Report of Independent Certified Public Accountants to Accompany Income Tax Return

Punongbayan & Araullo
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The Board of Directors and the Members
Cooperative Bank of Cotabato
Maharlika Highway, Lanao
Kidapawan City, North Cotabato

We have audited the financial statements of Cooperative Bank of Cotabato (the Bank) for the year ended December 31, 2021, on which we have rendered the attached report dated March 30, 2022.

In compliance with Revenue Regulations V-20, we are stating that no partner of our Firm is related by consanguinity or affinity to the board of directors, officers or members of the Bank.

PUNONGBAYAN & ARAULLO

By: Ramilito L. Nañola
Partner

CPA Reg. No. 0090741
TIN 109-228-427
PTR No. 8852340, January 3, 2022, Makati City
SEC Group A Accreditation
Partner - No. 0395-AR-4 (until Sept. 16, 2022)
Firm - No. 0002 (until Dec. 31, 2024)
BIR AN 08-002511-019-2020 (until Dec. 21, 2023)
Firm's BOA/PRC Cert. of Reg. No. 0002 (until Aug. 27, 2024)
Firm's CDA CEA Accreditation No. 021-AF (until June 1, 2024)

March 30, 2022

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Report of Independent Auditors

The Board of Directors and the Members
Cooperative Bank of Cotabato
Maharlika Highway, Lanao
Kidapawan City, North Cotabato

Report on the Audit of the Financial Statements

Unqualified Opinion on the 2021 Statement of Financial Position and Qualified Opinion on the 2021 Statements of Profit or Loss and Cash Flows and 2020 Financial Statements

We have audited the financial statements of Cooperative Bank of Cotabato (the Bank), which comprise the statements of financial position as at December 31, 2021 and 2020, and the statements of profit or loss, 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, except for the possible effects on the, 2021 statements of profit or loss and cash flows and, 2020 financial statements, as described under the *Basis for Qualified Opinion* section of this report, 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 (PFRS), as modified by the application of the financial reporting reliefs issued by the Bangko Sentral ng Pilipinas (BSP) and as approved by the Cooperative Development Authority (CDA), as described in Note 2 to the financial statements.

Basis for Qualified Opinion

As discussed in Note 8 to the financial statements, the Bank's interest income on loans and receivables amounting to P269,276,241 for the year ended December 31, 2020, as stated in the statement of profit or loss, was recognized based on actual cash collections from borrowers. However, PFRS, as modified by the application of the financial reporting reliefs issued by the BSP and approved by the CDA, as described in Note 2 to the financial statements, requires recognition of interest income when earned based on the contractual terms of the instruments regardless of when it is collected. In addition, due to the status of the accounting records, the Bank was unable to determine the amount of interest income earned on loans and receivables in 2020 from the last payment date up to the end of the reporting period. Moreover, due to the same limitation on the availability of accounting records, the Bank was also not able to determine the amount of required allowance for impairment on accrued interest income that should have been recognized on outstanding loans and receivables as December 31, 2020, in accordance with the requirement of PFRS 9, *Financial Instruments*.

Consequently, we were unable to obtain sufficient appropriate audit evidence to determine and verify the appropriateness of the interest income recognized in the statement of profit or loss for the year ended December 31, 2020, and the necessary adjustments to the related accrued interest receivables, including any allowance for impairment losses, that should have been recognized in the statement of financial position as at December 31, 2020. In 2021, however, the Bank was able to determine the amount of interest income on loans and receivables already earned but not yet collected amounting to P10,122,251 as of December 31, 2021. The Bank was also able to determine the amount of required allowance for impairment on the related accrued interest income amounting to P101,223 as of December 31, 2021. Accordingly, our opinion with respect to the 2021 statement of financial position as at December 31, 2021 is now unqualified. But, the interest income on Loans and Receivables earned in 2020, as discussed in the preceding paragraph, which was recognized when collected in 2021, was not adjusted in the 2021 statements of profit or loss and cash flows. Hence, our opinion on the 2021 statements of profit and loss and cash flows remains qualified.

Emphasis of Matters

We draw attention to Note 1 to the financial statements, which describes management's assessment of the continuing impact on the Bank's financial statements of the business disruption brought by the COVID-19 pandemic. Our opinion is not modified in respect of this matter.

In addition, we draw attention to Note 2 to the financial statements, which indicates that the financial statements have been prepared in accordance with the PFRS, as modified by the application of the financial reporting reliefs issued by the BSP and approved by the CDA in response to the COVID-19 pandemic. The reliefs cover only the 2020 transactions/events. The impact of the application of the financial reporting reliefs on the 2020 financial statements are discussed in detail in Note 8 to the financial statements. Our opinion is not modified in respect of this matter.

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with PFRS, as modified by the application of the financial reporting reliefs issued by the BSP and as approved by the CDA, as described in Note 2 to the financial statements, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

As part of an audit in accordance with PSA and SASC, 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 auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Bank to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in accordance with PFRS, as modified by the application of the financial reporting reliefs issued by the BSP and as approved by the CDA, as described in Note 2 to the financial statements.

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

Report on Other Legal and Regulatory Requirements

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information for the years ended December 31, 2021 and 2020 required by the BSP as disclosed in Note 25 to the financial statements, and the supplementary information for the year ended December 31, 2021 required by the Bureau of Internal Revenue as disclosed in Note 26 to the financial statements is presented for purposes of additional analysis and is not a required part of the basic financial statements prepared in accordance with the PFRS, as modified by the application of the financial reporting reliefs issued by the BSP and as approved by the CDA, as described in Note 2 to the financial statements. Such supplementary information is the responsibility of management. The supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

PUNONGBAYAN & ARAULLO

By: Ramilito L. Nañola
Partner

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Firm's CDA CEA Accreditation No. 021-AF (until June 1, 2024)

March 30, 2022

COOPERATIVE BANK OF COTABATO
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2021 AND 2020
(Amounts in Philippine Pesos)

	Notes		2021		2020
R E S O U R C E S					
CASH AND OTHER CASH ITEMS	7	**P**	**23,834,400**	P	19,113,910
DUE FROM BANGKO SENTRAL NG PILIPINAS	7		**28,429,133**		28,964,652
DUE FROM OTHER BANKS	7		**452,986,072**		620,605,952
LOANS AND RECEIVABLES - Net	8		**1,828,905,191**		1,616,428,574
BANK PREMISES, FURNITURE, FIXTURES AND EQUIPMENT - Net	9		**135,414,716**		111,108,708
INVESTMENT PROPERTIES - Net	10		**4,310,235**		4,863,334
DEFERRED TAX ASSETS - Net	21		**45,072,004**		49,988,795
POST-EMPLOYMENT DEFINED BENEFIT ASSET	19		**2,477,351**		-
PREPAYMENTS AND OTHER RESOURCES	11		**21,543,148**		20,728,311
TOTAL RESOURCES		**P**	**2,542,972,250**	P	2,471,802,236
LIABILITIES AND EQUITY					
DEPOSIT LIABILITIES	12	**P**	**1,451,654,590**	P	1,326,393,310
BILLS PAYABLE	13		**299,709,710**		389,082,076
ACCRUED EXPENSES AND OTHER LIABILITIES	14		**78,673,393**		86,009,473
POST-EMPLOYMENT DEFINED BENEFIT OBLIGATION	19		**-**		8,337,183
INCOME TAX PAYABLE			**2,383,329**		3,129,797
Total Liabilities			**1,832,421,022**		1,812,951,839
EQUITY	15		**710,551,228**		658,850,397
TOTAL LIABILITIES AND EQUITY		**P**	**2,542,972,250**	P	2,471,802,236

See Notes to Financial Statements.

COOPERATIVE BANK OF COTABATO
STATEMENTS OF PROFIT OR LOSS
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020
(Amounts in Philippine Pesos)

	Notes	2021	2020
INTEREST INCOME			
Loans and receivables	8	**P 346,357,229**	P 269,276,241
Deposits with other banks	7	**987,572**	1,511,017
Post-employment defined benefit asset - net	19	**-**	36,610
Investments		**-**	7,342
		347,344,801	270,831,210
INTEREST EXPENSE			
Deposit liabilities	12	**47,810,280**	42,403,851
Bills payable	13	**17,683,178**	13,094,277
Post-employment defined benefit obligation - net	19	**330,153**	-
Lease liabilities	14	**92,636**	37,608
		65,916,247	55,535,736
NET INTEREST INCOME		**281,428,554**	215,295,474
IMPAIRMENT LOSSES	8	**54,734,108**	13,623,390
NET INTEREST INCOME AFTER IMPAIRMENT LOSSES		**226,694,446**	201,672,084
OTHER OPERATING EXPENSES	17	**(270,319,540)**	(229,214,715)
OTHER OPERATING INCOME	18	**106,343,151**	65,477,719
PROFIT BEFORE TAX		**62,718,057**	37,935,088
TAX EXPENSE	21	**6,768,104**	609,146
NET PROFIT	15	**P 55,949,953**	P 37,325,942
Basic and Diluted Earnings Per Share	22	**P 581**	P 416

See Notes to Financial Statements.

COOPERATIVE BANK OF COTABATO
STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020
(Amounts in Philippine Pesos)

	Notes	2021	2020
NET PROFIT		**P 55,949,953**	P 37,325,942
OTHER COMPREHENSIVE INCOME (LOSS)			
Item that will not be reclassified subsequently to profit or loss			
Remeasurements of post-employment defined benefit obligation	19	**3,354,092**	(12,149,459)
Tax income (expense)	21	**(838,523)**	3,644,838
Other Comprehensive Income (Loss) - net of tax		**2,515,569**	(8,504,621)
TOTAL COMPREHENSIVE INCOME		**P 58,465,522**	P 28,821,321

See Notes to Financial Statements.

COOPERATIVE BANK OF COTABATO
STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020
(Amounts in Philippine Pesos)

	Notes	2021	2020
SHARE CAPITAL	15		
Common		**P 69,664,159**	P 65,198,159
Preferred		**3,441,000**	3,441,000
		73,105,159	68,639,159
RESERVE FOR RETIREMENT OF PREFERRED SHARES	2	**3,441,000**	3,441,000
REVALUATION RESERVES			
Balance at beginning of year		**(13,349,232)**	(4,844,611)
Other comprehensive income (loss) for the year		**2,515,569**	(8,504,621)
Balance at end of year		**(10,833,663)**	(13,349,232)
SURPLUS			
Dividends and patronage refund			
Balance at beginning of year		**456,395,246**	442,136,578
Allocation from net profit	15	**39,164,968**	26,128,161
Cash dividends	15	**-**	(11,432,792)
Patronage refund		**-**	(436,701)
Balance at end of year		**495,560,214**	456,395,246
STATUTORY RESERVES	15		
General reserve fund			
Balance at beginning of year		**71,884,459**	68,151,865
Allocation from net profit	15	**5,594,995**	3,732,594
Balance at end of the year		**77,479,454**	71,884,459
Cooperative education and training fund			
Balance at beginning of year		**2,791,774**	3,224,087
Allocation from net profit	15	**5,594,995**	3,732,594
Disbursements during the year		**(3,418,878)**	(2,298,610)
Cooperative education and training fund payable to apex organization		**(2,797,498)**	(1,866,297)
Balance at end of the year		**P 2,170,393**	P 2,791,774

Forward

	Note	2021	2020
Community development fund			
Balance at beginning of year		**P 12,967,885**	P 14,357,343
Disbursements during the year		**(5,014,315)**	(2,509,236)
Allocation from net profit	15	**1,678,499**	1,119,778
Balance at end of the year		**9,632,069**	12,967,885
Optional fund (land and building fund)			
Balance at beginning of year		**56,080,106**	53,467,291
Allocation from net profit	15	**3,916,496**	2,612,815
Balance at end of the year		**59,996,602**	56,080,106
		149,278,518	143,724,224
TOTAL EQUITY		**P 710,551,228**	P 658,850,397

See Notes to Financial Statements.

COOPERATIVE BANK OF COTABATO
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2021 AND 2020
(Amounts in Philippine Pesos)

	Notes	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**P 62,718,057**	P 37,935,088
Adjustments for:			
Impairment losses	8	**54,734,108**	13,623,390
Depreciation and amortization	9, 10	**15,716,843**	10,722,273
Gain on retirement of bank premises, furniture, fixtures and equipment	9	**(236,396)**	(126,842)
Operating profit before working capital changes		**132,932,612**	62,153,909
Increase in loans and receivables		**(267,210,725)**	(10,834,492)
Increase in prepayments and other resources		**(814,837)**	(9,862,712)
Increase in deposit liabilities		**123,198,731**	257,540,768
Increase (decrease) in accrued expenses and other liabilities		**5,028,792**	(6,012,520)
Decrease in post-employement defined benefit obligation		**(10,814,534)**	(3,104,150)
Cash generated from operations		**(17,679,961)**	289,880,803
Income taxes paid		**(2,592,955)**	(2,668,772)
Net Cash From (Used in) Operating Activities		**(20,272,916)**	287,212,031
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisitions of bank premises, furniture, fixtures and equipment	9	**(37,553,981)**	(30,634,389)
Proceeds from retirement of bank premises, furniture, fixtures and equipment		**383,174**	126,842
Net Cash Used in Investing Activities		**(37,170,807)**	(30,507,547)
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayments of bills payable	13	**(376,978,287)**	(330,822,806)
Proceeds from availment of bills payable	13	**287,605,921**	404,411,223
Cash dividends paid	24	**(11,079,627)**	(10,635,807)
Disbursements from statutory funds		**(8,433,193)**	(4,807,846)
Proceeds from issuance of share capital	15	**4,466,000**	4,202,000
Payment of interest and patronage refund		**-**	(365,348)
Repayment of lease liabilities	14	**(1,572,000)**	(358,000)
Net Cash From (Used in) Financing Activities		**(105,991,186)**	61,623,416
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**(163,434,909)**	318,327,900
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	7		
Cash and other cash items		**19,113,910**	19,870,702
Due from Bangko Sentral ng Pilipinas		**28,964,652**	28,393,733
Due from other banks		**620,605,952**	302,092,179
		668,684,514	350,356,614
CASH AND CASH EQUIVALENTS AT END OF YEAR	7		
Cash and other cash items		**23,834,400**	19,113,910
Due from Bangko Sentral ng Pilipinas		**28,429,133**	28,964,652
Due from other banks		**452,986,072**	620,605,952
CASH AND CASH EQUIVALENTS AT END OF YEAR		**P 505,249,605**	P 668,684,514

Supplemental Information on Non-cash Investing and Financing Activities:

1) In 2020, the Bank declared dividends amounting to P11,429,953 (see Note 15). No dividend was declared in 2021. The outstanding dividend payable as of December 31, 2021 and 2020 amounted to P17,303,228 and P28,382,855, respectively (see Note 14).

