

# 2021 ANNUAL REPORT

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# SUN SAVINGS BANKS' JOURNEY



Sun Savings Bank (the “Bank”) is a domestic thrift bank incorporated in the Philippines in June 1997 originally as Urban Corp. Development Bank. Subsequently, in May 2004, the Bank’s name was changed to EIB Savings Bank and, in August 2004, was given by the Bangko Sentral ng Pilipinas (BSP) a Certificate of Authority to operate as a thrift bank. Under the previous owners, the Bank’s thrust was the provision of micro-finance loans.

In June 2011, the Bank’s sale was completed to a consortium of new investors with extensive experience in banking. The ownership of the Bank is now comprised of:

- Fleetwood Holdings, Inc. (FHI) at 39.5%, an investment holding company controlled by the family of Mr. Francisco A. Dizon, the Bank’s President & CEO;
- Project Quest Corporation (PQ) at 30.25%, an investment company managed and partially owned by Pacific Northstar Inc. (PNI) wherein Mr. Francisco A. Dizon is also the Chairman and President of both PQC and PNI.
- Santos Gonzalez Group, consist of Santos Gonzalez Hijos and Navion Capital Resources, formerly one of the significant shareholders in Prudential Bank before it was sold to Bank of the Philippine Islands (BPI) in 2005. It has substantial investments in the real estate and supermarket business. This group is represented by Mr. Augusto S. Gonzalez who is the Bank’s Executive Vice-President and Treasurer. The group owns 30.25% of Sun Savings Bank.

During the time of sale, the Bank only had one banking office with assets of P 69 million, liabilities of P 1 million and equity of P 68 million. The Bank’s new owners then had a vision of a consumer and SME-focused bank geared towards the eventual rise of FinTech and digital banking.



With this vision in mind, the new ownership started expanding the business. The branch count steadily increased to seven across Metro Cebu – Capitol Site-Cebu City, Talisay City, Mandaue City, Danao City, Carcar City, Carbon Market, and Ayala Cebu Business Park-Solinea. Furthermore, new deposit and loan products were introduced to the market, with competitive and rewarding rates aimed at building the customer base. The Bank joined Bancnet ATM network to give its customers a convenient banking experience and in November 2021, the bank launched its mobile banking to offer digital banking services to its customers in order to enhance its competitiveness.

The efforts have been fruitful, as witnessed by the robust growth of the bank over the past ten years.



# CORPORATE POLICY

## Our Vision

Sun Savings Bank will be the preferred bank for consumers, professionals and entrepreneurs who are looking for rewarding and convenient mobile banking services using information technology.

## Our Mission

We will achieve our mission through investments in information technology, human resources, strategic branch network and product offerings for identified target markets.

## Our Core Values

We will achieve our vision and mission with the following core values:

**H** - Honesty and Integrity

**E** - Excellence,

**A** - Ability and Agility

**R** - Respect

**T** - Transparency and Teamwork

## Our Business Model

The core business of Sun Savings Bank is focused on providing value for money financial services to consumers, professionals and entrepreneurs. Financial services shall consist of deposits with rewarding rates; salary loans to private and public-school teachers and employees under Automatic Payroll Deduction System (APDS); auto loans, either brand new or pre-owned; and housing loans. The bank also provides financial assistance to small and medium enterprises (SMEs) and agri-value chain participants.

# PRESIDENT & CEO'S REPORT

## Financial Condition and Results of Operations for 2021

The year 2021 continued to pose a serious challenge for the bank as the Covid-19 pandemic continued to affect the world and Philippine economy. But this time, effective vaccines providing up to 95% immunity against Covid-19, had been approved for use by the first quarter of the year. This offered a bright ray of hope for economic recovery from the economic recession experienced in 2020 where the country's GDP declined by 9.6%. As the government rolled out its vaccination program and more than 50% of the country's population got fully vaccinated during the year, the economy began to pick up as total lockdowns were avoided. The end result was that in 2021, GDP grew by 5.6%.

Against this economic backdrop, the bank continued to adopt a conservative approach and focused on the following operating strategies:

1. Increase the yield and level of its portfolio of low-risk teachers loans granted under the Automatic Payroll Deduction System of the Department of Education (DepEd). These teachers' loans constitute more than 80% of the bank's total loan portfolio, and interest rates were adjusted upwards starting June 2021, from 7.5% pa to 9.66% pa, the maximum rate allowed by the DepEd.
2. Bring down the cost of funds by reducing its offered rates on time deposits, which constitute the bulk of its total deposits.
3. Hold back the granting of riskier loans like car loans and low yield loans like housing loans.
4. Maintain vigorous efforts to collect on non-performing loans and bring down their levels.
5. Continue increasing the total provisions for loan losses to increase the buffer for potential loan losses.

The end result of these strategies was the 32% increase in net profits after tax to P23.4M in 2021 from P17.5M in 2020. The NPL ratio was also brought down to 3.6% from 4.2% the year before. Total provisions for loan losses were increased to P39M, which as a percentage of total NPLs increased to 73% from 51% a year ago. The bank's net interest margin (NIM) also increased to 7.1% compared to the prior year of 5.9%.

The bank's total assets still grew slightly to P2.068 billion from P2.016 billion, as the bank practically stopped granting new car and housing loans. This was done due to the continuing adverse effects of the Covid pandemic on the cash flows of car and home loan borrowers. But the low risk DepEd loan portfolio continued to grow to P1.277 billion from P1.255 the year before, despite takeouts by the GSIS through the 6-year GFAL loans it granted to teachers. In this regard, we are pleased to note that starting January 2022, the GSIS has stopped granting



such GFAL loans. And, the bank can now take out such GFAL loans with the new 5yr term loans that can be granted to DepEd teachers.

The bank continued to remain very liquid with its Minimum Liquidity Ratio (MLR) increasing to 35.9% from the year ago level of 30.9%, more than double the minimum MLR of 16% required of thrift banks by the BSP. The bank's Capital Adequacy Ratio (CAR) also improved to 21.5% from the previous year of 20.5%. The Return on Equity was 6.4%, a modest improvement from the year before of 5%.

The other highlights of the bank's operations in 2021 were as follows:

1. We developed a new loan product for teachers called the Home Improvement Loan (HIL) which will automatically be converted into an APDS loan once the teachers get their annual salary increase as mandated by law. The purpose of this loan was to assist teachers in renovating their homes where they had to stay more due to lockdowns and suspension of face-to-face classes.
2. We received approval in November from the BSP, to offer mobile banking services which we expect to launch full scale this second quarter of 2022.
3. We developed and implemented a remote loan processing and release system called Loan Patrol, which enables the bank to service the loan requirements of teachers in their respective schools or homes, thereby enabling the bank to expand its reach to various far-flung areas of Cebu.
4. Our continuing efforts to give good service and offer innovative loan products to teachers, enabled us to become the third largest lender among banks to DepEd teachers in the whole of Region 7, made up of Cebu, Bohol and Negros Oriental provinces, despite our limited physical presence in Metro Cebu only.

### **Outlook and Challenges for 2022**

As the Covid-19 pandemic weakens into an endemic state due the higher levels of vaccination and numerous persons who already got infected and survived, thus developing natural immunity, we are optimistic that economic growth worldwide and in the country will accelerate further despite the headwinds caused by rising inflation and the ongoing Russia- Ukraine war.

The country's economic managers are forecasting GDP growth of 7%-9% for 2022. With regards our own operations, we expect to grow our assets and profits dramatically in 2022 due to the following positive developments:

1. Last February 2022, the DepEd has allowed accredited lending banks to grant loans of up to 5 years to teachers. This essentially means that that the teachers can borrow at least 50% more while still paying the same monthly amortization. Correspondingly, the bank's existing DepEd loan portfolio from close to 10,000 teachers, can potentially grow by 50% or by P650 million more in the coming months, more so since teachers need to repair or rebuild their homes that were devastated by Typhoon Odette last December 2021.

2. The GSIS as mentioned earlier, is no longer granting GFAL loans and therefore will not take out our existing loans anymore. Instead, we can now take out their GFAL loans especially those granted earlier in 2018, since we can grant new loans to teachers to refinance such GFAL loans.

The result will be the teachers getting additional net loan proceeds due to the principal payments made to GSIS over the past 4 years.

3. Smaller banks with limited funding capability may not be in a position to increase by 50%, their teachers loans. The teachers will then go to the bigger banks with the resources to take out the smaller banks to satisfy their needs for a bigger loan to rebuild their homes.

4. We expect the DepEd to hire more new teachers as face-to-face classes resume and more students come to school. In this regard, we are the only bank to offer newly hired teachers a unique product called Start-up Loans, which we developed internally, that enables teachers to meet their financial needs in the few months that they have to wait before they are onboarded into the payroll system of DepEd. Last 2018-2019, we were able to successfully launch this loan product and get 3,200 new teachers as loan borrowers, out of approximately 4,000 new teachers hired during that period. The average loan amount availed of by the new teachers was P150,000, generating for the bank a total new loan volume of approximately P480M. This was the primary reason why our NIAT reached a record level of P41 million in 2019.

5. As the economic recovery continues, we expect to resume granting car loans, especially high yielding pre-owned car loans where we have developed our expertise over the past 10 years.

6. We will also start granting SME loans ranging in amounts of P250,000 to P1.5 million, for agri-value chain borrowers with guaranty support from Philguarantee. Our branch in the Carbon market in Cebu City was opened in December 2019 to focus on such lending but our efforts got stalled due to the Covid-19 pandemic and resulting lockdowns.



# FINANCIAL HIGHLIGHTS

## Profitability (In Million)



### Total Net Interest Income

2021: P139  
2020: P117  
2019: P149



### Total Non-interest Expenses

2021: P108  
2020: P94  
2019: P98



### Net Income

2021: P25  
2020: P18  
2019: P41

## Balance Sheet Data (In Million)



### Total Assets

2021: P2,070  
2020: P2,016  
2019: P2,085



### Liquid Assets

2021: P530  
2020: P455  
2019: P602



### Gross Loans

2021: P1,482  
2020: P1,497  
2019: P1,492



### Allowance for credit losses

2021: P37  
2020: P32  
2019: P24



### Deposits

2021: P1,489  
2020: P1,442  
2019: P1,430



### Total Equity

2021: P369  
2020: P354  
2019: P349

## Selected Ratios

### Capital Adequacy Ratio

2021: 21.47%  
2020: 20.36%  
2019: 22.30%

### Net Interest Margin

2021: 7.09%  
2020: 5.89%  
2019: 8.72%

### Non-Performing Loans Ratio

2021: 3.62%  
2020: 4.2%  
2019: 1.7%

### Return on Equity

2021: 6.91%  
2020: 4.98%  
2019: 11.63%

### Minimum Liquidity Ratio

2021: 35.86%  
2020: 30.9%  
2019: 41.5%

### Return on Assets

2021: 1.11%  
2020: 0.88%  
2019: 1.95%

2021: 41

2020: 41  
2019: 40



Headcount

2021: 34

2020: 30  
2019: 28

# RISK MANAGEMENT FRAMEWORK

## Overall risk management culture and philosophy

It is the policy of Sun Savings Bank to have in place a comprehensive risk management system which shall provide detailed structure of limits, guidelines in governing various risks that the bank is exposed to. The Board of Directors ensures that the risk management function has adequate resources to effectively perform its functions and such shall be afforded with adequate personnel, access to information technology systems and support and access to internal information.

A risk management process of: risk identification and assessment, risk treatment, monitoring and reporting, and communication and consultation became an integral part of management and decision-making and integrated into the structure, operations and processes of the organization. It can be applied at strategic, operational, program or project levels. This process is used to conduct a thorough analysis and evaluation of all of the Bank's new and existing products as to feasibility, market acceptability, profitability, identification of risks and compliance with existing laws and regulations.

The Bank acknowledges that like any other businesses, it cannot be viable without taking on risks. Risk taking is a crucial activity and is not necessarily a cause for concern for as long as the bank exhibits the ability to properly identify, measure, monitor and control risk. The bank's concept is that taking risk is required in order to fulfill the bank's mission but the risks should be assessed to ensure that it is within the company's appetite and effective mitigation strategies are employed.


The bank is exposed to various types of risk and our position to manage these risks are articulated in our policy.

## Credit Risk

Credit Risk is most simply defined as the potential that a bank borrower or counterparty will fail to meet its obligations in accordance with the agreement.

The bank's lending business is in accordance with the policies set by the board. The bank sets up approval limits, to various types of loans; and exposure limits per type of borrowers, industry, and security. All of these are monitored by the President or Treasurer, the ExCom and the Board.

A credit risk rating model was developed to assess the paying capacity of the borrower and as basis for the client's eligibility to get a loan or renewal. The risk rating will be used in the classification of loan to identify the appropriate loan loss provision for a particular type of loan. Moreover, the tracking and monitoring of non-performing and past due loans are being done monthly.



The bank also developed a loan review mechanism to cover procedures, compliance status, review of risk rating, pick up of warning signals and recommendation of corrective action with objective of improving credit quality. The Credit review also identifies loan with credit weakness and determine adequacy of loan loss provisions.

The bank ensures that it does not exceeds any regulatory limits such as single borrower's limit and the limits on the credit accommodations granted to directors, officers, stockholders and related interests (DOSRI).

## Liquidity Risk

Liquidity risk is the current and prospective risk to earnings or capital arising from the Bank's inability to meet its obligations when they come due without incurring unacceptable losses. Liquidity risk includes the inability to manage unplanned decreases or changes in funding sources. This risk also arises from the failure to recognize or address changes in market conditions that affect the ability to liquidate assets quickly and with minimal loss in value.

Liquidity risk is the risk that the Bank may not meet its short-term debt obligations or funds are insufficient, owing to a decline in creditworthiness or an extreme gap between maturities for fund use and funding, and may therefore have to pay prohibitively high interest rates to borrow funds for the operations. The Bank adheres to the proper management of liquidity risk and it has been well defined in the separate Bank's Manual on Business Continuity and Contingency Manual.

The bank ensures correct and well calculated reserves and accurate management of funding requirements through cash flow analysis and forecasting. It also ensures that the reserve requirement of 3% and minimum liquidity ratio of 16% is continuously complied. Regular monitoring of the Bank's required reserves and minimum liquidity ratio is being done by the Bank's Accountant and results thereof are communicated to the Treasurer.

## Operational Risk

Operational Risk is the current and prospective risk to earnings or capital arising from fraud; error; and the inability to deliver products and services, maintains competitive position and manage information. It is actually the risk of potential loss arising from inadequate information systems, technology failures, breaches in internal controls, fraud, unforeseen catastrophes, or other operational problems. In varying degrees of severity, operational risks exist in all products, business activities and units of the bank. Typical examples are human error or willful actions, system failures and inadequate procedures and controls.

The Bank ensures that communication between different business units, in relation to the managing of operational risks, are continuous and consistent. Goals for each undertaking are clearly defined wherein

policies and procedures to achieve such goals are carefully laid-out based on consultations with all personnel involved.

The Bank adopted well-researched comprehensive compensation scheme where performance is carefully measured and rewarded accordingly.

The Bank's operational risk management is commensurate with the complexity of its operations, range of products and services, organizational structure, and risk profile.

## Market Risk

The primary objective is to secure a reasonable return on funds invested while avoiding undue risk. Bank has adopted an investment policy that addresses: limits on volume (as a percentage of capital and deposits) and quality of investments (i.e. credit ratings) and such, investment decisions are made:

- in the best interests of Sun Savings Bank;
- in accordance with the general level of risk the Bank willing to accept.
- in accordance with defined performance tests and prudent standards.

The Bank considers eligible investments such as, Government Securities and Bonds issued by private corporations with credit rating of "A". Investments more than P100 million are approved by ExCom while lesser amounts will be approved by the President or Treasurer.

The Bank also defined in its policy its investment limit and stop loss limit. For government securities, up to 100% of the deposit liabilities (DL) if less than 1 year, and only 50% of the DL if the term is over 1 year to 25 years. For private bonds, the amount is only up to SBL per issuer and the aggregate amount is up to 50% of the DL. Stop loss limit is up to the point that the total loss that may be incurred will result to capital adequacy ratio of the bank lower than 15%.

Investment portfolio level is regularly reported to the board, which is also matched with the annual business plan. Material variances from plan, and their causes, as well as the management's plan to correct the variance should also be included in the report. The report will also provide the board with a summary on compliance with investment policies.

## Technology Risks

The bank has a set of standards and controls to manage technology-associated risks through effective planning, proper implementation and protocols, periodic measurement and monitoring of performance.

There is an existing data center that serves as offsite back-up which is capable of running the core banking system of the bank in case of any disruptions. The Bank ensures that there are adequate maintenance procedures of all IT equipment. A special attention is given to computer software and hardware to which efficiency of the bank's operations is highly dependent. The Internal Auditor and Compliance Officer are involved on new software and hardware acquisitions, as part of internal controls.

A secured firewall to our network system and internet access and a barrier against unauthorized or malicious access to confidential information were properly established. The bank has also a strict implementation of the strong password policy (alpha-numeric, individual responsibility, and changed periodically) and the prohibition of its sharing.

## **Legal Risk**

Legal risk is the risk of loss caused by penalties or sanctions originating from court disputes due to breach of contractual and legal obligations, penalties and sanctions pronounced by a regulatory body.

To properly manage the legal risks of the bank, the Board of Directors contracted the services of a competent lawyer/ legal counsel in order to seek guidance and assurance that all business transactions entered into are valid and are enforceable under Philippine laws.

## **Reputation Risk**

It is the current and prospective impact on earnings or capital arising from negative public opinion, including its clients, shareholders, employees, media, regulators and government entities. This affects the bank's ability to establish new relationships or services or continue servicing existing relationships.

Reputation risks are managed by the bank by consistent and full compliance of the bank's operations and employees to laws, rules and regulations, and its own policies. The bank does its business legally with high ethical standards through (1) proper and timely disclosure of the bank's financial condition to regulating bodies and to the public it serves; (2) constant information and assurance to the public of the bank's growth and development plans and its achievement to its set goals; and (3) strict compliance with regulations.

## **Compliance Risk**

The Bank has positioned compliance with laws, rules, and social norms as an important management issue and prepares annual Compliance Program containing specific plans for its compliance systems, which is reviewed and approved by the Board of Directors. Concerted efforts are being devoted to putting the necessary systems in place and raising the awareness of the importance of compliance among management and staff.

## **Bank-wide Governance Structure and Risk Management Process**

The Bank's Board and management ensures that there are risk management policies and procedures in place, commensurate to the size, complexity, nature and business operations of the bank. The risk

management manual provides detailed structure of limits and guidelines in identifying and assessing all material risks including new and emerging risks. These were circulated to all bank employees and discussed to the Board of Directors.

The bank's risk appetite is set by the Board of Directors. It cannot be defined by a single number and the bank considers different dimensions. It is usually a combination of regulatory requirements and aggregates, such as credit concentrations limits, that are taken into account. The bank also considers whether it is coherent with the bank's business strategy.

The Board of Directors also ensures that the risk management function has adequate resources to effectively perform its functions and such shall be afforded with adequate personnel, access to information technology systems and support and access to internal information.

## **AML Governance and Culture and Description of the Overall Money Laundering (ML)/Terrorist Financing (TF) Risk Management Framework**

Sun Savings Bank amended its Money Laundering and Terrorist Prevention Program (MTPP) that is duly approved by the Board of Directors, to incorporate the new regulations for proliferation financing and targeted financial sanctions, and enhance the guidelines for the digitization of customer records.

The Bank and its employees are always guided by basic principles and practices to combat money laundering, as follows:

1. **Comply with laws and regulations.** The Bank conducts its business in conformity with high ethical standards and comply with applicable laws and regulations.
2. **Know the Bank's clients.** The Bank observes the Know Your Customer (KYC) process to prevent suspicious individuals or entities from opening or maintaining an account or otherwise transacting with the Bank directly or indirectly to protect the Bank from being an instrument for money laundering and terrorist financing.
3. **Cooperate with law enforcement agencies.** Within the bounds allowed by the laws on confidentiality of bank deposits and client transactions, the Bank shall cooperate with law enforcement agencies in the fight against money laundering and terrorist financing. This includes taking appropriate measures allowed by law if there are reasonable grounds for suspecting money laundering.

Along this line, the Bank shall fully cooperate with the Anti-Money Laundering Council (AMLC) and the BSP for the effective implementation and enforcement of the AMLA, as amended, and its Revised Rules and Implementing Regulations ("RIRR"), and international anti-financing of terrorism commitments.

4. **Disseminate policies and provide trainings.** The Bank shall provide its employees and Board directors with regular training and updates on the most recent regulations on anti-money laundering and terrorist financing. The Bank will ensure that policies and procedures to effectively detect money laundering activities are properly disseminated to its employees.



5. **Implement risk management system.** The Bank shall adopt and effectively implement a sound anti-money laundering and terrorist financing risk management system that identifies, assesses monitors and controls risks associated with money laundering and terrorist financing.

To ensure that Sun Savings the Bank's reputation is not compromised, it is the Bank's guiding principle that its employees will not aide or abet money-laundering activities and will protect the integrity and confidentiality of bank accounts.

Sun Savings Bank shall not allow itself to be used as an intermediary for the deposit, investment or transfer of money derived from unlawful activities. The Bank shall, thus, it does not allow the opening of anonymous accounts, accounts under fictitious names and all other similar accounts. It shall extend full cooperation in transnational investigations and prosecutions of persons involved in money laundering activities wherever committed.

The Bank ensures that the following areas are strictly implemented:

- Customer Identification, including on-going monitoring of customers and their transactions.
- Record Keeping
- Reporting of Covered and Suspicious Transactions
- Employees Training

The performance and the processes of the MTPP is continuously monitored and measured. The monitoring does not limit to the performance of the employees in managing their obligations but also the efficacy and suitability of the methods used in managing their compliance obligations.

# CORPORATE GOVERNANCE

The objective of the Board of Directors of Sun Savings Bank is to achieve a long-term accomplishment through the implementation of Governance practices that promote continuity, consistency, and effectiveness in the way the Board operates and governs the Bank.

As of 31 December 2020, Sun Savings Bank is governed by a Board consisting of five (5) Directors, three (3) of which are independent directors. The responsibility of the Board is to ensure strategic direction, management supervision and adequate control of the company, with the ultimate goal of increasing the long-term value of the Bank. The Directors will hold their office charged with the duty to exercise sound and objective judgment for the best interest of the Bank.

Sun Savings Bank upholds the value of honesty and integrity and will continue to enhance this culture guided by the Code of Conducts that defines commitment to pursue the highest standards of ethical conduct.

The Board of Directors were selected based on fit and proper rule for the position. The bank ensures that the following matters are considered: integrity/probity, physical/mental fitness; relevant education/financial literacy/ training; possession of competencies relevant to the job, such as knowledge and experience, skills, diligence and independence of mind; and sufficiency of time to fully carry out responsibilities. The Directors are being assessed by its conduct and behavior and his ability to comply with company policies and applicable laws and regulations. The board of directors are also required to attend seminar on corporate governance for directors.

## **The Chairman of the Board**

The chairman's primary role is to ensure that the board is effective in its task of setting and implementing the company's direction and strategy. Consistent to BSP guidelines on effective governance for banks, he shall ensure effective functioning of the board of directors, including maintaining a relationship of trust with board members. He shall: (1) ensure that the meeting agenda focuses on strategic matters including discussion on risk appetites, and key governance concerns; (2) ensure a sound decision making process; (3) encourage and promote critical discussion; (4) ensure that dissenting views can be expressed and discussed within the decision-making process; (5) ensure that members of the board of directors receives accurate, timely, and relevant information; (5) ensure the conduct of proper orientation for first time directors and provide training opportunities for all directors; and (7) ensure conduct of performance evaluation of the board of director at least once a year.

# THE BOARD OF DIRECTORS



## **CATALINO S. ABACAN**

Chairman of the Board

Mr. Catalino S. Abacan was initially appointed as director of the Bank in December 2019, to serve the remaining term of Mr. Kenneth S. Uy, who resigned as Chairman and director of the Bank in November 2019. Thereafter, on January 2, 2020, Mr. Abacan was elected Chairman of the Board.

Prior to Sun Savings Bank, he was the former President & CEO of City Savings Bank, a thrift bank subsidiary of Union Bank of the Philippines (UBP) and a member of the Aboitiz Group.

Mr. Abacan started his career at the Philippine Banking Corporation (PhilBank) in 1975 where he held various positions, initially as Credit Investigator/Appraiser then as Head of the Credit Investigation & Appraisal Unit. Afterwards, he moved to Branch Operations as Manager and subsequently, became an Area Manager for Manila branches. The last position he held was being Vice-President & Group Head for Operations of Transaction Banking (Loans & International), Foreign Currency Deposit Unit and Treasury.

In 1994, he was invited by Lippo Bank of Indonesia as the Vice President for Operations of their Manila Offshore Banking Unit. Likewise, he was instrumental in setting up a Lippo Bank branch in Cambodia.

In 1997, Mr. Abacan joined Union Bank of the Philippines (UBP) as VP/Region Service and Operations Head of North Luzon branches. Eventually, he was assigned in 2000 – 2004 as VP/Operations Head of UBP Visa Credit Card Unit, then as Head of Liabilities Products, Branches Operations & Credit Card Operations. His last position in UBP was Executive Vice-President of the Channel Management Group until 2014.

In 2013, he was appointed as Vice Chairman of the Board of Directors of City Savings Bank, a subsidiary of UBP and then, became its President/CEO in 2014. In 2018, he was transferred as President/CEO of PR Savings Bank to oversee its merger with City Savings. Upon the latter's completion in February 2019, he was designated as Senior Adviser to the Board until his retirement on October 31, 2019.

Mr. Abacan finished a degree of Bachelor of Science in Business Administration (BSBA) major in Accounting at the University of the East and passed the CPA Board in 1975. He also completed the academic requirements for the Masters in Business Administration at the Ateneo Graduate School of Business in 1978.

