deferred tax liability		**10,767,060**		10,678,962
Tier 1 CAR	**P**	**83,943,409**	P	70,071,228
Tier 2 CAR – GLLP		**3,573,550**		3,037,306
Total qualifying capital		**87,516,959**		73,108,534
Risk weighted assets		**511,904,266**		441,183,919
Operational risk-weighted assets		**93,101,648**		84,736,633
Total risk-weighted assets	**P**	**605,005,914**	P	525,920,552
CAR ratio		**14.47%**		13.90%
Tier 1 capital ratio		**16.40%**		15.88%
Common equity tier 1 (CET1) ratio		**18.50%**		18.30%

26. Entertainment, Amusement and Recreational Expenses

Revenue Regulations (RR) No. 10-2002 defines expenses to be classified as entertainment, amusement and recreational (EAR) expenses and sets a limit for the amount that is deductible for tax purposes. EAR expenses are limited to 0.5% of net sales for seller of goods or properties or 1% of net revenue for seller of services.

For sellers of both goods or properties and services, an apportionment formula is used in determining the ceiling on such expenses. EAR expense amounted to P 904,801 in 2021 and P 999,589 in 2020 (see Note 19). Non deductible EAR expense amounted to P 148,701 in 2020 and none in 2021 (see Note 22).

27. Capital Management

The main objective of the Bank in managing capital is to comply with the regulatory capital requirements of the Bangko Sentral ng Pilipinas (BSP). The Bank wants to ensure its ability to continue as a going concern and to maintain adequate capital to support its operations and maximize shareholders' interest.

The Bank monitors capital on the basis of the risk based capital ratio. The Bank determines the levels of risk-weighted assets and sets the amount of qualifying capital required to support these assets.

To maintain or adjust capital, the Bank may raise capital through the issuance of additional shares or decrease capital through dividend declaration. The Bank's capital consists mainly of share capital, retained earnings free and reserves.

<u>Capital requirement</u>

Under existing regulations, banks are required to maintain daily, a risk – based capital ratio of not less than 10%.

The ratio, expressed as a percentage of qualifying capital to risk weighted assets, is determined by the risk assets of banks, on balance sheet and off balance sheet, measured and risk weighted according to defined criteria. Risk assets are defined as total assets less cash on hand, due from BSP, loans covered by holdout or assignment of deposits, loans or acceptances under letters of credit to the extent covered by marginal deposits and other non-risk items as determined by the Monetary Board. Qualifying capital available to banks is the sum of Tier 1 (core) capital, which is primarily the shareholders' equity with certain adjustments defined by regulation, and Tier 2 (supplementary) capital, which consists of long term subordinated debt.

The Bank has complied with the capital adequacy requirement throughout 2021 and 2020 since it has a capital adequacy ratio of 14.47% and 13.90% as of December 31, 2021 and 2020, respectively (see Note 25).

28. Financial Risk Management Objectives and Policies

The Bank's principal financial instruments consist of cash and other cash items, due from BSP and other banks, loans and other receivables, unquoted debt securities classified as loans, other assets, deposits and other liabilities, bills payable, accrued interest and other expenses, and other liabilities.

The Board of Directors has the ultimate responsibility for understanding the nature and level of overall risk taken by the Bank. In order to carry out its responsibilities, it establishes and develops strategies and policies with respect to the financial risk it identifies and it provides adequate supervision of day-to-day operations.

The directors and senior officers regularly attend board meetings to review and discuss the Bank's financial condition and evaluate the performance vis-à-vis projections.

Credit Risk
Credit risk is the risk that arises from counterparty's failure to meet the terms of any contract with the Bank or otherwise perform as agreed.
The Bank has credit policies and procedures which are adequate and are reviewed periodically. The Bank maintains a strict implementation on its credit policies and identifies concentration of credit risks so as not to expose the Bank to adverse credit conditions. It also formulates strategies and adopts effective credit administration, review and monitoring through periodic evaluation of loan accounts.