2) In 2021 and 2020, the Bank recognized right-of-use asset and lease liability both amounting to P2,062,549 and P2,393,390, respectively (see Notes 9 and 24).

3) In 2020, the Bank transferred certain buildings and improvements no longer used in operations from bank, premises, furniture, fixtures and equipment to investment properties (see Notes 9 and 10).

See Notes to Financial Statements.

COOPERATIVE BANK OF COTABATO
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2021 AND 2020
(Amounts in Philippine Pesos)

1. GENERAL INFORMATION

1.1 Bank Information

Cooperative Bank of Cotabato (the Bank) was organized and registered with the Cooperative Development Authority (CDA) on April 18, 1979, under Registration No. F-127CB-02-DVO in accordance with the provision of Republic Act (R.A.) No. 6938, otherwise known as the Cooperative Code of the Philippines. The Bank was re-registered with the CDA under Registration No. 9520-12005732 on January 7, 2010 to carry on the business of a rural bank in accordance with the provisions of R.A. No. 7353 (Rural Banks Act of 1992) and R.A. No. 9520 (Philippine Cooperative Code of 2008).

Under the R.A. No. 9520, cooperatives are exempted from the payment of all national, city, provincial, municipal or barangay taxes of whatever name and nature, including exemption from customs duties, advance sales of compensating taxes on their importation of machinery, equipment and spare parts which are not available locally as certified by the Department of Trade and Industry. A cooperative shall enjoy exemptions from government taxes or fees imposed under internal revenue laws provided that the cooperative does not transact business with non-members or the general public. A cooperative, if transacting business with both members and non-members or the general public, may be exempt from tax if the accumulated reserves and undivided net savings of the cooperative does not exceed P10,000,000.

The Bank serves both members and non-members. Since the Bank's accumulated reserves and undivided net savings exceeds the P10,000,000 threshold for tax exemption, the Bank's transactions with non-members are subject to taxes, including income tax.

The registered office address of the Bank is at Maharlika Highway, Lanao, Kidapawan City, North Cotabato. The Bank operates within the provinces of North Cotabato, Sultan Kudarat, South Cotabato, Davao Del Sur, and Bukidnon with thirteen branches located in the City of Kidapawan and the municipalities of M'lang, Kabacan, Antipas, Midsayap and Pigcawayan of North Cotabato and in the Municipalities of Isulan and Lebak of Sultan Kudarat, Koronadal and Polomolok of South Cotabato, Bansalan of Davao del Sur and Don Carlos of Bukidnon and one Micro Banking Office in Surallah of Sultan Kudarat.

1.2 Continuing Impact of Corona Virus Disease 2019 (COVID-19) Pandemic on Bank's Operation

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

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

- Scaled-down branch operations due to mobility/quarantine restrictions;
- Enhanced the existing policy and requirements of the Bank's products and loaning programs to align with the clients' needs;
- Revised the Business Continuity Plan to incorporate health and safety protocols;
- Improved the credit collection strategies to reduce credit risk exposures;
- Revisited and improved marketing strategies to obtain additional deposits from clients;
- Increased borrowings from other lending institutions for additional funding;
- Allocated funds for the purchase of COVID-19 vaccines for the Bank's employees and immediate family members;
- Upgraded previous core banking system into a cloud-based core banking system;
- Implementation of the new Five (5) Year Strategic Plan – 2021 to 2025 which serves as the bank's direction and goals in terms of digitalization in the next five years; and,
- Approval and implementation of the revised Organizational Structure, which is aligned with the Five (5) Year Strategic Plan, and aims to appropriately guide the Bank in terms of manpower directives and responsibilities to accomplish the Bank's overall objectives.

As a result of the actions taken by management, the Bank's operations improved in 2021 as discussed below.

- total revenues increased compared to that of 2020, as a result of continuation of business operations despite the different quarantine classifications imposed by the government in 2021, as compared to when the Bank had temporary closure and limited operation from March to June 2020;
- increase in operating expenses due to assistance provided for vaccination of its personnel in 2021, which eventually increased the manpower able to work onsite resulting in boost in operation;
- recognition of impairment on financial assets is higher as compared to 2020;

- decrease in past due ratio from 45.77% in 2020 to 22.06% in 2021;
- almost 95% of the employees were fully vaccinated;
- successful implementation of cloud-based core banking system – NextBank Software on July 15, 2021;
- opening of new branch – Don Carlos Branch, conversion of Surallah Branch-lite to a regular branch and inauguration of newly renovated and constructed Pigcawayan Branch and Executive Office Building and relocated Kabacan Branch, respectively;
- Successful conduct of the BSP's general examination where the bank was given a fair and excellent rating despite of the impacts of COVID-19 pandemic;
- Acquisition of lot properties for future expansion and branching; and,
- Receipt of the Hall of Fame Awardee from the Cooperative Bank Federation of the Philippines since 2016, which highlights cooperative banks with quality and resilient key financial indicators.

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

1.3 Approval of the Financial Statements

The financial statements of the Bank as of and for the year ended December 31, 2021 (including the comparative financial statements as of and for the year ended December 31, 2020) were approved and authorized for issue by the Bank's Board of Directors (BOD) on March 30, 2022.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 *Basis of Preparation of Financial Statements*

(a) Statement of Compliance with Philippine Financial Reporting Standards

Except for the non-accrual of interest income on loans and receivables already earned but not yet collected and recognition of the related allowance for impairment on accrued interest income on loans in 2020, the financial statements of the Bank have been prepared in accordance with the Philippine Financial Reporting Standards (PFRS), as modified by the application of the following financial reporting reliefs issued by the Bangko Sentral ng Pilipinas (BSP) and as approved by the CDA in response to the COVID-19 pandemic:

- Staggered booking of allowance for impairment over a maximum period of five years; and

- Exclusion of eligible loans from past due and non-performing classification until December 31, 2021.

The reliefs cover only the 2020 transactions/events. The impact on the Bank's financial statements of these financial reporting reliefs is presented in Note 8.

PFRS are adopted by the Financial Reporting Standards Council (FRSC) from the pronouncements issued by the International Accounting Standards Board, and approved by the Philippine Board of Accountancy.

The financial statements were also prepared in accordance with the applicable Philippine Financial Reporting Framework for Cooperatives (PFRFC) as to the distribution of net profits (see Note 15.3).

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

(b) Presentation of Financial Statements

The financial statements are presented in accordance with Philippine Accounting Standards (PAS) 1, *Presentation of Financial Statements*, and in accordance with Chapter 3, *Financial Statements Presentation*, of the PFRFC. The Bank presents statement of comprehensive income separate from the statement of profit or loss.

The Bank presents a third statement of financial position as at the beginning of the preceding period when it applies an accounting policy retrospectively, or makes a retrospective restatement or reclassification of items that has a material effect on the information in the statement of financial position at the beginning of the preceding period. The related notes to the third statement of financial position are not required to be disclosed.

(c) Functional and Presentation Currency

These financial statements are presented in Philippines pesos, the Bank's functional and presentation currency, and all values represent absolute amounts except when otherwise indicated.

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

2.2 *Adoption of New and Amended PFRS*

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

The Bank opted to early adopt the application of the amendments to *PFRS 16, Leases – COVID-19-Related Rent Concessions beyond June 30, 2021,* which is effective from April 1, 2021. The amendment extends for one year the use of practical expedient of not assessing whether rent concessions reducing payments up until June 30, 2022 occurring as a direct consequence of the COVID-19 pandemic are lease modifications and instead to account for those rent concessions as if they are not lease modifications. The application of these amendments had no significant impact to the Bank's financial statements as the Bank did not receive any rent concession from its lessors in 2021.

(b) Effective Subsequent to 2021 but not Adopted Early

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

(i) PAS 16 (Amendments), *Property, Plant and Equipment – Proceeds Before Intended Use* (effective from January 1, 2022)

(ii) PAS 37 (Amendments), *Provisions, Contingent Liabilities and Contingent Assets – Onerous Contracts – Cost of Fulfilling a Contract* (effective January 1, 2022)

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

- PFRS 9 (Amendments), *Financial Instruments – Fees in the '10 per cent' Test for Derecognition of Liabilities*
- Illustrative Examples Accompanying PFRS 16, *Leases – Lease Incentives*

(iv) PAS 1 (Amendments), *Presentation of Financial Statements – Classification of Liabilities as Current or Non-current* (effective January 1, 2023)

(v) PAS 1 (Amendments), *Presentation of Financial Statements – Disclosure of Accounting Policies* (effective January 1, 2023)

(vi) PAS 8 (*Amendments*), *Accounting Estimates – Definition of Accounting Estimates* (January 1, 2023)

(vii) PAS 12 (Amendments), *Income Taxes – Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction* (January 1, 2023)

2.3 Financial Instruments

Financial assets and financial liabilities are recognized when the entity becomes a party to the contractual provisions of the financial instruments.

(a) Financial Assets

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

Regular purchases and sales of financial assets are recognized on their trade date (i.e., the date that the Bank commits to purchase or sell the asset).

(i) Classification, Measurement and Reclassification of Financial Assets

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

Financial Assets at Amortized Cost

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

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

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

Financial assets meeting these criteria are measured initially at fair value plus transaction costs. They are subsequently measured at amortized cost using the effective interest method, less any allowance for expected credit losses (ECL).

Where the business model is to hold assets to collect contractual cash flows, the Bank assesses whether the financial instruments' cash flows represent SPPI. In making this assessment, the Bank considers whether the contractual cash flows are consistent with a basic lending arrangement, i.e., interest includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement [(see Note 3.1*(b)*]. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at fair value through profit or loss (FVTPL).

The Bank's financial assets at amortized cost are presented in the statement of financial position as Cash and Other Cash Items, Due from BSP, Due from Other Banks, Loans and Receivables and Restricted funds (presented under Prepayments and Other Resources account).

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

Financial Assets at Fair Value Through Other Comprehensive Income (FVOCI)

The Bank accounts for financial assets at FVOCI if the assets meet the following conditions:

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

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

At initial recognition, the Bank can make an irrevocable election (on an instrument-by-instrument basis) to designate equity investments as at FVOCI; however, such designation is not permitted if the equity investment is held by the Bank for trading.

The Bank has designated certain equity instruments as at FVOCI on initial application of PFRS 9.

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

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

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are SPPI.

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

A change in the objective of the Bank's business model will be effected only at the beginning of the next reporting period following the change in the business model.

(ii) Recognition of Interest Income

Interest income on financial assets at amortized cost is calculated by applying the effective interest rate to the gross carrying amount of the financial assets, except for loans and receivables [see Note 2.1*(a)*]. The calculation of the effective interest rate includes transaction costs and fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset. The interest earned is recognized as part of Interest Income account in the statement of profit or loss.

(iii) Impairment of Financial Assets

At the end of the reporting period, the Bank assesses its ECL on a forward-looking basis associated with its financial assets carried at amortized cost and debt instruments measured at FVOCI. Recognition of credit losses is no longer dependent on the Bank's identification of a credit loss event. Instead, the Bank considers a broader range of information in assessing credit risk and measuring expected credit losses, including past events, current conditions, reasonable and supportable forecasts that affect collectability of the future cash flows of the financial assets.

The Bank measures loss allowances at an amount equal to lifetime ECL, except for the following financial instruments for which they are measured as 12-month ECL:

- debt securities that are identified to have 'low credit risk' at the reporting date; and,

- other financial instruments (other than lease receivables) on which credit risk has not increased significantly since their initial recognition.

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

The Bank's definition of credit risk and information on how credit risk is mitigated by the Bank are disclosed in Note 4.3.

<u>*Measurement of ECL*</u>

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

- *Probability of Default (PD)* – It is an estimate of likelihood of a borrower defaulting on its financial obligation over a given time horizon, either over the next 12 months (12-month PD) or over the remaining lifetime (lifetime PD) of the obligation.

- *Loss Given Default (LGD)* – It is an estimate of loss arising in case where a default occurs at a given time (either over the next 12 months or 12-month LGD), or over the remaining lifetime or lifetime LGD). It is based on the difference between the contractual cash flows of a financial instrument due from a counterparty and the Bank would expect to receive, including the realization of any collateral. It is presented as a percentage loss per unit of exposure at the time of default.

- *Exposure at Default (EAD)* – It represents the gross carrying amount of the financial instruments subject to impairment calculation; hence, this is the amount that the Bank expects to be owed at the time of default over the next 12 months (12-month EAD) or over the remaining lifetime (lifetime EAD). In case of a loan commitment, the Bank shall include the undrawn balance (up to the current contractual limit) at the time of default should it occur.

The measurement of the ECL reflects: (i) an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes; (ii) the time value of money; and, (iii) reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

Measurement of the expected credit losses is determined by a probability-weighted estimate of credit losses over the expected life of the financial instrument.

The Bank's detailed ECL measurement as determined by management is disclosed in Note 4.3.

(iv) Derecognition of Financial Assets

The financial assets are derecognized when the contractual rights to receive cash flows from the financial instruments expire, or when the financial assets and all substantial risks and rewards of ownership have been transferred to another party. If the Bank neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Bank recognizes its retained interest in the asset and an associated liability for amounts it may have to pay.

If the Bank retains substantially all the risks and rewards of ownership of a transferred financial asset, the Bank continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

Modification of Loans

When the Bank derecognizes a financial asset through renegotiation or modification of contractual cash flows of loans to customers, the Bank assesses whether or not the new terms are substantially different to the original terms. The Bank considers, among others:

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

If the terms are substantially different, the Bank derecognizes the financial asset and recognizes a "new" asset at fair value, and recalculates a new effective interest rate for the asset. The date of renegotiation is consequently considered to be the date of initial recognition for impairment calculation, including for the purpose of determining whether a significant increase in credit risk has occurred. However, the Bank also assesses whether the new financial asset recognized is deemed to be credit-impaired at initial recognition, especially in circumstances where the renegotiation was driven by the debtor being unable to make the originally agreed payments. Differences in the carrying amount are as gain or loss on derecognition of financial assets in profit or loss.