**FRANCISCO A. DIZON**

Director  
President & CEO

Mr. Francisco A. Dizon is the President and CEO of Sun Savings Bank and concurrently the Chairman and President of Pacific Northstar Inc. (PNI) and Project Quest Corp., the investment fund organized by PNI. He is also Chairman and President of BPO International and Phoenix One Knowledge Solutions, and serves as Independent Director of the Makati Medical Center. He previously served as Chairman/Vice Chairman of Pointwest Technologies Corp.

Mr. Dizon is a seasoned banker with 47 years' experience in the banking industry. He has an excellent track record, having served various banks in senior management positions. In the year 2000, he was elected as Director of the Philippine National Bank but eventually appointed as Chairman of the Board and served from 2001 up to 2005. He was also the President and CEO of Rizal Commercial Banking Corporation from 1997 to 2000. Previous to that, he was President and CEO of AsianBank Corporation.

Mr. Dizon was also the Vice-Chairman and President of AB Capital Investment Corporation which he helped organized in 1980. AB Capital Investment Corporation, and its subsidiary Anscor Hagedorn Securities, were the leading Philippine investment bank and stock brokerage firms respectively in the 1980s and 1990s. Mr. Dizon was also a director of Ayala Property Ventures Corp in 1987. He holds an MBA from the Asian Institute of Management and obtained his Bachelor's degree from the Ateneo de Manila University.

**AUGUSTO S. GONZALEZ**

Director  
Executive Vice President & Treasurer

Mr. Augusto Gonzalez is the Executive Vice President, Treasurer and Director of Sun Savings Bank. He is also concurrently the Vice President of PNI and has managed several significant advisory transactions, including the sale of Prudential Bank and Citytrust Banking Corporation. He is also currently a Director of Project Quest Corp., Pointwest Technologies and Phoenix One Knowledge Solutions. Prior to joining PNI, Mr. Gonzalez was a Senior Manager at AB Capital and Investment Corporation where he managed various debt and equity underwriting transactions. Previous to that, Mr. Gonzalez was a Corporate Finance Analyst with SGV & Company. Mr. Gonzalez holds an MBA from Northwestern University and obtained his Bachelor's degree from the Ateneo de Manila University.

The Santos family, to which Mr. Gonzalez belongs to, formerly owned the Prudential Bank that was bought by the Bank of the Philippine Islands (BPI) in 2005. The Santos Family also co-owned the former Pilipinas Bank building in 111 Paseo de Roxas together with BPI, but the family bought out BPI in 2012.



**CARISSA G. DIZON**

Director

Ms. Carissa G. Dizon was appointed as Senior Adviser to Board on April 29, 2021 and elected as Director of the bank last October 21, 2021. As the bank looks to scale its customer base and expand its digital banking offerings, Ms. Dizon's mix of experience in marketing and technology will be a valuable asset to Sun Savings Bank. As an Assistant Brand Manager with Procter and Gamble (3 years) and Marketing Manager at Nokia (4 years), Ms. Dizon gained experience developing new products, structuring co-marketing deals and launching marketing communication campaigns through offline, online and social media to consumers in the Philippines, India, Southeast

Asia, Australia and New Zealand.

Ms. Dizon also brings to the table expertise in digital technologies and trends. In the last 9 years, Carissa has served in various roles at Google Asia Pacific including Head of Emerging Markets Marketing, Head of Platforms & Retail Marketing APAC, Head of Hardware Marketing APAC and Head of APAC Marketing Strategy and Operations. She built Google's APAC hardware business from the ground up, launching new products like Chromecast, Google Pixel and Google Home across the region.

As part of her current role as Head of Business and Operations for the Next Billion Users team in Sub-Saharan Africa, Carissa is leading a cross-functional team of 30 people to shape and execute Google's overall strategy in Africa. She is working across teams to build products and services that serve the needs of new internet users. Additionally, she and is working with the Google Payments team to scope Google's digital payments business in Africa.

Ms. Dizon obtained her bachelor's degree in Yale University USA and earned a Masters of International Affairs from Columbia University, School of International and Public Affairs, USA.



### **RENATO S. GONZALEZ**

Director

Mr. Renato S. Gonzalez was appointed as Senior Adviser to Board on April 29, 2021 and elected as Director of the bank last October 21, 2021. He is a graduate of Legal Management in Ateneo De Manila University and has extensive experience in retail, consumer behavior, and retail operations. Prior to joining Sun Savings Bank, he was a Supervisor in Landco Pacific Corporation and Account Officer in All Asia Capital. He is currently the Purchasing Manager of Grand Union Supermarket, Inc. His experience and insights in consumer behavior, especially in the broad middle-class market in the Philippine setting is valuable to the Bank as it delves deeper into the consumer space via its mobile app, SME loans, and private sector salary loans.

Mr. Gonzalez is also familiar with retail payments as used by consumers for purchasing goods and services. His exposure to various payment platforms and their take-up by customers will be valuable inputs for the Bank's use of the Instapay and other forthcoming digital platforms.

He has extensive experience and relationships in the real estate industry having been responsible for the expansion of the branch network of Grand Union Supermarkets, Mr. Gonzalez is familiar with the market potentials of sites in NCR plus (Laguna, Batangas, Bulacan, Cavite) which accounts for 60% of the country's GDP.



### **JOSE LEVI S. VILLANUEVA**

Independent Director

Mr. Jose Levi S. Villanueva was elected as Independent Director of Sun Savings Bank on April 29, 2021.

Prior to joining Sun Savings, he was the Executive Vice President and Chief Operating Officer of City Savings Bank Inc. from 2014 up to 2018 and assisted in the creation of a multi-year business plan to establish leadership in the public-school teacher's lending business in 2019.

Previous to that, he held various positions in UnionBank of the Philippines: FVP- Sales Director for VisMin, SVP- Retail Banking Group Head, SVP- GM for Sales and Mktg from 1999 up to 2014. He was



also the former General Manager for Visayas in Pilipino Telephone Corporation who launched new products and revamped the sales process to improve sales, stem attrition and regain market share in 1998 to 1999.

Mr. Villanueva obtained his Bachelor's Degree in Electrical Engineering from the University of San Carlos-Technological Center.



### **ERMELINDO S. ANDAL**

Independent Director

Mr. Ermelindo S. Andal, Jr. was elected as Independent Director of Sun Savings Bank on April 29, 2021. He is currently the President and CEO of AKT Business Solutions, Chief Technical Consultant of DITO CME and the Chief Technology Officer of UNA Tech, a DITO CME subsidiary. Previously he was the President and Chief Operations Officer of Filinvest's Corporate Technologies, Inc. in 2018. Prior to that, Mr. Andal was a Senior Vice President for Operations & Technology Cluster Head in EastWest Banking Corporation from 2017 up to 2018.

He was also a Senior Vice President and the Head of Central Operations Group of Maybank Philippines Inc., from 2016 up to 2017 and a First Vice President for Digital Channel Management at UnionBank of the Philippines from 2003 up to 2016. Mr. Andal holds a Master of Science and Bachelor's Science Degree in Mathematics from the University of San Carlos.

## **Board Level Committees**

The Board of Directors constituted the following board committees: Executive Committee, Audit Committee and Management RPT Committee.

### **The Audit Committee**

The audit committee is composed of three (3) members of the board of directors, who are non-executive directors of which the chairman is the Independent Director Mr. Jose Levi S. Villanueva.

The Audit committee primary functions set forth in Section 133 of the MORB.

- (1) Oversee the financial reporting framework. The committee will oversee the financial reporting process, practices, and controls. It shall ensure that the reporting framework enables the generation and preparation of accurate and comprehensive information and reports.
- (2) Monitor and evaluate the adequacy and effectiveness of the internal control.
- (3) Oversee the internal audit function. The committee will be responsible for the appointment/selection, remuneration, and dismissal of internal auditor. It shall review and approve the audit scope and frequency.

- (4) Oversee implementation of corrective actions. The committee will receive key audit reports, and ensure that senior management is taking necessary corrective actions in a timely manner to address the weaknesses, non-compliance with policies, laws, and regulations and other issues identified by auditors and other control functions.
- (5) Investigate significant issues/ concerns raised. The committee shall have explicit authority to investigate any matter within its terms of reference, have full access to and cooperation by management, and have full discretion to invite any director or executive officer to attend its meetings.
- (7) Establish whistleblowing mechanism. The committee shall establish and maintain mechanisms by which officers and staff shall, in confidence, raise concerns about possible improprieties or malpractices in matters of financial reporting, internal control, auditing or other issues to persons or entities that have the power to take corrective action. It shall ensure that arrangements are in place for the independent investigation, appropriate follow-up action, and subsequent resolution of complaints.

Audit Committee composition:

<b>Chairman:</b>	Jose Levi S. Villanueva
<b>Members:</b>	Ermelindo S. Andal
	Catalino S. Abacan

### The Executive Committee

The Executive Committee act on behalf of the board during the interim times between board meetings. Executive Committee functions board delegated authority in the management and direction of the affairs of the bank subject to the provisions of the Bank's By-laws, and the limitations of the law and other applicable regulations. Its authority includes major operational policies and credit exposures, but subject to ratification of the board.

Committee composition:

<b>Chairman:</b>	Francisco A. Dizon
<b>Members:</b>	Augusto S. Gonzalez
	Catalino S. Abacan

### Mangement RPT Committee

It is the policy of Sun Savings Bank that related party transactions are conducted on arm's length basis and transparent. The Bank shall exercise appropriate oversight and implement effective control systems to manage related party transactions that is free from abuses and are not disadvantageous to the Bank, its depositors, creditors and other stakeholders.

All RPT transactions below the materiality threshold, except DOSRI transactions shall be approved by the Management RPT Committee but subject to confirmation by the Board of Directors. All transactions that cross the materiality threshold shall be approved by the Board of Directors.

Responsibilities of the Management RPT Committee:

- Evaluate, on an ongoing basis, existing relations between and among businesses and counterparties to ensure that all related parties are continuously identified, RPTs are monitored, and subsequent changes in relationships with counterparties (from non-related to related and vice versa) are captured. Related parties, RPTs, and changes in relationships shall be reflected in the relevant reports to the board and regulators/supervisors.
- Evaluate all material RPTs to ensure that these are not undertaken on more favorable economic terms (e.g., price, commissions, interest rates, fees, tenor, collateral requirement) to such related parties than similar transactions with non-related parties under similar circumstances and that no corporate or business resources of the bank are misappropriated or misapplied, and to determine any potential reputational risk issues that may arise as a result of or in connection with the transactions.
- Ensure that appropriate disclosure is made, and/or information is provided to regulating and supervising authorities relating to the bank's RPT exposures, and policies on conflicts of interest or potential conflicts of interest. The disclosure shall include information on the approach to managing material conflicts of interest that are inconsistent with such policies; and conflicts that could arise as a result of the bank's affiliation or transactions with other related parties.
- Report to the board of directors on a regular basis, the status and aggregate exposures to each related party as well as the total amount of exposures to all related parties.
- Ensure that the RPT transactions are part of the periodic review of the Internal Auditor.
- Check the implementation of the system for identifying, monitoring, measuring, controlling, and reporting RPTs, including the periodic review of RPT policies and procedures.

Committee composition:

<b>Chairman:</b>	Francisco A. Dizon
<b>Members:</b>	Augusto S. Gonzalez Accounting Head

## Board Qualification

Consistent to RA 8791 and provisions in the Manual of Regulations for Banks (MORB), Sun Savings Bank will assess its board of directors based on the minimum qualifications prescribed in the MORB and relevant rules and regulations:

- (1) He shall be at least twenty-five (25) years of age at the time of his election or appointment;
- (2) He shall be at least a college graduate or have at least five (5) years' experiences in business;
- (3) He must have attended a special seminar on corporate governance for board of directors conducted or accredited by the Bangko Sentral;
- (4) He must be fit and proper for the position of a director of the bank. Such that with integrity/probity, physical/mental fitness; relevant education/financial literacy/ training; possession of competencies relevant to the job, such as knowledge and experience, skills, diligence and independence of mind; and sufficiency of time to fully carry out responsibilities.

## Board Composition

NAME	TYPE OF DIRECTORSHIP	STOCKHOLDINGS (No. of Shares)	YEARS OF SERVICE
Francisco A. Dizon	Executive Director	1	10
Augusto S. Gonzalez	Executive Director	1	10
Catalino S. Abacan	Independent Director	1	2
Carissa Anna G. Dizon	Director	1	<1
Renato S. Gonzalez, Jr.	Director	1	<1
Jose Levi S. Salazar	Independent Director	1	<1
Ermelindo S. Andal, Jr.	Independent Director	1	<1

## Board and Committee Meeting Attendance

Name	Board Meeting (Regular )		Stockholders and Organizational Meeting		Audit Committee Meeting	
	Meetings	%	Meetings	%	Meetings	%
Francisco A. Dizon	6	100%	1	100%	6	100%
Augusto S. Gonzalez	6	100%	1	100%	6	100%
Catalino S. Abacan	6	100%	1	100%	6	100%
Carissa Anna G. Dizon	6	100%	1	100%	6	100%
Renato S. Gonzalez, Jr.	6	100%	1	100%	6	100%
Jose Levi S. Salazar	6	100%	1	100%	6	100%
Ermelindo S. Andal, Jr.	6	100%	1	100%	6	100%

## Performance Assessment Program

Sun Savings Bank conducts an annual evaluation of its Board and Senior Officers to ensure that they are performing their duties and responsibilities at the highest level.

The rest of the employees are subject to evaluation by their direct superiors based on their performance of their duties, responsibilities and the achievement of their respective goals set.

The Bank regularly reviews its employment policies, to ensure that the Bank is offering compensation at par with the thrift bank industry offering the same job. Salary structure is also reviewed to ensure that the bank is offering a reasonably competitive salary as compared to its peer banks.

Benchmarking of bank positions, in the Bank, and comparing it with the industry are being done. This is acted by conducting job evaluation on a regular basis.

## Orientation and Education Program

The onboarding employees and provided with orientation trainings to be fully equipped with knowledge and skills to his specific job. Bank also sent employees to various trainings to keep them abreast with applicable banking rules and regulations. As member of the Chamber of Thrift Banks, we will be able to send our employees any related seminars that are available for the employees.

## Retirement and Succession Policy

### Retirement Policy

The age of retirement from the Bank is sixty-five (65) years old but may be extended with board approval. The succession plan will also foresee the future retiree of the bank by preparing a pool of the employee to be prepared to fill in on the day the employee retires. This is only for officer holding critical position or the senior officers of the bank.

### Succession Policy

The Board of Directors of Sun Savings Bank adopted the bank's succession plan for the purpose of ensuring that the Bank will continue its business operation in case of resignation, retirement, disability, or even death of its key officers. The pipeline of staff shall also be developed for succession roles so that they will be ready to fill the vacant position of the officer who will be in the future promoted for a more senior position of the Bank.

## **Board of Directors**

Succession or filling up of any vacancies in the board shall be made by a vote of at least 2/3 of remaining members of the board. However, if such vacancy is caused by a removal, expiration of the term or any increase of number of the directors, such shall be filled by the stockholders of the bank.

## **Senior Management and Officers**

The bank identified the list of key officers of the bank, as articulated in our policy. It developed an acceleration pool where selected high potential employees who shall be developed, prepared, and trained for high level positions. An existing policy is in place indicating plan and measures in case of retirement, resignation, disability or loss of the bank's Directors and officers.

## **Remuneration policy**

The officers are provided with an industry competitive compensation package to attract, motivate, and retain highly qualified people. The salary scales of our officers are generally based on their position and rank. Result of annual performance evaluation is the primary basis when adjustment is made. We also grant performance bonuses, including a 13th-month pay, in accordance with law. The Bank's remuneration policy is applicable to all employees, including the President and its senior officers. Each director receives a per diem for attending Board and committee meetings.

## **Related Party Transactions (RPT)**

It is the policy of Sun Savings Bank that related party transactions are conducted on arm's length basis and transparent. The Bank shall exercise appropriate oversight and implement effective control systems to manage related party transactions that are free from abuses and are not disadvantageous to the Bank, its depositors, creditors and other stakeholders.

All RPT transactions below the materiality threshold, except DOSRI transactions shall be approved by the Management RPT Committee but subject to confirmation by the Board of Directors. The Management RPT Committee shall compose of the President, Treasurer and Senior Accountant. All transactions that cross the materiality threshold shall be approved by the Board of Directors.

Transactions to related parties shall pass the following criteria: (1) Done in arm's length basis; (2) Conducted in the regular course of business; (3) Not undertaken on more favorable economic terms (price, commission, interest rates, fees, tenor, collateral requirement) to such related party/ies under similar circumstances; and (4) Transactions are engaged into at terms that promote the best interest of the Bank.

Prior to approval, the Compliance Officer shall conduct an initial review and consider the following factors and relevant facts and surrounding circumstances in reviewing the proposed transactions with related parties: (1) Transaction and Transacting Parties; (2) Terms and Conditions; (3) Purpose and

Rationale; (4) Monetary Value; (5) Reputational Risks; (6) Conflict of Interest; and (7) Availability of others sources comparable products and services.



Our RPT policy likewise requires our directors and officers with personal interest in the Bank's transaction (e.g. they themselves or any of their close family members acting as the Bank's counterparty) to inhibit/abstain from the discussion, approval and management of such transaction. Provisions against conflict-of-interest situations are likewise stipulated in the Bank's Board-approved "Code of Conduct" such as the prohibition of self-dealing transactions.

### **RPT Materiality Thresholds**

**1.1** The Board set up materiality thresholds on the transactions for purposes of determining which RPT should go to the Board for approval and which ones can be approved at Management level.

**1.2** The following transactions are not considered material and are not subject to the regular management report to Board or prior approval of the Board:

a. Deposit operations

Subject to the following conditions:

Special Deposit rates given to the related parties shall require prior approval by at least majority of the members of the Management RPT committee to ensure that the terms and conditions of the transactions are not disadvantageous to the bank.

b. Regular trade transactions, involving purchases and sales of debt securities traded in an active market.

c. Loans granted to Officers of the Bank under BSP-approved fringe benefit programs

### **1.3 Limits**

The Bank had set-up limits in terms of materiality of the related party transactions.

#### **Transactions considered Material**

Any transactions or dealings in which the aggregate amount involved will or may exceed 5% of the total capital of the Bank in each year where a Related Party will have direct or indirect material interest.

Exceptions to the related party transactions:

Even if the aggregate amount exceeds the materiality threshold, the following shall not require approval from the RPT Management Committee:

(1) Conducted in the regular course of business

Transactions entered by the bank under the regular course of business; provided that no policy deviations and that the services offered are of the same terms to the comparable services provided by unrelated parties

(2) Employee's Benefit

(3) Preferential rates given to employees as part of their incentives or benefits (i.e interest rate for loans)

### **Material Related Party Transactions**

Based on the bank's materiality threshold, no reported material related party transactions for the year 2021.

### **Self-Assessment Function**

Evaluations of the effectiveness of the internal control system and compliance with laws, regulations, policies, and guidelines and its corresponding monitoring activities are being done by Internal Audit and Compliance and Risk, in the form of self-assessment.

The Board and Senior Management reviews these self-assessment functions, policies, and internal control measures and ensures that internal control weaknesses are addressed promptly by following up on recommendations made by the Management.

### **Compliance**

To ensure compliance with applicable laws, rules and regulations, it shall start with the Board of Directors and Senior Management Team. The Chief Compliance Officer is the lead senior officer responsible for the administering the compliance program of the Bank. The CCO shall oversee the design of an appropriate compliance system, promote its effective implementation and address breaches that may arise. The CCO directly reports to the Board of Directors.

The Compliance office works proactively to identify, monitor, assess and address emerging compliance issues. This will be done through compliance testing and monitoring and provide advisory through a clear and open communication line.

In 2021, the Compliance Testing Program of the bank was fully implemented wherein the Compliance team conducts:

- Identification and assessment of compliance risks associated with the Bank's business activities, including new products and business units;
- Evaluation of the appropriateness of the Bank's compliance procedures;
- Following up any identified deficiencies promptly and where necessary;
- Formulating proposals for amendments; monitoring and testing compliance by performing sufficient and representative compliance testing.

## Internal Audit

The Internal Audit unit is the third line of defense as the independent assurance provider. This unit is under the oversight function of the Audit Committee.

The Internal Audit unit conducts independent reviews and appraisals of the Bank's procedures and operations. Results of the review will provide management with independent appraisal of the various operations and systems of controls.

The functions of internal Audit are the following:

- a. Developing and maintaining a comprehensive audit program necessary to ensure compliance with accounting standards, policies and procedures necessary to bank's assets.
- b. Communicating the results of audits and reviews by preparing timely reports, including recommendations for modifications of management practices, internal policies and accounting procedures as warranted by audit findings.
- c. Establishing and maintaining a quality assurance program to evaluate the Internal Audit operations. This program should include the following: uniformity of work paper preparation, audit sampling, work paper review, report preparation and review, report communication and issuance and record retention.

## Dividend Policy

The policy is consistent to SEC rules. Dividends may be declared out of a corporation's unrestricted retained earnings which shall be payable in cash, in property, or in stock to all stockholders on the basis of outstanding stock held by them: Provided, that any cash dividends due on delinquent stock shall first be applied to the unpaid balance on the subscription plus costs and expenses, while

stock dividends shall be withheld from the delinquent stockholder until his unpaid subscription is fully paid: Provided, further, That no stock dividend shall be issued without the approval of stockholders representing not less than two-thirds (2/3) of the outstanding capital stock at a regular or special meeting duly called for the purpose.

Consistent to BSP rules and regulations, the bank will comply the requirements prior to the declaration of dividends as enumerated in Section 124 of the MORB. The net amount available for dividends shall be the amount of unrestricted or free retained earnings and undivided profits reported in the Financial Reporting Package (FRP) as of the calendar/ fiscal year-end immediately preceding the date of dividend declaration.

On June 25, 2025, the Board the Board of Directors declared cash dividends in the total amount of Php15.0 million and paid to the stockholders on record on July 15, 2021. The cash dividends were used for the following purposes: Php7.5 million were paid for a portion of the unpaid subscription of the

stockholders, thereby bringing up the Paid-Up Capital to Php320 million in 2021 and the remaining Php7.5 million to the stockholders of record as of May 31, 2021.

## Corporate Social Responsibility

**“Businesses need to go beyond the interests of their companies to the communities they serve.”**

Brigada Eskwela was coined to manifest teamwork and the joy of celebrating another school year full of lessons and challenges. Brigada Eskwela is beyond the ambit of physical repairs and maintenance, but the value of volunteerism it inculcates.

While this is a traditional activity strengthened by community involvement and partnership, the alliance can also be construed as vanguard support to children who aspire to become better and more educated individuals

The call to reach out has transcended over the past years. It has reached various educational institutions in the pursuit of building a better tomorrow.

The unrelenting support to the financially challenged institutions has bolstered the Bank's corporate social responsibility and its quest to become one of the forefronts of communitarian. Regardless of whether the Bank has any business relationship with a school through salary loans, it has continued its assistance and outpouring support for this activity.



A fire broke out that destroyed 300 houses in Sitio Lawis in Barangay Mambaling, Cebu City on November 26, 2021. (Photo by scoopnest.com)



Sun Savings Bank donated a total of 500 food packs to the fire victims in Alaska Mambaling ES and HS on December 6, 2021



Sun Savings Bank donated over 2,300 food packs to the Typhoon Odette victims in Cebu.

## Consumer Protection Practices

Sun Savings Bank adheres to BSP Financial Consumer Protection framework for regulated financial institutions. The Consumer Protection policy was crafted and duly approved by the Board of Directors. The initiatives are intended to serve and protect consumers, assert their rights, raise their awareness and hear their complaints.

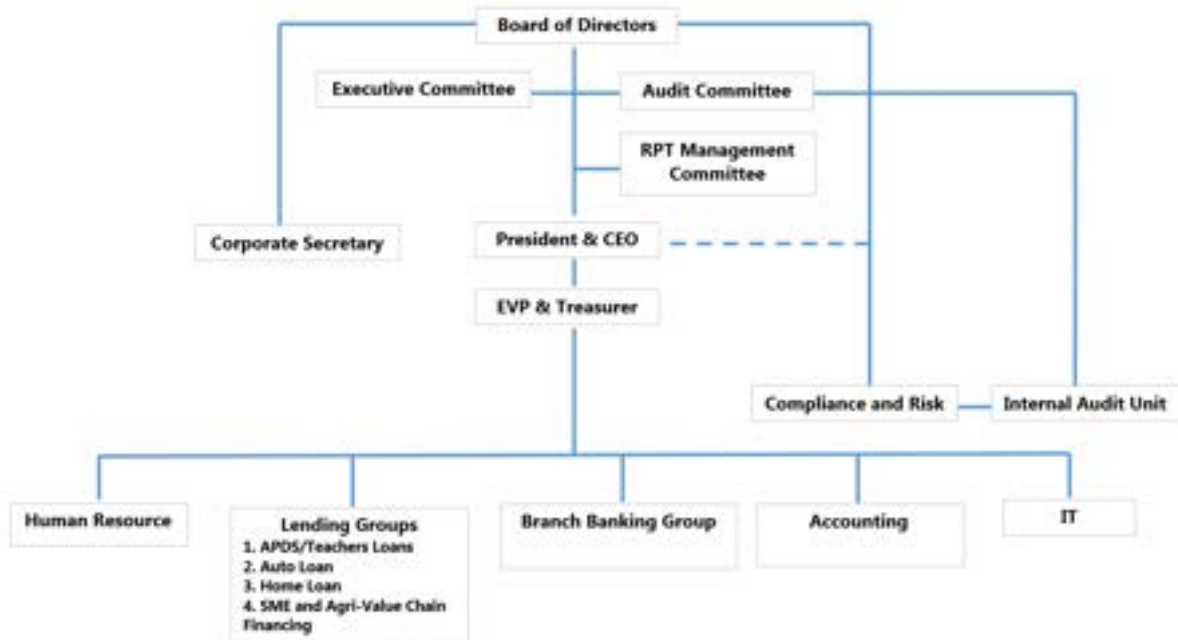
As simple bank, our Branch Consumer Assistance Officer handles customer complaints and assistance in a branch. This is concurrently performed by our Branch Cashiers. We also appointed one of our

Managers to head the Customer Assistance Officers who will review and regularly report to the President for any branch complaints received.