As of December 31, 2021 and 2020, past due and items in litigation loans and receivables with an aggregate amount of P 44,810,930 and P 39,275,063, respectively, are the significant exposures to credit risk without taking account of any collateral held or other credit enhancements (see Note 7).

The table shows the credit quality of the Bank's financial assets as of December 31, 2021 and 2020:

	As of December 31, 2021		
	Neither past due nor impaired	**Past due and impaired**	**Total**
Cash and other cash items	**P 9,752,651**	**P -**	**P 9,752,651**
Due from BSP	**8,141,565**	**-**	**8,141,565**
Due from other banks	**83,509,662**	**-**	**83,509,662**
Loans and receivables – net	**373,590,864**	**44,810,930**	**418,401,794**
Unquoted debt securities classified as loans	**2,577,852**	**-**	**2,577,852**

Other assets	**1,410,520**	**61,633**	**1,472,153**
	P 478,983,114	**P 44,872,563**	**P 523,855,677**

	As of December 31, 2020		
	Neither past due nor impaired	**Past due and impaired**	**Total**
Cash and other cash items	P 8,900,955	P -	P 8,900,955
Due from BSP	8,135,234	-	8,135,234
Due from other banks	79,532,909	-	79,532,909
Loans and receivables – net	310,663,119	39,275,063	349,938,182
Unquoted debt securities classified as loans	2,577,852	-	2,577,852
Other assets	3,838,590	27,615	3,866,205
	P 413,648,659	P 39,302,678	P 452,951,337

Past due and impaired financial assets that are covered by an allowance for expected credit losses amounted to P 41,940,452 and P 34,815,476 as of December 31, 2021 and 2020, respectively (see Notes 7 and 12).

Liquidity Risk
Liquidity risk is the current and prospective risk to earnings or capital arising the Bank's inability to meet its obligations as they become due.

Past due and items in litigation loans and receivables amounting to P 44,810,930 and P 39,275,063 as of December 31, 2021, and 2020, respectively, have affected the Bank's liquidity (see Note 7).
The Bank's reserves as required by the BSP have been complied with and primary reserves are adequate to address substantial cash drawdown. The Bank has credit lines with different banks and it has huge liquid assets.

The Bank is exposed to daily calls on its available cash resources from savings deposits, maturing time deposits and loan drawdowns. The Bank maintains sufficient cash to cover withdrawals at unexpected levels of demand.

Operations Risk
Operational risk is the current and prospective risk to earnings or capital arising from fraud, error and the inability to deliver products or services, maintain a competitive position and manage information.

The Bank effectively implements the adequate policies and procedures governing operations. The Bank plans to outsource technical services on computer maintenance for its operations. The Bank is also adopting effective storage and back-up procedures for computer data.

Further, the Bank adopts good hiring policy with emphasis on minimum qualification and character and establishes a comprehensive scheme comparable with the industry taking into account a reward system for good performance. It also regularly reviews strict implementation and compliance of employee policies and sponsors employee development programs.

Market Risk
Market risk is the risk of loss to future earnings or capital arising from changes in the value of traded portfolios of financial instruments. The value of a financial instrument may change as a result of changes in interest rates, foreign exchange rates, equity prices and other market changes.

The Bank has set up parameters on investments based on a study of current economic and financial trend. The Bank also adopted a benchmark on the tolerance level on losses that should trigger an action by management on a particular investment and it has a constant oversight and monitoring of its own investments.

Interest Rate Risk
The Bank's exposure to the risk of changes in market interest rates relates primarily to due from other banks and unquoted debt securities classified as loans. Interest margin may increase or reduce as a result of such changes in market interest rates. The Bank monitors movements in market interest rates and reviews on monthly basis, interest rates of due from other banks and unquoted debt securities classified as loans.

The Bank has fixed its interest on loans and receivables and bills payable until maturity. It has not extended loans nor obtained loans with floating interest rates.