If the terms are not substantially different, the renegotiation or modification does not result in derecognition, and the Bank recalculates the gross carrying amount based on the revised cash flows of the financial asset and recognizes a modification gain or loss in profit or loss. The new gross carrying amount is recalculated by discounting the modified cash flows of the original effective interest rate (or credit-adjusted effective interest rate for purchased or originated credit-impaired financial assets).

Derecognition of Financial Assets Other than Modification

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

(b) *Financial Liabilities*

Financial liabilities, which include deposit liabilities, bills payable and accrued expenses and other liabilities (excluding tax-related payables), are recognized when the Bank becomes a party to the contractual terms of the instrument. All interest-related charges incurred on a financial liability are recognized as an expense in profit or loss under the caption Interest Expense in the statement of profit or loss.

Deposit liabilities are recorded or stated at amounts in which they are to be paid.

Bills payable are recognized initially at fair value, which is equivalent to the proceeds of the loan (fair value of consideration received). Bills payable are subsequently stated at amortized cost; any difference between the proceeds, net of transaction costs and the redemption value is recognized in profit or loss over the period of the borrowings using the effective interest method.

Accrued expenses and other liabilities are recognized initially at their fair value and subsequently measured at amortized cost less settlement payments.

Dividend distributions to shareholders are recognized as financial liabilities when the dividends are approved by the shareholders and the BSP.

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

(c) *Offsetting Financial Instruments*

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

2.4 Bank Premises, Furniture, Fixtures and Equipment

Bank premises, furniture, fixtures and equipment, except for land, are carried at acquisition cost or construction cost less subsequent depreciation and amortization and any impairment losses. Land held for administration is stated at cost less any impairment losses.

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

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

Buildings and improvement	20 to 25 years
Transportation equipment	8 to 10 years
Furniture, fixtures and equipment	2 to 5 years
Information technology equipment	2 to 5 years

Leasehold improvements are amortized over the term of the lease or the estimated useful lives of the improvements of two years, whichever is shorter.

Construction in progress represents properties under construction and is stated at cost. This includes costs of construction and other direct costs. The account is not depreciated until such time that the assets are completed and available for use.

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

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (see Note 2.12).

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

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

2.5 Investment Properties

Investment properties include parcels of land acquired by the Bank from defaulting borrowers that are not expected to be sold within the next 12 months. These are initially measured at acquisition cost, which comprises the carrying amount of the related loan after adjustments for unamortized premium or discount less allowance for credit losses plus accrued interest and directly attributable costs. Investment properties also include building and improvements with currently undetermined use. Subsequently, investment properties are stated at cost less accumulated depreciation (except for land) and any impairment in value.

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

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (see Note 2.12).

Transfers from other accounts (such as bank premises, furniture, fixtures and equipment) are made to investment properties when, and only when, there is a change in use, evidenced by ending of owner-occupation or commencement of an operating lease to another party or holding the property for capital appreciation, while transfers from investment properties are made when, and only when, there is a change in use, evidenced by commencement of owner-occupation or commencement of development with a view to sell. In isolation, a change in management's intentions for the use of a property does not provide evidence of a change in use.

Investment property is derecognized upon disposal or when permanently withdrawn from use and no future economic benefit is expected from its disposal.

Any gain or loss on the retirement or disposal of an investment property is recognized in profit or loss in the year of retirement or disposal.

2.6 Intangible Asset

Intangible asset (presented as part of Prepayments and Other Resources in the statements of financial position) pertains to an acquired computer software license used in the performance of financial services and administration, which is accounted for under the cost model. The cost of the asset is the amount of cash or cash equivalents paid or the fair value of the other considerations given up to acquire an asset at the time of its acquisition. Capitalized costs are amortized on a straight-line basis over the estimated useful lives of two years as the lives of the intangible asset is considered finite. The Bank's intangible asset is fully amortized as of December 31, 2021 and 2020.

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and install the specific software. Costs associated with maintaining computer software are recognized as expense in profit or loss as incurred.

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

2.7 Prepayments and Other Resources

Prepayments and other resources pertain to other resources controlled by the Bank as a result of past events. These are recognized in the financial statements when it is probable that the future economic benefits will flow to the entity and the asset has a cost or value that can be measured reliably. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

2.8 Provisions and Contingencies

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

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

In those cases, where the possible outflow of economic resource as a result of present obligations is considered improbable or remote, or the amount to be provided for cannot be measured reliably, no liability is recognized in the financial statements. Similarly, possible inflows of economic benefits to the Bank that do not yet meet the recognition criteria of an asset are considered contingent assets, hence, are not recognized in the financial statements. On the other hand, any reimbursement that the Bank can be virtually certain to collect from a third party with respect to the obligation is recognized as a separate asset not exceeding the amount of the related provision.

2.9 Equity

Share capital, which consists of common and preferred shares, represents the nominal value of shares that have been issued.

Reserve for retirement of preferred shares was established by the Bank to comply with the requirements of BSP as reserves for the retirement of preferred shares. Allocation to this fund is an appropriation from net profit, as authorized by the Bank's BOD.

Revaluation reserves comprise gains and losses on remeasurements of post-employment defined benefit asset or obligation.

Surplus and statutory reserves include all distributions of net surplus from current and prior period results, net of interest on share capital and patronage refunds, as reported in the statement of profit or loss, reduced by the amounts of dividends declared and any disbursements from the statutory reserves.

2.10 Revenue and Expense Recognition

A contract with a customer that results in a recognized financial instrument in the Bank's financial statements may be partially within the scope of PFRS 9 and partially within the scope of PFRS 15, *Revenue from Contracts with Customers*. In such case, the Bank first applies PFRS 9 to separate and measure the part of the contract that is in-scope of PFRS 9, and then applies PFRS 15 to the residual part of the contract.

The Bank also earns service fees and commissions on various banking services, which are supported by contracts approved by the parties involved. These revenues are accounted for by the Bank in accordance with PFRS 15. The Bank has evaluated that these revenues are within the scope of PFRS 15, based on the following gating criteria:

- The parties to the contract have approved the contract either in writing, orally or in accordance with other customary business practices;
- Each party's rights regarding the goods or services to be transferred or performed can be identified;
- The payments terms for the goods or services to be transferred or performed can be identified;
- The contract has commercial substance (i.e., the risk timing or amount of the future cash flows is expected to change as a result of the contract); and,
- Collection of the consideration in exchange of the goods and services is probable.

In determining whether to recognize revenue, the Bank follows the five-step process prescribed by the new standard:

(1) identifying the contract with a customer;
(2) identifying the performance obligation;
(3) determining the transaction price;
(4) allocating the transaction price to the performance obligations; and,
(5) recognizing revenue when/as performance obligations are satisfied.

Revenue is recognized only when (or as) the Bank satisfies a performance obligation by transferring control of the promised goods or services to a customer. The transfer of control can occur over time or at a point in time.

A performance obligation is satisfied at a point in time unless it meets one of the following criteria, in which case it is satisfied over time:

- the customer simultaneously receives and consumes the benefits provided by the Bank's performance as the Bank performs;
- the Bank's performance creates or enhances an asset that the customer controls as the asset is created or enhanced; and,
- the Bank's performance does not create an asset with an alternative use to the Bank and the entity has an enforceable right to payment for performance completed to date.

The transaction price allocated to performance obligations satisfied at a point in time is recognized as revenue when control of the goods or services transfers to the customer. If the performance obligation is satisfied over time, the transaction price allocated to that performance obligation is recognized as revenue as the performance obligation is satisfied.

The Bank recognizes revenues arising from various banking services, which are to be accounted under PFRS 15. Specifically, for service charges and processing fees revenue, which are recognized at a point in time when the services have been provided arising from loans, deposits, and other banking transactions are taken up as income based on agreed terms and conditions. These are included as part of Other Operating Income in the statement of profit or loss.

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

2.11 Leases – Bank as Lessee

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

- the contract contains an identified asset, which is either explicitly identified in the contract or implicitly specified by being identified at the time the asset is made available to the Bank;

- the Bank has the right to obtain substantially all of the economic benefits from use of the identified asset throughout the period of use, considering its rights within the defined scope of the contract; and,

- the Bank has the right to direct the use of the identified asset throughout the period of use. The Bank assess whether it has the right to direct 'how and for what purpose' the asset is used throughout the period of use.

At lease commencement date, the Bank recognizes a right-of-use asset and a lease liability on the statement of financial position. The right-of-use asset is measured at cost, which is made up of the initial measurement of the lease liability, any initial direct costs incurred by the Bank, an estimate of any costs to dismantle and remove the asset at the end of the lease, and any lease payments made in advance of the lease commencement date (net of any incentives received).

The Bank amortizes the right-of-use asset on a straight-line basis from the lease commencement date over the useful life of the right-of-use asset or the term of the lease, whichever is shorter. The Bank also assesses the right-of-use asset for impairment when such indicators exist (see Note 2.12).

At the commencement date, the Bank measures the lease liability at the present value of the lease payments unpaid at that date, discounted using the interest rate implicit in the lease if that rate is readily available or the Bank's incremental borrowing rate.

Lease payments included in the measurement of the lease liability are made up of fixed payments (including those determined to be fixed in substance), variable payments based on an index or rate, amounts expected to be payable under a residual value guarantee and payments arising from options reasonably certain to be exercised.

Subsequent to initial measurement, the liability will be reduced for payments made and increased for interest. It is remeasured to reflect any reassessment or modification, or if there are changes in in-substance fixed payments. When the lease liability is remeasured, the corresponding adjustment is reflected in the right-of-use asset, or profit and loss if the right-of-use asset is already reduced to zero.

The Bank has elected to account for any short-term leases (less than 12 months) using the practical expedients. Instead of recognizing a right-of-use asset and lease liability, the lease payments in relation to these are recognized as an expense in profit or loss on a straight-line basis over the lease term.

The corresponding right-of-use asset and lease liabilities are presented as part of Bank Premises, Furniture, Fixtures and Equipment, and Accrued Expenses and Other Liabilities, respectively, in the statements of financial position.

2.12 Impairment of Non-financial Assets

The Bank's bank premises, furniture, fixtures and equipment and investment properties are subject to impairment testing. Individual assets or cash-generating units are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

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

Impairment loss is recognized in profit or loss for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amounts which is the higher of its fair value less costs to sell and its value in use. In determining value in use, management estimates the expected future cash flows from each cash-generating unit and determines the suitable interest rate in order to calculate the present value of those cash flows. The data used for impairment testing procedures are directly linked to the Bank's latest approved budget, adjusted as necessary to exclude the effects of asset enhancements. Discount factors are determined individually for each cash-generating unit and reflect management's assessment of respective risk profiles, such as market and asset-specific risk factors.

All assets are subsequently reassessed for indications that an impairment loss previously recognized may no longer exist. An impairment loss is reversed if the asset's or cash-generating unit's recoverable amount exceeds its carrying amount.

2.13 Employee Benefits

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

(a) Post-employment Defined Benefit Plan

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

The liability recognized in the statement of financial position for a defined benefit plan is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated at least every two years by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows for expected benefit payments using a discount rate derived from the interest rates of a zero coupon government bonds [using the reference rates published by Bloomberg using its valuation technology, Bloomberg Valuation (BVAL)], that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related post-employment liability. BVAL provides evaluated prices that are based on market observations from contributed sources.

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

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

(b) *Post-employment Defined Contribution Plan*

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

(c) *Compensated Absences*

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

2.14 Income Taxes

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

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

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

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

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

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

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

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

2.15 Related Party Relationships and Transactions

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

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

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

2.16 Earnings Per Share

Basic earnings per share is computed by dividing net profit attributable to equity holders of the Bank over the weighted average number of common shares issued and outstanding adjusted retroactively for any stock dividend, stock split or reverse stock split declared during the current period, if any.

Diluted earnings per share is computed by adjusting the weighted average number of common shares outstanding to assume conversion of dilutive potential shares. Currently, the Bank does not have dilutive potential shares outstanding, hence, the diluted earnings per share is equal to the basic earnings per share.

2.17 Foreign Currency Transactions and Translation

The accounting records of the Bank are maintained in Philippine pesos. Foreign currency transactions during the year are translated into the functional currency at exchange rates which approximate those prevailing on transaction dates.

Foreign currency gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in profit or loss.

2.18 Events After the End of the Reporting Period

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

3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

The preparation of the Bank's financial statements in accordance with PFRS requires management to make judgments and estimates that affect amounts reported in the financial statements and related notes. Judgments and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results may ultimately differ from these estimates.

3.1 Critical Management Judgments in Applying Accounting Policies

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

(a) Determination of Lease Term of Contract with Renewal Options

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

The renewal options are subject to mutual agreement of the lessor and lessee. The Bank did not include the renewal periods as part of the lease term for its leases since the renewal options are not enforceable considering that both parties still need to agree to renew, including the terms of the renewal, even if both parties have historically always come to a mutual agreement.

The lease term is reassessed if an option is actually exercised or not exercised or the Bank becomes obliged to exercise or not exercise it. The assessment of reasonable certainty is only revised if a significant event or a significant change in circumstances occurs, which affects this assessment, and that is within the control of the Bank.

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

The Bank manages its financial assets based on business models that maintain adequate level of financial assets to match its expected cash outflows, largely its core deposit funding arising from customers' withdrawals and continuing loan disbursements to borrowers, while maintaining a strategic portfolio of financial assets for trading activities consistent with its risk appetite.

Upon adoption of PFRS 9, the Bank developed business models which reflect how it manages its portfolio of financial instruments. The Bank's business models need not be assessed at entity level or as a whole but shall be applied at the level of a portfolio of financial instruments (i.e., group of financial instruments that are managed together by the Bank) and not on an instrument-by-instrument basis (i.e., not based on intention or specific characteristics of individual financial instrument).

In determining the classification of a financial instrument under PFRS 9, the Bank evaluates in which business model a financial instrument or a portfolio of financial instruments belongs to taking into consideration the objectives of each business model established by the Bank (e.g., held-for-trading, generating accrual income, direct matching to a specific liability) as those relate to the Bank's investment, trading and lending strategies.