The bank ensures prompt response to customer complaints wherein the acknowledgment, processing, and communication of resolution s shall not be beyond the timelines set in Appendix 115 of the MORB on processing of simple and complex complaints.

# CORPORATE INFORMATION

## Organizational Structure



## Key Officers

Key Officers	
Francisco A. Dizon	President & CEO
Augusto S. Gonzalez	Treasurer & Executive Vice President
Atty. Arsenio A. Alfiler, Jr.	Corporate secretary
Bryan E. Bacon	Senior Assistant Vice President/Security Officer
Marilou R. Saberon	AVP-Accounting Head
Maria Fatima R. Barlaan	AVP-Chief Compliance and Risk Officer



# MAJOR STOCKHOLDERS

Name	Nationality	% of Stockholdings	Voting Status
Fleetwood Holdings, Corp.	Filipino	39.50%	Voting
Project Quest Corporation	Filipino	30.25%	Voting
Santos Gonzalez Hijos, Inc.	Filipino	25.25%	Voting
Navion Capital Resources	Filipino	5.00%	Voting

# PRODUCTS AND SERVICES

## Savings Deposit Accounts

- Regular Passbook Savings
- Passbook with ATM
- Payroll ATM
- ATM for DepEd Teachers
- Basic Deposit Account

Savings deposit account which requires minimum average daily balance (ADB) of P200.00 and interest is at 1% per annum paid monthly.

## Checking Accounts

- Regular Checking Account
- Automatic Transfer Account

## Time Deposit Accounts

- Short Term Time Deposits (Terms from 30 to 90 days)
- Regular One-Year TD
- Advance Interest One-Year TD
- Advance Interest Three-Year TD
- Five Years and One Month Time Deposit (Tax Free)
- Five Years and One Month Time Deposit  
(Interest Paid in Advance for one year and ever year thereafter/  
Tax Free)

## **Consumer Loans**

1. Salary Loans
  - (1) Salary Loan for DepEd Teachers and Employees under the Automatic Payroll Deduction Scheme (APDS)
  - (2) Start-up Loans for newly hired teachers and employees of DepEd
  - (3) Home Improvement Loan for DepEd employees
  - (4) Salary Loans for Private Employees in the BPOs
2. Auto Loans (Brand New and Pre-owned)
3. Housing Loan/Home Loan (House & Lot and Condominium units)  
Other complementary home loans:
  - (1) Home Furniture Loan
  - (2) Home Improvement Loan
  - (3) Move-In Loan
  - (4) Equity Loan

## **Business Loans**

- SMe Term Loan
  - Factoring of Receivables/ Discounting Lines
  - PDC Discounting
  - Hold-out Deposit (Back-to Back Loan)
- Other Business Loan
  - Secured with Real Estate Mortgage or Chattel Mortgage
  - Postdated Checks of the Borrower
  - Continuing Suretyship of the Principal(s)

# WEBSITE

[www.sunsavings.ph](http://www.sunsavings.ph)



Our website features the following:

About Sun Savings Bank

News and Advisory

Deposits

Loans

FAQs

Careers

Contact Us

Online Banking that will direct you to BancNet using your Sun Savings ATM for online transactions.

## BRANCH LOCATIONS

Office	Complete Address	Tel. Nos.
<b>Cebu City Head Office</b>	Capitol West Building, no. 45, Don Gil Garcia corner Escario Street Capitol Site, Cebu City	415-4228 415-4223
<b>Talisay Branch</b>	Door 8, Rosalie Building, Gaisano Fiesta Mall, Hi-way Tabunok, Talisay City, Cebu	520-8847 520-9760
<b>Mandaue Branch</b>	Door 6, G/F Perez Building, A.C. Cortes Avenue, Mandaue City, Cebu	410-8306 263-1981
<b>Carcar Branch-Lite Unit (BLU)</b>	A-10 G/F, Gaisano Grand Mall, Poblacion II, Awayan, City of Carcar, Cebu	487-7355
<b>Danao Branch-Lite Unit (BLU)</b>	G/F Space 7, Sands Gateway Mall, National Hi-way, Danao City, Cebu	349-8380
<b>Ayala-Solinea Branch-Lite Unit (BLU)</b>	Retail No. 8, G/F Tower 2, Solinea Condominium Complex, corner Cardinal Rosales 2, Luzon Avenues, Cebu Business Park, Bgy Hipodromo, Cebu City	231-7238
<b>Carbon Cebu City Branch-Lite Unit (BLU)</b>	Plaridel corner Progreso St., Barangay Ermita, Cebu City	254-6882

# CAPITAL STRUCTURE AND CAPITAL ADEQUACY

	2021	2020
Authorized Capital Stock	1,000,000,000	1,000,000,000
Subscribed	341,700,000	341,700,000
Paid-Up	320,000,500	312,500,500

1-Deposit for stock subscription of P41.7M, pending approval of the Bank's request to increase the authorized capital stock to hpP1.0B in 2018

## Bank's regulatory capital position as at December 2020 and December 2021

	BSP Report		Audited FS	
	2021	2020	2021	2020
Common Stock	320,000,500	312,500,500	320,000,500	312,500,500
Retained Earnings	25,709,265	23,065,315	25,709,265	23,065,315
Undivided Profits	23,429,640	16,567,655	24,996,964	17,643,950
Other Comprehensive Income				
<b>Total Capital</b>	<b>369,139,405</b>	<b>352,133,470</b>	<b>370,706,729</b>	<b>353,209,764</b>
Less:				
Deferred Income Tax	10,441,139	7,443,743	10,252,260	9,855,079
DOSRI-Unsecured				
Other intangibles-Net				
Goodwill				
Unbooked valuation reserves and other capital adjustments <sup>1</sup>				
Other equity investments				
<b>Total Tier 1 Capital</b>	<b>358,698,265</b>	<b>344,689,727</b>	<b>360,454,469</b>	<b>343,354,685</b>
Add:				
Unrealized gains on AFS			(591,466)	370,265
General loan loss provision	14,722,754	14,470,847	14,722,754	14,470,847
<b>Total Qualifying Capital</b>	<b>373,421,019</b>	<b>359,160,574</b>	<b>374,585,756</b>	<b>358,195,798</b>
Total Credit Risk-Weighted Assets	1,552,447,814	1,600,423,531	1,537,925,886	1,596,338,215
Add: Total Operation Risk Weighted Assets	187,140,490	163,825,605	185,020,039	159,508,034
<b>Total Risk Weighted Assets</b>	<b>1,739,588,303</b>	<b>1,764,249,135</b>	<b>1,722,945,925</b>	<b>1,755,846,250</b>
<b>Risk Based Capital Adequacy Ratio</b>				
Total CAR	21.47%	20.36%	21.74%	20.40%
Tier 1 CAR	20.62%	19.54%	20.92%	19.55%

## Computation of the Bank's Credit Risk Weighted Assets

	Risk	Audited			
		2021		2020	
		Principal Amount	Risk Weighted Amount	Principal Amount	Risk Weighted Amount
Cash on Hand	0%	29,649,856	-	24,234,660	-
Due from BSP, RRP, AFS, Loans covered by Hold-outs	0%	469,751,068	-	351,256,596	-
COCI	20%	427,630	85,526	1,836,086	367,217
Corporate Private Bonds	20%	16,563,169	3,312,634	16,563,169	3,312,634
REM (mortgaged and current)	50%	41,941,140	20,970,570	51,439,969	25,719,985
MSME (Current)	75%	11,715,123	8,786,342	91,028,101	68,271,076
NPL	150%	26,294,550	39,441,825	57,936,940	86,905,410
ROPA	150%	1,880,000	2,820,000	1,348,032	2,022,048
Other Assets	100%	1,462,508,989	1,462,508,989	1,409,739,845	1,409,739,845
<b>Total Credit Risk Weighted Assets</b>			<b>1,537,925,886</b>		<b>1,596,338,215</b>

#### Computation of Operational Risk Weighted Assets-2021

	2021 Gross Income			
	2018	2019	2020	Average
<b>A. Net interest income</b>				
A.1 Interest income	140,175,940	222,266,548	198,574,837	
A.2 Interest expense	45,665,689	73,630,308	81,156,165	
A.3 Subtotal (A.1 minus A.2)	<b>94,510,251</b>	<b>148,636,240</b>	<b>117,418,672</b>	
<b>B Other non-interest income</b>				
B.1 Dividend Income				
B.2 Fees and Commissions Income	1,045,972	3,398,175	2,734,460	
B.3 Net Gain/loss on Financial Assets and Liabilities Held for Trading	-	-		
B.4 Net Gain/loss on Financial Assets and Liabilities Designated at Fair Value Profit or Loss		2,628,828	(332,521)	
B.5 Net Profit/loss on Foreign Exchange				
B.6 Net Gain/loss on Fair Value Adjustment in Hedge Accounting				
B.7 Other Income				
B.8 Sub-total (sum of B.1 to B.7)	1,045,972	6,027,003	2,401,939	
<b>C. Gross Income (A.3 plus B.8) (to Part V. Item A.)</b>	<b>95,556,224</b>	<b>154,663,243</b>	<b>119,820,611</b>	<b>123,346,692</b>
D. Capital Charge multiply by capital charge factor 12%				14,801,603
E. Adjusted Capital Charge (multiply by 125%)				18,502,004
<b>F. Total Operational Risk-weighted Amount (multiply by 10)</b>				<b>185,020,039</b>

#### Computation of Operational Risk Weighted Assets-2020

	2020 Gross Income (Audited)			
	2017	2018	2019	Average
<b>A. Net interest income</b>				
A.1 Interest income	99,724,271	140,175,940	222,266,548	
A.2 Interest expense	31,765,965	45,665,689	73,630,308	
A.3 Subtotal (A.1 minus A.2)	<b>67,958,306</b>	<b>94,510,251</b>	<b>148,636,240</b>	
<b>B Other non-interest income</b>				
B.1 Dividend Income				
B.2 Fees and Commissions Income	929,963	1,045,972	3,398,175	
B.3 Net Gain/loss on Financial Assets and Liabilities Held for Trading	(91,667)	-	-	
B.4 Net Gain/loss on Financial Assets and Liabilities Designated at Fair Value Profit or Loss			2,628,828	
B.5 Net Profit/loss on Foreign Exchange				
B.6 Net Gain/loss on Fair Value Adjustment in Hedge Accounting				
B.7 Other Income				
B.8 Sub-total (sum of B.1 to B.7)	838,296	1,045,972	6,027,003	
<b>C. Gross Income (A.3 plus B.8) (to Part V. Item A.)</b>	<b>68,796,602</b>	<b>95,556,224</b>	<b>154,663,243</b>	<b>106,338,689</b>
D. Capital Charge multiply by capital charge factor 12%				12,760,643
E. Adjusted Capital Charge (multiply by 125%)				15,950,803
<b>F. Total Operational Risk-weighted Amount (multiply by 10)</b>				<b>159,508,034</b>

The capital requirements as of December 31, 2021 and 2020 are shown below:

	2021	2020
Credit risk weighted assets	1,537,925,886	1,596,338,215
Operational risk weighted assets	185,020,039	159,508,034
<b>Total Risk Weighted Assets</b>	<b>1,722,945,925</b>	<b>1,755,846,250</b>



# INDEPENDENT AUDITORS REPORT

(Annex A-Attached)



# **Sun Savings Bank, Inc.**

Financial Statements  
December 31, 2021 and 2020

and

Independent Auditor's Report



## **INDEPENDENT AUDITOR'S REPORT**

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

### **Report on the Audit of the Financial Statements**

#### **Opinion**

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

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

#### **Basis for Opinion**

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

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

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

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

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



## **Auditor's Responsibilities for the Audit of the Financial Statements**

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

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

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


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



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

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information required under BSP Circular No. 1074 in Note 22 and Revenue Regulations 15-2010 in Note 23 to the financial statements is presented for purposes of filing with the BSP and Bureau of Internal Revenue, respectively, and is not a required part of the basic financial statements. Such information is the responsibility of the management of the Bank. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.



Ray Francis C. Balagtas

Partner

CPA Certificate No. 108795

Tax Identification No. 216-950-288

BOA/PRC Reg. No. 0001, August 25, 2021, valid until April 15, 2024

SEC Partner Accreditation No. 108795-SEC (Group A)

Valid to cover audit of 2021 to 2025 financial statements of SEC covered institutions

SEC Firm Accreditation No. 0001-SEC (Group A)

Valid to cover audit of 2021 to 2025 financial statements of SEC covered institutions

BIR Accreditation No. 08-001998-107-2020, November 27, 2020, valid until November 26, 2023

PTR No. 8853467, January 3, 2022, Makati City

May 19, 2022



**SUN SAVINGS BANK, INC.**  
**STATEMENTS OF FINANCIAL POSITION**

	<b>December 31</b>	
	<b>2021</b>	<b>2020</b>
<b>ASSETS</b>		
Cash on Hand	<b>₱30,077,486</b>	₱26,070,746
Due from Bangko Sentral ng Pilipinas (Notes 6 and 11)	<b>70,513,592</b>	236,766,014
Due from Other Banks (Note 6)	<b>27,508,298</b>	60,872,881
Investment Securities at Fair Value through Other Comprehensive Income (Note 7)	<b>183,554,395</b>	131,053,563
Investment Securities at Amortized Cost (Note 7)	<b>232,330,937</b>	–
Loans and Receivables (Note 8)	<b>1,407,750,336</b>	1,442,703,683
Property and Equipment (Note 9)	<b>25,924,138</b>	30,677,791
Deferred Tax Asset – Net (Note 19)	<b>10,252,260</b>	9,855,079
Other Assets (Note 10)	<b>82,480,878</b>	77,608,986
	<b>₱2,070,392,320</b>	₱2,015,608,743
<b>LIABILITIES AND EQUITY</b>		
<b>Liabilities</b>		
Deposit Liabilities (Notes 11 and 20)		
Current	<b>₱6,542,690</b>	₱6,788,654
Savings	<b>220,876,068</b>	180,673,152
Time	<b>1,261,501,210</b>	1,254,047,305
	<b>1,488,919,968</b>	1,441,509,111
Bills Payable (Note 12)	<b>161,317,383</b>	170,259,081
Income Tax Payable	<b>4,289,923</b>	2,158,418
Accrued Expenses and Other Liabilities (Note 13)	<b>46,715,074</b>	47,595,735
	<b>1,701,242,348</b>	1,661,522,345
<b>Equity</b>		
Common Stock (Note 15)	<b>320,000,500</b>	312,500,500
Surplus	<b>50,706,229</b>	40,709,265
Fair Value Reserves on Investment Securities at Fair Value through Other Comprehensive Income (Note 7)	<b>(591,466)</b>	370,265
Remeasurement Gain on Retirement Liability (Note 16)	<b>(965,291)</b>	506,368
	<b>369,149,972</b>	354,086,398
	<b>₱2,070,392,320</b>	₱2,015,608,743

*See accompanying Notes to Financial Statements.*



**SUN SAVINGS BANK, INC.**  
**STATEMENTS OF INCOME**

	<b>Years Ended December 31</b>	
	<b>2021</b>	<b>2020</b>
<b>INTEREST INCOME</b>		
Loans and receivables (Note 8)	<b>₱203,339,596</b>	₱186,991,834
Due from Bangko Sentral ng Pilipinas and other banks (Note 6)	<b>2,094,450</b>	6,993,566
Investments securities (Note 7)	<b>7,775,516</b>	3,917,329
Others	<b>1,269,366</b>	672,107
	<b>214,478,928</b>	198,574,836
<b>INTEREST EXPENSE</b>		
Deposit liabilities (Notes 11 and 20)	<b>64,127,036</b>	66,858,124
Bills payable (Note 12)	<b>11,312,957</b>	13,776,824
Lease liabilities (Note 17)	<b>545,253</b>	521,216
	<b>75,985,246</b>	81,156,164
<b>NET INTEREST INCOME</b>	<b>138,493,682</b>	117,418,672
Gain (loss) on sale of investment securities at fair value through other comprehensive income (Note 7)	<b>659,398</b>	(332,521)
Service charges and fees	<b>2,180,960</b>	922,704
Miscellaneous (Note 18)	<b>167,286</b>	1,747,004
<b>TOTAL OPERATING INCOME</b>	<b>141,501,326</b>	119,755,859
<b>OPERATING EXPENSES</b>		
Compensation and fringe benefits (Notes 16 and 20)	<b>34,642,661</b>	29,119,771
Taxes and licenses (Note 24)	<b>16,028,633</b>	14,787,571
Depreciation and amortization (Note 9)	<b>11,868,771</b>	11,096,794
Provision for impairment and credit losses (Notes 8 and 10)	<b>7,611,312</b>	9,220,355
Communication, light and water	<b>5,037,416</b>	4,801,152
Professional fees	<b>4,686,016</b>	4,363,378
Collection fees	<b>6,187,266</b>	3,455,131
Security, messengerial and janitorial	<b>4,656,217</b>	3,048,229
Insurance expense	<b>3,054,916</b>	3,047,452
Rent (Note 17)	<b>1,363,623</b>	1,986,920
Membership fees and dues	<b>270,219</b>	1,221,758
Transportation and travel	<b>891,655</b>	1,063,856
Repairs and maintenance	<b>1,078,619</b>	924,895
Stationeries and supplies used	<b>713,145</b>	798,825
Representation and entertainment (Note 19)	<b>249,061</b>	525,867
Bancnet outsourcing fees	<b>1,311,233</b>	370,153
Advertising and publicity	<b>358,981</b>	348,110
Miscellaneous (Note 18)	<b>5,317,490</b>	4,052,888
	<b>105,327,234</b>	94,233,105
<b>INCOME BEFORE INCOME TAX</b>	<b>36,174,092</b>	25,522,754
<b>PROVISION FOR INCOME TAX</b> (Note 19)	<b>11,177,128</b>	7,878,803
<b>NET INCOME</b>	<b>₱24,996,964</b>	₱17,643,951

*See accompanying Notes to Financial Statements.*



**SUN SAVINGS BANK, INC.****STATEMENTS OF COMPREHENSIVE INCOME**

	<b>Years Ended December 31</b>	
	<b>2021</b>	<b>2020</b>
<b>NET INCOME</b>	<b>₱24,996,964</b>	<b>₱17,643,951</b>
<b>OTHER COMPREHENSIVE INCOME (LOSS)</b>		
<i>Item that recycles to the statements of income in subsequent periods:</i>		
Changes in fair value reserves on investments securities at fair value through other comprehensive income (Note 7)	<b>(961,731)</b>	<b>337,647</b>
<i>Item that do not recycle to the statements of income in subsequent periods:</i>		
Remeasurement losses on retirement plan, net of tax (Note 16)	<b>(1,496,977)</b>	<b>(492,757)</b>
Impact of CREATE	<b>25,318</b>	<b>—</b>
	<b>(1,471,659)</b>	<b>(492,757)</b>
<b>OTHER COMPREHENSIVE INCOME</b>	<b>(2,433,390)</b>	<b>(155,110)</b>
<b>TOTAL COMPREHENSIVE INCOME</b>	<b>₱22,563,574</b>	<b>₱17,488,841</b>

*See accompanying Notes to Financial Statements.*





**SUN SAVINGS BANK, INC.**

**STATEMENTS OF CHANGES IN EQUITY**

	Common Stock (Note 15)	Surplus	Fair Value Reserves on Investment Securities at Fair Value through Other Comprehensive Income (Note 7)	Remeasurement Gain (Loss) on Retirement Liability (Note 16)	Total Equity
<b>Balances at January 1, 2021</b>	<b>₱312,500,500</b>	<b>₱40,709,265</b>	<b>₱370,265</b>	<b>₱506,368</b>	<b>₱354,086,398</b>
Issuance of common stock (Note 15)	7,500,000	—	—	—	7,500,000
Total comprehensive income for the year	—	24,996,964	(961,731)	(1,471,659)	22,563,574
Declaration of dividends (Notes 15 and 20)	—	(15,000,000)	—	—	(15,000,000)
<b>Balances at December 31, 2021</b>	<b>₱320,000,500</b>	<b>₱50,706,229</b>	<b>(₱591,466)</b>	<b>(₱965,291)</b>	<b>₱369,149,972</b>
Balances at January 1, 2020	₱300,000,000	₱48,065,314	₱32,618	₱999,125	₱349,097,057
Issuance of common stock (Note 15)	12,500,500	—	—	—	12,500,500
Total comprehensive income for the year	—	17,643,951	337,647	(492,757)	17,488,841
Declaration of dividends (Notes 15 and 20)	—	(25,000,000)	—	—	(25,000,000)
Balances at December 31, 2020	₱312,500,500	₱40,709,265	₱370,265	₱506,368	₱354,086,398

*See accompanying Notes to Financial Statements.*



**SUN SAVINGS BANK, INC.**  
**STATEMENTS OF CASH FLOWS**

	<b>Years Ended December 31</b>	
	<b>2021</b>	<b>2020</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Income before income tax	<b>₱36,174,092</b>	₱25,522,754
Adjustments for:		
Depreciation and amortization (Note 9)	<b>11,868,771</b>	11,096,794
Provision for impairment and credit losses (Note 8)	<b>7,611,312</b>	9,220,355
Amortization of premium on bills payable (Notes 5, 10 and 12)	<b>1,018,975</b>	965,149
Accretion of interest on lease liability (Note 17)	<b>545,253</b>	521,216
(Gain) loss on sale of investment securities at fair value through other comprehensive income (Note 7)	<b>(659,398)</b>	332,521
Retirement expense (Note 16)	<b>398,417</b>	250,771
Gain on investment securities at amortized cost (Notes 7 and 18)	<b>—</b>	(183,391)
Loss on sale of chattel mortgage properties (Note 18)	<b>1,401,299</b>	79,354
Gain on disposal of property and equipment (Note 9)	<b>(413,846)</b>	(14,602)
Changes in operating assets and liabilities:		
Decreases (Increases) in:		
Loans and receivables	<b>27,342,035</b>	(30,909,445)
Other assets	<b>(3,688,191)</b>	(38,153,363)
Increases (Decreases) in:		
Deposit liabilities	<b>47,410,857</b>	11,540,459
Accrued expenses and other liabilities	<b>(7,531,151)</b>	(12,465,350)
Net cash generated from (used in) operations	<b>121,478,425</b>	(22,196,778)
Income taxes paid (Note 19)	<b>(9,045,623)</b>	(11,789,565)
Net cash provided by (used in) operating activities	<b>112,432,802</b>	(33,986,343)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Acquisitions of:		
Investment securities at fair value through other comprehensive income (Note 7)	<b>(485,851,026)</b>	(495,769,418)
Property and equipment (Note 9)	<b>(5,207,830)</b>	(11,748,313)
Proceeds from disposal of:		
Investment securities at fair value through other comprehensive income (Note 7)	<b>201,321,589</b>	445,174,832
Investment securities at amortized cost (Note 7)	<b>—</b>	9,816,609
Chattel mortgage (Note 18)	<b>2,585,000</b>	630,000
Net cash used in investing activities	<b>(287,152,267)</b>	(51,896,290)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds from:		
Availment of bills payable (Note 12)	<b>15,000,000</b>	35,204,000
Issuance of capital stocks (Note 15)	<b>7,500,000</b>	12,500,500
Payments of:		
Bills payable (Note 12)	<b>(22,922,723)</b>	(120,967,005)
Dividends (Note 15)	<b>(15,000,000)</b>	(25,000,000)
Lease liabilities (Note 17)	<b>(5,468,077)</b>	(3,651,967)
Net cash used in financing activities	<b>(20,890,800)</b>	(101,914,472)
<b>NET DECREASE IN CASH AND CASH EQUIVALENTS</b>	<b>(195,610,265)</b>	(187,797,105)

(forward)



	<b>Years Ended December 31</b>	
	<b>2021</b>	<b>2020</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>		
Cash on hand	<b>₱26,070,746</b>	₱18,858,723
Due from Bangko Sentral ng Pilipinas	<b>236,766,014</b>	458,556,350
Due from other banks	<b>60,872,881</b>	34,091,673
	<b>323,709,641</b>	511,506,746
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>		
Cash on hand	<b>30,077,486</b>	26,070,746
Due from Bangko Sentral ng Pilipinas (Note 6)	<b>70,513,592</b>	236,766,014
Due from other banks (Note 6)	<b>27,508,298</b>	60,872,881
	<b>₱128,099,376</b>	₱323,709,641
<b>OPERATIONAL CASH FLOWS FROM INTEREST</b>		
Interest received (Note 8)	<b>₱224,888,856</b>	₱179,013,881
Interest paid (Note 13)	<b>76,563,092</b>	79,840,222

*See accompanying Notes to Financial Statements.*



# SUN SAVINGS BANK, INC.

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## NOTES TO FINANCIAL STATEMENTS

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### 1. General Information

Sun Savings Bank, Inc. (the Bank) was incorporated in the Philippines on September 15, 1997 to carry on and engage in the business of thrift banking, with prior approval of the Monetary Board (MB) of the Bangko Sentral ng Pilipinas (BSP), and to have and exercise all powers of a thrift bank and a corporation in general, as provided under Republic Act (RA) No. 7906 for thrift banks, under the General Banking Act, as amended, and other applicable laws and the rules and regulations of the BSP.

On October 30, 2020, the SEC approved the Bank's application to change its registered principal office address to Capitol West Building, No. 45 Don Gil Garcia Street corner Escario Street, Capitol Site, Cebu City. The Bank's previous principal place of business was at GF Jesever Building, Fuente Osmeña Circle, Osmeña Boulevard, Cebu City.

Fleetwood Holdings, Inc. (FHI) owns 39.50% of the Bank. The controlling shareholder of FHI is an experienced commercial and investment banker who had previously held various senior positions, including those of president, chairman and chief executive officer (CEO), in different universal banks. Santos Gonzalez Hijos Inc. (SGHI) and Navion Capital Resources Corporation (NCRC) own 25.25% and 5.00%, respectively, of the Bank. The controlling shareholders of SGHI and NCRC have previously been long-term major shareholders of a universal bank established in the 1950s and held a board seat in that universal bank until 2005. Project Quest Corporation (PQC) owns 30.25% of the Bank. PQC is an investment holding company managed by the controlling shareholder of FHI and the controlling shareholder of NCRC.