The tables below illustrate the sensitivity of the Bank's profit with respect to changes in the interest rates of its due from other banks, including short-term investments, and unquoted debt securities classified as loan due to reasonably possible change in interest rates, with all other variables held constant:

	2021				
	Reasonably possible change in rate		**Effect on profit before tax**		**Effect on equity**
Due from other banks	**+/- 6.38%**	**P**	**2,075,067**	**P**	**2,075,067**
Unquoted debt securities classified as loans	**+/- 1%**		**25,779**		**25,779**
		P	**2,100,846**	**P**	**2,100,846**

	2020				
	Reasonably possible change in rate		**Effect on profit before tax**		**Effect on equity**
Due from other banks	+/- 1.69%	P	1,344,106	P	1,344,106
Unquoted debt securities classified as loans	+/- 1%		25,779		25,779
		P	1,369,885	P	1,369,885

Foreign Currency Risk
The Bank has no exposure to foreign exchange rate risk since it has not entered into foreign exchange trading and most of its transactions are denominated in Philippine peso.

Compliance Risk
Compliance risk is the current and prospective risk to earnings or capital arising from violations of, or nonconformance with, laws, rules, regulations, prescribed practices, internal policies and procedures, or ethical standards.

The Bank has an Audit Committee which ensures that the compliance program and internal control systems are properly being implemented.

In compliance with Republic Act No. 9160, *Anti-Money Laundering Act of 2001*, the Bank implements its anti-money laundering (AML) program by implementing the following basic principles:

a. Know your Customer

   The Bank shall obtain satisfactory evidence of the customer's identity and have effective procedures for verifying the bonafides of new customers.

b. Compliance with Laws

   The Bank shall ensure that business is conducted in conformity with high ethical standards, that laws and regulations are adhered to, and that service is not provided where there is good reason to believe that transactions are associated with money laundering activities.

c. Cooperation with Law Enforcement Agencies

   Within the legal constraints in relation to customer's confidentiality, the Bank shall cooperate fully with law enforcing agencies. Disclosure of information by the Bank for the purpose of the Act regarding suspicious transactions shall be made to the Anti-Money Laundering Council of the Bangko Sentral ng Pilipinas.

d. Policies, Procedures and Training

   The Bank shall adopt policies consistent with principles set out in its Anti-Money Laundering Manual, and ensure that its staff, wherever located, are informed of these policies and adequately trained in matters covered by the Manual. The Bank shall implement specific procedures for customer identification, maintaining of transaction documents and reporting of covered and suspicious transactions.

29. Financial Instruments

<u>Classification</u>
Reconciliations of financial assets and financial liabilities based on their classifications to amounts presented in the statement of financial position are presented below:

	As of December 31, 2021		
	Amortized Cost	Non-Financial Assets	Total
ASSETS			
Cash and other cash items	P 9,752,651	P -	**P 9,752,651**
Due from BSP	8,141,565	-	**8,141,565**
Due from other banks	83,509,662	-	**83,509,662**
Loans and receivables – net	418,401,794	-	**418,401,794**
Unquoted debt securities classified as loans	2,577,852	-	**2,577,852**
Investment properties	-	4,385,136	**4,385,136**
Bank premises, furniture, fixtures			

and equipment – net	-	14,264,668	**14,264,668**
Other intangible assets	-	2,642,999	**2,642,999**
Deferred tax assets	-	10,772,940	**10,772,940**
Other assets – net	1,472,153	3,033,461	**4,505,614**
Total	P 523,855,677	P 35,099,204	**P 558,954,881**

	As of December 31, 2021		
	Other Financial Liabilities	**Non-Financial Liabilities**	**Total**
LIABILITIES			
Deposit liabilities	P 363,183,527	P -	**P 363,183,527**
Bills payable	85,469,979	-	**85,469,979**
Accrued interest and other expenses	7,212,864	-	**7,212,864**
Lease liability	4,552,697	-	**4,552,697**
Income tax payable	-	1,808,518	**1,808,518**
Dividends payable	141,518	-	**141,518**
Deferred tax liability	-	5,880	**5,880**
Other liabilities	-	3,066,512	**3,066,512**
Total	P 460,560,585	P 4,880,910	**P 465,441,495**