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

In determining the classification of financial assets under PFRS 9, the Bank assesses whether the contractual terms of the financial assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding, with interest representing time value of money and credit risk associated with the principal amount outstanding. The assessment as to whether the cash flows meet the test is made in the currency in which the financial asset is denominated. Any other contractual term that changes the timing or amount of cash flows (unless it is a variable interest rate that represents time value of money and credit risk) does not meet the amortized cost criteria. In cases where the relationship between the passage of time and the interest rate of the financial instrument may be imperfect, known as modified time value of money, the Bank assesses the modified time value of money feature to determine whether the financial instrument still meets the SPPI criterion. The objective of the assessment is to determine how different the undiscounted contractual cash flows could be from the undiscounted cash flows that would arise if the time value of money element was not modified (the benchmark cash flows). If the resulting difference is significant, the SPPI criterion is not met. In view of this, the Bank considers the effect of the modified time value of money element in each reporting period and cumulatively over the life of the financial instrument.

In addition, PFRS 9 emphasizes that if more than an infrequent sale is made out of a portfolio of financial assets carried at amortized cost, an entity should assess whether and how such sales are consistent with the objective of collecting contractual cash flows. In making this judgment, the Bank considers certain circumstances documented in its business model manual to assess that an increase in the frequency or value of sales of financial instruments in a particular period is not necessarily inconsistent with a held-to-collect business model if the Bank can explain the reasons for those sales and why those sales do not reflect a change in the Bank's objective for the business model.

(d) Distinction between Investment Properties and Owner-occupied Properties

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

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

The Bank classifies its acquired properties as Bank Premises, Furniture, Fixtures and Equipment if used in operations, as Investment Properties if held for rental or for currently undetermined future use and is regarded as held for capital appreciation, or as financial assets in accordance with PFRS 9. At initial recognition, the Bank determines the fair value of acquired properties through internal and external appraisal depending on the Bank's threshold policy. The appraised value is determined based on the current economic and market conditions, as well as the physical condition of the property. The Bank's methodology in determining the fair value of acquired properties are further discussed in Note 6.4.

(f) Recognition of Provisions and Contingencies

Judgment is exercised by management to distinguish between provisions and contingencies. Policies on recognition of provisions and contingencies are discussed in Note 2.8 and disclosures on relevant contingencies are presented in Note 23.

3.2 Key Sources of Estimation Uncertainty

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

(a) Estimation of Allowance for ECL

The measurement of the allowance for ECL on financial assets at amortized cost is an area that requires the use of significant assumptions about the future economic conditions and credit behavior (e.g., likelihood of customers defaulting and the resulting losses).

The Bank complied with the requirements of Attachment 3 of the BSP Circular No. 1011, which sets out the basic guidelines in setting up allowance for impairment on loans for financial institutions with credit operation that may not economically justify a more sophisticated loan loss estimation methodology. The Bank's management assessed that the allowance for impairment of loans and receivables computed using the Appendix 15 BSP Circular No. 1011 would not result in an amount that is materially misstated had PFRS 9's ECL methodology been used and implemented for the loan portfolio.

The carrying value of loans and receivables and the analysis of allowance for impairment on such financial assets are shown in Note 8.

(b) *Estimation of Useful Lives of Bank Premises, Furniture, Fixtures and Equipment, and Investment Properties*

The Bank estimates the useful lives of bank premises, furniture, fixtures and equipment asset based on the period over which the assets are expected to be available for use. The estimated useful lives of bank premises, furniture, fixtures and equipment and investment properties are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets.

The carrying amounts of bank premises, furniture, fixtures and equipment and investment properties are presented in Notes 9 and 10, respectively. Based on management's assessment as of December 31, 2021 and 2020, there is no change in estimated useful lives of those assets during those years. Actual results, however, may vary due to changes in estimates brought about by changes in factors mentioned above.

(c) *Determination of Realizable Amount of Deferred Tax Assets*

The Bank reviews its deferred tax assets at the end of each reporting period and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilized. Management assessed that the deferred tax assets recognized as of December 31, 2021 and 2020 will be fully utilized in the coming years. The carrying value of deferred tax assets as of those dates is disclosed in Note 21.

(d) *Impairment of Non-financial Assets*

In assessing impairment, management estimates the recoverable amount of each asset or a cash-generating unit based on expected future cash flows and uses an interest rate to calculate the present value of those cash flows. Estimation uncertainty relates to assumptions about future operating results and the determination of a suitable discount rate (see Note 2.12). Though management believes that the assumptions used in the estimation of fair values are appropriate and reasonable, significant changes in those assumptions may materially affect the assessment of recoverable values and any resulting impairment loss could have a material adverse effect on the results of operations.

Based on management's assessment, no impairment loss is required to be recognized on bank premises, furniture, fixtures and equipment, and investment properties in 2021 and 2020.

(e) *Determination of Appropriate Discount Rate in Measuring Lease Liabilities*

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

(f) *Determination of Fair Value of Investment Properties*

Investment Properties are measured using the cost model. The fair values that are disclosed in the financial statements are determined by the Bank based on the appraisal reports of a professional and independent appraiser. (see Note 6.4). The fair values are determined by reference to market-based evidence, which is the amount for which the assets could be exchanged between a knowledgeable willing buyer and seller in an arm's length transaction as at the valuation date. Such amount is influenced by different factors including the location and specific characteristics of the property, quantity of comparable properties in the market, and economic condition and behavior of the buying parties. A significant change in these elements may affect prices and the value of the assets.

The fair value of the Bank's Investment Properties as of December 31, 2021 and 2020 is disclosed in Note 10.

(g) *Valuation of Post-employment Defined Benefit Asset or Obligation*

The determination of the Bank's asset or obligation and cost of post-employment defined benefit is dependent on the selection of certain assumptions used by independent actuaries engaged by the Bank in calculating such amounts. Those assumptions include, among others, discount rates and salary rate increase. A significant change in any of these actuarial assumptions may generally affect the recognized expense, other comprehensive income or losses and the carrying amount of the post-employment benefit obligation in the next reporting period.

The amounts of post-employment defined benefit asset or obligation and expense and an analysis of the movements in the estimated present value of post-employment defined benefit obligation, as well as the significant assumptions used in estimating such obligation are presented in Note 19.2.

4. RISK MANAGEMENT OBJECTIVES AND POLICIES

The Bank is exposed to certain financial risks in relation to financial instruments. The Bank's financial assets and liabilities by category are summarized in Note 5. The main types of risks to which the Bank is exposed to include market risk, credit risk, liquidity risk, operations risk and legal and regulatory risk.

The Bank's risk management is coordinated in close cooperation with the BOD, and focuses on actively securing the Bank's short to medium-term cash flows by minimizing the exposure to financial markets.

The Bank does not actively engage in trading of financial assets for speculative purposes nor does it write options. The most significant financial risks to which the Bank is exposed to are described below and in the succeeding pages.

4.1 Risk Management Structure

The BOD is primarily responsible for approving the credit policies and the overall risk capacity of the Bank. Board committees have been established by the BOD to oversee the increasingly varied risk management activities of the Bank with the active participation of senior management.

(a) Risk Management Committee

The Risk Management Committee (RMC) is responsible for the development and oversight of the Bank's risk management program. Among its specific duties are to identify and evaluate exposures, develop risk management strategies, implement risk management plans and revise such plans as needed.

(b) Audit Committee

The Audit Committee is an advisory committee whose main function is to assist and act on behalf of the BOD and provides oversight of the Bank's financial reporting. It serves as principal agent of the BOD in ensuring independence of the Bank's external auditors and the internal audit function, the integrity of management, and the adequacy of disclosures and reporting to stockholders.

(c) Corporate Governance Committee

The Committee is responsible for ensuring the BOD's effectiveness and due observance of corporate governance principles and guidelines. It oversees the periodic performance evaluation of the BOD and its committees and executive management.

In compliance with BSP Circular 747, the Bank has revised its compliance manual to incorporate the revised compliance framework for banks. The manual is designed to guide the identification of business risks to mitigate factors that might be detrimental to the Bank's business model and its ability to generate returns from operations.

4.2 Market Risk

The Bank is exposed to market risk through its use of financial instruments and specifically to foreign currency risk and interest rate risk which result from its operating, investing and financing activities.

(a) Foreign Currency Risk

Most of the Bank's transactions are carried out in Philippine pesos, its functional currency. The Bank's exposures to currency exchange rates may arise from deposits with other banks denominated in currencies other than the Philippine peso. As of December 31, 2021 and 2020, the Bank has no significant foreign currency risk exposure as it has no significant foreign currency-denominated deposits with other banks.

(b) Interest Rate Risk

The Bank's policy is to minimize interest rate cash flow risk exposures on long-term financing. Loans and receivables and long-term borrowings are therefore usually made at fixed rates. As of December 31, 2021 and 2020, the Bank has no significant exposure to interest rate risk as most of its financial instruments have fixed rates.

4.3 Credit Risk

Credit risk is the risk that a counterparty may fail to discharge an obligation to the Bank. The Bank is exposed to this risk for various financial instruments arising from granting of loans and receivables to customers including related parties and placing deposits with banks.

The Bank continuously monitors defaults of customers and other counterparties, identified either individually or by group, and incorporates this information into its credit risk controls. The Bank's policy is to deal only with creditworthy counterparties.

The maximum credit risk exposure of financial assets is the carrying amount of the financial assets as shown in the statements of financial position or in the detailed analysis provided in the notes to the financial statements, as summarized below.

	Notes	2021	2020
Cash and cash equivalents	7	**P 505,249,605**	P 668,684,514
Loans and receivables – net	8	**1,828,905,191**	1,616,428,574
Restricted funds	11	**16,605,574**	17,335,865
		P 2,350,760,370	P 2,302,448,953

The Bank's financial assets are in part secured by collateral guarantees and other credit enhancements, as described below.

(a) Cash and Cash Equivalents and Restricted Funds

The credit risk for cash and cash equivalents and restricted funds is considered negligible, since the counterparties are reputable banks with high quality external credit ratings. Included in the cash and cash equivalents are cash in banks and short-term placements which are insured by the Philippine Deposit Insurance Corporation up to a maximum coverage of P500,000 for every depositor per banking institution.

(b) Loans and Receivables

In respect of loans and receivables, the Bank is not exposed to any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. Based on historical information about customer default rates, management considers the credit quality of loans and receivables that are not past due or impaired to be good.

Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits when appropriate. Exposure to credit risk is also managed in part by obtaining collateral and personal guarantees. With respect to foreclosed collaterals, these are normally actively disposed by the Bank.

The Bank's loans are actively monitored to avoid significant concentrations of credit risk in accordance with the BSP's prohibitions on maintaining a financial exposure to any single person or group of persons in excess of 25.00% of the Bank's net worth.

The table below shows exposure to credit risk of loans and receivables (gross) based on the Bank's rating system as of December 31, 2021 and 2020 and the related allowance for impairment.

	2021			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Unclassified	P 1,584,241,010	P -	P -	P 1,584,241,010
Especially mentioned	-	23,501,915	-	23,501,915
Substandard grade	-	53,316,922	15,568,183	68,885,105
Doubtful	-	-	23,800,345	23,800,345
Loss	-	-	337,022,891	337,022,891
	1,584,241,010	76,818,837	376,391,419	2,037,451,266
Allowance for impairment	(9,778,016)	(5,651,563)	(193,116,496)	(208,546,075)
Carrying amount	**P 1,574,462,994**	**P 71,167,274**	**P 183,274,923**	**P 1,828,905,191**

	2020			
	Stage 1	Stage 2	Stage 3	Total
Unclassified	P 1,455,072,567	P -	P -	P 1,455,072,567
Especially mentioned	-	59,423,246	-	59,423,246
Substandard grade	-	27,635,920	18,455,030	46,090,950
Doubtful	-	-	22,533,887	22,533,887
Loss	-	-	188,709,267	188,709,267
	1,455,072,567	87,059,166	229,698,184	1,771,829,917
Allowance for impairment	(16,152,134)	(2,819,521)	(136,429,688)	(155,401,343)
Carrying amount	P 1,438,920,433	P 84,239,645	P 93,268,496	P 1,616,428,574

The credit grades used by the Bank in evaluating the credit quality of its loans and receivables are the following:

(a) Current/Unclassified

These are individual credits that do not have a greater-than-normal risk and do not possess the characteristics of adversely classified loans. These are credits that have the apparent ability to satisfy their obligations in full and therefore, no loss in ultimate collection is anticipated. These are adequately secured by readily marketable collateral or other forms of support security or are supported by sufficient credit and financial information of favorable nature to assure repayment as agreed.

(b) Loans Especially Mentioned

It is an adverse classification of loans/accounts that have potential weaknesses and deserves management's close attention. These potential weaknesses, if left uncorrected, may affect the repayment of the loan and thus increase credit risk to the Bank.

(c) Substandard

Accounts classified as "Substandard" are individual credits or portions thereof, that have well-defined weakness/(es) that may jeopardize Payment/liquidation in full, either in respect of the business, cash flow or financial position, which may include adverse trends or developments that affect willingness or repayment ability of the borrower.

(d) Doubtful

Accounts classified as "Doubtful" are individual credits or portions thereof which exhibit more severe weaknesses that those classified as "Substandard" whose characteristics on the basis of currently known facts, conditions and values make collection or liquidation highly improbable, however, the exact amount remains undeterminable as yet. Classification as "Loss" is deferred because of specific pending factors, which may strengthen the assets.

(e) Loss

Accounts classified as "Loss" are individual credits or portions thereof, which are considered uncollectible or worthless, and of such little value that their continuance as bankable assets is not warranted although the loans may have some recovery or salvage value. This shall be viewed as a transitional category for loans and other credit accommodations, which have been identified as requiring write-off during the current reporting period even though partial recovery may be obtained in the future.

The Bank holds collateral against loans and receivables from borrowers in order to mitigate risk. The collateral is usually in the form of a real estate mortgage.

An estimate of the fair value of collateral and other security enhancements held by the Bank on loans and receivables as of December 31, 2021 and 2020 is shown below.