The accompanying financial statements of the Bank were approved and authorized for issue by the Board of Directors (BOD) on May 19, 2022.

#### *Coronavirus outbreak*

In late 2019, a cluster of cases displaying the symptoms of a 'pneumonia of unknown cause' were identified in Wuhan, the capital of China's Hubei province. On December 31, 2019, China alerted the World Health Organization (WHO) of the coronavirus disease 2019 (COVID-19) or coronavirus outbreak. On January 30, 2020, the International Health Regulations Emergency Committee of the WHO declared the outbreak a 'Public Health Emergency of International Concern'. Since then, the virus has spread worldwide. On March 11, 2020, the WHO announced that the coronavirus outbreak can be characterized as a pandemic. The virus has greatly impacted the economic activities.

In order to comply with the government's measures to monitor and mitigate the effects of COVID-19, the Bank provided for safety and health measures for its employees, such as social distancing and telecommuting work set-up.

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### 2. Summary of Significant Accounting Policies

#### Basis of Preparation

The accompanying financial statements have been prepared on a historical cost basis except for investment securities at fair value through other comprehensive income (OCI) which have been measured at fair value. These financial statements are presented in Philippine Peso, the Bank's functional currency, and all values are rounded to the nearest peso unless otherwise indicated.



### Statement of Compliance

The financial statements of the Bank have been prepared in compliance with Philippine Financial Reporting Standards (PFRS).

### Presentation of Financial Statements

The Bank presents its statement of financial position broadly in order of liquidity. An analysis regarding recovery of assets or settlement of liabilities within twelve months after the reporting date (current) and more than 12 months after the reporting date (non-current) is presented in Note 14.

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position only when there is a currently enforceable legal right to set off the recognized amounts and there is intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. The Bank assesses that it has a currently enforceable right of offset if the right is not contingent on a future event, and is legally enforceable in the normal course of business, event of default, and event of insolvency or bankruptcy of Bank and all of the counterparties.

Income and expenses are not offset in the statement of income unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the accounting policies of the Bank.

### New Standards, Interpretations and Amendments

The accounting policies adopted are consistent with those of the previous financial year except for the following new, amendments and improvements to PFRS, Philippine Accounting Standards (PAS) and Philippine Interpretation which became effective as of January 1, 2021. Except as otherwise indicated, these changes in the accounting policies did not have any significant impact on the financial position or performance of the Bank:

- Amendments to PFRS 7, *Financial Instruments: Disclosures* and PFRS 9, *Financial Instruments, Interest Rate Benchmark Reform*
- Amendments to PFRS 16, *COVID-19-related Rent Concessions*

### Standards Issued but not yet Effective

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Bank's financial statements are listed below. The Bank intends to adopt these standards when they become effective. Unless otherwise stated, adoption of these standards and interpretations are not expected to have any significant impact on the financial statements of the Bank.

#### *Effective beginning on or after January 1, 2022*

- Amendments to PFRS 3, *Reference to the Conceptual Framework*
- Amendments to PAS 16, *Plant and Equipment: Proceeds before Intended Use*
- Amendments to PAS 37, *Onerous Contracts – Costs of Fulfilling a Contract*
- *Annual Improvements to PFRSs 2018-2020 Cycle*
  - Amendments to PFRS 1, *First-time Adoption of Philippines Financial Reporting Standards, Subsidiary as a first-time adopter*
  - Amendments to PFRS 9, *Financial Instruments, Fees in the '10 per cent' test for derecognition of financial liabilities*
  - Amendments to PAS 41, *Agriculture, Taxation in fair value measurements*



*Effective beginning on or after January 1, 2023*

- Amendments to PAS 12, *Deferred Tax related to Assets and Liabilities arising from a Single Transaction*
- Amendments to PAS 8, *Definition of Accounting Estimates*
- Amendments to PAS 1 and PFRS Practice Statement 2, *Disclosure of Accounting Policies*

*Effective beginning on or after January 1, 2024*

- Amendments to PAS 1, *Classification of Liabilities as Current or Non-current*

*Effective beginning on or after January 1, 2025*

- PFRS 17, *Insurance Contracts*

*Deferred effectivity*

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

## **Significant Accounting Policies**

### Fair Value Measurement

The Bank measures financial assets at fair value through other comprehensive income (FVOCI) at fair value at each reporting date. The fair values of financial instruments measured at amortized cost (or cost) and nonfinancial assets are disclosed in Note 5.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants under current market conditions (i.e., an exit price) at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

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

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

If a financial instrument measured at fair value has a bid price and an ask price (e.g., an input from a dealer market), the price within the bid-ask price spread that is most representative of fair value in the circumstances shall be used to measure fair value regardless of where the input is categorized within the fair value hierarchy.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

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



All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

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

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Bank determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at every reporting date.

For the purpose of fair value disclosures, the Bank has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

#### Cash and Cash Equivalents

For purposes of reporting cash flows, cash and cash equivalents include cash on hand, due from BSP and due from other banks with original maturities of three (3) months or less from the dates of placements and with insignificant risk of changes in value. Due from BSP includes the statutory reserves required by the BSP which the Bank considers as cash equivalents wherein withdrawals can be made to meet the Bank's cash requirements as allowed by the BSP.

#### *Securities purchased under resale agreement (SPURA)*

Securities purchased under agreements to resell at a specified future date ('reverse repos') are not recognized in the statement of financial position. The corresponding cash paid including accrued interest, is recognized in the statement of financial position as SPURA under 'Due from BSP', and is considered a loan to the counterparty. The difference between the purchase price and resale price is treated as interest income and is accrued over the life of the agreement using the effective interest method.

#### Financial Instruments - Initial Recognition and Subsequent Measurement

##### *Date of recognition*

Financial instruments are any contracts that give rise to a financial asset of one entity and a financial liability or equity instrument of another entity. The Bank recognizes a financial asset or financial liability in the statement of financial position when the Bank becomes a party to the contractual provisions of the instrument.

Purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace are recognized on settlement date. Settlement date accounting refers to (a) the recognition of an asset on the day it is received by the Bank, and (b) the derecognition of an asset and recognition of any gain or loss on disposal on the day that such asset is delivered by the Bank. Any change in fair value of unrecognized financial asset is recognized in the statement of income for assets classified as financial assets at FVPL, and in equity for assets classified as financial assets at FVOCI. Deposits, amounts due from banks and customers and loans and receivables are recognized when cash is received by the Bank or advanced to the borrowers.





#### *Initial recognition of financial instruments*

Financial instruments are initially recognized at fair value. Except for financial assets and financial liabilities at FVPL, the initial measurement of financial instruments includes transaction costs.

#### *'Day 1' difference*

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

#### Classification, Reclassification and Impairment of Financial Assets

##### *Classification and measurement*

The classification and measurement of financial assets is driven by the entity's contractual cash flow characteristics of the financial assets and business model for managing the financial assets.

##### *SPPI test*

As part of its classification process, the Bank assesses the contractual terms of financial assets to identify whether they meet the 'solely payments of principal and interest' (SPPI) test.

If the financial asset is held within a business model whose objective is to hold assets to collect contractual cash flows or within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, the Bank assesses whether the cash flows from the financial asset represent SPPI on the principal amount outstanding.

The Bank's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

'Principal' for the purpose of the SPPI test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset (e.g. if there are repayments of principal or amortization of the premium or discount). In making the assessment of 'interest', the Bank determines whether the contractual cash flows are consistent with a basic lending arrangement, i.e., interest includes consideration only for the time value of money, credit risk and other basic lending risks and costs associated with holding the financial asset for a particular period of time.

Instruments with cash flows that do not represent as such are classified at FVTPL.

##### *Business model test*

The Bank determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective.

The Bank's business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios and is based on observable factors such as:

- How the performance of the business model and the financial assets held within that business model are evaluated and reported to the Bank's key management personnel



- The risks that affect the performance of the business model and the financial assets held within that business model and, in particular, the way those risks are managed
- How managers of the business are compensated (for example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected)
- The expected frequency, value and timing of sales are also important aspects of the Bank's assessment

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or stress case' scenarios into account. If cash flows after initial recognition are realized in a way that is different from the Bank's original expectations, the Bank does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

The Bank's measurement categories are described below:

*Financial asset at amortized cost*

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

- The asset is held within a business model with the objective to hold assets in order to collect contractual cash flows; and
- The contractual terms of the instrument give rise on specified dates to cash flows that are SPPI on the principal amount outstanding.

Financial assets meeting these criteria are measured initially at fair value plus transaction costs. These are subsequently measured at amortized cost using the effective interest rate (EIR) method, less allowance for credit losses, with the interest calculated recognized as 'Interest income' in the statement of income. Gains and losses are recognized in the statement of income when the financial assets are derecognized and impaired, as well as through the amortization process. The losses arising from impairment of such assets are recognized in the statement of income under 'Provision for credit and impairment losses - net'.

The Bank classified 'Cash and other cash items', 'Due from BSP', 'Due from other banks', 'Loans and receivables', 'Investment securities at amortized cost' and certain financial assets under 'Other assets' as financial assets at amortized cost.

The Bank may irrevocably elect at initial recognition to classify a financial asset that meets the amortized cost criteria above as at FVTPL if that designation eliminates or significantly reduces an accounting mismatch had the financial asset been measured at amortized cost.

As of December 31, 2021 and 2020, the Bank has not made such designation.

*Financial Assets at FVOCI*

Financial assets at FVOCI include debt and equity securities.

*a. Debt Instruments at FVOCI*

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

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



Subsequently, these are measured at fair value with gains or losses arising due to changes in fair value recognized in OCI under 'Fair value reserves on investment securities at fair value through other comprehensive income'. Interest income and foreign exchange gains and losses are recognized in the statement of income in the same manner as for financial assets measured at amortized cost. When the Bank holds more than one investment in the same security, these are deemed to be disposed of on a first-in, first-out basis. On derecognition, cumulative gains or losses recognized in OCI are reclassified from OCI to the statement of income.

*b. Equity Instruments at FVOCI*

At initial recognition, the Bank can make an irrevocable election (on an instrument-by-instrument basis) to designate equity instruments at FVOCI. Designation at FVOCI is not permitted if the investment in equity instrument is held for trading.

Investments in equity instruments at FVOCI are initially measured at fair value plus transaction costs. Subsequently, these are measured at fair value, with no deduction for sale or disposal costs. Gains and losses arising from changes in fair value are recognized in OCI and accumulated in 'Unrealized gain on financial assets carried at FVOCI' in the statement of financial position. When the asset is disposed of, the cumulative gain or loss previously recognized in 'Unrealized gain on financial assets carried at fair value through OCI' is not reclassified to the statement of income, but is reclassified to 'Surplus'.

Dividends earned on these investments in equity instruments are recognized in the statement of income when the Bank's right to receive the dividends is established in accordance with PFRS 9, unless the dividends clearly represent recovery of a part of the cost of the investment. Dividends earned are recognized in the statement of income, under 'Miscellaneous income'.

Equity instruments at FVOCI of the Bank include investments in non-marketable equity investments that do not have a quoted market price in an active market, and whose fair market value cannot be reliably measured.

*Financial asset measured at FVPL*

Financial assets at FVPL are those non-derivative investments which are designated as such or do not qualify to be classified or designated as financial assets at amortized cost investments or loans and receivables. They are purchased and held indefinitely, and may be sold in response to liquidity requirements or changes in market conditions.

As of December 31, 2021 and 2020, the Bank has no financial instruments at FVPL.

*Reclassification of financial assets*

The Bank can reclassify financial assets if the objective of its business model for managing those financial assets changes. The Bank is required to reclassify as follows:

- From amortized cost or FVOCI to FVPL, if the objective of the business model changes so that the amortized cost or FVOCI criteria are no longer met;
- From FVPL to amortized cost or FVOCI, if the objective of the business model changes so that the amortized cost or FVOCI criteria start to be met and the characteristics of the instrument's contractual cash flows are SPPI; and
- From amortized cost to FVOCI if the business model changes so that the objective becomes both to collect contractual cash flows and to sell or from FVOCI to amortized cost if the business model becomes solely for the collection of contractual cash flows.

Reclassification of financial assets designated as at FVPL or equity financial assets at FVOCI at initial recognition is not permitted.



A change in the objective of the Bank's business model must be effected before the reclassification date. The reclassification date is the beginning of the next reporting period following the change in the business model.

#### *Impairment of Financial Assets*

ECL represent credit losses that reflect an unbiased and probability-weighted amount which is based on reasonable and supportable information about past events, current conditions and forecasts of future economic conditions, and the time value of money. The objective of the new impairment model is to record lifetime losses on all financial instruments which have experienced a SICR since their initial recognition. As a result, ECL allowances are now measured at amounts equal to either

(i) 12-month ECL or (ii) lifetime ECL for those financial instruments which have experienced a SICR since initial recognition (General Approach). The 12-month ECL is the portion of lifetime ECL that results from default events on a financial instrument that are possible within the next 12 months after the reporting date. Lifetime ECLs are credit losses that result from all possible default event over the expected life of a financial instrument.

Both the 12-month ECL and lifetime ECL are calculated on either an individual basis or a collective basis, depending on the nature of the underlying portfolio of financial instruments.

For non-credit-impaired financial instruments:

- Stage 1 is comprised of all non-impaired financial instruments which have not experienced an SICR since initial recognition. The Bank recognizes a 12-month ECL for Stage 1 financial instruments.
- Stage 2 is comprised of all non-impaired financial instruments which have experienced an SICR since initial recognition. The Bank recognizes a lifetime ECL for Stage 2 financial instruments.

For credit-impaired financial instruments:

- Financial instruments are classified as Stage 3 when there is objective evidence of impairment as a result of one or more loss events that have occurred after initial recognition with a negative impact on the estimated future cash flows of a loan or a portfolio of loans. The ECL model requires that lifetime ECL be recognized for impaired financial instruments.

#### *Financial liabilities at amortized cost*

Issued financial instruments or their components which are not designated at FVPL are classified as financial liabilities at amortized cost, 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. The components of issued financial instruments that contain both liability and equity instrument elements are accounted for separately, with the equity component being assigned the residual amount after deducting from the instrument as a whole the amount separately determined as the fair value of the liability component on the date of issue.

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

This category includes 'Deposit liabilities', 'Bills payable', and other financial liabilities under 'Accrued expenses and other liabilities'.



## Derecognition of Financial Instruments

### *Financial assets*

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

- the rights to receive cash flows from the asset have expired; or
- the Bank retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a “pass-through” arrangement; 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 risk and rewards of the asset but has transferred the control over the asset.

When the Bank has transferred its rights to receive cash flows from an asset or has entered into a ‘pass-through’ arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control over the asset, the asset is recognized to the extent of the Bank’s continuing involvement in the asset. In that case, the Bank also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Bank has retained.

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

### *Write-offs*

Financial assets are written off either partially or in their entirety when the Bank no longer expects collections or recoveries within a foreseeable future. If the amount to be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount. Any subsequent recoveries are credited to credit loss expense.

### *Modification of financial assets*

The Bank derecognizes a financial asset when the terms and conditions have been renegotiated to the extent that, substantially, it becomes a new asset, with the difference between its carrying amount and the fair value of the new asset recognized as a derecognition gain or loss in profit or loss, to the extent that an impairment loss has not already been recorded.

The Bank considers both qualitative and quantitative factors in assessing whether a modification of financial asset is substantial or not. When assessing whether a modification is substantial, the Bank considers the following factors, among others:

- Change in currency of the loan
- Introduction of an equity feature
- Change in counterparty
- If the modification results in the asset no longer considered “solely payment for principal and interest”

The Bank also performs a quantitative assessment similar to that being performed for modification of financial liabilities. In performing the quantitative assessment, the Bank considers the new terms of a financial asset to be substantially different if the present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10% different from the present value of the remaining cash flows of the original financial asset.



When the contractual cash flows of a financial asset are renegotiated or otherwise modified and the renegotiation or modification does not result in the derecognition of that financial asset, the Bank recalculates the gross carrying amount of the financial asset as the present value of the renegotiated or modified contractual cash flows discounted at the original EIR (or credit-adjusted EIR for purchased or originated credit-impaired financial assets) and recognizes a modification gain or loss in profit or loss.

When the modification of a financial asset results in the derecognition of the existing financial asset and the subsequent recognition of a new financial asset, the modified asset is considered a 'new' financial asset. Accordingly, the date of the modification shall be treated as the date of initial recognition of that financial asset when applying the impairment requirements to the modified financial asset. The newly recognized financial asset is classified as Stage 1 for ECL measurement purposes, unless the new financial asset is deemed to be originated as credit impaired (POCI).

#### *Financial liabilities*

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

#### *Exchange or modification of financial liabilities*

The Bank considers both qualitative and quantitative factors in assessing whether a modification of financial liabilities is substantial or not. The terms are considered substantially different if the present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10% different from the present value of the remaining cash flows of the original financial liability. However even where the present value of the cash flows under the new terms is less than 10% different from the present value of the remaining cash flows of the original financial liability, where the modification of the financial liability is so fundamental, immediate derecognition of the original financial liability (e.g., restructuring a financial liability to include an embedded equity component) and the recognition of a new liability are appropriate. The difference between the carrying value of the original financial liability and the fair value of the new liability is recognized in profit or loss.

When the exchange or modification of the existing financial liability is not considered as substantial, the Bank recalculates the gross carrying amount of the financial liability as the present value of the renegotiated or modified contractual cash flows discounted at the original EIR and recognizes a modification gain or loss in profit or loss.

If modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognized as part of the gain or loss on the extinguishment. If the modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the financial instrument and are amortized over the remaining term of the modified financial instrument.

#### Property and Equipment

Property and equipment consisting of furniture, fixtures and equipment, computer and office equipment, and leasehold improvements are stated at cost less accumulated depreciation and amortization, and accumulated impairment losses, if any. The initial cost of property and equipment consists of its purchase price and any directly attributable cost of bringing the asset to its working condition and location for its intended use.



Expenditures incurred after the property and equipment have been put into operation, such as repairs and maintenance, are normally recognized in the statement of income in the year 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 property and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as an additional cost of property and equipment.

Depreciation and amortization is calculated on a straight-line basis over the estimated useful life (EUL) of the asset as follows:

EUL	
Leasehold improvements	3 years or over the remaining lease term, whichever is shorter
Furniture, fixtures and equipment	5 years
Office equipment	3 years
Computer equipment	5 years
Transportation equipment	3 years

The EUL and the depreciation and amortization method are reviewed at least at each reporting date to ensure that the period and the method of depreciation and amortization are consistent with the expected pattern of economic benefits from items of property and equipment.

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

#### Right of Use Assets

The Bank recognizes right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognized, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received and estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories.

Unless the Bank is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognized right-of-use assets are depreciated on a straight-line basis over the shorter of its EUL and the lease term of the assets.

#### Chattel Mortgage (Other Properties Acquired)

These include chattel mortgage properties acquired in settlement of loans and receivables. These are carried at fair value as at date of reclassification.

The Bank applies the cost model in accounting for other properties acquired. Depreciation is computed on a straight-line basis over the EUL of three (3) years. The EUL and the depreciation method are reviewed periodically to ensure that the period and the method of depreciation are consistent with the expected pattern of economic benefits from items of other properties acquired.





The carrying values of other properties acquired are reviewed for impairment when events or changes in circumstances indicate that the carrying values may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amounts.

If the Bank decides to use an item under chattel mortgage property as property and equipment, the related asset is reclassified to property and equipment. Upon reclassification, the Bank measures a chattel mortgage property that ceases to be classified as other properties acquired at its carrying amount.

#### Impairment of Property and Equipment and Chattel (Other Property Acquired)

At each reporting date, the Bank assesses whether there is any indication that its property and equipment and chattel may be impaired. When an indicator of impairment exists or when an annual impairment testing for an asset is required, the Bank makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is assessed as part of the cash generating unit (CGU) to which it belongs.

Where the carrying amount of an asset (or CGU) exceeds its recoverable amount, the asset (or CGU) is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset (or CGU). In determining fair value less costs to sell an appropriate valuation model is used.

An impairment loss is charged against the statement of income in the year in which it arises.

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

#### Equity

Capital stock is measured at par value for all shares issued. When the Bank issues more than one class of stock, a separate account is maintained for each class of stock and the number of shares issued.

Surplus represents accumulated earnings of the Bank less dividends declared.

#### Leases

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



#### *Company as lessee*

Except for short-term leases and leases of low-value assets, the Bank applies a single recognition and measurement approach for all leases. The Bank recognizes lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

#### *Lease liabilities*

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

In calculating the present value of lease payments, the Bank uses the incremental borrowing rate (IBR) at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

#### *Short-term leases and leases of low-value assets*

The Bank applies the short-term lease recognition exemption to its short-term leases of commercial spaces and equipment (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the leases of low-value assets recognition exemption to leases of various equipment that are considered of low value (i.e., below ₱250,000). Lease payments on short-term leases and leases of low-value assets are recognized as 'Rent' on a straight-line basis over the lease term.

#### Revenue Recognition

##### *Revenues within the scope of PFRS 15, Revenue from Contracts with Customers*

Revenue from contract with customers is recognized upon transfer of promised goods or services to customers at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The Bank exercises judgment, taking into consideration all of the relevant facts and circumstances when applying each step of the five-step model to contracts with customers.

The following specific recognition criteria must be met before revenue is recognized for contracts within the scope of PFRS 15:

#### *Service charges and fees*

Fees earned for the provision of services are recognized once services are rendered. These include charges from usage of ATM, charges for returned checks, charges for below minimum maintaining balance and commission income.

#### *Miscellaneous income*

Income from sale of services is recognized upon rendition of the service. Income from sale of properties is recognized upon completion of the earning process, transfer of control of property to buyer, and when the collectability of the sales price is reasonably assured.



#### *Revenues outside the scope of PFRS 15*

The following specific recognition criteria must be met before revenue is recognized for contracts outside the scope of PFRS 15:

#### *Interest income*

For all financial instruments measured at amortized cost, interest income is recorded at the EIR, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options), includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the EIR, but not future credit losses. The carrying amount of the financial asset is adjusted if the Bank revises its estimates of receipts. The adjusted carrying amount is calculated based on the original EIR. The change in carrying amount is recorded as 'Interest income' in the statement of income.

When a financial asset becomes credit-impaired and is, therefore, regarded as Stage 3 (as discussed in "Impairment of Financial Assets" above), the Bank calculates interest income by applying the EIR to the net amortized cost of the financial asset. If the financial asset cures and is no longer credit-impaired, the Bank reverts to calculating interest income on a gross basis.

#### *Dividend income*

Dividend income are recognized when the Bank's right to receive payment is established, which is generally when the shareholders approve the dividend declarations.

#### Expense Recognition

Expenses are recognized when it is probable that decrease in future economic benefits related to the decrease in asset or an increase in liability has occurred and that the decrease in economic benefits can be measured reliably. Expenses are recognized when incurred.

#### *Interest expense*

Interest expense for all interest-bearing financial liabilities are recognized in 'Interest expense' in the statement of income using the EIR of the financial liabilities to which they relate.

#### *Taxes and licenses*

These include all other taxes, local and national, including gross receipts tax (GRT), real estate taxes and licenses and permit fees which are recognized when incurred.

#### *Operating expenses*

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

#### Retirement Benefits

The net defined benefit liability or asset is the aggregate of the present value of the defined benefit obligation at the end of the reporting period reduced by the fair value of plan assets (if any), adjusted for any effect of limiting a net defined benefit asset to the asset ceiling. The asset ceiling is the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. The defined benefit obligation is calculated annually by an independent actuary. The present value of the defined benefit obligation is determined by discounting the estimated future cash flows using interest rates on government bonds that have terms to maturity approximating the terms of the related retirement liability.



The cost of providing benefits under the defined benefit retirement plan is determined using the projected unit credit method.

Defined benefit costs comprise the following:

- Service cost;
- Net interest on the net defined benefit liability or asset; and
- Remeasurements of net defined benefit liability or asset.

Service costs which include current service costs, past service costs and gains or losses on non-routine settlements are recognized as expense in the statement of income. Past service costs are recognized when plan amendment or curtailment occurs. These amounts are calculated periodically by independent qualified actuaries.

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

Remeasurements, comprising of actuarial gains and losses, return on plan assets and any change in the effect of the asset ceiling (excluding net interest on defined benefit liability) are recognized immediately in OCI in the period in which they arise. Remeasurements are not reclassified to the statement of income in subsequent periods.

The Bank's right to be reimbursed of some or all of the expenditure required to settle a defined benefit obligation is recognized as a separate asset at fair value when and only when reimbursement is virtually certain.

#### Provisions and Contingencies

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. Where the Bank expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of income, net of any reimbursement. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as 'Interest expense'. Provisions are reviewed at each reporting date.

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

#### Income Taxes

Income tax comprises current and deferred taxes. Income tax is determined in accordance with Philippine tax law. Income tax is recognized in the statement of income, except to the extent that it relates to OCI items recognized directly in OCI.



#### *Current tax*

Current 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 as of the reporting date.

#### *Deferred tax*

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

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

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are applicable 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 reporting date. Current tax and deferred tax relating to items recognized directly in OCI are also recognized in OCI.

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

#### Events after the Reporting Period

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

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### **3. Significant Accounting Judgments and Estimates**

The preparation of the financial statements in accordance with PFRS requires the Bank to make judgments and estimates that affect the reported amounts of assets, liabilities, income and expenses and disclosure of contingent assets and contingent liabilities, if any, at the reporting date. Future events may occur which will cause the judgments and assumptions used in arriving at the estimates to change. The effects of any change in judgments and estimates are reflected in the financial statements as they become reasonably determinable.