	As of December 31, 2020		
	Amortized Cost	**Non-Financial Assets**	**Total**
ASSETS			
Cash and other cash items	P 8,900,955	P -	P 8,900,955
Due from BSP	8,135,234	-	8,135,234
Due from other banks	79,532,909	-	79,532,909
Loans and receivables – net	349,938,182	-	349,938,182
Unquoted debt securities classified as loans	2,577,852	-	2,577,852
Investment properties	-	5,867,970	5,867,970
Bank premises, furniture, fixtures and equipment – net	-	17,082,750	17,082,750
Other intangible assets	-	932,565	932,565
Deferred tax assets	-	10,678,962	10,678,962
Other assets – net	3,866,205	3,138,955	7,005,160
Total	P 452,951,337	P 37,701,202	P 490,652,539

	As of December 31, 2020		
	Other Financial Liabilities	**Non-Financial Liabilities**	**Total**
LIABILITIES			
Deposit liabilities	P 321,636,617	P -	P 321,636,617
Bills payable	66,684,289	-	66,684,289
Accrued interest and other expenses	6,288,833	-	6,288,833
Lease liability	5,041,495	-	5,041,495
Income tax payable	-	1,603,566	1,603,566
Dividends payable	2,990,000	-	2,990,000
Other liabilities	748,365	5,913,174	6,661,539
Total	P 403,389,599	P 7,516,740	P 410,906,339

Fair values of financial instrument

Fair value is defined as the amount at which the financial instrument could be exchanged in a current transaction between knowledgeable willing parties in an arm's length transaction, other than a forced liquidation or sale. Fair values are obtained from quoted market prices, discounted cash flow models and option pricing models as appropriate.

Valuation techniques and assumptions applied for purposes of measuring fair value

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

a. Cash and other cash items, due from BSP and other banks, and other assets

   Fair values approximate carrying amounts given the short-term maturities of these instruments.

b. Loans and receivables, and unquoted debt securities classified as loans

   The estimated fair value of loans and receivables, and unquoted debt securities classified as loans represent the amortized cost determined using the effective interest method.

c. Bills payable

   The estimated fair value of bills payable represents the discounted amount of estimated future cash flows expected to be paid. Expected cash flows are discounted at current market rates to determine fair value.

d. Deposits and borrowings

   The estimated fair value of demand deposits with no stated maturity, which includes non-interest-bearing deposits, is the amount repayable on demand.
   The estimated fair value of the long-term fixed interest-bearing deposits and other borrowings without quoted market price is based on discounted cash flow using interest for new debts with similar remaining maturity.

e. Accrued interest and other expenses, lease liability, dividends payable, and other liabilities

   The estimated fair value of the accrued interest and other expenses, lease liability, dividends payable, and other liabilities represents the amortized cost determined using the effective interest method.

30. Prior Period Adjustments

On April 29, 2021, the Bank received an actuarial valuation report conducted by Insular Life Assurance Co., Ltd. for the year ended December 31, 2020. The valuation resulted to the following prior period adjustments:

a. Recognition of additional provision for retirement amounting to P 253,350, which includes an additional current service cost of P 318,565, net of additional interest income from plan asset amounting to P 65,215. The adjustment resulted to the reduction of the pension asset and retained earnings by the same amount.

b. Recognition of remeasurement losses aggregating to P 1,471,531. Comprising of remeasurement losses on defined benefit obligation and plan asset amounting P

1,415,771 and P 55,760, respectively. The adjustment resulted to the decrease in pension asset by P 723,166 and recognition of accrued retirement liability by P 748,365.

c. Reversal of the related deferred tax liability on pension asset amounting to P 292,955 and recognition of deferred tax asset on accrued retirement amounting to P 224,509. The adjustments resulted to an increase in retained earnings by P 517,464.