	2021	2020
On past due and already non-performing	P 10,352,772	P 8,870,245
Current/unclassified	202,715,097	90,126,875
	P 213,067,869	P 98,997,120

In 2021 and 2020, no properties were recognized arising from foreclosures in settlement of loan accounts. The carrying amount of the Bank's foreclosed assets, which pertain to land, amounted to P1,444,260 as of December 31, 2021 and P1,705,779 as of December 31, 2020. The foreclosed assets are all presented as part of Investment Properties in the statements of financial position (see Note 10).

The Bank's manner of disposing the collateral for impaired loans and other receivables is normally through sale of these assets after foreclosure proceedings have taken place. The Bank does not generally use the non-cash collateral for its own operations.

The tables below show the reconciliation from the opening to the closing balance of the loss allowance on loans and receivables by stage.

	2021			
	Stage 1	Stage 2	Stage 3	Total
Balance at beginning of year	P 16,152,134	P 2,819,521	P 136,429,688	P 155,401,343
Transfers to:				
Stage 1	(2,345,829)	222,685	2,123,144	-
Stage 2	445,003	(1,476,130)	1,031,127	-
Stage 3	923,226	-	(923,226)	-
Net remeasurement of loss allowance	(864,256)	2,434,421	35,274,882	36,845,047
New financial assets originated	7,146,496	5,324,328	27,887,231	40,358,055
Derecognition of financial assets	(11,678,758)	(3,673,262)	(8,706,350)	(24,058,370)
Balance at end of year	P 9,778,016	P 5,651,563	P 193,116,496	P 208,546,075
Balance at beginning of year	P 18,434,695	P 2,122,731	P 121,220,526	P 141,777,952
Transfers to:				
Stage 1	(1,345,829)	282,885	1,062,944	-
Stage 2	111,420	(1,042,538)	931,118	-
Stage 3	828,187	-	(828,187)	-
Net remeasurement of loss allowance	(764,656)	134,801	12,094,281	11,464,426
New financial assets originated	7,924,580	2,355,378	12,818,126	23,098,084
Derecognition of financial assets	(9,036,263)	(1,033,736)	(10,869,120)	(20,939,119)
Balance at end of year	P 16,152,134	P 2,819,521	P 136,429,688	P 155,401,343

The Bank writes off loans and receivables, in whole or in part, when it has exhausted all practical recovery efforts and has concluded that there is no reasonable expectation of recovery of the financial asset. Indicators that there is no reasonable expectation of recovery include cessation of enforcement activity and, where the Bank's recovery method is through foreclosure of collateral and the value of the collateral is less than the outstanding contractual amounts of loans and receivables to be written off. The Bank has still, however, enforceable right to receive payment even if the loans and receivables have been written off.

4.4 Liquidity Risk

Liquidity risk is the risk that there could be insufficient funds available to adequately meet the credit demands of the Bank's customers and repay deposits on maturity. The Bank manages liquidity risk by holding sufficient liquid assets of appropriate quality to ensure short-term funding requirements are met and by maintaining a balanced loan portfolio. In addition, the Bank seeks to maintain sufficient liquidity to take advantage of interest rate opportunities when they arise.

The table below are the analyses of the maturity groupings of financial resources and liabilities items as of December 31, 2021 and 2020.

		2021			
	Notes	One year and below	Over one year to five years	Beyond five years	Total
Financial resources:					
Cash and cash equivalents	7	P 505,249,605	P -	P -	P 505,249,605
Loans and receivables - net	8	522,361,645	1,301,595,596	4,947,950	1,828,905,191
Restricted funds	11	-	-	16,605,574	16,605,574
		1,027,611,250	1,301,595,596	21,553,524	2,350,760,370
Financial liabilities:					
Deposit liabilities	12	1,289,798,171	161,856,419	-	1,451,654,590
Bills payable	13	73,845,217	225,864,493	-	299,709,710
Accrued expenses and other liabilities*	14	77,299,286	-	-	77,299,286
		1,440,942,674	387,720,912	-	1,828,663,586
On-book positive (negative) gap		(413,331,424)	913,874,684	21,553,524	522,096,784
Contingent assets		-	-	-	-
Contingent liabilities		-	-	-	-
Off-book gap		-	-	-	-
Cumulative total positive (negative) gap		(P 413,331,424)	P 913,874,684	P 21,553,524	P 522,096,784

**Excludes tax-related payables*

	Notes	2020 One year and below	Over one year to five years	Beyond five years	Total
Financial resources:					
Cash and cash equivalents	7	P 668,684,514	P -	P -	P 668,684,514
Loans and receivables - net	8	542,485,193	1,072,783,952	1,159,429	1,616,428,574
Restricted funds	11	-	-	17,335,865	17,335,865
		1,211,169,707	1,072,783,952	18,495,294	2,302,448,953
Financial liabilities:					
Deposit liabilities	12	1,175,243,117	149,644,193	1,506,000	1,326,393,310
Bills payable	13	250,864,172	138,217,904	-	389,082,076
Accrued expenses and other liabilities*	14	82,381,192	-	-	82,381,192
		1,508,488,481	287,862,097	1,506,000	1,797,856,578
On-book positive (negative) gap		(297,318,774)	784,921,855	16,989,294	504,592,375
Contingent assets		-	-	-	-
Contingent liabilities		-	-	-	-
Off-book gap		-	-	-	-
Cumulative total positive (negative) gap		(P 297,318,774)	P 784,921,855	P 16,989,294	P 504,592,375

**Excludes tax-related payables*

The Bank honors all cash requirements on an ongoing basis. To address the negative gap, the management avoids raising funds above market rates or through the forced sale of assets.

The contractual maturities of the Bank's financial liabilities as of December 31, 2021 and 2020 are presented below.

	2021		
	Current		**Non-current**
	Within 6 Months	**6 to 12 Months**	**1 to 5 Years**
Deposit liabilities	P 1,182,508,938	P 107,289,233	P 161,856,419
Bills payable	343,746	73,501,471	225,864,493
Accrued expenses and other liabilities (excluding tax-related payables)	77,299,286	-	-
	P 1,260,151,970	**P 180,790,704**	**P 387,720,912**

	2020		
	Current		Non-current
	Within 6 Months	6 to 12 Months	1 to 5 Years
Deposit liabilities	P 1,085,006,708	P 90,236,409	P 151,150,193
Bills payable	183,880,494	66,983,678	138,217,904
Accrued expenses and other liabilities (excluding tax-related payables)	82,381,192	-	-
	P 1,351,268,394	P 157,220,087	P 289,368,097

The contractual maturities shown above reflect the gross cash flows, which may differ from the carrying values of the liabilities at the end of each reporting periods.

4.5 Operations Risks

Operations risks are risks arising from the potential inadequate information systems, operations or transactional problems (relating to service or product delivery), breaches in internal controls and fraud or unforeseen catastrophes that may result in unexpected loss. Operations risks include the risk of loss arising from various types of human or technical error, settlement or payments failures, business interruption, administrative and legal risks, and the risk arising from systems not performing adequately.

The Bank has established measures to mitigate the effects of risks related to operations through its senior management. At year-end, the Bank also ensures that disclosures are made in the financial statements for any significant accounts, if any, which may have been affected by such risk.

4.6 Legal and Regulatory Risks

Legal risk pertains to the Bank's exposure to losses arising from cases decided not in favor of the Bank where significant legal costs have already been incurred, or in some instances, where the Bank may be required to pay damages. The Bank is often involved in litigation in enforcing its collection rights under loan agreements in case of borrower default. The Bank may incur significant legal expenses as a result of these events, but the Bank may still end up with non-collection or non-enforcement of claims. The Bank has established measures to avoid or mitigate the effects of these adverse decisions and engages several qualified legal advisors, who were endorsed to and carefully approved by senior management. At year-end, the Bank also ensures that material adjustments or disclosures are made in the financial statements for any significant commitments or contingencies which may have arisen from legal proceedings involving the Bank.

Regulatory risk refers to the potential risk for the Bank to suffer financial loss due to changes in the laws or monetary, tax or other governmental regulations of a country. The monitoring of the Bank's compliance with these regulations, as well as the study of the potential impact of new laws and regulations, is the primary responsibility of the Bank's Compliance Officer. The Compliance Office is responsible for communicating and disseminating new rules and regulations to all units, analyzing and addressing compliance issues, performing periodic compliance testing on branches and head office units, and reporting compliance findings to the Audit Committee and the BOD.

5. CATEGORIES AND OFFSETTING OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

5.1 Carrying Amounts and Fair Values by Category

The carrying amounts and fair values of the categories of financial assets and financial liabilities presented in the statements of financial position are shown below and on the succeeding page.

		2021		2020	
	Notes	**Carrying Values**	**Fair Values**	Carrying Values	Fair Values
Financial Assets					
At amortized cost:					
Cash and cash equivalents	7	**P 505,249,605**	**P 505,249,605**	P 668,684,514	P 668,684,514
Loans and receivables - net	8	**1,828,905,191**	**1,828,905,191**	1,616,428,574	1,616,428,574
Restricted funds	11	**16,605,574**	**16,605,574**	17,335,865	17,335,865
		2,350,760,370	**2,350,760,370**	2,302,448,953	2,203,448,953
At FVOCI	11	**762,574**	**762,574**	759,072	759,072
		P 2,351,522,944	**P 2,351,522,944**	P 2,303,208,025	P 2,303,208,025
Financial Liabilities					
at amortized cost:					
Deposit liabilities	12	**P 1,451,654,590**	**P 1,451,654,590**	P 1,326,393,310	P 1,326,393,310
Bills payable	13	**299,709,710**	**317,392,887**	389,082,076	366,152,106
Accrued expenses and other liabilities*	14	**77,299,286**	**77,299,286**	82,381,192	82,381,192
		P 1,828,663,586	**P 1,846,346,763**	P 1,797,856,578	P 1,774,926,608

**Excludes tax-related payables*

See Note 2.3 for a description of the accounting policies for each category of financial instrument. A description of the Bank's risk management objectives and policies for financial instruments is provided in Note 4.

5.2 Offsetting of Financial Assets and Financial Liabilities

The following financial assets with net amounts presented in the statements of financial position are subject to offsetting, enforceable master netting arrangements and similar agreements:

	Gross amount recognized in the statements of financial position		Net amount presented in the statements of financial position	Related amount not set-off in the statements of financial position		
	Financial assets	Financial liabilities set-off		Financial instruments	Hold-out deposit	Net amount
December 31, 2021						
Loans and receivables – net	**P 1,828,905,191**	**P -**	**P 1,828,905,191**	**(P 383,437,897)**	**(P 40,635,365)**	**P 1,404,831,929**
December 31, 2020						
Loans and receivables – net	P 1,616,428,574	P -	P 1,616,428,574	(P 150,289,663)	(P 16,631,821)	P 1,449,507,090

The following financial liabilities with net amounts presented in the statements of financial position are subject to offsetting, enforceable master netting arrangements and similar agreements:

	Gross amount recognized in the statements of financial position		Net amount presented in the statements of financial position	Related amount not set-off in the statements of financial position		
	Financial liabilities	Financial assets set-off		Financial instruments	Hold-out deposit	Net amount
December 31, 2021						
Deposit liabilities	P 1,451,654,590	P -	P 1,451,654,590	P -	(P 40,635,365)	P 1,411,019,225
Bills payable	299,709,710	-	299,709,710	(383,437,897)	(25,000,000)	(108,728,187)
Total	**P 1,751,364,300**	**P -**	**P 1,751,364,300**	**(P 383,437,897)**	**(P 65,635,365)**	**P 1,302,291,038**
December 31, 2020						
Deposit liabilities	P 1,175,243,117	P -	P 1,175,243,117	P -	(P 16,631,821)	P 1,158,611,296
Bills payable	389,082,076	-	389,082,076	(150,289,663)	(25,000,000)	213,792,413
Total	P 1,564,325,193	P -	P 1,564,325,193	(P 150,289,663)	(P 41,631,821)	P 1,372,403,709

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

For purposes of presenting the above information, the related amounts not set off in the statements of financial position pertains to: (a) hold-out deposits which serve as the Bank's collateral enhancement for certain loans and receivables; and (b) certain loans and receivables assigned by the Bank as collateral for its rediscounting availments from the Land Bank of the Philippines (LBP). The financial instruments that can be set off are only disclosed to the extent of the amounts of the Bank's obligations to counterparties.

6. FAIR VALUE MEASUREMENT AND DISCLOSURES

6.1 Fair Value Hierarchy

In accordance with PFRS 13, *Fair Value Measurement*, the fair value of financial assets and financial liabilities and non-financial assets which are measured at fair value on a recurring or non-recurring basis and those assets and liabilities not measured at fair value but for which fair value is disclosed in accordance with other relevant PFRS, are categorized into three levels based on the significance of inputs used to measure the fair value. The fair value hierarchy has the following levels:

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

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

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

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

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

When the Bank uses valuation technique, it maximizes the use of observable market data where it is available and rely as little as possible on entity specific estimates. Since not all significant inputs required to determine the fair value of the other instruments not included in Level 1 are observable, these are included in Level 3.

6.2 *Financial Instruments Measured at Fair Value*

The Bank's financial asset at FVOCI amounting to P762,574 and P759,072 as of December 31, 2021 and 2020, respectively, is categorized under Level 3. In addition, as of December 31, 2021 and 2020, the Bank has determined that the fair value of these equity instruments using valuation technique does not significantly differ from its cost as of those dates.

The Bank has no financial assets and financial liabilities measured at fair value as of both December 31, 2021 and 2020.

6.3 *Financial Instruments Measured at Amortized Cost for which Fair Value is Disclosed*

The table below and on the succeeding page summarizes the fair value hierarchy of the Bank's financial assets and financial liabilities which are not measured at fair value in the statements of financial position but for which fair value is disclosed.