Judgments and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

#### Judgments

##### *a. Evaluation of business model in managing financial assets (PFRS 9)*

The Bank manages its financial assets based on business models that maintain adequate liquidity level and preserve capital requirements, while maintaining a strategic portfolio of financial assets for accrual income consistent with its risk appetite.

In determining the classification of a financial instrument under PFRS 9, the Bank evaluates in which business model a financial instrument or a portfolio of financial instruments belong to taking into consideration the objectives of each business model established by the Bank. The Bank also considers the frequency, value, reasons and timing of past sales and expectation of future sales activity in this evaluation.

In addition, PFRS 9 emphasizes that if more than an infrequent and more than an insignificant sale is made out of a portfolio of financial assets carried at amortized cost, an entity should assess whether and how such sales are consistent with the objective of collecting contractual cash flows.

In making this judgment, the Bank considers certain circumstances to assess that an increase in the frequency or value of sale of financial instrument in a particular period is not necessarily inconsistent with a held-to-collect business model if the Bank can explain the reasons for those sale and why the sale do not reflect a change in the Bank's objective for the business model.

The business model assessment is based on reasonably expected scenarios without taking worst case or stress case scenarios into account. If cash flows, after initial recognition are realized in a way that is different from the Bank's original expectations, the Bank does not change the classification of the remaining financial assets held in that business model but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

In 2020, the Bank sold investment securities at amortized cost whose carrying value prior to the sale amounted ₱10.27 million. The disposal resulted in gain amounting to ₱0.18 million.

The disposal in the investment securities at amortized cost is consistent with the portfolios' business models with respect to the conditions and reasons for which the disposal was made. Further, the disposal did not result in a change in business model (see Note 7).

##### *b. Fair value of financial instruments*

Where the fair values of financial assets and financial liabilities disclosed in the notes to the financial statements cannot be derived from active markets, they are determined using variety of valuation techniques acceptable to the market such as alternative valuation approaches that include the use of mathematical models. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values.

The carrying values and corresponding fair values of financial assets and financial liabilities as well as the manner in which fair values were determined are discussed in Note 5.



*c. Extension and termination options*

The Bank applies judgment in evaluating whether it is reasonably certain whether or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors such as leasehold improvements and location that create an economic incentive for it to exercise either the renewal or termination. After the commencement date, the Bank reassess the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise or not to exercise the option to renew or to terminate.

Estimates

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, which have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next period, are described below. The Bank based its assumptions and estimates on parameters available when the financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances beyond the control of the Bank. Such changes are reflected in the assumptions when they occur.

*a. ECL on financial assets*

The measurement of credit losses under PFRS 9 requires significant judgment, in particular, the estimation of the amount and timing of future cash flows when determining impairment losses and the assessment of a SICR. These estimates are driven by a number of factors, changes in which can result in different levels of allowances. Additional considerations were made in estimating the ECL in response to the changing credit environment brought about by the COVID-19 pandemic. In particular, judgments and estimates by management are required in determining the following:

- segmenting the Bank's credit risk exposures;
- the Bank's definition of default;
- determining the method to estimate ECL;
- identifying exposures with significant deterioration in credit quality;
- determining assumptions to be used in the ECL model such as the counterparty credit risk rating;
- the expected life of the financial asset and expected recoveries from defaulted accounts; and
- incorporating forward-looking information (called overlays) in calculating ECL.

The related allowance for credit losses of financial assets are disclosed in Note 8.

*b. Recognition of deferred 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 on the forecasted level of future taxable profits and the related future tax planning strategies.

The carrying value of the Bank's deferred tax assets is disclosed in Note 19.

*c. Estimating retirement benefits*

The cost of defined benefit pension plan, as well as the present value of the pension obligation, is determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, future salary increases, mortality rates and future pension increases. Due to the complexity of the valuation, the underlying assumptions and long-term nature of these plans, such estimates are subject to significant uncertainty. All assumptions are reviewed at each reporting date.



In determining the appropriate discount rate, management considers the market yields on Philippine government bonds with terms consistent with the expected employee benefit payout as at the reporting date, with extrapolated maturities corresponding to the expected duration of the defined benefit obligation.

The mortality rate is based on 1994 GAM table. Future salary increases and pension increases are based on expected future inflation rates for the Philippines. The present value of the retirement obligation and further details about the assumptions used are disclosed in Note 16.

*d. Incremental borrowing rate*

The Bank cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate (IBR) to measure lease liabilities. The IBR is the rate of interest that the Bank would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Bank 'would have to pay', which requires estimation when no observable rates are available or when they need to be adjusted to reflect the terms and conditions of the lease. The Bank estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates.

The Bank's lease liabilities amounted to ₱10.34 million and ₱13.40 million (Note 17) as of December 31, 2021 and 2020.

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#### **4. Financial Risk Management Policies and Objectives**

By their nature, the Bank's activities are principally related to the use of financial instruments. The Bank accepts deposits from customers at fixed rates, and for various periods, and seeks to earn above-average interest margins by investing these funds in high-quality assets. The Bank seeks to increase these margins by consolidating short-term funds and lending for longer periods at higher rates, while maintaining sufficient liquidity to meet all claims that might fall due.

The Bank operates an integrated risk management system to address the risks it faces in its banking activities, including liquidity, credit and market risks. The Bank's risk management objective is to adequately and consistently evaluate, manage, control, and monitor the risk profile of the Bank's statement of financial position to optimize the risk-reward balance and maximize the return on the Bank's capital. The Bank's BOD has overall responsibility for the Bank's risk management system and sets risk management policies across the full range of risks to which the Bank is exposed.

##### Credit Risk

Credit risk is the risk of financial loss to the Bank if the counterparty to a financial instrument fails to meet its contractual obligations. The Bank manages and controls credit risk by setting limits on the amount of risk it is willing to accept for individual counterparties and for geographical and industry concentrations, and by monitoring exposures in relation to such limits. The Bank also monitors credit exposures, and continually assesses the credit worthiness of counterparties. In addition, the Bank obtains security where appropriate, enters into collateral arrangement with counterparties, and limits the duration of exposures.

##### *Maximum exposure to credit risk*

The table below provides the analysis of the maximum exposure to credit risk of the Bank's financial instruments, excluding those where carrying values as reflected in the statements of financial position and related notes already represent the financial instrument's maximum exposure to credit risk, before and after taking into account collateral held and other credit enhancements.





2021				
	Maximum exposure to credit risk	Fair value of collateral and credit enhancements	Financial effect of collateral or credit Enhancement	Net exposure to credit risk
SPURA	₱14,246,187	₱14,246,187	₱14,246,187	₱—
Loans receivable				
Car loans	90,738,587	40,015,000	40,015,000	54,371,478
Real estate loans	87,788,754	41,609,459	41,282,529	46,506,225
SME loans	18,484,428	38,840,800	9,518,274	8,966,154
2020				
	Maximum exposure to credit risk	Fair value of collateral and credit enhancements	Financial effect of collateral or credit enhancement	Net exposure to credit risk
SPURA	₱51,866,470	₱51,866,470	₱51,866,470	₱—
Loans receivable				
Car loans	117,992,675	115,471,655	91,137,385	26,855,290
Real estate loans	97,031,413	51,439,969	40,866,418	56,164,995
SME loans	15,203,386	10,240,517	8,960,453	6,242,932

#### *Collateral and other credit enhancements*

The Bank seeks to use collateral, where possible, to mitigate its risks on financial assets. The fair value of collateral is generally assessed, at a minimum, at inception. The amount and type of collateral required depends on the assessment of the credit risk of the counterparty. The Bank implements certain requirements regarding the acceptability of types of collateral and valuation parameters.

For consumer lending, the Bank obtains physical collateral (e.g., chattel properties). As a general policy, the loan value of the collateral is 70.00% of the appraised value.

It is the Bank's policy to dispose assets acquired either through redemption or sale. The proceeds on the sale of foreclosed assets (classified as 'Other Assets' in the statement of financial position) are used to reduce or repay the outstanding claims.

As of December 31, 2021 and 2020, the Bank does not have financial instruments that can be offset under enforceable master netting agreements or similar arrangements.

#### *Concentration of credit risk*

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions.

The Bank considers risk concentration to be present in financial assets when the total exposure to a particular industry or sector exceeds 30.00% of the total financial assets, similar to BSP requirements.



The table below shows the distribution of the Bank's financial assets subject to credit risk exposure by industry sector as of December 31, 2021 and 2020, before taking into account any collateral held or other credit enhancements:

2021							
	Loans and receivables	%	Other financial assets*	%	Investment Securities	%	Total
Personal service activities	<b>₱1,200,383,200</b>	<b>83.11</b>	<b>₱—</b>	<b>—</b>	<b>₱—</b>	<b>—</b>	<b>₱1,200,383,200</b>
Government	1,023,676	0.07	123,497,041	78.37	399,131,870	96.00	523,652,587
Personal and household goods	88,560,578	6.13	—	—	—	—	88,560,578
Financial intermediaries	107,131	0.01	29,735,719	18.87	16,638,461	4.00	46,481,311
Other community, social work activities	59,031,391	4.09	—	—	—	—	59,031,391
Auto loans	40,412,635	2.80	—	—	—	—	40,412,635
Agriculture, hunting and forestry	32,418,586	2.24	—	—	—	—	32,418,586
Transportation and storage	12,189,004	0.84	—	—	—	—	12,189,004
Real estate, renting & business activities	903,302	0.06	4,341,811	2.76	—	—	5,245,113
Wholesale and retail	2,985,725	0.21	—	—	—	—	2,985,725
Construction	3,798,382	0.26	—	—	—	—	3,798,382
Education	1,137,912	0.08	—	—	—	—	1,137,912
Hotels and restaurants	405,580	0.03	—	—	—	—	405,580
Manufacturing	1,035,303	0.07	—	—	—	—	1,035,303
	<b>1,444,392,405</b>	<b>100.00</b>	<b>157,574,571</b>	<b>100.00</b>	<b>415,770,331</b>	<b>100.00</b>	<b>2,017,737,307</b>
Allowance for credit losses	(36,642,069)		—		—		(36,642,069)
	<b>₱1,407,750,336</b>	<b>100.00</b>	<b>₱157,574,571</b>	<b>100.00</b>	<b>₱415,770,331</b>	<b>100.00</b>	<b>₱1,981,095,238</b>

\*Comprised of due from BSP and other banks, accounts receivable – others, security deposits and short-term investments.

2020							
	Loans and receivables	%	Other financial assets*	%	Investment Securities	%	Total
Personal service activities	<b>₱1,205,223,475</b>	<b>81.72</b>	<b>₱—</b>	<b>—</b>	<b>₱—</b>	<b>—</b>	<b>₱1,205,223,475</b>
Government	2,325,005	0.16	284,522,906	80.84	114,375,394	87.35	401,223,305
Personal and household goods	97,331,559	6.60	—	—	—	—	97,331,559
Financial intermediaries	117,301	0.01	63,065,288	17.92	16,563,169	12.65	79,745,758
Other community, social work activities	67,177,103	4.55	—	—	—	—	67,177,103
Auto loans	47,743,896	3.24	—	—	—	—	47,743,896
Agriculture, hunting and forestry	28,502,500	1.93	—	—	—	—	28,502,500
Transportation and storage	14,520,998	0.98	—	—	—	—	14,520,998
Real estate, renting & business activities	2,129,897	0.14	4,368,227	1.24	—	—	6,498,124
Wholesale and retail	4,021,179	0.27	—	—	—	—	4,021,179
Construction	2,383,314	0.16	—	—	—	—	2,383,314
Education	1,793,016	0.12	—	—	—	—	1,793,016
Hotels and restaurants	1,354,018	0.09	—	—	—	—	1,354,018
Manufacturing	255,274	0.02	—	—	—	—	255,274
	<b>1,474,878,535</b>	<b>100.00</b>	<b>351,956,421</b>	<b>100.00</b>	<b>130,938,563</b>	<b>100.00</b>	<b>1,957,773,519</b>
Allowance for credit losses	(32,174,852)		—		—		(32,174,852)
	<b>₱1,442,703,683</b>		<b>₱351,956,421</b>		<b>₱130,938,563</b>		<b>₱1,925,598,667</b>

\*Comprised of due from BSP and other banks, accounts receivable – others, security deposits and short-term investments.

For loans and receivables under 'Personal services activities', concentration risk is actively managed by the Bank with collections reasonably assured as they are mainly coursed through the Department of Education.



*Credit quality per class of financial assets*

Due from BSP, due from other banks, financial assets at FVOCI, investment securities at amortized cost, and short-term investments and security deposits presented under 'other assets' are with the government, reputable financial institutions and private entities and are deemed to be of high grade.

The rating categories are further described below.

Loans and receivable

High Grade

This includes unclassified loans which may include technical past-due accounts, which under BSP regulations are not considered as outright past-due.

Standard Grade

This is comprised of loans that have loan classification of miscellaneous exception and loans especially mentioned. Standard grade may also include matured loans subject to renewal. This category is comprised of receivables that are technically past due, with period of default of 1 to 30 days, but are still regarded as good credit quality since the counterparties have the apparent ability to satisfy their obligations in full.

Substandard Grade

These are accounts that are watch listed based on internal credit assessment and accounts that have the tendency to turn past due or non-performing. This includes loans with period of default of 31 to 90 days.

Past Due and Impaired

This comprised of receivables which are classified as non-performing, with period of default of more than 90 days.

Loans with classification of doubtful and loss are included under past-due or individually impaired.

The financial assets are also grouped according to stage whose description is explained as follows:

*Stage 1* - those that are considered current and up to 30 days past due, and based on change in rating, delinquencies and payment history, do not demonstrate significant increase in credit risk.

*Stage 2* - those that, based on change in rating, delinquencies and payment history, demonstrate significant increase in credit risk, and/or are considered more than 30 days past due but does not demonstrate objective evidence of impairment as of reporting date.

*Stage 3* - those that are considered in default or demonstrate objective evidence of impairment as of reporting date.

The table below shows the credit quality (classified by staging based on delinquency) per class of loans and receivables (gross of allowance for credit losses and unearned interest and discount) as of December 31, 2021 and 2020:

	2021			
	Stage 1	Stage 2	Stage 3	Total
Salary Loans				
Standard Grade	₱1,219,223,226	₱—	₱—	₱1,219,223,226
Substandard Grade	—	29,838,833	—	29,838,833
Past Due and Impaired	—	—	30,345,165	30,345,165
	₱1,219,223,226	₱29,838,833	₱30,345,165	₱1,279,407,224



	2021			
Car Loans	Stage 1	Stage 2	Stage 3	Total
Standard Grade	₱70,505,122	₱-	₱-	₱70,505,122
Substandard Grade	-	10,016,494	-	10,016,494
Past Due and Impaired	-	-	13,689,397	13,689,397
	₱70,505,122	₱10,016,494	₱13,689,397	₱94,211,013

	2021			
Real Estate Loans	Stage 1	Stage 2	Stage 3	Total
Standard Grade	₱74,417,206	₱-	₱-	₱74,417,206
Substandard Grade	-	5,923,469	-	5,923,469
Past Due and Impaired	-	-	8,709,921	8,709,921
	₱74,417,206	₱5,923,469	₱8,709,921	₱89,050,596

	2021			
SME Loans	Stage 1	Stage 2	Stage 3	Total
Standard Grade	₱11,715,123	₱-	₱-	₱11,715,123
Substandard Grade	-	6,290,965	-	6,290,965
Past Due and Impaired	-	-	985,463	985,463
	₱11,715,123	₱6,290,965	₱985,463	₱18,991,551

	2021			
Others	Stage 1	Stage 2	Stage 3	Total
Standard Grade	₱256,877	₱-	₱-	₱256,877
Past Due and Impaired	-	-	20,059	20,059
	₱256,877	₱-	₱20,059	₱276,936

	2021			
Accrued Interest Receivable	Stage 1	Stage 2	Stage 3	Total
Standard Grade	₱15,612,502	₱-	₱-	₱15,612,502
Substandard Grade	-	284,009	-	284,009
Past Due and Impaired	-	-	261,733	261,733
	₱15,612,502	₱284,009	₱261,733	₱16,158,244

	2021			
Total Loans and Receivable	Stage 1	Stage 2	Stage 3	Total
Standard Grade	₱1,391,730,056	₱-	₱-	₱1,391,730,056
Substandard Grade	-	52,353,774	-	52,353,774
Past Due and Impaired	-	-	54,011,734	54,011,734
	₱1,391,730,056	₱52,353,774	₱54,011,734	₱1,498,095,564

	2020			
Salary Loans	Stage 1	Stage 2	Stage 3	Total
Standard Grade	₱1,211,271,903	₱-	₱-	₱1,211,271,903
Substandard Grade	-	9,909,971	-	9,909,971
Past Due and Impaired	-	-	36,559,842	36,559,842
	₱1,211,271,903	₱9,909,971	₱36,559,842	₱1,257,741,716

	2020			
Car Loans	Stage 1	Stage 2	Stage 3	Total
Standard Grade	₱102,552,139	₱-	₱-	₱102,552,139
Substandard Grade	-	13,718,125	-	13,718,125
Past Due and Impaired	-	-	7,792,445	7,792,445
	₱102,552,139	₱13,718,125	₱7,792,445	₱124,062,709

	2020			
Real Estate Loans	Stage 1	Stage 2	Stage 3	Total
Standard Grade	₱88,210,728	₱-	₱-	₱88,210,728
Substandard Grade	-	5,716,210	-	5,716,210
Past Due and Impaired	-	-	5,106,848	5,106,848
	₱88,210,728	₱5,716,210	₱5,106,848	₱99,033,786



	2020			
	Stage 1	Stage 2	Stage 3	Total
SME Loans				
Standard Grade	₱14,268,295	₱–	₱–	₱14,268,295
Past Due and Impaired	–	–	1,246,801	1,246,801
	₱14,268,295	₱–	₱1,246,801	₱15,515,096

	2020			
	Stage 1	Stage 2	Stage 3	Total
Others				
Standard Grade	₱767,951	₱–	₱–	₱767,951
	₱767,951	₱–	₱–	₱767,951

	2020			
	Stage 1	Stage 2	Stage 3	Total
Accrued Interest Receivable				
Standard Grade	₱24,387,538	₱–	₱–	₱24,387,538
Substandard Grade	–	775,006	–	775,006
Past Due and Impaired	–	–	1,405,630	1,405,630
	₱24,387,538	₱775,006	₱1,405,630	₱26,568,174

	2020			
	Stage 1	Stage 2	Stage 3	Total
Total Loans and Receivable				
Standard Grade	₱1,441,458,555	₱–	₱–	₱1,441,458,555
Substandard Grade	–	30,119,311	–	30,119,311
Past Due and Impaired	–	–	52,111,566	52,111,566
	₱1,441,458,555	₱30,119,311	₱52,111,566	₱1,523,689,432

### ***Impairment assessment***

#### ***Assessment of SICR/Staging assessment***

The Bank has established a policy to perform an assessment, at the end of each reporting period, of whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the instrument. Based on this process, the Bank categorizes its credit exposures into Stage 1, Stage 2 and Stage 3, as described below:

Stage	Category	Description
Stage 1	Credit risk has not increased significantly since initial recognition	12 month expected credit losses: Expected credit loss resulting from potential default of financial instruments occurring over 12 months from the end of reporting period and if current and contractual payments are less than or equal to thirty (30) days past due.
Stage 2	Credit risk has increased significantly since initial recognition	Lifetime expected credit losses: Expected credit loss resulting from all potential default of financial instruments occurring over the expected life and if contractual payments are more than thirty (30) days and less than or equal to ninety (90) days past due or if the account is considered "watchlist"
Stage 3		Credit-impaired financial assets

For other credit risk exposures such as due from other banks, due from BSP, and debt securities at amortized cost, the Bank applies the low credit risk simplification. The Bank considers a debt financial asset to have low risk when its credit rating is equivalent to the definition of investment grade. The Bank evaluates whether the debt financial asset, on an individual basis, is considered to have low credit risk using all reasonable and supportable information that is available without undue cost or effort.

The Bank determines a material increase on credit risk and estimates the expected credit loss on a forward-looking basis. The measuring factors of the expected credit loss are assumed to have certain relationship with the economic cycle. Through relationship analysis between the macroeconomic



variables and the credit risk measuring factors, the forward-looking information is reflected in the expected credit loss estimation.

In subsequent reporting periods, if the credit risk of the financial instrument improves such that there is no longer a SICR since initial recognition, the Bank shall revert to recognizing a 12-month ECL.

*Definition of 'default' and 'cure'*

The Bank defines a financial instrument as in default based on the following:

- Loans and receivables which are past due for more than 90 days;
- Loans and receivable with non-collection of full amount at maturity;
- Likelihood of non-payment when an account is under litigation;
- There is a breach of any key covenants/agreements that will adversely affect the borrower's capacity to pay;
- Weak financial condition and results of operations that leads to the borrower's inability to generate sufficient cash flow for debt servicing; or
- Restructuring of principal and interest or any concession granted by the Bank relating to the borrower's difficulty.

When such events occur, the Bank carefully considers whether the event should result in treating the customer as defaulted. An instrument is considered to be no longer in default (i.e., cured) when it no longer meets any of the default criteria and there is sufficient evidence to support full collection through payments received for at least 6 months.

A financial instrument is considered to be no longer in default (that is, to have cured) when it no longer meets any of the default criteria and there is sufficient evidence to support full collection through payments received for at least six (6) consecutive payments.

*Credit risk at initial recognition*

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

*Restructuring*

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

*Assessment of ECL on a collective basis*

The Bank calculates ECL either on an individual or collective basis. The Bank performs collective impairment by grouping financial assets on the basis of similar credit risk characteristics such as industry, collateral type, past-due status and other relevant factors. Accounts with similar attributes (i.e., type of facility) are pooled together for calculating provisions based on the ECL models.



#### *ECL parameters and methodologies*

ECL is a function of the probability of default (PD), exposure at default (EAD) and loss given default (LGD). These variables have been estimated from historical experience data by using the statistical techniques developed internally by the Bank and have been adjusted to reflect forward-looking information using statistical techniques and experienced credit judgment.

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

EAD is modelled on historical data and represents an estimate of the outstanding amount of credit exposure at the time a default may occur. LGD is the amount that may not be recovered in the event of default and is modelled based on historical net cash flow recoveries from collections and the sale of foreclosed assets.

#### *Economic overlays*

The Bank incorporates economic overlays into its assessment of SICR and its measurement of ECL. A broad range of economic overlays are considered as economic inputs, such as inflation rates, exchange rates and savings deposit rates. The inputs and models used for calculating ECL may not always capture all characteristics of the market at the date of the financial statements. To reflect these, quantitative adjustments or overlays are occasionally made as temporary adjustments when such differences are significantly material.

The Bank's loans and receivables consists of different portfolios, such as personal salary loans, car loans, real estate loans; and small and medium enterprise (SME) loans. In compliance with PFRS 9, the Bank has developed ECL parameters and methodologies for each portfolio, using historical data as well as forward-looking inputs and assumptions.

#### Market Risk

Market risk is the risk of loss to future earnings, to fair value or future cash flows of a financial instrument as a result of changes in its price, in turn caused by changes in interest rates, foreign currency exchange rates, equity prices and other market factors.

#### *Interest rate risk*

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of the financial instruments. The Bank follows a prudent policy on managing its assets and liabilities so as to ensure that exposure to fluctuations in interest rates are kept within acceptable limits.



The following table sets forth the sensitivity to a reasonably possible change in the interest rates of the Bank's investments in bonds included under investment securities at FVOCI, investment at amortized cost and bills payable, with all other variables held constant:

Changes in interest rates (in basis points)	2020		2020	
	+100	+100	+100	-100
Effect on equity				
Investment securities at FVOCI	(P961,831)	P961,631	(P337,747)	P1,729,140
Effect on net income				
Bills payable	(2,463,967)	2,463,967	(1,492,279)	2,046,882

As at December 31, 2021 and 2020, the Bank does not hold floating-rate financial assets.

### Liquidity Risk

Liquidity risk is the risk that sufficient funds may not be available to adequately meet the credit demands of the Bank's customers and repay deposits on maturity. The Bank's objective in liquidity management is to ensure that the Bank has sufficient liquid financial resources to meet obligations when they fall due, under both normal and stressed conditions, without incurring unacceptable losses that would be detrimental to the Bank's operations.

The Bank maintains a portfolio of highly marketable assets that can be easily liquidated in the event of an unforeseen interruption of cash flow. In addition, the Bank maintains a liquidity and statutory reserve to BSP equivalent to 2.00% and 3.00% of deposit liabilities in 2021 and 2020, respectively. The liquidity position is assessed and managed under a variety of scenarios, giving due consideration to stress factors relating to both the market in general and specifically to the Bank. The most important of these is to maintain limits on the ratio of net liquid asset to deposit liabilities, set to reflect market conditions.