Accordingly, the opening balances of the following accounts have been adjusted:

	Increase (Decrease)
Pension asset	**(P 976,516)**
Accrued retirement	**748,365**
Deferred tax asset	**224,509**
Deferred tax liability	**(292,955)**
Remeasurement gain	**(1,471,531)**
Retained earnings	**264,115**

31. Other Matters

Coronavirus Disease (Covid-19) Outbreak
The Covid 19 pandemic that started in China in the last quarter of 2019 and spread all over the World and well into 2021, has caused major economic disruptions and devastating economic effects that will be felt well beyond 2021.

In 2021, the Bank experienced some growth in its loans portfolio and deposit liabilities. There are observable delays in collection of loan repayments during the year. The Bank, however, has been and will continue to be prudent in the granting of loans. A review of the Bank's loan portfolio would reveal that the quality of its loan collaterals taken as a whole is good.

Management's believes that the pandemic as an event after the balance sheet date, has no significant financial and economic impact on the financial position of the Bank as of December 31, 2021.

Passage of the Corporate Recovery and Tax Incentives for Enterprises (CREATE) Act
On November 26, 2020, the Senate approved the third and final reading of Senate Bill No. 1357 or the proposed Corporate Recovery and Tax Incentives for Enterprises Act (CREATE). President Rodrigo Duterte has signed the Bill into law on March 26, 2021.

Under the CREATE Act, the corporate income tax will be immediately reduced from 30% to either 25% or 20% retroactive to July 1, 2020 for both domestic and foreign corporations. Corporations with net taxable income not exceeding P 5 million and with total assets of not exceeding P 100 million, excluding land on which the particular business entity's office, plant, and equipment are situated during the taxable year the tax is imposed, shall be taxed at 20%.

The Act also temporarily reduces the MCIT from 2% to 1% effective July 1, 2020 until June 30, 2023.

Further, the Act updated the reduction of interest rate arbitrage from 33% to 20% or 0% for Companies subject to 25% or 20% income tax rate, respectively.

The improperly accumulated earnings tax shall also no longer be imposed on Corporations.

A reconciliation of the Bank's income tax expense using the 30% regular income tax rate to 25% during the taxable year 2020 under CREATE is shown below:

		at 30%		**at 27.5%***
Net income before income tax	P 11,693,575	**P 3,508,072**	P 11,693,575	**P 3,215,733**
Add (deduct) reconciling items:				
Expenditures allowable for income tax purposes	(3,917,144)	**(1,175,143)**	(3,917,144)	**(1,077,215)**
Expenditures not allowable for income tax purposes	11,512,369	**3,453,711**	11,460,817	**3,151,725**
Income subjected with final tax	(634,489)	**(190,347)**	(634,489)	**(174,484)**
Net taxable income	P 18,654,311	**P 5,596,293**	P 18,602,759	**P 5,115,759**

*[(30% + 25%)/2]

The Act resulted to a reduction on the Bank's taxable income and regular income tax due by P 51,552 and P 480,534, respectively.

Financial Statements Authorized for Issue
The financial statements as of and for the year ended December 31, 2021 were approved and authorized for issuance by the Board of Directors on April 6, 2022.

SOUTH BANK (A RURAL BANK) INCORPORATED
FINANCIAL INDICATORS
DECEMBER 31, 2021 AND 2020

	2021	2020
Quick ratios	**1.39**	**1.32**
Current/Liquidity ratios	**1.39**	**1.32**
Debt-to-equity ratios	**4.98**	**5.15**
Debt-to-asset ratios	**0.83**	**0.84**
Equity-to-asset ratios	**0.17**	**0.16**
Return on assets	**0.03**	**0.02**
Return on equity	**0.16**	**0.11**
Times interest earned	**2.88**	**1.99**

SOUTH BANK (A RURAL BANK) INCORPORATED
OTHER FINANCIAL INFORMATION
DECEMBER 31, 2021 AND 2020

	2021	2020
Investment properties-to-asset ratios (Including ROPA)	**0.01**	**0.01**
Investment properties-to-asset ratios (Excluding ROPA)	**0.00**	**0.00**
Receivables-to-asset ratios	**0.75**	**0.71**
DOSRI receivables-to-net worth ratio	**0.49**	**0.58**