	2021			
	Level 1	Level 2	Level 3	Total
Financial Assets				
Cash and cash equivalents	P 505,249,605	P -	P -	P 505,249,605
Loans and receivables - net	-	-	1,828,905,191	1,828,905,191
Restricted funds	16,605,574	-	-	16,605,574
	P 521,855,179	P -	P1,828,905,191	P2,350,760,370
Financial Liabilities				
Deposit liabilities	P -	P -	P1,451,654,590	P1,451,654,590
Bills payable	-	317,392,387	-	317,392,387
Accrued expenses and other liabilities*	-	-	77,299,286	77,299,286
	P -	P 317,392,387	P1,528,953,876	P1,846,346,263

**Excludes tax-related payables*

	2020			
	Level 1	**Level 2**	**Level 3**	**Total**
Financial Assets				
Cash and cash equivalents	P 668,684,514	P -	P -	P 668,684,514
Loans and receivables - net	-	-	1,616,428,574	1,616,428,574
Restricted funds	17,335,865	-	-	17,335,865
	P 686,020,379	P -	P1,616,428,574	P2,302,448,953
Financial Liabilities				
Deposit liabilities	P -	P -	P1,326,393,310	P1,326,393,310
Bills payable	-	366,152,106	-	366,152,106
Accrued expenses and other liabilities*	-	-	82,381,192	82,381,192
	P -	P 366,152,106	P1,408,774,502	P1,774,926,608

**Excludes tax-related payables*

For financial assets with fair values included in Level 1, management considers that the carrying amounts of financial instruments approximate their fair values.

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

6.4 Fair Value Disclosures for Investment Properties Carried at Cost

The fair value of investment properties, which consist of parcels of land, amounted to P6,754,438 and P7,621,183 as of December 31, 2021 and 2020, respectively. The fair values were determined though appraisals, which were conducted by an in-house appraiser of the Bank, except for the appraisals of investment properties with carrying amount exceeding P5,000,000, which was conducted by an independent appraiser acceptable to the BSP.

The fair value disclosed for the Bank's investment properties is under Level 2. The Level 2 fair value of land was derived using the market comparable approach that reflects the recent transaction prices for similar properties in nearby locations. Under this approach, when sales prices of comparable land in close proximity are used in the valuation of the subject property with no adjustment on the price, fair value is included in Level 2.

7. CASH AND CASH EQUIVALENTS

For purposes of presenting the cash flows, cash and cash equivalents consist of the following as of December 31:

	Notes	2021	2020
Cash and other cash items	7.1	**P 23,834,400**	P 19,113,910
Due from BSP	7.2	**28,429,133**	28,964,652
Due from other banks	7.3	**452,986,072**	620,605,952
		P 505,249,605	P 668,684,514

7.1 *Cash and Other Cash Items*

Cash consists primarily of funds in the form of Philippine currency notes and coins in the Bank's vault and those in the possession of tellers. Other cash items include cash items (other than currency and coins on hand) such as checks drawn on other banks or other branches after the Bank's clearing cut-off time until the close of the regular banking hours.

7.2 *Due from Bangko Sentral ng Pilipinas*

This account represents the Bank's demand deposit with the BSP in compliance with BSP's reserve requirements. The Bank has satisfactorily complied with the reserve requirements of the BSP. The deposit does not earn interest.

7.3 *Due from Other Banks*

This account is composed of the following deposits as of December 31:

	2021	2020
Demand and savings	**P 415,188,091**	P 582,997,525
Time	**37,797,981**	37,608,427
	P 452,986,072	P 620,605,952

Time and savings deposits bear annual interest rates ranging from 1.00% to 4.00% in 2021 and 1.00% to 10.00% in 2020. All of the Bank's time deposits, which can be pre-terminated anytime, will mature within one year. Interest income on deposits with other banks amounted to P987,572 and P1,511,017 in 2021 and 2020, respectively, which is presented as Interest Income on Deposits with Other Banks in the statements of profit or loss.

8. LOANS AND RECEIVABLES

As of December 31, the breakdown of this account follows:

	2021	2020
Loans:		
Individual consumption	**P 1,252,000,533**	P 969,657,088
Agricultural	**406,422,188**	512,821,775
Commercial	**237,471,260**	238,908,183
Others	**129,881,178**	44,669,746
	2,025,775,159	1,766,056,792
Allowance for impairment	**(207,296,822)**	(153,523,982)
	1,818,478,337	1,612,532,810
Accrued interest receivable	**10,122,251**	-
Allowance for impairment	**(101,223)**	-
	10,021,028	-
Accounts receivable	**1,553,856**	5,773,125
Allowance for impairment	**(1,148,030)**	(1,877,361)
	405,826	3,895,764
	P 1,828,905,191	P 1,616,428,574

Other loans mainly pertain to salary loan releases, the proceeds of which are being used by the borrowers in different industries [see Note 25*(c)*].

Accounts receivable represents amounts due from members, employees and other parties, which is due and demandable within one year.

Loans amounting to P383,437,897 and P150,289,663 as of December 31, 2021 and 2020, respectively, are assigned to secure the bills payable to LBP under the Bank's rediscounting lines with LBP and bills payable to Agricultural Credit Policy Council (ACPC) [see Note 13].

Loans to Directors, Officers, Stockholders and Related Interests (DOSRI) amounted to P23,771,758 and P23,187,286 as of December 31, 2021 and 2020, respectively, which represents 1.17% and 1.31% of the total loan portfolio as at those dates, respectively (see Note 20.1).

The maturity profile of the Bank's loans and receivables is shown below.

	2021	2020
One year and below	**P 730,907,719**	P 607,094,839
Beyond one year	**1,306,543,547**	1,164,735,078
	P 2,037,451,266	P 1,771,829,917

The classification of loans as to interest rate follows:

	2021	2020
Over 25%	**P 319,494,136**	P 233,853,692
Over 20% but not more than 25%	**214,940,368**	123,505,101
Over 15% but not more than 20%	**1,297,829,817**	1,318,054,110
Over 10% but not more than 15%	**46,682,528**	40,765,687
Over 5% but not more than 10%	**146,828,310**	49,878,202
	P 2,025,775,159	P 1,766,056,792

Interest income on loans and receivables amounted to P346,357,229 and P269,276,241 in 2021 and 2020, respectively. The interest income for 2021 was inclusive of accrued interest income earned from last payment date up to December 31, 2021 amounting to P10,122,251. The 2020 interest income was recognized based on actual cash collections from borrowers. Due to the status of the accounting records, the Bank was not able to determine the amount of interest income earned from the last payment date up to December 31, 2020 for all of the Bank's loan accounts.

A reconciliation of the allowance for impairment losses on loans and receivables at the beginning and end of 2021 and 2020 is shown below.

	2021	2020
Balance at beginning of year	**P 155,401,343**	P 141,777,953
Impairment losses	**54,734,108**	13,623,390
Recoveries	**(982,657)**	-
Write-off of accounts receivable	**(606,719)**	-
Balance at end of year	**P 208,546,075**	P 155,401,343

There were no write-offs of loans and other receivables in 2021 and 2020.

In August 2020, the BSP has approved the Bank's request for staggered booking of allowance for impairment over a maximum period of five years for all types of credits extended to individuals and business directly affected by the COVID-19.

The impact on the affected financial statement line items as of and for the year ended December 31, 2020 if the allowance impairment was measured in accordance with PFRS, without modification for the application of financial reporting reliefs issued by the BSP [see Noted 2.1*(a)*] is presented in the succeeding page.

	Notes	As Reported	Changes	Under PFRS
Changes in resources:				
Loans and receivables – net	8	P 1,616,428,574	(P 66,170,085)	P 1,550,258,489
Deferred tax assets – net	21	49,988,795	19,851,025	69,839,820
Net decrease in equity			(P 46,319,060)	
Change in equity –				
Surplus			(P 46,319,060)	
Changes in profit or loss:				
Impairment losses	8	P 13,623,390	P 66,170,085	P 79,793,475
Tax expense (income)	21	609,146	(19,851,025)	(19,241,879)
Net decrease in net profit			P 46,319,060	

The total allowance for impairment requested for staggered booking is in the amount of up to P349,274,305 covering 37,118 loan accounts as of June 30, 2020. As of December 31, 2021 and 2020, the remeasured allowance for impairment on the remaining outstanding loan accounts is P 213,639,195 and P202,174,769, respectively. Additional allowance for impairment that qualified for staggered booking that should be amortized over the period of five years amounted to P82,712,606 which was computed below.

Remeasured ending allowance for impairment	P 202,174,769
Balance at beginning of year	119,462,163
Additional allowance for impairment for staggered booking	P 82,712,606

The balance of unamortized allowance as of December 31 is presented below.

	2021	2020
Additional allowance for impairment for staggered booking, beginning	**P 66,170,085**	P 82,712,606
Amortization for the year	**(16,542,521)**	(16,542,521)
Balance of unamortized allowance for impairment at end of year	**P 49,627,564**	P 66,170,085

A breakdown of the impairment losses on loans and receivables, which is presented in the statements of profit or loss, is shown below.

	2021	2020
Amortization of allowance for impairment under staggered booking for the year	**P 16,542,521**	P 16,542,521
Allowance for impairment on derecognized loans	**(4,284,676)**	(20,939,119)
Adjustment to impairment losses due to staggered booking of allowance for impairment	**12,257,845**	(4,396,598)
Impairment losses under PFRS	**42,476,263**	18,019,988
Impairment losses recognized	**P 54,734,108**	P 13,623,390

9. BANK PREMISES, FURNITURE, FIXTURES AND EQUIPMENT

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

	Land	Buildings and Improvements	Transportation Equipment	Furniture, Fixtures and Equipment	Information Technology Equipment	Construction in Progress	Leasehold Improvements	Right-of-use Asset	Total
December 31, 2021,									
Cost	P 38,895,946	P 80,759,392	P 32,426,170	P 28,180,088	P 24,221,398	P 4,201,829	P 4,549,966	P 4,513,999	P 217,748,768
Accumulated depreciation and amortization	-	(24,739,308)	(18,433,006)	(19,583,522)	(15,363,106)	-	(2,306,799)	(1,908,331)	(82,334,052)
Net carrying amount	**P 38,895,946**	**P 56,020,084**	**P 13,993,164**	**P 8,596,566**	**P 8,858,292**	**P 4,201,829**	**P 2,243,167**	**P 2,605,668**	**P 135,414,716**
December 31, 2020,									
Cost	P 32,825,946	P 55,198,573	P 24,184,631	P 24,936,091	P 20,776,522	P 16,156,562	P 1,790,756	P 2,393,390	P 178,262,471
Accumulated depreciation and amortization	-	(21,094,822)	(16,216,151)	(16,777,806)	(12,282,249)	-	(429,891)	(352,844)	(67,153,763)
Net carrying amount	P 32,825,946	P 34,103,751	P 7,968,480	P 8,158,285	P 8,494,273	P 16,156,562	P 1,360,865	P 2,040,546	P 111,108,708
January 1, 2020,									
Cost	P 26,526,618	P 57,155,682	P 19,559,804	P 22,812,439	P 19,260,262	P 4,534,671	P 614,932	P -	P 150,464,408
Accumulated depreciation and amortization	-	(18,934,266)	(15,032,406)	(14,344,973)	(9,946,146)	-	(245,860)	-	(58,503,651)
Net carrying amount	P 26,526,618	P 38,221,416	P 4,527,398	P 8,467,466	P 9,314,116	P 4,534,671	P 369,072	P -	P 91,960,757

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

	Land	Buildings and Improvements	Transportation Equipment	Furniture, Fixtures and Equipment	Information Technology Equipment	Construction in Progress	Leasehold Improvements	Right-of-use Asset	Total
Balance at January 1, 2021, net of accumulated depreciation and amortization	P 32,825,946	P 34,103,751	P 7,968,480	P 8,158,285	P 8,494,273	P 16,156,562	P 1,360,865	P 2,040,546	P 111,108,708
Additions	6,070,000	498,088	8,307,440	3,363,250	3,444,856	13,111,137	2,759,210	2,062,549	39,616,530
Cost of assets retired	-	-	(65,900)	(119,253)	-	-	-	-	(185,153)
Reclassification	-	25,065,870	-	-	-	(25,065,870)	-	-	-
Accumulated depreciation of assets retired	-	-	32,950	5,425	-	-	-	-	38,375
Depreciation and amortization charges for the year	-	(3,647,625)	(2,249,806)	(2,811,141)	(3,080,837)	-	(1,876,908)	(1,497,427)	(15,163,744)
Balance at December 31, 2021, net of accumulated depreciation and amortization	P 38,895,946	P 56,020,084	P 13,993,164	P 8,596,566	P 8,858,292	P 4,201,829	P 2,243,167	P 2,605,668	P 135,414,716
Balance at January 1, 2020, net of accumulated depreciation and amortization	P 26,526,618	P 38,221,416	P 4,527,398	P 8,467,466	P 9,314,116	P 4,534,671	P 369,072	P -	P 91,960,757
Additions	6,299,328	2,393,003	5,116,896	2,131,954	1,685,921	11,831,463	1,175,824	2,393,390	33,027,779
Cost of assets retired	-	-	(441,301)	-	-	-	-	-	(441,301)
Accumulated depreciation of assets retired	-	-	441,301	-	-	-	-	-	441,301
Reclassification	-	(3,270,802)	-	-	-	(209,572)	-	-	(3,480,374)
Depreciation and amortization charges for the year	-	(3,239,866)	(1,675,814)	(2,441,135)	(2,505,764)	-	(184,031)	(352,844)	(10,399,454)
Balance at December 31, 2020, net of accumulated depreciation and amortization	P 32,825,946	P 34,103,751	P 7,968,480	P 8,158,285	P 8,494,273	P 16,156,562	P 1,360,865	P 2,040,546	P 111,108,708

In 2021 and 2020, the Bank recognized gain on retirement of bank premises, furniture, fixtures and equipment amounting to P236,396 and P126,842, respectively. The amount is presented as part of Other Operating Income in the statements of profit or loss (see Note 18).

As of December 31, 2021 and 2020, the cost of fully-depreciated bank premises, furniture, fixtures and equipment that are still used in operations amounts to P39,812,112 and P34,821,620, respectively.

The amount of depreciation and amortization is presented under the caption Other Operating Expenses in the statements of profit or loss (see Note 17).

Under BSP rules, investments in bank premises, furniture, fixtures and equipment should not exceed 50.00% of the Bank's unimpaired capital. As of December 31, 2021 and 2020, the Bank has satisfactorily complied with this requirement.

10. INVESTMENT PROPERTIES

This account mainly includes parcels of land acquired in settlement of loans, which are held for capital appreciation. In 2020, certain buildings and improvements that are no longer used in operations were transferred to investment properties from bank premises, furniture, fixtures and equipment. Investment properties are carried at cost less accumulated depreciation and allowance for impairment.

The gross carrying amounts and allowance for impairment as of both December 31, 2021 and 2020 are shown below.