The tables below summarize the maturity profile of the financial assets and financial liabilities of the Bank based on undiscounted contractual cash flows:

	2021					Total
	On demand	Due within 1 month	1 to 3 Months	3 to 12 Months	Beyond 1 year	
<b>Financial Assets</b>						
Cash on hand	P30,077,486	P-	P-	P-	P-	P30,077,486
Due from BSP	70,513,592	-	-	-	-	70,513,592
Due from other banks	27,508,298	-	-	-	-	27,508,298
<b>Loans and receivables</b>						
Salary loans	8,156,543	127,040,302	136,140,810	571,133,680	713,968,051	1,556,439,386
Car loans	1,918,978	8,155,967	17,714,394	54,959,035	45,559,777	128,308,151
Real estate loans	14,984	1,974,299	3,870,756	17,351,670	120,146,557	143,358,266
SME loans	985,462	9,057,606	2,192,615	4,879,414	4,513,590	21,628,687
Others	-	140,249	53,100	109,596	-	302,945
Accrued interest receivable	118,277	3,210	41,885	445,343	15,549,519	16,158,234
Investment securities at FVOCI	2,511,114	243,630	657,175	5,554,318	229,353,872	238,320,109
Investment securities at amortized cost	-	-	553,933	5,363,230	273,940,199	279,857,362
Other assets*	-	52,983,449	-	2,227,422	4,341,811	2,284,746,682
<b>Total Financial Assets</b>	<b>141,804,734</b>	<b>199,598,712</b>	<b>161,224,668</b>	<b>2,887,217,708</b>	<b>1,407,373,376</b>	<b>4,797,219,198</b>
<b>Financial Liabilities</b>						
<b>Deposit liabilities</b>						
Savings and current	227,453,373	-	-	-	-	227,453,373
Time	-	146,084,973	247,056,451	246,234,716	832,897,279	1,472,273,239
Bills payable	-	1,948,700	7,654,252	71,423,348	87,820,625	168,846,925
Accrued expenses and other liabilities	-	30,227,330	-	-	-	30,227,330
<b>Total Financial Liabilities</b>	<b>227,453,373</b>	<b>178,261,003</b>	<b>254,710,703</b>	<b>317,658,064</b>	<b>920,717,904</b>	<b>1,729,953,942</b>
<b>Net</b>	<b>(P85,648,639)</b>	<b>22,835,303</b>	<b>(P148,153,175)</b>	<b>P2,580,098,768</b>	<b>P544,047,904</b>	<b>P3,067,265,256</b>

\*Includes short-term investment and security deposits





	2020					
	On demand	Due within 1 month	1 to 3 Months	3 to 12 months	Beyond 1 year	Total
<b>Financial Assets</b>						
Cash on hand	₱26,070,746	₱—	₱—	₱—	₱—	₱26,070,746
Due from BSP	236,766,014	—	—	—	—	236,766,014
Due from other banks	60,872,881	—	—	—	—	60,872,881
<b>Loans and receivables</b>						
Salary loans	7,693,869	77,136,758	128,542,176	541,155,524	765,525,083	1,520,053,410
Car loans	361,627	10,559,300	20,474,465	74,953,407	57,367,151	163,715,951
Real estate loans	—	4,096,288	6,183,642	17,811,836	133,894,669	161,986,434
SME loans	472,883	6,934,171	1,441,061	3,265,529	7,385,474	19,499,192
Others	—	151,691	61,728	271,368	122,969	608,027
Accrued interest receivable	141,257	419,202	144,835	1,162,200	24,700,681	26,568,174
Investment securities at FVOCI	115,000	331,509	20,511,785	2,485,226	121,592,771	145,036,291
Other assets*	—	47,756,891	—	2,192,407	4,368,227	54,317,526
<b>Total Financial Assets</b>	<b>332,494,277</b>	<b>147,385,810</b>	<b>177,359,692</b>	<b>643,297,497</b>	<b>1,114,957,025</b>	<b>2,415,494,646</b>
<b>Financial Liabilities</b>						
<b>Deposit liabilities</b>						
Savings and current	187,461,806	—	—	—	—	187,461,806
Time	—	174,515,022	184,494,900	217,230,216	823,918,268	1,400,158,406
Bills payable	—	625,933	2,803,440	21,628,208	166,939,238	191,996,819
Accrued expenses and other liabilities	—	30,374,824	—	—	—	30,374,824
<b>Total Financial Liabilities</b>	<b>187,461,806</b>	<b>205,392,755</b>	<b>187,555,668</b>	<b>230,111,424</b>	<b>982,430,089</b>	<b>1,792,951,741</b>
<b>Net</b>	<b>₱145,032,471</b>	<b>(₱58,006,946)</b>	<b>(₱10,195,976)</b>	<b>₱413,186,073</b>	<b>₱132,526,936</b>	<b>₱622,542,904</b>

\*Includes short-term investment and security deposits

## 5. Fair Value of Financial Assets and Financial Liabilities

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

### *Due from BSP, due from other banks and short-term investments under 'Other assets'*

The carrying amounts approximate their fair values in view of the relatively short-term maturities of these instruments.

### *Investments in government securities and private bonds*

Fair values are based on quoted market prices published in active markets.

### *Equity securities*

Fair values of unquoted equity securities are estimated using the guideline publicly-traded company method, which utilizes publicly available information from publicly-traded comparable companies that are the same or similar to the unlisted company being valued.

### *Loans and receivables*

Fair values of receivable from customers are estimated by discounting expected future cash flows using current market lending. The discount rates used in estimating the fair value of loans and receivables are the incremental lending rates ranging from 6.50% to 23.13% and from 6.28% to 28.27% in 2021 and 2020, respectively.

### *Deposit liabilities*

Fair values of time deposits are estimated using the discounted cash flow methodology, using the Bank's current incremental borrowing rates for similar borrowings with maturities consistent with those remaining for the liability being valued. For demand and savings deposits, carrying amounts approximate fair values considering that these are currently due and demandable. The discount rates used in estimating the fair value of time deposits as of December 31, 2021 and 2020 range from 1.25% to 7.00% and from 2.25% to 7.00%, respectively.



*Financial assets and liabilities at amortized cost except for loans and receivables and deposit liabilities*  
Carrying value approximates fair value due to either the demand nature or the relatively short-term maturities of these financial instruments.

*Bills payable*

Fair value is computed using the discounted cash flow methodology. The discount rates used in estimating the fair value of bills payable are 4.50% to 6.04% in 2021 and 2020, which are based on the Bank's incremental borrowing rates.

As at December 31, 2021 and 2020, the carrying values of the Bank's financial assets and financial liabilities approximate their fair values as reflected in the statements of financial position and related notes, except for the following financial instruments:

	2021				
		Fair value			
	Carrying Value	Quoted prices (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Assets measured at fair value:					
Investment securities at FVOCI					
Private bonds	₱16,638,461	₱16,638,461	₱—	₱—	₱16,638,461
Government securities	166,800,933	166,800,933	—	—	166,800,933
Equity securities	115,000	—	115,000	—	115,000
Assets for which fair values are disclosed:					
Loans and receivables					
Salary loans	1,211,033,611	—	—	1,237,370,047	1,237,370,047
Car loans	90,738,587	—	—	93,577,104	93,577,104
Real estate loans	87,225,185	—	—	93,088,247	93,088,247
SME loans	18,484,428	—	—	18,735,348	18,735,348
Others	268,524	—	—	265,524	265,524
Liabilities for which fair values are disclosed:					
Financial liabilities at amortized cost					
Time deposit	1,261,466,595	—	—	1,269,923,181	1,269,923,181
Bills payable	161,317,383	—	—	162,894,213	162,894,213
	2020				
		Fair value			
	Carrying Value	Quoted prices (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)	Total
Assets measured at fair value:					
Investment securities at FVOCI					
Private bonds	₱16,563,169	₱16,563,169	₱—	₱—	₱16,563,169
Government securities	114,375,394	114,375,394	—	—	114,375,394
Equity securities	115,000	—	115,000	—	115,000
Assets for which fair values are disclosed:					
Loans and receivables					
Salary loans	1,186,829,650	—	—	1,032,607,986	1,032,607,986
Car loans	117,064,089	—	—	91,589,728	91,589,728
Real estate loans	96,828,480	—	—	89,254,341	89,254,341
SME loans	15,043,498	—	—	12,556,324	12,556,324
Others	737,984	—	—	628,212	628,212
Liabilities for which fair values are disclosed:					
Financial liabilities at amortized cost					
Time deposit	1,254,047,305	—	—	1,451,878,016	1,451,878,016
Bills payable	170,259,081	—	—	186,831,717	186,831,717



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

The significant unobservable input used in the fair value measurement categorized within Level 3 of the fair value hierarchy together with a quantitative sensitivity analysis as at December 31, 2021 and 2020 is shown below:

*Loans and receivables at amortized cost*

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

*Time deposit liabilities at amortized cost*

The carrying amount of liabilities approximates fair value in view of their relatively short-term maturity except for time deposits whose fair values are estimated using the discounted cash flow methodology using the Bank's incremental borrowing rates for similar borrowings with maturities consistent with those for the liability being valued.

*Liabilities*

The carrying amount of liabilities approximates fair value in view of their relatively short-term maturity except for time deposits whose fair values are estimated using the discounted cash flow methodology using the Bank's incremental borrowing rates for similar borrowings with maturities consistent with those for the liability being valued.

There were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of level 3 fair value measurements.

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## 6. Due from BSP and Other Banks

Due from BSP

	2021	2020
Overnight deposit facility	<b>₱41,000,000</b>	₱147,000,000
SPURA	<b>14,246,187</b>	51,866,470
Demand deposit account (Note 11)	<b>14,767,405</b>	37,178,649
Special deposit account	<b>500,000</b>	720,895
	<b>₱70,513,592</b>	₱236,766,014

SPURA in 2021 and 2020 bear annual interest rates of 2.00% and 2.73%, respectively, while overnight deposit facility in 2021 and 2020 bear annual interest rate of 1.50% and 2.05%, respectively. Special deposit accounts are non-interest-bearing short term placements. As of December 31, 2021 and 2020, the SPURA is collateralized by government securities with fair values amounting to ₱14.24 million and ₱51.87 million, respectively. The Bank is not permitted to sell or re-pledge the related collateral in the absence of default by the counterparty.

Interest income earned on due from BSP amounted to ₱1.99 million and ₱6.87 million in 2021 and 2020, respectively.



Due from Other Banks

This account consists of:

	2021	2020
Demand deposit	<b>₱22,564,856</b>	₱51,280,713
Savings deposit	<b>4,943,441</b>	9,592,168
	<b>₱27,508,298</b>	₱60,872,881

Due from other banks bear annual interest rates ranging from 0.125% to 3.00% in 2021 and from 0.125% to 3.0% in 2020. Interest income on due from other banks amounted to ₱0.10 million and ₱0.12 million in 2021 and 2020, respectively.

## 7. Investment Securities

Investment Securities at FVOCI

This account consists of investment securities at FVOCI as of December 31, 2021 and 2020:

	2021	2020
Government securities	<b>₱166,800,933</b>	₱114,375,394
Private bonds	<b>16,638,461</b>	16,563,169
Unquoted equity securities	<b>115,000</b>	115,000
	<b>₱183,554,395</b>	₱131,053,563

As of December 31, 2021 and 2020, government bonds earn interest rates ranging from 3.375% to 4.625% with maturities ranging from 2022 to 2028 and 4.201% to 4.875% with maturities ranging from 2023 to 2026, respectively.

The movements in fair value reserves on debt instruments at FVOCI of the Bank follows:

	2021	2020
Balance at beginning of year	<b>₱370,265</b>	₱32,618
Movements in fair values during the year	<b>(302,333)</b>	5,126
Net loss (gain) realized in profit or loss	<b>(659,398)</b>	332,521
Net change during the year	<b>(961,731)</b>	337,647
Balance at end of year	<b>(₱591,466)</b>	₱370,265

*Unquoted equity securities*

As of December 31, 2021 and 2020, the Bank has equity investments in Bankers Association of the Philippines (BAP) and classified as investment securities at FVOCI with carrying amount to ₱0.12 million. The Bank intends to hold these securities as long-term investments as they relate to participation in banking operations.

Investment securities at amortized cost

As of December 31, 2020, this account consists of government securities that are held to comply with minimum liquidity ratio requirements.



On June 30, 2020, the Bank sold its investment securities at selling price that approximate its carrying value at date of sale of ₱10.27 million. Gain realized from the sold securities amounted to ₱0.18 million (Note 18). The one-time sale of the above securities is infrequent and is therefore consistent with allowed disposals under the HTC business model.

#### Interest Income on Investment Securities

Interest income on investment securities follows:

	2021	2020
Financial assets at FVOCI	<b>₱3,464,933</b>	₱3,770,523
Investment securities and amortized cost	<b>4,310,583</b>	146,806
	<b>₱7,775,516</b>	₱3,917,329

### 8. Loans and Receivables

This account consists of:

	2021	2020
Loans and receivables		
Salary loans (Note 12)	<b>₱1,279,407,224</b>	₱1,257,741,716
Car loans	<b>94,211,013</b>	124,062,709
Real estate loans	<b>89,050,596</b>	99,033,786
SME loans	<b>18,991,551</b>	15,515,096
Others	<b>276,936</b>	767,951
	<b>1,481,937,320</b>	1,497,121,258
Net unearned interest and discount	<b>(53,703,159)</b>	(48,810,897)
Loans and receivables, net of unearned interest and discount	<b>1,428,234,161</b>	1,448,310,361
Accrued interest receivable	<b>16,158,244</b>	26,568,174
Loans and receivables, before allowance for credit losses	<b>1,444,392,405</b>	1,474,878,535
Allowance for credit losses	<b>(36,642,069)</b>	(32,174,852)
	<b>₱1,407,750,336</b>	₱1,442,703,683

Loans and receivables, with terms normally ranging from two to twenty years, earn annual interest rates as follows:

	2021	2020
Salary loans	<b>5.07% - 41.86%</b>	10.06% - 41.67%
Car loans	<b>8.02% - 59.81%</b>	8.02% - 50.30%
SME loans	<b>11.32% - 26.41%</b>	14.22% - 38.99%
Real estate loans	<b>6.72% - 10.55%</b>	6.72% - 10.55%
Others	<b>22.93% - 42.56%</b>	22.93% - 47.34%

#### *Modification of Loans and Receivables*

On March 25, 2020, Republic Act No. 11469, otherwise known as the Bayanihan to Heal as One Act ("Bayanihan 1 Act") was enacted. Bayanihan 1 Act provides that all covered institutions shall implement a 30-day grace period for all loans with principal and/or interest and lease amortization falling due within the ECQ period without incurring interest on interest, penalties, fees and other



charges. Subsequently, on September 11, 2020, Republic Act No. 11494, otherwise known as the Bayanihan to Recover as One Act (“Bayanihan 2 Act”), was enacted.

Under Bayanihan 2 Act, a one-time 60-day grace period is granted for the payment of all existing, current and outstanding loans falling due, or any part thereof, on or before December 31, 2020, without incurring interest on interests, penalties, fees, or other charges and thereby extending the maturity of the said loans. Furthermore, a minimum 30-day grace period shall also be granted by covered institutions to all payments due within the period of community quarantine on rent and utility-related expenditures without incurring penalties, interest and other charges.

In 2020, the Bank in addition to the reliefs provided under Bayanihan 1 Act and Bayanihan 2 Act, has offered financial reliefs to its borrowers as a response to the effect of the COVID-19 pandemic. These relief measures included the restructuring of existing receivables and grace period.

Based on the Bank’s assessment, the modifications in the contractual cash flows as a result of implementing the above regulatory and Bank-initiated reliefs are not substantial and did not result in the derecognition of the affected financial assets. The resulting modification loss net of accretion in 2020 presented as a reduction to the carrying amount of the financial asset amounted to ₱1.49 million. In 2021, the modification loss on modified loans has been fully accreted.

The Bank’s loans and receivables that had loss allowances measured at an amount equal to lifetime ECL and whose cash flows were modified in 2020 but have not resulted in derecognition had an amortized cost before modification amounting to ₱67.98 million. Net modification loss recognized for these loans and receivables amounted to ₱0.14 million.

#### Interest Income on Loans and Receivables

Interest income on loans and receivables consist of interest income on:

	2021	2020
Salary loans	<b>₱172,839,180</b>	₱150,521,699
Car loans	<b>20,321,703</b>	26,459,459
Real estate loans	<b>7,951,185</b>	7,269,141
SME loans	<b>2,133,894</b>	2,508,954
Others	<b>93,634</b>	232,581
	<b>₱203,339,596</b>	₱186,991,834

#### Allowance for Credit Losses

The changes in allowance for credit and impairment losses follow:

	2021	2020
Balance at beginning of year	<b>₱32,174,852</b>	₱23,882,068
Movements during the year:		
Provision for credit and impairment losses	<b>7,381,533</b>	9,220,355
Write-off	<b>(2,914,316)</b>	(927,571)
	<b>4,467,217</b>	8,292,784
Balance at end of year	<b>₱36,642,069</b>	₱32,174,852



The tables below illustrate the movements of the allowance for impairment and credit losses and gross carrying amounts of the financial assets for the year ended December 31, 2021 and 2020 (effect of movements in ECL due to transfers between stages are shown in the total column):

	ECL Staging			Total
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	
<b>Salary Loans</b>				
Gross carrying amount as at January 1, 2021	₱1,211,271,903	₱9,909,971	₱36,559,842	₱1,257,741,716
New financial assets purchased or originated	916,531,022	–	–	916,531,022
Transfers:				
Transfer to/(from) Stage 1	(32,958,800)	23,853,575	9,105,225	–
Transfer to/(from) Stage 2	(3,537,287)	3,537,287	–	–
Transfer to/(from) Stage 3	(7,213,260)	(63,495)	7,276,755	–
Movements in outstanding balance	(864,870,353)	(7,398,505)	(19,682,341)	(891,951,199)
Write-offs	–	–	(2,914,316)	(2,914,316)
<b>Gross carrying amount as at December 31, 2021</b>	<b>₱1,219,223,226</b>	<b>₱29,838,833</b>	<b>₱30,345,165</b>	<b>₱1,279,407,224</b>
<b>Allowance for credit losses as at January 1, 2021</b>	<b>₱6,804,587</b>	<b>₱92,693</b>	<b>₱16,508,935</b>	<b>₱23,406,215</b>
New financial assets purchased or originated	3,755,802	–	–	3,755,802
Transfers:				
Transfer to/(from) Stage 1	(4,242,516)	279,879	3,962,637	–
Transfer to/(from) Stage 2	(208,801)	208,801	–	–
Transfer to/(from) Stage 3	(4,950,420)	(23,200)	4,973,621	–
Changes in PDs/LGDs/EADs	5,994,978	(23,207)	(3,190,022)	2,781,750
Write-offs	–	–	(2,914,316)	(2,914,316)
<b>Allowance for credit losses as at December 31, 2021</b>	<b>₱7,153,629</b>	<b>₱534,966</b>	<b>₱19,340,855</b>	<b>₱27,029,451</b>

	ECL Staging			Total
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	
<b>Salary Loans</b>				
Gross carrying amount as at January 1, 2020	₱1,115,914,785	₱25,093,852	₱26,574,925	₱1,167,583,562
Transfers:				
Transfer to/(from) Stage 1	630,081	(287,310)	(342,771)	–
Transfer to/(from) Stage 2	(199,353)	231,000	(31,647)	–
Transfer to/(from) Stage 3	(7,961,188)	(4,256,969)	12,218,157	–
Movements in outstanding balance	(719,686,855)	(10,870,602)	(931,251)	(731,488,708)
New financial assets purchased or originated	822,574,433	–	–	822,574,433
Write-offs	–	–	(927,571)	(927,571)
<b>Gross carrying amount as at December 31, 2020</b>	<b>₱1,211,271,903</b>	<b>₱9,909,971</b>	<b>₱36,559,842</b>	<b>₱1,257,741,716</b>
<b>Allowance for credit losses as at January 1, 2020</b>	<b>₱1,747,870</b>	<b>₱65,936</b>	<b>₱11,427,222</b>	<b>₱13,241,028</b>
New financial assets purchased or originated	7,242,338	–	–	7,242,338
Transfers:				
Transfer to/(from) Stage 1	2,390	(648)	(1,742)	–
Transfer to/(from) Stage 2	(1,192)	1,543	(351)	–
Transfer to/(from) Stage 3	(1,906,894)	(1,002,641)	2,909,535	–
Changes in PDs/LGDs/EADs	(279,925)	1,028,503	3,101,842	3,850,420
Write-offs	–	–	(927,571)	(927,571)
<b>Allowance for credit losses as at December 31, 2020</b>	<b>₱6,804,587</b>	<b>₱92,693</b>	<b>₱16,508,935</b>	<b>₱23,406,215</b>

	ECL Staging			Total
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	
<b>Car Loans</b>				
Gross carrying amount as at January 1, 2021	₱102,552,139	₱13,718,125	₱7,792,445	₱124,062,709
New financial assets purchased or originated	36,300,966	–	–	36,300,966
Transfers:				
Transfer to/(from) Stage 1	1,054,950	(913,095)	(141,855)	–
Transfer to/(from) Stage 2	(7,960,938)	7,960,938	–	–
Transfer to/(from) Stage 3	(1,913,019)	(6,560,260)	8,473,279	–
Movements in outstanding balance	(59,528,976)	(4,189,214)	(2,434,472)	(66,152,662)
<b>Gross carrying amount as at December 31, 2021</b>	<b>₱70,505,122</b>	<b>₱10,016,494</b>	<b>₱13,689,397</b>	<b>₱94,211,013</b>



	ECL Staging			Total
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	
<b>Car Loans</b>				
Allowance for credit losses as at January 1, 2021	₱1,410,356	₱733,759	₱3,925,919	₱6,070,034
New financial assets purchased or originated	332,792	–	–	332,792
Transfers:				
Transfer to/(from) Stage 1	61,778	(60,268)	(1,510)	–
Transfer to/(from) Stage 2	(957,041)	957,041	–	–
Transfer to/(from) Stage 3	(388,524)	(2,112,737)	2,501,261	–
Changes in PDs/LGDs/EADs	218,285	1,576,418	(1,153,586)	641,117
<b>Allowance for credit losses as at December 31, 2021</b>	<b>₱677,647</b>	<b>₱1,094,213</b>	<b>₱5,272,084</b>	<b>₱7,043,944</b>
	ECL Staging			Total
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	
<b>Car Loans</b>				
Gross carrying amount as at January 1, 2020	₱166,949,960	₱5,853,671	₱6,313,722	₱179,117,353
New financial assets purchased or originated	32,069,030	–	–	32,069,030
Transfers:				
Transfer to/(from) Stage 1	2,918,905	(952,791)	(1,966,114)	–
Transfer to/(from) Stage 2	(7,504,418)	8,805,914	(1,301,496)	–
Transfer to/(from) Stage 3	(2,160,431)	(77,879)	2,238,310	–
Movements in outstanding balance	(89,720,907)	89,210	2,508,024	(87,123,674)
<b>Gross carrying amount as at December 31, 2020</b>	<b>₱102,552,139</b>	<b>₱13,718,125</b>	<b>₱7,792,445</b>	<b>₱124,062,709</b>
Allowance for credit losses as at January 1, 2020	₱2,826,081	₱214,691	₱4,849,330	₱7,890,102
New financial assets purchased or originated	1,145,957	–	–	1,145,957
Transfers:				
Transfer to/(from) Stage 1	24,165	(8,593)	(15,572)	–
Transfer to/(from) Stage 2	(248,212)	256,419	(8,207)	–
Transfer to/(from) Stage 3	(488,022)	(18,535)	506,557	–
Changes in PDs/LGDs/EADs	(1,849,613)	289,777	(1,406,189)	(2,966,025)
<b>Allowance for credit losses as at December 31, 2020</b>	<b>₱1,410,356</b>	<b>₱733,759</b>	<b>₱3,925,919</b>	<b>₱6,070,034</b>
	ECL Staging			Total
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	
<b>Real Estate Loans</b>				
Gross carrying amount as at January 1, 2021	₱88,210,728	₱5,716,210	₱5,106,848	₱99,033,786
New financial assets purchased or originated	7,948,080	–	–	7,948,080
Transfers:				
Transfer to/(from) Stage 1	1,352,351	(428,789)	(923,562)	–
Transfer to/(from) Stage 2	(5,923,469)	5,923,469	–	–
Transfer to/(from) Stage 3	(3,601,557)	(5,108,365)	8,709,922	–
Movements in outstanding balance	(13,568,927)	(179,056)	(4,183,286)	(17,931,269)
<b>Gross carrying amount as at December 31, 2021</b>	<b>₱74,417,206</b>	<b>₱5,923,469</b>	<b>₱8,709,922</b>	<b>₱89,050,596</b>
Allowance for credit losses as at January 1, 2021	₱1,785,396	₱116,039	₱100,937	₱2,002,372
New financial assets purchased or originated	176,329	–	–	176,329
Transfers:				
Transfer to/(from) Stage 1	29,979	(9,483)	(20,496)	–
Transfer to/(from) Stage 2	(127,003)	127,003	–	–
Transfer to/(from) Stage 3	(77,226)	(109,592)	186,818	–
Changes in PDs/LGDs/EADs	(138,384)	3,036	(80,441)	(215,789)
<b>Allowance for credit losses as at December 31, 2021</b>	<b>₱1,649,091</b>	<b>₱127,003</b>	<b>₱186,818</b>	<b>₱1,962,912</b>





	ECL Staging			Total
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	
<b>Real Estate Loans</b>				
Gross carrying amount as at January 1, 2020	₱105,600,287	₱3,024,010	₱656,534	₱109,280,831
New financial assets purchased or originated	13,025,078	—	—	13,025,078
Transfers:				
Transfer to/(from) Stage 1	559,249	(559,249)	—	—
Transfer to/(from) Stage 2	—	—	—	—
Transfer to/(from) Stage 3	(993,342)	(3,976,815)	4,970,157	—
Movements in outstanding balance	(29,980,544)	7,228,264	(519,843)	(23,272,123)
<b>Gross carrying amount as at December 31, 2020</b>	<b>₱88,210,728</b>	<b>₱5,716,210</b>	<b>₱5,106,848</b>	<b>₱99,033,786</b>
 Allowance for credit losses as at January 1, 2020	 ₱2,160,783	 ₱53,810	 ₱14,476	 ₱2,229,069
New financial assets purchased or originated	264,409	—	—	264,409
Transfers:				
Transfer to/(from) Stage 1	11,353	(11,353)	—	—
Transfer to/(from) Stage 2	—	—	—	—
Transfer to/(from) Stage 3	(20,165)	(80,729)	100,894	—
Changes in PDs/LGDs/EADs	(630,984)	154,311	(14,433)	(491,106)
<b>Allowance for credit losses as at December 31, 2020</b>	<b>₱1,785,396</b>	<b>₱116,039</b>	<b>₱100,937</b>	<b>₱2,002,372</b>

	ECL Staging			Total
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	
<b>SME Loans</b>				
Gross carrying amount as at January 1, 2021	₱14,268,295	₱—	₱1,246,801	₱15,515,096
New financial assets purchased or originated	7,948,080	—	—	7,948,080
Transfers:				
Transfer to/(from) Stage 1	—	—	—	—
Transfer to/(from) Stage 2	(6,290,965)	6,290,965	—	—
Transfer to/(from) Stage 3	—	—	—	—
Movements in outstanding balance	(4,210,286)	—	(261,339)	(4,471,625)
<b>Gross carrying amount as at December 31, 2021</b>	<b>₱11,715,123</b>	<b>₱6,290,965</b>	<b>₱985,462</b>	<b>₱18,991,551</b>
 Allowance for credit losses as at January 1, 2021	 ₱286,179	 ₱—	 ₱25,531	 ₱311,710
New financial assets purchased or originated	188,352	—	—	188,352
Transfers:				
Transfer to/(from) Stage 1	—	—	—	—
Transfer to/(from) Stage 2	(132,091)	132,091	—	—
Transfer to/(from) Stage 3	—	—	—	—
Changes in PDs/LGDs/EADs	(85,429)	—	(4,355)	(89,784)
<b>Allowance for credit losses as at December 31, 2021</b>	<b>₱257,011</b>	<b>₱132,091</b>	<b>₱21,176</b>	<b>₱410,278</b>

	ECL Staging			Total
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	
<b>SME Loans</b>				
Gross carrying amount as at January 1, 2020	₱21,817,460	₱950,000	₱—	₱22,767,460
New financial assets purchased or originated	31,760,553	—	—	31,760,553
Transfers:				
Transfer to/(from) Stage 1	—	—	—	—
Transfer to/(from) Stage 2	—	—	—	—
Transfer to/(from) Stage 3	—	—	—	—
Movements in outstanding balance	(19,125,091)	(950,000)	—	(20,075,091)
<b>Gross carrying amount as at December 31, 2021</b>	<b>₱34,452,922</b>	<b>₱—</b>	<b>₱—</b>	<b>₱34,452,922</b>
 Allowance for credit losses as at January 1, 2020	 ₱317,872	 ₱17,073	 ₱—	 ₱334,945
New financial assets purchased or originated	258,397	—	—	258,397
Transfers:				
Transfer to/(from) Stage 1	—	—	—	—
Transfer to/(from) Stage 2	—	—	—	—
Transfer to/(from) Stage 3	—	—	—	—
Changes in PDs/LGDs/EADs	(297,472)	(17,073)	—	(314,545)
<b>Allowance for credit losses as at December 31, 2020</b>	<b>₱278,797</b>	<b>₱—</b>	<b>₱—</b>	<b>₱278,797</b>



Others	ECL Staging			Total
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	
Gross carrying amount as at January 1, 2021	₱767,952	₱—	₱—	₱767,952
New financial assets purchased or originated	112,000	—	—	112,000
Transfers:				
Transfer to/(from) Stage 1	—	—	—	—
Transfer to/(from) Stage 2	(20,059)	20,059	—	—
Transfer to/(from) Stage 3	—	—	—	—
Movements in outstanding balance	(603,016)	(20,059)	20,059	(603,016)
Gross carrying amount as at December 31, 2021	₱256,877	₱—	₱20,059	₱276,936
Allowance for credit losses as at January 1, 2021	₱16,473	₱—	₱—	₱16,473
New financial assets purchased or originated	2,385	—	—	2,385
Transfers:				
Transfer to/(from) Stage 1	—	—	—	—
Transfer to/(from) Stage 2	—	—	—	—
Transfer to/(from) Stage 3	(430)	—	430	—
Changes in PDs/LGDs/EADs	(12,848)	—	—	(12,848)
Allowance for credit losses as at December 31, 2021	₱5,580	₱—	₱430	₱6,010

Others	ECL Staging			Total
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	
Gross carrying amount as at January 1, 2020	₱1,510,499	₱—	₱—	₱1,510,499
New financial assets purchased or originated	170,000	—	—	170,000
Transfers:				
Transfer to/(from) Stage 1	—	—	—	—
Transfer to/(from) Stage 2	—	—	—	—
Transfer to/(from) Stage 3	—	—	—	—
Movements in outstanding balance	(912,547)	—	—	(912,547)
Gross carrying amount as at December 31, 2020	₱767,952	₱—	₱—	₱767,952
Allowance for credit losses as at January 1, 2020	₱9,257	₱—	₱—	₱9,257
New financial assets purchased or originated	3,451	—	—	3,451
Transfers:				
Transfer to/(from) Stage 1	—	—	—	—
Transfer to/(from) Stage 2	—	—	—	—
Transfer to/(from) Stage 3	—	—	—	—
Changes in PDs/LGDs/EADs	3,765	—	—	3,765
Allowance for credit losses as at December 31, 2020	₱16,473	₱—	₱—	₱16,473

Accrued interest receivable	ECL Staging			Total
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	
Gross carrying amount as at January 1, 2021	₱24,387,538	₱775,006	₱1,405,630	₱26,568,174
New financial assets purchased or originated	4,069,495	—	—	4,069,495
Transfers:				
Transfer to/(from) Stage 1	(131,335)	109,693	(21,641)	—
Transfer to/(from) Stage 2	(140,396)	140,396	—	—
Transfer to/(from) Stage 3	(40,017)	(59,614)	99,631	—
Movements in outstanding balance	(12,532,783)	(681,473)	(1,265,169)	(14,479,425)
Gross carrying amount as at December 31, 2021	₱15,612,502	₱284,008	₱261,734	₱16,158,244
Allowance for credit losses as at January 1, 2021	₱132,556	₱44,120	₱191,372	₱368,048
New financial assets purchased or originated	17,947	—	—	17,947
Transfers:				
Transfer to/(from) Stage 1	(18,376)	785	17,591	—
Transfer to/(from) Stage 2	(6,557)	6,557	—	—
Transfer to/(from) Stage 3	(23,462)	(16,388)	39,850	—
Changes in PDs/LGDs/EADs	(65,349)	(27,091)	(104,080)	(196,520)
Allowance for credit losses as at December 31, 2021	₱36,759	₱7,983	₱144,733	₱189,475



	ECL Staging			Total
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	
Accrued interest receivable				
Gross carrying amount as at January 1, 2020	₱6,756,957	₱49,543	₱200,719	₱7,007,219
New financial assets purchased or originated	13,157,688	—	—	13,157,688
Transfers:				
Transfer to/(from) Stage 1	121,216	(30,669)	(90,547)	—
Transfer to/(from) Stage 2	(525,638)	611,771	(86,133)	—
Transfer to/(from) Stage 3	(2,185,971)	(63,492)	2,249,463	—
Movements in outstanding balance	7,063,286	207,853	(867,872)	6,403,267
Gross carrying amount as at December 31, 2020	₱24,387,538	₱775,006	₱1,405,630	₱26,568,174
Allowance for credit losses as at January 1, 2020	₱94,378	₱3,599	₱135,838	₱233,815
New financial assets purchased or originated	146,395	—	—	146,395
Transfers:				
Transfer to/(from) Stage 1	8,068	(517)	(7,551)	—
Transfer to/(from) Stage 2	(24,239)	26,052	(1,813)	—
Transfer to/(from) Stage 3	(49,120)	(1,178)	50,298	—
Changes in PDs/LGDs/EADs	(42,926)	16,164	14,600	(12,162)
Allowance for credit losses as at December 31, 2020	₱132,556	₱44,120	₱191,372	₱368,048

	ECL Staging			Total
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	
Total loans and receivable				
Gross carrying amount as at January 1, 2021	₱1,441,458,555	₱30,119,312	₱52,111,566	₱1,523,689,433
New financial assets purchased or originated	972,909,643	—	—	972,909,643
Transfers:				
Transfer to/(from) Stage 1	(30,682,833)	22,621,384	8,061,449	—
Transfer to/(from) Stage 2	(23,873,115)	23,873,115	—	—
Transfer to/(from) Stage 3	(12,767,854)	(11,791,734)	24,559,587	—
Movements in outstanding balance	(955,314,340)	(12,468,308)	(27,806,547)	(995,589,195)
Write-offs	—	—	(2,914,316)	(2,914,316)
Gross carrying amount as at December 31, 2021	₱1,391,730,056	₱52,353,769	₱54,011,739	₱1,498,095,564
Allowance for credit losses as at January 1, 2021	₱10,435,547	₱986,611	₱20,752,694	₱32,174,852
New financial assets purchased or originated	4,473,607	—	—	4,473,607
Transfers:				
Transfer to/(from) Stage 1	(4,169,135)	210,913	3,958,223	—
Transfer to/(from) Stage 2	(1,431,494)	1,431,494	—	—
Transfer to/(from) Stage 3	(5,440,062)	(2,261,918)	7,701,980	—
Changes in PDs/LGDs/EADs	5,911,253	1,529,156	(4,532,484)	2,907,926
Write-offs	—	—	(2,914,316)	(2,914,316)
Allowance for credit losses as at December 31, 2021	₱9,779,716	₱1,896,256	₱24,966,097	₱36,642,069

	ECL Staging			Total
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	
Total loans and receivable				
Gross carrying amount as at January 1, 2020	₱1,431,065,410	₱34,021,076	₱33,745,899	₱1,498,832,385
New financial assets purchased or originated	887,542,086	—	—	887,542,086
Transfers:				
Transfer to/(from) Stage 1	4,229,451	(1,830,019)	(2,399,432)	—
Transfer to/(from) Stage 2	(8,229,409)	9,648,685	(1,419,276)	—
Transfer to/(from) Stage 3	(13,564,369)	(9,149,273)	22,713,643	—
Movements in outstanding balance	(859,584,613)	(2,571,158)	398,303	(861,757,468)
Write-offs	—	—	(927,571)	(927,571)
Gross carrying amount as at December 31, 2020	₱1,441,458,555	₱30,119,311	₱52,111,566	₱1,523,689,432
Allowance for credit losses as at January 1, 2020	₱7,117,166	₱338,036	₱16,426,866	₱23,882,068
New financial assets purchased or originated	8,935,431	—	—	8,935,431
Transfers:				
Transfer to/(from) Stage 1	45,976	(21,111)	(24,865)	—
Transfer to/(from) Stage 2	(273,643)	284,014	(10,371)	—
Transfer to/(from) Stage 3	(2,469,549)	(1,118,798)	3,588,347	—
Changes in PDs/LGDs/EADs	(2,919,375)	1,504,011	1,700,288	284,924
Write-offs	—	—	(927,571)	(927,571)
Allowance for credit losses as at December 31, 2020	₱10,436,006	₱986,152	₱20,752,694	₱32,174,852



## 9. Property and Equipment

The composition of and movements in this account follow:

	2021						
	Furniture, Fixtures and Equipment	Leasehold Improvement	Office Equipment	Computer Equipment	Transportation Equipment	Right of Use Asset	Total
<b>Cost</b>							
Balances at beginning of year	₱2,516,051	₱19,456,721	₱2,194,329	₱23,219,586	₱2,855,088	₱16,142,488	₱66,384,263
Additions	164,789	1,597,696	193,837	3,251,508	–	1,913,440	7,121,270
Disposals/Adjustments	(110,912)	(5,531,775)	(29,792)	(132,572)	(789,488)	(491,953)	(7,086,492)
Balances at end of year	2,569,928	15,522,642	2,358,374	26,338,522	2,065,600	17,563,975	66,419,041
<b>Accumulated Depreciation and Amortization</b>							
Balances at beginning of year	1,927,310	11,366,529	1,916,203	15,531,963	1,698,305	3,266,162	35,706,472
Depreciation and amortization	414,609	3,299,004	155,923	2,946,287	691,608	4,361,340	11,868,771
Disposals/Adjustments	(110,912)	(5,531,775)	(29,792)	(132,572)	(783,336)	(491,953)	(7,080,340)
Balances at end of year	2,231,007	9,133,758	2,042,334	18,345,678	1,606,577	7,135,549	40,494,903
<b>Net Book Values</b>	<b>₱338,921</b>	<b>₱6,388,884</b>	<b>₱316,040</b>	<b>₱7,992,844</b>	<b>₱459,023</b>	<b>₱10,428,426</b>	<b>₱25,924,138</b>

	2020						
	Furniture, Fixtures and Equipment	Leasehold Improvement	Office Equipment	Computer Equipment	Transportation Equipment	Right of Use Asset	Total
<b>Cost</b>							
Balances at beginning of year	₱2,258,404	₱11,746,250	₱2,331,581	₱19,551,098	₱2,855,088	₱4,090,333	₱42,832,754
Additions	257,647	7,720,848	101,330	3,668,488	–	14,869,045	26,617,358
Disposals	–	(10,377)	(238,582)	–	–	(2,816,890)	(3,065,849)
Balances at end of year	2,516,051	19,456,721	2,194,329	23,219,586	2,855,088	16,142,488	66,384,263
<b>Accumulated Depreciation and Amortization</b>							
Balances at beginning of year	1,352,677	8,024,656	2,049,109	12,815,967	997,137	2,355,601	27,595,147
Depreciation and amortization	574,633	3,352,250	105,676	2,715,996	701,168	3,647,071	11,096,794
Disposals/Adjustments	–	(10,377)	(238,582)	–	–	(2,736,510)	(2,985,469)
Balances at end of year	1,927,310	11,366,529	1,916,203	15,531,963	1,698,305	3,266,162	35,706,472
<b>Net Book Values</b>	<b>₱588,741</b>	<b>₱8,090,192</b>	<b>₱278,126</b>	<b>₱7,687,623</b>	<b>₱1,156,783</b>	<b>₱12,876,326</b>	<b>₱30,677,791</b>



## 10. Other Assets

	2021	2020
Financial assets		
Accounts receivable – others	<b>₱52,983,449</b>	₱47,756,892
Security deposits	<b>4,341,811</b>	4,368,227
Short-term investment	<b>2,227,422</b>	2,192,407
	<b>59,552,682</b>	54,317,526
Non-financial assets		
Advance interest	<b>20,322,707</b>	20,287,486
Chattel mortgage	<b>1,880,000</b>	1,348,032
Prepaid supplies	<b>688,635</b>	541,701
Prepaid expenses	<b>29,379</b>	18,659
Others	<b>7,475</b>	1,095,582
	<b>22,928,196</b>	23,291,460
	<b>₱82,480,878</b>	₱77,608,986

Accounts receivable – others represent amounts due from DepEd for loan collections at year-end, creditable withholding tax, Bancnet intraday settlements, travel advances made by the Bank to its employees.

Short-term investment refers to time deposit with a local thrift bank and corporate security with interest rates of 1.00% and 2.00% in 2021 and 2020, respectively, with original term of twelve (12) months.

Advance interest pertains to unamortized prepaid interest on time deposits with interest rates ranging from 1.25% to 4.05% and from 2.25% to 5.00% in 2021 and 2020, respectively, and terms ranging from one to five years.

Allowance for impairment losses on chattel mortgage amounted to ₱0.23 million and nil as of December 31, 2021 and 2020, respectively. In 2021 and 2020, provision for impairment losses recognized in the statement of income amounted to ₱0.23 million and nil, respectively.

Others include subscriptions for electricity and telecommunication services.

## 11. Deposit Liabilities

BSP Circular No. 1092 prescribes 3.00% reserve requirement on deposit liabilities for thrift banks.

As of December 31, 2021 and 2020, demand deposit account with BSP amounting to ₱14.77 million and ₱37.18 million, respectively, were set aside as reserves for deposit liabilities (Note 6).

In May 27, 2020, BSP issued Circular No. 1087 on alternative compliance with required reserve requirements for banks. One of the alternative modes of compliance with the required reserves against deposit and deposit substitute liabilities shall be allowed are MSME loan granted, renewed or restructured after March 15, 2020.

As of December 31, 2021 and 2020, the Bank is in compliance with the reserve requirements.

Deposit liabilities bear annual interest rates ranging from 1.05% to 7.00% in 2021 and 2020.



Interest expense on deposit liabilities consists of:

	2021	2020
Time	<b>₱62,412,619</b>	₱64,440,819
Savings	<b>1,528,627</b>	2,226,723
Current	<b>185,790</b>	190,582
	<b>₱64,127,036</b>	₱66,858,124

## 12. Bills Payable

This account consists of borrowings from:

	2021	2020
Local banks	<b>₱112,491,049</b>	₱120,759,081
Others	<b>48,826,334</b>	49,500,000
	<b>₱161,317,383</b>	₱170,259,081

The movement of the Bank's bills payable follows:

	2021	2020
Balance at beginning of the year	<b>₱170,259,081</b>	₱256,987,235
Premium amortization	<b>(1,018,975)</b>	(965,149)
Availments of bills payable	<b>15,000,000</b>	35,204,000
Payments made	<b>(22,922,723)</b>	(120,967,005)
Balance at end of the year	<b>₱161,317,383</b>	₱170,259,081

The Bank's borrowings' tenors and annual interest rates (gross of Philippine withholding tax) as of December 31, 2021 and 2020 are presented as follows:

Tenor	10 months to 10.00 years
Annual interest rate	4.50% to 6.041%

Interest expense on bills payable amounted to ₱11.31 million and ₱13.78 million in 2021 and 2020, respectively.

These borrowings are secured by salary loans presented under loans and receivables, with fair values of ₱138.04 million and as ₱210.61 million of December 31, 2021 and 2020, respectively (Note 8).

Under the Credit Facilities Agreement with Security Bank Corporation, Philippine National Bank, and Multinational Investment Bancorporation, the Bank shall maintain the following ratios, the compliance of which shall be monitored annually through the submission of the 'Certificate of No Default and Compliance' in accordance with Section 7.01(m) of the Agreement:

- (i) NPL coverage ratio that is compliant with BSP requirement as applicable to the Bank;
- (ii) Capital adequacy ratio of not less than fifteen percent (15.00%);
- (iii) NPL ratio of not more than six percent (6.00%); and
- (iv) Non-performing asset (NPA) ratio of not more than five percent (5.00%).

As of December 31, 2021 and 2020, the Bank is in compliance with the above ratios as required by the Credit Facilities Agreement.



### 13. Accrued Expenses and Other Liabilities

This account consists of:

	2021	2020
<b>Financial liabilities</b>		
Accrued expenses	<b>₱10,366,636</b>	₱8,828,142
Accounts payable	<b>17,015,183</b>	18,527,517
Accrued interest payable	<b>2,845,511</b>	3,019,164
	<b>30,227,330</b>	30,374,823
<b>Non-financial liabilities</b>		
Lease liabilities (Note 17)	<b>10,386,765</b>	13,396,149
Retirement liability (Note 16)	<b>4,408,631</b>	2,014,244
Withholding and other taxes payable	<b>1,113,713</b>	1,279,617
Others	<b>578,635</b>	530,902
	<b>16,487,744</b>	17,220,912
	<b>₱46,715,074</b>	₱47,595,735

Accounts payable includes documentary stamps payable, payable to Bancnet for ATM withdrawals and advance payments from borrowers for processing of chattel mortgages and notarial fees. Accrued expenses include accruals of Philippine Deposit Insurance Corporation assessment fees, professional fees, utilities and BSP penalties for non-compliance with Agri-Agra credits under R.A. No. 10000. Accrued interest payable pertains to interest accrued from time deposits and bills payable.

### 14. Maturity Analysis of Assets and Liabilities

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

	2021			2020		
	Within One Year	Beyond One Year	Total	Within One Year	Beyond One Year	Total
<b>Financial Assets</b>						
Cash on hand	<b>₱30,077,486</b>	₱—	<b>₱30,077,486</b>	₱26,070,746	₱—	₱26,070,746
Due from BSP	<b>70,513,592</b>	—	<b>70,513,592</b>	236,766,014	—	236,766,014
Due from other banks	<b>27,508,298</b>	—	<b>27,508,298</b>	60,872,881	—	60,872,881
Investment securities at FVOCI	<b>4,006,605</b>	179,547,790	<b>183,554,395</b>	19,934,107	111,119,456	131,053,563
Investment securities at amortized cost		<b>232,330,937</b>	<b>232,330,937</b>	—	—	—
Loans and receivables						
Salary loans	<b>131,614,620</b>	1,147,792,604	<b>1,279,407,224</b>	51,548,980	1,206,192,736	1,257,741,716
Car loans	<b>70,610,581</b>	23,600,432	<b>94,211,013</b>	21,017,799	103,044,910	124,062,709
Real estate loans	<b>74,417,206</b>	14,633,390	<b>89,050,596</b>	4,512,833	94,520,953	99,033,786
SME loans	<b>11,715,123</b>	7,276,428	<b>18,991,551</b>	7,598,378	7,916,718	15,515,096
Others	<b>256,877</b>	20,059	<b>276,936</b>	423,692	344,259	767,951
Accrued interest receivable	<b>616,793</b>	15,541,451	<b>16,158,244</b>	1,867,493	24,700,681	26,568,174
Other assets	<b>59,552,682</b>	—	<b>59,552,682</b>	49,949,299	4,368,227	54,317,526
Subtotal	<b>474,320,630</b>	<b>1,620,743,091</b>	<b>2,095,063,721</b>	<b>480,562,222</b>	<b>1,552,207,940</b>	<b>2,032,770,162</b>
<b>Nonfinancial Assets</b>						
Property and equipment	<b>2,814,933</b>	63,604,108	<b>66,419,041</b>	—	66,384,263	66,384,263
Other assets	<b>20,359,562</b>	2,568,634	<b>22,928,196</b>	21,401,727	1,889,733	23,291,460
Deferred tax asset	—	10,252,260	<b>10,252,260</b>	—	9,855,079	9,855,079
Subtotal	<b>23,174,495</b>	<b>76,425,002</b>	<b>99,599,497</b>	<b>21,401,727</b>	<b>78,129,075</b>	<b>99,530,802</b>
	<b>₱504,064,358</b>	<b>₱1,697,769,167</b>	<b>₱2,201,232,451</b>	<b>₱501,963,949</b>	<b>₱1,630,337,015</b>	<b>₱2,132,300,964</b>



	2021			2020		
	Within One Year	Beyond One Year	Total	Within One Year	Beyond One Year	Total
<b>Less:</b>						
Accumulated depreciation			(P40,494,903)			(P35,706,472)
Net unearned interest discount			(53,703,159)			(48,810,897)
Allowance for credit losses			(36,642,069)			(32,174,852)
<b>Total assets</b>			<b>P2,070,392,320</b>			<b>P2,015,608,743</b>
<b>Financial liabilities</b>						
Deposit liabilities	P817,864,122	P671,055,846	P1,488,919,968	P579,872,364	P861,636,747	P1,441,509,111
Bills payable	123,453,955	37,863,428	161,317,383	16,522,645	153,736,436	170,259,081
Accrued expenses and other liabilities	30,227,330	–	30,227,330	30,374,823	–	30,374,823
Subtotal	971,545,407	708,919,274	1,680,464,681	626,769,832	1,015,373,183	1,642,143,015
<b>Nonfinancial liabilities</b>						
Income tax payable	4,289,923	–	4,289,923	2,158,418	–	2,158,418
Accrued expenses and other liabilities	12,079,113	4,408,631	16,487,744	15,206,668	2,014,244	17,220,912
Subtotal	16,369,036	4,408,631	20,777,667	17,365,086	2,014,244	19,379,330
<b>Total liabilities</b>	<b>P987,914,443</b>	<b>P713,327,905</b>	<b>P1,701,242,348</b>	<b>P644,134,918</b>	<b>P1,017,387,427</b>	<b>P1,661,522,345</b>

## 15. Equity

The Bank's capital stock as of December 31, 2021 and 2020 consists of:

	2021		2020	
	Number of Shares	Amount	Number of Shares	Amount
<b>Authorized capital</b>				
Preferred stock - 100 par value	2,000,000	P200,000,000	2,000,000	P200,000,000
Common stock- 100 par value	8,000,000	800,000,000	8,000,000	800,000,000
	<b>10,000,000</b>	<b>P1,000,000,000</b>	<b>10,000,000</b>	<b>P1,000,000,000</b>
<b>Common stock issued and outstanding</b>				
Balances at beginning of year	3,125,005	P312,500,500	3,000,000	P300,000,000
Issuance of shares	75,000	7,500,000	125,005	12,500,500
Balances at end of year	<b>3,200,005</b>	<b>P320,000,500</b>	<b>3,125,005</b>	<b>P312,500,500</b>

### Preferred Stock

The Bank's preferred stock has the following features: (a) cumulative and (b) nonparticipating. Dividends shall be declared from the surplus or undivided profits of the Bank, including stock dividends from paid-in surplus, at such time and in such amounts as the BOD may determine. As of December 31, 2021 and 2020, there is no outstanding preferred stock.

### Dividend Declaration and Capital Infusion

On March 13, 2015, the Bank's Board of Directors approved the capital build-up program to increase paid-up capital from P75.00 million to P300.00 million during the years 2015 to 2020 to comply with the requirements of BSP Circular No. 854 dated October 29, 2014 concerning the minimum capitalization of banks.





In accordance with the capital build-up program, the stockholders committed to fully pay their unpaid subscriptions and to infuse additional capital on or before the 17th day of October every year from 2015 to 2020. The timeline of the capital build-up program follows:

Year	Subscription of capital stock
2015	₱62,500,000
2016	37,500,000
2017	41,700,000
2018	41,700,000
2019	41,600,000
	₱225,000,000

On October 17, 2016, additional capital infusion of ₱37.50 million was made by the stockholders of the Bank. A total of 375,000 shares with total par value of ₱37.50 million were issued as a result of the foregoing transactions.

On August 22, 2017, the Board of Directors declared cash dividends of ₱5.00 million to be used exclusively by the stockholders to pay for their unpaid subscriptions. On October 17, 2017, the dividends were paid and additional capital infusion of ₱41.70 million was made by the stockholders of the Bank. A total of 417,000 shares with total par value of ₱41.70 million were issued as a result of the foregoing transactions.

On May 31, 2018, the Board of Directors declared cash dividends of ₱10.00 million to be used exclusively by the stockholders to pay for their unpaid subscriptions and was recorded under 'Deposit for future stock subscription'. On October 17, 2018, the Bank received from the stockholders ₱31.70 million as additional deposit for future stock subscriptions.