	2021	2020
Cost	**P 6,173,762**	P 6,691,596
Accumulated depreciation	**(1,706,707)**	(1,417,212)
Allowance for impairment	**(156,820)**	(411,050)
Net carrying amount	**P 4,310,235**	P 4,863,334

A reconciliation of the carrying amount at the beginning and end of 2021 and 2020, of investment properties is shown below.

	Notes	**2021**	2020
Balance at beginning of year, net of allowance for impairment		**P 4,863,334**	P 1,705,779
Depreciation for the year	17	**(553,099)**	(322,819)
Transfer from bank premises, furniture, fixtures and equipment	9	**-**	3,480,374
Balance at end of year, net of allowance for impairment		**P 4,310,235**	P 4,863,334

11. PREPAYMENTS AND OTHER RESOURCES

The composition of this account as of December 31 is shown below.

	2021	2020
Restricted funds	**P 16,605,574**	P 17,335,865
Prepayments	**2,923,352**	1,387,764
Stationery and supplies on hand	**1,251,648**	1,245,610
Financial asset at FVOCI	**762,574**	759,072
	P 21,543,148	P 20,728,311

Restricted funds pertain to savings account set aside for payment of retirement of employees and reserve for retirement of preferred shares in compliance with the requirement of the BSP.

The maturity profile of the Bank's prepayments and other resources is shown below.

	2021	2020
One year and below	**P 4,175,000**	P 2,633,374
Beyond one year	**17,368,148**	18,094,937
	P 21,543,148	P 20,728,311

12. DEPOSIT LIABILITIES

Deposit liabilities consist of the following as of December 31:

	2021	2020
Savings	**P 808,888,900**	P 699,521,176
Time	**636,912,787**	623,310,778
Demand	**5,852,903**	3,561,356
	P 1,451,654,590	P 1,326,393,310

Outstanding balance of deposits from DOSRI amounted to P13,214,148 and P8,296,892 as of December 31, 2021, and 2020, respectively (see Note 20.1).

Deposit liabilities amounting to P40,635,365 and P16,631,821 as at December 31,2021 and 2020, respectively were held as collateral against certain loans to borrowers (see Note 5.2).

The breakdown of time deposits as to their maturities is presented below.

	2021	2020
One year and below	**P 1,289,798,171**	P 1,175,243,117
Beyond one year	**161,856,419**	151,150,193
	P 1,451,654,590	P 1,326,393,310

Deposit liabilities have fixed interest rates. The savings deposits have an annual interest rate of 1.00% and the time deposits have interest rates ranging from 1.00% to 12.00% per annum in both 2021 and 2020.

Interest expense on deposit liabilities recognized in 2021 and 2020 amounted to P47,810,280 and P42,403,851, respectively, and is presented as Interest Expense on Deposit Liabilities in the statements of profit or loss.

13. BILLS PAYABLE

This consists of the Bank's loans from the following:

	2021	2020
LBP	**P 226,556,272**	P 297,954,938
Small Business Guarantee and Finance Corporation (SBGFC)	**48,153,438**	58,794,112
Development Bank of the Philippines (DBP)	**25,000,000**	25,000,000
ACPC	**-**	7,333,026
	P 299,709,710	P 389,082,076

The Bank availed of rediscounting facilities from LBP with interest rates of 4.88% to 7.00% in both years presented. These loans are collateralized by assignment of the Bank borrowers' promissory notes and real estate mortgages (see Note 8).

The bills payable to SBGFC bears interest rate of 2.00% to 8.00% per annum with two years term and payable quarterly. This is a clean loan covered by post-dated checks.

The bills payable to DBP was obtained in 2020 and is due to mature in September 16, 2021 at the end of its one-year term. The said loan was extended with revised maturity date of September 16, 2022. This loan bears interest of 2.76% per annum and is collateralized by hold-out on the Bank's deposits with DBP.

The bills payable to ACPC bears interest rate of 2.50% per annum with one to two years term, which shall correspond to the term of the submitted target loan disbursement schedules and/or actual disbursement schedules of the Bank and shall be based on the gestation period of the crops and activities to be finance. These loans are collateralized by assignment of the Bank borrowers' promissory notes and deed of assignment of undertaking (see Note 8).

There are no financial, affirmative and negative covenants indicated in the contract of loan with LBP, SBGFC, DBP and ACPC.

The movements in the balance of the Bank's bills payable is presented below.

	2021	2020
Balance at beginning of year	P 389,082,076	P 315,493,659
Repayments	(376,978,287)	(330,822,806)
Additions	287,605,921	404,411,223
Balance at end of year	P 299,709,710	P 389,082,076

Interest expense on bills payable presented in the statements of profit or loss amounted to P17,683,178 and P13,094,277 in 2021 and 2020, respectively.

The breakdown of bills payable as to their maturities is presented below.

	2021	2020
One year and below	P 73,845,217	P 250,864,172
Beyond one year	225,864,493	138,217,904
	P 299,709,710	P 389,082,076

14. ACCRUED EXPENSES AND OTHER LIABILITIES

The breakdown of this account follows:

	Notes	2021	2020
Cooperative education and training fund (CETF) payable		P 26,114,314	P 18,002,130
Accrued expenses		15,048,431	16,128,960
Cash dividend payable	15.3	17,303,228	28,382,855
Accrued interest payable		7,962,227	11,357,152
Accounts payable		4,926,018	4,848,241
Lease liabilities	14.1	2,656,183	2,072,998
Withholding tax payable		1,861,153	3,652,207
Documentary stamp tax (DST) payable		1,677,346	976,074
Others		1,124,493	588,856
		P 78,673,393	P 86,009,473

CETF payable refers to the amount for remittance to the apex organization of which the Bank is a member.

Accrued expenses represent payables to various suppliers that remain unpaid at the end of the year that are expected to be settled within 12 months from the end of the reporting period.

14.1 Lease Liabilities

The Bank has leases for several branch offices. With the exception of short-term leases and leases of low-value underlying assets, each lease is reflected in the statement of financial position as a right-of-use asset and a lease liability as part of bank premises, furniture, fixtures and equipment, and accrued expenses and other liabilities, respectively.

Each lease generally imposes a restriction that, unless there is a contractual right for the Bank to sublet the asset to another party, the right-of-use asset can only be used by the Bank. Leases are either non-cancellable or may only be cancelled by incurring a substantive termination fee. The Bank is prohibited from selling or pledging the underlying leased assets as security and must keep those properties in a good state of repair and return the properties in their original condition at the end of the lease. Further, the Bank must incur maintenance fees on the leased assets in accordance with the lease contracts.

The Bank has recognized right-of-use asset as of December 31, 2021 and 2020 related to the lease of four office spaces, with a remaining term that ranges from one to three years, all of which have extension and termination options and no options to purchase (see Note 9).

Breakdown of lease liabilities as to their maturities as of December 31 is presented below.

	2021	2020
One year and below	**P 1,635,908**	P 937,965
Beyond one year	**1,020,275**	1,135,033
	P 2,656,183	P 2,072,998

The leases entered into by the Bank do not provide for any termination option or lease renewal with favourable terms and conditions.

The lease liabilities are secured by the related underlying assets. The undiscounted maturity analysis of lease liabilities at December 31 are as follows:

	Within 1 year	**1 to 2 years**	**2 to 3 years**	**Total**
December 31, 2021				
Lease payments	P 1,694,000	P 801,000	P 240,000	P 2,735,000
Finance charges	(58,092)	(19,007)	(1,718)	(78,817)
Net present values	**P 1,635,908**	**P 781,993**	**P 238,282**	**P 2,656,183**
December 31, 2020				
Lease payments	P 996,000	P 938,000	P 225,000	P 2,159,000
Finance charges	(58,035)	(24,600)	(3,367)	(86,002)
Net present values	**P 937,965**	**P 913,400**	**P 221,633**	**P 2,072,998**

14.2 Lease Payments Not Recognized as Liabilities

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

The expenses relating to short-term leases and low-value assets as follows:

	2021	2020
Short-term leases	P 716,043	P 671,140
Low-value assets	401,580	66,190
	P 1,117,623	P 737,330

The total expense is presented as part of Others under Other Operating Expenses in the statement of profit or loss (see Note 17).

As of December 31, 2021 and 2020, the Bank is committed to short-term leases and the total commitment at those dates amounted to P432,000 and P281,600, respectively.

14.3 Additional Profit or Loss and Cash Flow Information

The total cash outflow in respect of leases amounted to P1,572,000 and P358,000 in 2021 and 2020, respectively. Interest expense in relation to lease liabilities amounted to P92,636 and P37,608 in 2021 and 2020, respectively. This is presented under Interest expense on lease liability in the statements of profit or loss (see Note 24).

15. EQUITY

15.1 Share Capital

Share capital consists of the following as of December 31:

	Shares		Amount	
	2021	2020	2021	2020
Preferred – P1,000 par value				
Authorized				
Class A	1,000	1,000	P 1,000,000	P 1,000,000
Class B	5,000	5,000	5,000,000	5,000,000
Class C	30,000	30,000	30,000,000	30,000,000
	36,000	36,000	P 36,000,000	P 36,000,000
Issued and outstanding				
Class A	1,000	1,000	P 1,000,000	P 1,000,000
Class C	2,441	2,441	2,441,000	2,441,000
	3,441	3,441	P 3,441,000	P 3,441,000

Forward

	Shares 2021	Shares 2020	Amount 2021	Amount 2020
Common – P1,000 par value				
Authorized	**164,000**	164,000	**P 164,000,000**	P 164,000,000
Issued and outstanding:				
Balance at beginning of year excluding fractional shares	**65,113**	60,911	**P 65,113,000**	P 60,911,000
Issued during the year	**4,466**	4,202	**4,466,000**	4,202,000
Balance at end of year excluding fractional shares	**69,579**	65,113	**69,579,000**	65,113,000
Fractional shares	**85.159**	85.159	**85,159**	85,159
Balance at end of year	**69,644.159**	65,198.159	**69,664,159**	65,198,159
Subscribed:				
Balance at beginning of year	**20,216**	23,048	**20,216,000**	23,048,000
Issued during the year	**(2,107)**	(2,832)	**(2,107,000)**	(2,832,000)
Balance at end of year	**18,109**	20,216	**18,109,000**	20,216,000
Subscription receivable:				
Balance at beginning of year			**(20,216,000)**	(23,048,000)
Collections during the year			**2,107,000**	2,832,000
Balance at end of year			**(18,109,000)**	(20,216,000)
			69,664,159	65,198,159
			P 73,105,159	P 68,639,159

The preferred shares have the rights, preferences, conditions and limitations as follows:

(a) Class A preferred shares shall be issued only to cover the investment of DBP and shall have preference over the common stock as to assets in case of dissolution. Class A preferred shares are non-cumulative, non-voting and convertible to common shares, and having the same voting rights in case of sale of DBP of its preferred shares to private shareholders. These shares are entitled to a maximum of 2.00% interest on share capital, subject to the declaration of interest on common shares.

(b) Class B preferred shares shall be issued only to cover the investment of LBP. These shares are entitled to cumulative dividends at the rate of 4.00% a year during the first two years from date of issuance, 6.00% on the third and fourth years, 8.00% on the fifth and sixth years, 10.00% on the seventh and eight years, and 12.00% thereafter. Class B preferred shares are non-voting but preferred as to assets in case of dissolution. These are also convertible to common shares after the 10th year at the same par value before the conversion and are redeemable in part or in full at any time within the 10-year period.

(c) Class C preferred shares shall be issued only to cover the investment of qualified non-cooperative institutions, private persons and individuals and shall have preference over the common stock as to assets in case of dissolution. These shares are entitled to a maximum of 2.00% interest.

15.2 Statutory Reserves

This account consists of funds required to be maintained by the Bank pursuant to the provisions of R.A. No. 9520, as follows:

	2021	2020
General reserve fund	**P 77,479,454**	P 71,884,459
Cooperative education and training fund	**2,170,393**	2,791,774
Community development fund	**9,632,069**	12,967,885
Optional fund –		
Land and building fund	**59,996,602**	56,080,106
	P 149,278,518	P 143,724,224

The funds are not available for distribution to members but are used only for specific purposes for which they are recognized, as may be approved by the BOD and the General Assembly.

The optional fund of the Bank is set aside for the acquisition of land and building.

15.3 Distribution of Net Profit

The Bank's By-Laws explicitly provide that its net surplus at the end of the year shall be distributed in the following manner:

(a) At least ten percent (10.00%) shall be set aside for general reserve fund. This shall be used for the stability of the Bank and to absorb net losses, if any, in its business operations. The General Assembly may decrease the amount allocated to the general reserve fund when the fund already exceeds the share capital. Such excess may be used at any time, upon the resolution of the General Assembly, for any project that would expand the operations of the Bank. The funds shall not be utilized for investments other than those allowed by the Cooperative Code. Any items recovered on items previously charged to the Fund shall be credited back to the Fund. Upon the dissolution of the Bank, the general reserve fund shall not be distributed to members.

The General Assembly may resolve to establish a usufructuary fund for the benefit of any federation or union to which the Bank is affiliated, and to donate, contribute, or otherwise dispose of the amount for the benefit of the community where the Bank operates. If the General Assembly cannot decide upon the disposal of the Fund, the same shall go to the federation or union to which the Bank is affiliated.

(b) Ten percent (10.00%) for cooperative educational and training fund; fifty percent (50.00%) of this amount shall be used by the cooperative for education and training activities while the other fifty percent (50.00%) shall be credited to the cooperative education and training fund of the apex organization of which the cooperative is a member. Upon the dissolution of the Bank, the unspent balance of the Fund shall be credited to the CETF of the federation or union to which the Bank is affiliated.

(c) Seven percent (7.00%) for Optional Fund for land and building, and any other necessary fund.

(d) Three percent (3.00%) of the net profit shall be set aside for community development fund which shall be used for projects or activities that will benefit the community where the Bank operates.

(e) The remaining net profit shall be allocated for dividends and patronage refund.

The distribution of net profit for the years ended December 31, 2021 and 2020 is presented below.