On October 1, 2019, the Board of Directors declared cash dividends of ₱21.60 million to be used exclusively by the stockholders to pay for their unpaid subscriptions. On October 17, 2019, the Bank received from the stockholders ₱20.00 million as additional stock subscriptions. The Bank incurred costs amounting to ₱2.17 million as a result of the issuance of capital stocks, which were charged directly to 'Retained earnings'.

On August 27, 2020, the Board of Directors declared cash dividends of ₱25.00 million payable not later than September 17, 2020 which cash dividends will be used for the following purposes: ₱12.50 million to pay for a portion of the unpaid subscription of the stockholders, thereby bringing up the paid-up capital to ₱312.50 million in 2020, and the remaining ₱12.50 million to the stockholders of record as of July 31, 2020.

On June 25, 2021, the Board the Board of Directors declared cash dividends of ₱15.00 million payable not later than July 15, 2021 which cash dividends will be used for the following purposes: ₱7.50 million to pay for a portion of the unpaid subscription of the stockholders, thereby bringing up the paid-up capital to ₱320.00 million in 2021, and the remaining ₱7.50 million to the stockholders of record as of May 31, 2021.

#### Application for Increase in Authorized Capital Stock

On July 9, 2018, the BOD and stockholders of the Bank approved the increase in its authorized capital stock from ₱500.00 million to ₱1.00 billion. The increase in capitalization aims to allow the Bank room for future expansion and growth.



On November 12, 2018, the Bank submitted its application to the BSP to amend its Articles of Incorporation in relation to the proposed increase in authorized capital stock from ₱500.00 million to ₱1.00 billion, divided into eight million (8,000,000) common shares with a par value of ₱100 per share and two million (2,000,000) preferred shares with par value of ₱100 per share.

On April 24, 2019, the BSP approved the Bank's application to amend its Articles of Incorporation in relation to the increase in authorized capital stock from ₱500.00 million to ₱1.00 billion.

On June 18, 2019, the Philippine SEC approved the application for the increase in authorized capital stocks. Accordingly, the deposit for future stock subscriptions amounting to ₱41.70 million was converted to capital stocks.

#### Surplus reserves

In compliance with BSP Circular 1011 under Section 11 (c), in cases when the computed allowance for credit losses on Stage 1 accounts is less than the required one percent (1%) general provision, the deficiency shall be recognized by appropriating the surplus reserves. As of December 31, 2021 and 2020, the Bank appropriated ₱3.00 million and ₱14.72 million, respectively, from its free surplus to comply with the general loan loss provision required BSP.

#### Capital Management

BSP sets and monitors capital requirements for the Bank. In implementing current capital requirement, the BSP requires the Bank to maintain a prescribed ratio of qualifying capital to risk-weighted assets.

The Bank's policy is to maintain a strong capital base as to maintain investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholder's return is also recognized and the Bank recognizes the need to maintain a balance between the higher returns that might be possible with gearing and the advantages and security afforded by a sound capital position. There have been no material changes in the Bank's capital management in 2021 and 2020.

#### *Regulatory Capital*

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

In addition, the risk-based capital adequacy ratio (CAR) of the Bank with quasi-banking operations, expressed as a percentage of qualifying capital to risk-weighted assets, should not be less than 10.00%. Qualifying capital and risk-weighted assets are computed based on BSP regulations.

Risk-weighted assets consist of total assets less cash on hand, amounts due from BSP, loans covered by hold-out or assignment of deposits, loans or acceptances under letters of credit to the extent covered by margin deposits and other non-risk items determined by the Monetary Board (MB) of the BSP. Under BSP Circular No. 360, effective July 1, 2003, the CAR is to be inclusive of a market risk charge.

On May 13, 2010, the BSP issued Circular No. 688, *Revised Risk-Based Capital Adequacy Framework For Stand-Alone Thrift Banks, Rural Banks and Cooperative Banks*. The framework is a simplified version of Basel II in view of the simple operations of these covered banks.



The following table sets the regulatory capital, as reported to BSP, as of December 31, 2021 and 2020 (amounts in millions except for ratio):

	2021	2020
Tier 1 Capital	358.69	344.69
Tier 2 Capital	14.74	14.47
Total Qualifying Capital	373.43	359.16
Risk weighted assets	1,739.58	1,764.24
Tier 1 capital ratio	20.62%	19.54%
Total capital ratio	21.47%	20.36%

Regulatory capital consists of Tier 1 capital, which comprises share capital and surplus including current year profit. Certain adjustments are made in PFRS-based results and reserves, as prescribed by the BSP. The other component of regulatory capital is Tier 2 capital, which includes general loan loss provision (limited to 1.00% of credit risk weighted assets).

In 2021 and 2020, the Bank met and complied with the CAR requirement set by the BSP.

#### *Minimum Liquidity Ratio (MLR)*

On March 15, 2019, the BSP issued Circular No.1035 which provides the minimum liquidity ratio for stand-alone thrift banks, rural banks, cooperative banks and quasi-banks. Banks are required to maintain a prudent MLR of 20%, a liquidity ratio which is expressed as a percentage of the Bank's eligible stock of liquid assets to its qualifying liabilities.

On April 7, 2020, the BSP issued Memorandum M-2020-020, which provides the minimum liquidity ratio (MLR) for stand-alone thrift banks, rural banks, and cooperative banks, as set out in Section 145 of the Manual of Regulations for Banks, is hereby reduced from 20 percent (20%) to 16 percent (16%).

As of December 31, 2021 and 2020, the MLR of the Bank as reported to the BSP is 35.86% and 30.93%, respectively.

## 16. Retirement Benefits

The Bank accrues retirement benefits in accordance with Republic Act (RA) No. 7641, *Retirement Pay Law*, which requires a provision for retirement pay to qualified private sector employees in the absence of any retirement plan in the entity, provided however that the employee's retirement benefits under any collective bargaining and other agreements shall not be less than those provided under the law. The law does not require minimum funding of the plan.

Future contributions will be made once a retirement plan is established. The Bank's retirement plan provides a retirement benefit equal to one-half month's salary for every year of service, with six months or more of service considered as one year. The present value of the defined benefit obligation and the related service cost were measured using the projected unit credit method. As of December 31, 2021 and 2020, the Bank does not have a retirement plan. The date of the latest actuarial valuation is December 31, 2021.

The cost of defined benefit retirement plan as well as the present value of the defined benefit obligation is determined using actuarial valuations. The actuarial valuation involves making various assumptions.



The principal assumptions used in determining pension for the defined benefit plans as of December 31 are shown below:

	<b>2021</b>	<b>2020</b>
Discount rate	<b>5.17%</b>	3.98%
Salary increase rate	<b>5.00%</b>	5.00%

The average duration of the defined benefit obligation as of December 31, 2021 and 2020 is 12.5 years and 11.20 years, respectively.

Shown below is the maturity analysis of the undiscounted benefit payments as of December 31, 2021 and 2020:

	<b>2021</b>	<b>2020</b>
More than 10 years to 15 years	<b>₱3,723,446</b>	₱2,241,287

There were no changes from the previous period in the methods and assumptions used in preparing the sensitivity analysis. The sensitivity analysis below has been determined based on reasonably possible changes of each significant assumption on the defined benefit obligation as of December 31, 2021 and 2020, assuming all other assumptions were held constant:

	<b>Increase (Decrease)</b>	
	<b>2021</b>	<b>2020</b>
Discount rates		
+1.00%	<b>(₱500,035)</b>	(₱205,863)
-1.00%	<b>602,205</b>	245,308
Future salary increases		
+1.00%	<b>597,027</b>	240,218
-1.00%	<b>(505,159)</b>	(205,825)



Changes in defined benefit liability in 2021 and 2020 are as follows:

	Net benefit cost in statements of income*				Benefits paid	Remeasurements in OCI			Subtotal	December 31, 2021
	January 1, 2021	Current service cost	Net interest	Subtotal		Actuarial changes arising from experience adjustments	Actuarial changes arising from changes in demographic assumptions	Actuarial changes arising from changes in financial assumptions		
Present value of defined benefit obligation	₱2,014,244	₱318,250	₱80,167	₱398,417	₱–	₱149,417	₱2,576,733	(₱730,180)	₱1,995,970	₱4,408,631
	Net benefit cost in statements of income*				Benefits paid	Remeasurements in OCI			Subtotal	December 31, 2020
	January 1, 2020	Current service Cost	Net interest	Subtotal		Actuarial changes arising from experience adjustments	Actuarial changes arising from changes in demographic assumptions	Actuarial changes arising from changes in financial assumptions		
Present value of defined benefit obligation	₱1,059,535	₱192,073	₱58,698	₱250,771	₱–	₱152,219	₱244,908	₱306,811	₱703,938	₱2,014,244



## 17. Lease Agreement

The Bank entered into various lease contracts for the premises occupied by its branches. These contracts have an average term of one to five years, with renewal option included in the contracts. There are no restrictions placed upon the Bank by entering to these leases. Lease payments for Mandaue, Talisay, and Capitol branches are subject to 3.00% to 10.00% escalation rates.

The following are the amounts recognized in the statement of income:

	2021	2020
Depreciation expense of right-of-use assets included in property and equipment	<b>₱4,361,340</b>	₱3,647,071
Interest expense on lease liabilities	<b>545,253</b>	521,216
Expenses relating to short-term leases (included in 'Rent')	<b>1,363,623</b>	1,986,920
<b>Total amount recognized in statement of income</b>	<b>₱6,270,216</b>	₱6,155,207

The rollforward analysis of lease liabilities as of December 31, 2021 and 2020 follows:

	2021	2020
Balance at beginning of year	<b>₱13,396,149</b>	₱1,858,649
Additions	<b>1,913,440</b>	14,869,045
Lease modification	—	(200,794)
Interest expense	<b>545,253</b>	521,216
Payments	<b>(5,468,077)</b>	(3,651,967)
<b>Balance at end of year</b>	<b>₱10,386,765</b>	₱13,396,149

## 18. Miscellaneous Income and Expenses

### Miscellaneous Income

This account consists of:

	2021	2020
Loss on sale of chattel mortgage properties (Note 10)	<b>(₱1,401,299)</b>	(₱79,354)
Commissions	<b>806,207</b>	734,087
Gain on investment securities at amortized cost (Note 8)	—	183,391
Gain on disposal of property and equipment	<b>413,846</b>	14,602
Others	<b>348,532</b>	894,278
<b>Total</b>	<b>₱167,286</b>	₱1,747,004

Commissions include those income earned for services rendered on referral fees for insurance on car loans and handling of collection items and chattel mortgages.



#### Miscellaneous Expenses

This account consists of:

	2021	2020
Fines, penalties and other charges	<b>₱2,497,550</b>	₱1,576,078
Supervision and examination fees	<b>607,638</b>	600,389
Trust fees	<b>82,377</b>	228,272
Banking fees	<b>42,213</b>	73,407
Others	<b>2,087,712</b>	1,574,742
	<b>₱5,317,490</b>	₱4,052,888

Others include expenditures made by the Bank for its household agents, medicine supplies, employees' identification cards and accessories.

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### 19. Income and Other Taxes

Under Philippine tax laws, the Bank is subject to percentage and other taxes (included in 'Taxes and licenses' in the statement of income) as well as income taxes. Percentage and other taxes paid consist principally of GRT and documentary stamp tax.

Income taxes include corporate income tax and final taxes paid at the rate of 20.00%, which is a final withholding tax on gross interest income from government securities and other deposit substitutes.

On March 26, 2021, Republic Act No. 11534, Corporate Recovery and Tax Incentives for Enterprises (CREATE) Act was approved into law. CREATE provides that regular corporate income tax (RCIT) rate shall be reduced from 30% to 25% for domestic and foreign corporations effective July 1, 2020. Moreover, interest expense allowed as a deductible expense shall be reduced by 20% of interest income subject to final tax under the CREATE Act, while by 33% prior to the CREATE Act.

The regulations also provide for MCIT of 1.0% from July 1, 2020 to June 30, 2023, before reverting to 2.0% on modified gross income. Any excess of MCIT over RCIT is deferred and can be used as a tax credit against future income tax liability for the next three years. In addition, NOLCO is allowed as a deduction from taxable income in the next three years from the date of inception. For the taxable years 2020 and 2021, the NOLCO incurred can be carried over as a deduction for the next five (5) consecutive taxable years, pursuant to Section 4 (bbbb) of Bayanihan II and as implemented under RR No. 25-2020.

Current tax regulations also provide for the ceiling on the amount of EAR expenses that can be claimed as a deduction against taxable income. Under the regulation, EAR expenses allowed as a deductible expense is limited to the actual EAR paid or incurred but not to exceed 1.00% of net revenue. EAR expenses amounted to ₱0.25 million and ₱0.53 million in 2021 and 2020, respectively.



Provision for income tax consists of:

	2021	2020
<b>Current</b>		
Current	<b>₱9,033,058</b>	₱8,178,600
Final	<b>2,016,939</b>	1,900,358
	<b>11,049,997</b>	10,078,958
<b>Deferred</b>		
Benefit from deferred tax	<b>127,131</b>	(2,200,155)
	<b>₱11,177,128</b>	₱7,878,803

Components of deferred tax asset – net are as follows:

	2021	2020
Deferred tax assets on:		
Allowance for credit losses	<b>₱9,160,517</b>	₱9,652,456
Retirement liability	<b>1,102,158</b>	604,273
	<b>10,262,675</b>	10,256,729
Deferred tax liability on:		
PFRS 16 adjustment	<b>(10,415)</b>	(401,650)
	<b>₱10,252,260</b>	₱9,855,079

In 2021 and 2020, the deferred tax on retirement liability is net of provision for deferred tax pertaining to ‘Remeasurement gain on retirement liability’ charged directly to OCI amounting to ₱0.50 million and ₱0.21 million, respectively.

The reconciliation between the statutory income tax and effective income tax follow:

	2021	2020
Statutory income tax at 25%	<b>₱9,043,523</b>	₱7,656,826
Income tax effects of:		
Impact of CREATE	<b>(681,550)</b>	–
Tax-paid income	<b>(450,553)</b>	(1,372,911)
Exempt income	–	(313,322)
Nondeductible expenses	<b>1,136,145</b>	1,908,210
Movements in temporary differences	<b>2,129,563</b>	–
Provision for income tax	<b>₱11,177,128</b>	₱7,878,803

## 20. Related Party Transactions

In the ordinary course of business, the Bank has various transactions with its affiliates and with certain directors, officers, stockholders and related interests (DOSRI). Transactions with such parties are made in the ordinary course of business and on substantially same terms as those prevailing at the time for comparable transactions with other parties. Current banking regulations limit the amount of individual loans to DOSRI, 70.00% of which must be secured, to the total of their respective deposits and the book value of their investments in the Bank. In the aggregate, loans to respective DOSRI generally should not exceed to the lower of the Bank’s total regulatory capital or 15.00% of the total loan portfolio. As of December 31, 2021 and 2020, the balance of outstanding loans to DOSRI amounted to ₱0.036 million and ₱0.14 million, respectively. Generally, the related party transactions are settled in cash.





The deposit liabilities and related interest expense in respect of related party transactions included in the financial statements follow:

Category	Volume/Outstanding balance		Terms and Conditions/Nature
	2021	2020	
Time	<b>₱453,876,232</b>	₱455,760,366	Time deposits with annual fixed interest rates ranging from 1.05% to 7.00% per annum in 2021 and from 1.25% to 7.00% per annum in 2020 with remaining maturities from less than one year to 5.00 years in both years.
Deposits	<b>122,217,805</b>	163,471,569	
Withdrawals	<b>(131,167,589)</b>	(268,552,327)	
Interest expense	<b>7,065,650</b>	3,274,226	Interest on time deposits Due upon demand; 1.00% per annum
Savings	<b>74,898,501</b>	35,462,930	
Deposits	<b>142,474,999</b>	154,276,808	Interest on savings deposit
Withdrawals	<b>(103,455,580)</b>	(195,837,651)	
Interest expense	<b>416,152</b>	360,870	Dividends paid in 2021 and 2020 (Note 15)
Dividends	<b>15,000,000</b>	25,000,000	

The compensation of key management personnel presented under 'Compensation and fringe benefits' in the statements of income amounted to ₱7.41 million and ₱8.23 million in 2021 and 2020, respectively. These pertain to short-term benefits of key management personnel.

In 2021 and 2020, total post-employment benefits of the key management personnel amounted to ₱0.90 million and ₱0.58 million, which includes defined benefit costs charged to profit or loss amounting to ₱0.15 million for 2021 and 2020 and to other comprehensive income amounting to ₱0.75 million and ₱0.34 million for 2021 and 2020, respectively.

## 21. Approval for the Release of the Financial Statements

The accompanying financial statements of the Bank were authorized and approved for issue by the BOD on May 19, 2022.

## 22. Supplementary Information Required Under BSP Circular No. 1074

Presented below is the supplementary information required by BSP under Appendix 55 of BSP Circular No. 1074 to be disclosed as part of the notes to financial statements. This supplementary information is not a required disclosure under PFRS.

### *Basic quantitative indicators of financial performance*

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

	2021	2020
Return on average equity	<b>6.91%</b>	5.02%
Return on average assets	<b>1.22%</b>	0.86%
Net interest margin on average earning assets	<b>7.30%</b>	6.06%

### *Description of capital instruments issued*

As of December 31, 2021 and 2020, the Bank has two classes of capital stock, preferred and common stocks.



*Significant credit exposures*

The BSP considers that loan concentration exists when total loan exposure to a particular industry or economic sector exceeds 30.00% of total loan portfolio. Identified concentration of credit risks are managed and controlled.

	2021		2020	
	Amount	%	Amount	%
Personal service activities	<b>₱1,185,607,424</b>	<b>83.11</b>	₱1,183,512,815	81.72
Personal and household goods	<b>88,319,294</b>	<b>6.13</b>	95,578,247	6.6
Other community, social work activities	<b>58,550,716</b>	<b>4.09</b>	65,966,988	4.55
Auto Loans	<b>40,058,242</b>	<b>2.80</b>	46,883,847	3.24
Agriculture, hunting and forestry	<b>32,284,307</b>	<b>2.24</b>	27,989,062	1.93
Transportation and storage	<b>12,122,225</b>	<b>0.84</b>	14,259,420	0.98
Wholesale and retail	<b>2,951,390</b>	<b>0.21</b>	3,948,742	0.27
Construction	<b>3,756,542</b>	<b>0.26</b>	2,340,381	0.16
Government	<b>1,012,791</b>	<b>0.07</b>	2,283,123	0.16
Real Estate, renting & business activities	<b>898,399</b>	<b>0.06</b>	2,091,529	0.14
Education	<b>1,134,168</b>	<b>0.08</b>	1,760,717	0.12
Hotel and restaurants	<b>404,627</b>	<b>0.03</b>	1,329,627	0.09
Manufacturing	<b>1,026,905</b>	<b>0.07</b>	250,676	0.02
Financial intermediaries	<b>107,131</b>	<b>0.01</b>	115,187	0.01
	<b>₱1,428,234,161</b>	<b>100</b>	₱1,448,310,361	100

For loans and receivables under ‘Personal services activities’, concentration risk is actively managed by the Bank with collections reasonably assured as they are coursed through the Department of Education.

*Loans per security*

Information on the amounts of secured and unsecured loans and receivables (gross of unearned interests and discounts and allowance for credit losses) follows:

	2021		2020	
	Amounts	%	Amounts	%
Secured portion:				
Chattel mortgage	<b>₱93,371,829</b>	<b>6.30</b>	₱134,498,913	8.97
Real estate mortgage	<b>89,035,611</b>	<b>6.01</b>	99,033,786	6.60
Deposit hold-out	<b>112,000</b>	<b>0.01</b>	120,000	0.01
Others	<b>9,673,795</b>	<b>0.65</b>	14,964	—
Unsecured portion	<b>1,289,744,085</b>	<b>87.03</b>	1,263,453,595	84.42
	<b>₱1,481,937,320</b>	<b>100.00</b>	₱1,497,121,258	100.00

Under banking regulations, prior to January 1, 2018, non-performing loans (NPLs) shall, as a general rule, refer to loan accounts whose principal and/or interest is unpaid for 30 days or more after due date or after they have become past due in accordance with existing rules and regulations. This shall apply to loans payable in lump sum and loans payable in quarterly, semi-annual, or annual installments, in which case, the total outstanding balance thereof shall be considered nonperforming.

In the case of receivables that are payable in monthly installments, the total outstanding balance thereof shall be considered nonperforming when three (3) or more installments are in arrears. In the case of receivables that are payable in daily, weekly, or semi-monthly installments, the total outstanding balance thereof shall be considered nonperforming at the same time that they become past due in accordance with existing BSP regulations, i.e., the entire outstanding balance of the receivable shall be considered as past due when the total amount of arrearages reaches 10.00% of the total receivable balance. Restructured receivables which do not meet the requirements to be treated as performing receivables shall also be considered as NPLs.



With the issuance of BSP Circular 941, *Amendments to the Regulations on Past Due and Non-Performing Loans* effective January 1, 2018, loans shall be considered non-performing, even without any missed contractual payments, when it is considered impaired under existing accounting standards, classified as doubtful or loss, in litigation, and/or there is evidence that full repayment of principal and interest is unlikely without foreclosure of collateral, if any. All other loans, even if not considered impaired, shall be considered non-performing if any principal and/or interest are unpaid for more than 90 days from contractual due date, or accrued interests for more than 90 days have been capitalized, refinanced, or delayed by agreement.

As of December 31, 2021 and 2020, secured and unsecured NPLs of the Bank follow:

	2021	2020
Secured	<b>₱22,384,330</b>	₱20,084,007
Unsecured	<b>31,365,671</b>	37,833,205
	<b>₱53,750,001</b>	₱57,917,212

#### *Status of loans*

Information on the amounts of performing and non-performing loans (NPLs) and receivables (gross of allowance for impairment and credit losses) of the Bank are as follows:

	2021			2020		
	Performing	Non-Performing	Total	Performing	Non-Performing	Total
Loans and discounts						
Chattel mortgage	<b>₱80,521,616</b>	<b>₱13,689,397</b>	<b>₱94,221,013</b>	₱118,301,273	₱15,113,849	₱133,415,122
Real estate mortgage	<b>80,340,675</b>	<b>8,709,922</b>	<b>89,050,596</b>	90,616,426	4,970,158	95,586,584
Deposit hold-out	<b>112,000</b>	—	<b>112,000</b>	120,000	—	120,000
Others	<b>1,267,213,028</b>	<b>31,330,623</b>	<b>1,298,543,651</b>	1,230,166,347	37,833,205	1,267,999,552
	<b>₱1,428,187,319</b>	<b>₱53,750,001</b>	<b>₱1,481,937,320</b>	₱1,439,204,046	₱57,917,212	₱1,497,121,258

#### *Secured liability and assets pledged as security*

The Bank has bills payable secured by salary loans presented under loans and receivables, with carrying value of ₱188.75 million and as ₱203.90 million as of December 31, 2021 and 2020, respectively.

#### *Related party loans*

As required by the BSP, the Bank discloses loan transactions with its and affiliates and investees and with certain DOSRI. Under existing banking regulations, the limit on the amount of individual loans to DOSRI, of which 70.00% must be secured, should not exceed the regulatory capital or 15.00% of the total loan portfolio, whichever is lower. These limits do not apply to loans secured by assets considered as non-risk as defined in the regulations.



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

	2021	2020
Total outstanding DOSRI/Related Party loans	<b>₱0.036 million</b>	₱0.14 million
Percent of DOSRI/Related party loans to total loan portfolio	<b>0.0025%</b>	0.06%
Percent of unsecured DOSRI/Related party loans to total DOSRI/Related party loans	—	—
Percent of past due DOSRI/Related party loans to total DOSRI/Related party loans	—	—
Percent of non-performing DOSRI/Related party loans to total DOSRI/Related party loans	—	—

The amounts of loans disclosed for related parties above differ with the amounts disclosed for key management personnel since the composition of DOSRI is more expansive than that of key management personnel.

BSP Circular No. 560 provides that the total outstanding loans, other credit accommodation and guarantees to each of the bank's/quasi-bank's subsidiaries and affiliates shall not exceed 10.00% of the net worth of the lending bank/quasi-bank, provided that the unsecured portion of which shall not exceed 5.00% of such net worth. Further, the total outstanding loans, credit accommodations and guarantees to all subsidiaries and affiliates shall not exceed 20.00% of the net worth of the lending bank/quasi-bank; and the subsidiaries and affiliates of the lending bank/quasi-bank are not related interest of any director, officer and/or stockholder of the lending institution, except where such director, officer or stockholder sits in the BOD or is appointed officer of such corporation as representative of the bank/quasi-bank.

On May 12, 2009, BSP issued Circular No. 654 allowing a separate individual limit of twenty-five (25.00%) of the net worth of the lending bank/quasi-bank to loans of banks/quasi-banks to their subsidiaries and affiliates engaged in energy and power generation.

#### *Commitments and contingencies*

As of December 31, 2021 and 2020, the Bank does not have any contingencies and commitments.

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## **23. Supplementary Information Required Under Revenue Regulations 15-2010**

In addition to the disclosures mandated by PFRS, and such other standards and/or conventions as may be adopted, companies are required by the BIR to provide in the notes to the financial statements, certain supplementary information for the taxable year. The amounts relating to such information may not necessarily be the same with those amounts disclosed in the financial statements which were prepared in accordance with PFRS.



**RR No. 15-2010**

The Bank paid the following types of taxes in 2021:

**Taxes and Licenses**

National:

Gross receipts tax	₱10,620,618
Documentary stamps tax	3,860,705

Local:

Other local taxes	1,547,310
	<b>₱16,028,633</b>

**Withholding Taxes**

Details of total remittances of withholding taxes for 2021 are as follows:

	Total remittances	Balance
Withholding taxes on compensation and benefits	₱1746,297	₱280,655
Final withholding taxes on interest on deposits	2,965,521	261,177
Expanded withholding taxes	221,462	571,881
	<b>₱4,933,280</b>	<b>₱1,113,713</b>

**Tax Cases and Assessments**

As of December 31, 2021, the Bank has no deficiency tax assessments and tax cases, litigation, and/or prosecution in courts or bodies outside the BIR.