	2021	2020
General reserve fund	**P 5,594,995**	P 3,732,594
Cooperative education and training fund	**5,594,995**	3,732,594
Optional fund	**3,916,496**	2,612,815
Community development fund	**1,678,499**	1,119,778
Dividends and patronage refund	**39,164,968**	26,128,161
	P 55,949,953	P 37,325,942

Before any declaration of dividends, the BSP requires banks to comply with the following:

(a) Minimum capitalization requirement and risk-based capital ratios;
(b) Clearing account with BSP is not overdrawn; and,
(c) Liquidity floor requirement for government funds.

On July 23, 2020, the Bank's BOD approved the declaration of dividends to its common shareholders amounting to P11,429,953, and dividends to its Class C preferred shares amounting to P2,839. No dividend was declared in 2021.

Outstanding dividend payable as of December 31, 2021 and 2020 amounted to P17,303,228 and P28,382,855, respectively (see Note 14).

15.4 *Capital Management Objectives, Policies and Procedures*

BSP, which governs and regulates the Bank's operation, sets and monitors capital requirements for the Bank. In implementing current capital requirements, the BSP requires the Bank to maintain a minimum capital amount and a prescribed ratio of qualifying capital to risk-weighted assets or the capital adequacy ratio (CAR). Risk-weighted assets is the sum of credit risk, market risks and operational risks, computed based on BSP-prescribed formula provided under its circulars.

(a) Regulatory Capital

On January 1, 2012, BSP Circular 688, dated May 26, 2010, took effect containing the revised risk-based adequacy framework for stand-alone thrift banks, rural banks and cooperative banks which is based on Basel 1.5 wherein CAR shall not be less than 10.00% of the qualifying capital to risk-weighted assets.

In computing the CAR, the regulatory qualifying capital is analyzed into two tiers which are: (i) Tier 1 Capital, and (ii) Tier 2 Capital; less deductions from the Total Tier 1 and Tier 2, as provided in BSP Circular 688.

The Bank's regulatory capital position as of December 31, 2021 and 2020 is presented below (in thousands).

	2021	2020
Tier 1 capital	**P 664,767**	P 592,161
Tier 2 capital	**15,726**	18,658
Total regulatory capital	**P 680,493**	P 610,819
Total qualifying capital	**P 680,493**	P 610,819
Risk-weighted assets	**P 2,709,821**	P 2,694,123

	2021	2020
Capital ratios:		
Total regulatory capital expressed as a percentage of total risk-weighted assets	**25.11%**	22.67%
Total tier 1 capital expressed as a percentage of total risk-weighted assets	**24.53%**	21.98%

Based on the above ratios, the Bank has complied with the CAR requirements in both years.

(b) *Minimum Liquidity Ratio*

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

The minimum liquidity ratio (MLR) of 20% shall be complied with on an ongoing basis absent a period of financial stress effective January 1, 2019. Per BSP Memorandum No. M-2020-020, *Reduction in the Minimum Liquidity Ratio in response to COVID-19*, the MLR for cooperative banks shall be reduced from 20% to 16%, effective until December 31, 2020.

The Bank's MLR as of December 31, 2021 and 2020 are analyzed below.

	2021	2020
Eligible stock of liquid assets	**P 499,673,966**	P 662,923,308
Total qualifying liabilities	**1,264,218,443**	1,132,600,687
Minimum liquidity ratio	**39.52%**	58.53%

16. REVENUES

16.1 Disaggregation of Contract Revenue

The Bank derives revenue from the transfer of services at a point in time in the following branches (see Note 18):

	Processing Fees	**Collection Fees**	**Total**
December 31, 2021			
Midsayap	P 14,059,389	P 1,065,120	P 15,124,509
M'lang	12,286,484	578,155	12,864,639
Head Office	10,909,403	612,820	11,522,223
Kabacan	9,317,220	595,740	9,912,960
Pigcawayan	9,456,445	409,550	9,865,995
Antipas	8,343,125	322,570	8,665,695
Isulan	7,796,927	391,830	8,188,757
Koronadal	5,326,814	515,470	5,842,284
Polomolok	5,108,719	248,545	5,357,264
Surallah	4,111,509	221,370	4,332,879
Lebak	4,072,095	235,280	4,307,375
Bansalan	4,113,232	170,200	4,283,432
Don Carlos	908,325	632,834	1,541,159
	P 95,809,687	**P 5,999,484**	**P 101,809,171**

	Processing Fees	Collection Fees	Total
December 31, 2020			
Midsayap	P 9,917,563	P 1,764,200	P 11,681,763
M'lang	8,355,159	1,239,221	9,594,380
Head Office	8,278,503	971,929	9,250,432
Isulan	6,496,131	1,174,365	7,670,496
Kabacan	5,793,315	1,136,859	6,930,174
Pigcawayan	5,225,340	808,202	6,033,542
Antipas	5,265,105	624,800	5,889,905
Koronadal	3,090,030	498,131	3,588,161
Polomolok	1,629,647	457,167	2,086,814
Bansalan	1,668,309	235,079	1,903,388
Lebak	144,210	87,113	231,323
	P 55,863,312	P 8,997,066	P 64,860,378

16.2 Contract Balances

The Bank recognizes contract assets, due to timing difference of payment and satisfaction of performance obligation, to the extent of satisfied performance obligation on all open contracts as of year-end.

Changes in the contract assets and contract liabilities are recognized by the Bank when a right to receive payment is already established and upon performance of unsatisfied performance obligation, respectively.

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

17. OTHER OPERATING EXPENSES

The breakdown of this account follows:

	Notes	2021	2020
Compensation and employee benefits	19.1	**P 180,118,575**	P 161,022,307
Depreciation and amortization	9, 10	**15,716,843**	10,521,390
Security services		**11,066,483**	9,553,396
Taxes and licenses		**11,027,873**	11,901,085
Promotions		**8,423,287**	2,823,990
Communication, light and water		**6,941,503**	5,473,834
Representation		**5,780,877**	5,059,049
Insurance		**5,220,894**	4,103,678
Banking fees and charges		**4,471,466**	2,585,815
Travel and transportation		**4,063,365**	3,507,107
Repairs and maintenance		**3,782,507**	2,299,068
Stationery and supplies		**3,639,913**	2,242,016
Management and other professional fees		**3,297,797**	3,423,482
Fuel, oil and lubricants		**3,025,725**	1,842,999
Others	14.2	**3,742,432**	2,855,499
		P 270,319,540	P 229,214,715

18. OTHER OPERATING INCOME

The breakdown of this account follows:

	Notes	2021	2020
Service charges and processing fees	16.1	**P 101,809,171**	P 64,860,378
Gain on recovery of charged off assets		**949,415**	489,205
Gain on retirement of bank premises, furniture, fixtures, and equipment	9	**236,396**	126,842
Others		**3,348,169**	1,294
		P 106,343,151	P 65,477,719

19. EMPLOYEE BENEFITS

19.1 Compensation and Employee Benefits

Details of compensation and employee benefits (see also Note 17) are presented below.

	Note	2021	2020
Short-term employee benefits:			
Salaries and wages		**P 82,708,578**	P 73,576,004
Benefits and allowances		**93,625,809**	82,524,209
		176,334,387	156,100,213
Post-employment defined benefit	19.2	**3,784,188**	4,922,094
		P 180,118,575	P 161,022,307

19.2 Post-employment Defined Benefit Plan

(a) Characteristics of the Defined Benefit Plan

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

The normal retirement age is 60, with a minimum of five years of credited service, for supervisory/officers and rank and file employees, respectively. Normal retirement benefit is equivalent to 125% of the employee's final monthly covered compensation (average monthly basic salary during the last 12 months of credit service), plus one twelfth (1/12) of the 13th month pay, and cash equivalent of not more than five (5) days of service incentive leaves, multiplied by the number of years of service. A fraction of six (6) months is considered as one whole year. A fraction of one (1) month is considered six (6) months.

(b) Explanation of Amounts Presented in the Financial Statements

Actuarial valuations are made at least every two years to update the retirement benefit costs and the amount of contributions. Amounts presented in the succeeding pages are based on the actuarial valuation report obtained from an independent actuary as at December 31, 2021, and projections made in 2020 based on the actuarial valuation report obtained in 2019.

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

	2021	2020
Present value of the obligation	**P 55,038,285**	P 56,558,026
Fair value of plan assets	**(57,515,636)**	(48,220,843)
	(P 2,477,351)	P 8,337,183

The movements in the present value of the post-employment defined benefit obligation are as follows:

	2021	2020
Balance at beginning of year	**P 56,558,026**	P 43,446,877
Actuarial losses (gains) arising from changes in financial assumptions and experience adjustments	**(5,263,637)**	10,284,389
Current service cost	**3,784,188**	4,922,094
Benefits paid	**(2,279,990)**	(4,341,538)
Interest expense	**2,239,698**	2,246,204
Balance at end of year	**P 55,038,285**	P 56,558,026

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

	2021	2020
Balance at beginning of year	**P 48,220,843**	P 44,155,003
Contributions to the plan	**11,574,783**	7,989,634
Benefits paid	**(2,279,990)**	(4,341,538)
Interest income	**1,909,545**	2,282,814
Return on plan assets (excluding amounts included in net interest)	**(1,909,545)**	(1,865,070)
Balance at end of year	**P 57,515,636**	P 48,220,843

The composition of the fair value of plan assets at the end of the reporting period by category is shown below.

	2021	2020
Cash and cash equivalents	**P 40,759,522**	P 26,367,859
Debt securities:		
Philippine government bonds	**8,470,392**	10,741,226
Corporate bonds	**1,165,696**	6,170,878
Unit investment trust fund	**7,084,818**	4,905,118
Others	**35,208**	35,762
	P 57,515,636	P 48,220,843

The fair value of the debt securities is determined based on quoted market prices in active markets (classified as Level 1 of the fair value hierarchy).

The plan assets incurred a negative return of P1,909,545 and P1,865,070 in 2021 and 2020, respectively.

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

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

	2021	2020
Reported in profit or loss:		
Current service cost	**P 3,784,188**	P 4,922,094
Net interest expense (income)	**330,153**	(36,610)
	P 4,114,341	P 4,885,484
Reported in other comprehensive income (loss):		
Actuarial loss arising from:		
Change in financial assumptions	**P 5,263,637**	(P 7,719,322)
Experience adjustments	**-**	(2,565,067)
Return on plan assets (excluding amount included in net interest)	**(1,909,545)**	(1,865,070)
	P 3,354,092	(P 12,149,459)

The net interest income and expense are presented as Interest Expense and Interest Income on the net Post-employment Defined Benefit Obligation or Asset, respectively, in the statements of profit or loss.

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

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

	2021	2020
Discount rates	**5.01%**	3.96%
Expected rate of salary increases	**1.00%**	1.00%

There were no significant changes in the retirement profile, demographic and financial assumptions and other circumstances that could materially impact the valuation and remeasurements of the Bank's post-employment defined benefit obligation as of December 31, 2021 from the assumptions and circumstances as of December 31, 2020.

(c) *Risks Associated with the Retirement Plan*

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

(i) *Investment and Interest Rate Risk*

The present value of the defined benefit obligation is calculated using a discount rate determined by reference to market yields of government bonds. Generally, a decrease in the interest rate of reference government bonds will increase the plan obligation. However, this will be partially offset by an increase in the return on the plan's investments in debt securities and cash and cash equivalents and if the return on plan asset falls below this rate, it will create a deficit in the plan. Currently, the plan consists of cash and cash equivalents and government securities.

(ii) *Longevity and Salary Risks*

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

(d) *Other Information*

The information on the Bank's asset-liability matching strategy and the timing and uncertainty of future cash flows related to the retirement plan are described below and in the succeeding page.

(i) *Sensitivity Analysis*

The following table summarizes the effects of changes in the significant actuarial assumptions used in the determination of the defined benefit obligation as of December 31, 2021 and 2020:

	Impact on Post-employment Defined Benefit Obligation		
	Change in Assumption	**Increase in Assumption**	**Decrease in Assumption**
December 31, 2021			
Discount rate	**+/- 1.00%**	**(P 3,288,958)**	**P 4,157,641**
Salary increase rate	**+/- 1.00%**	**4,202,728**	**(3,373,842)**
December 31, 2020			
Discount rate	+/- 1.00%	(P 7,321,239)	P 9,160,903
Salary increase rate	+/- 1.00%	8,955,627	(7,386,045)

(ii) Asset-liability Matching Strategies

The retirement plan trustee has no specific matching strategy between the plan assets and plan liabilities.

(iii) Funding Arrangements and Expected Contributions

The plan is currently overfunded by P2,477,351 based on the latest actuarial valuation. The Bank does not expect to make contribution to the plan during the next financial year.

The maturity profile of undiscounted expected benefit payment from the plan follows:

	2021	2020
Within one year	**P 2,915,914**	P 2,883,342
More than one year to five years	**9,252,741**	7,407,797
More than five years to ten years	**18,168,907**	19,073,159
More than ten years to fifteen years	**30,263,797**	21,595,881
More than 15 years to 20 years	**35,790,474**	34,104,802
More than 20 years	**311,420,056**	279,148,437
	P 407,811,889	P 364,213,418

The weighted average duration of the defined benefit obligation at the end of the reporting period is 20 years.

20. RELATED PARTY TRANSACTIONS

The Bank's related parties include its DOSRI and key management personnel as described below and in the succeeding page. None of the transactions incorporate special terms and conditions and no guarantee was given or received. Outstanding balances are usually settled in cash.

The summary of the Bank's transactions and outstanding balances with its related parties follows:

		Amount of Transactions		**Outstanding Balance**	
Related Party Category	Notes	**2021**	2020	**2021**	2020
DOSRI					
Loans	8, 20.1	**P 19,865,683**	P 8,501,649	**P 23,771,758**	P 23,187,286
Interest income on loans	20.1	**4,265,618**	2,288,495	**-**	-
Deposits	12, 20.1	**4,917,256**	5,826,018	**13,214,148**	8,296,892
Interest expense on deposits	20.1	**400,953**	285,851	**-**	-
Key management personnel					
Compensation and employee benefits	20.2	**26,883,707**	22,157,091	**-**	-

20.1 Loans and Deposits

In the ordinary course of business, the Bank has loan and deposit transactions with certain DOSRI. Under the Bank's policy, these loans and other transactions are made substantially on the same terms and conditions as with other individuals and businesses of comparable risks.

Total interest income on DOSRI loans is presented as part of Interest Income on Loans in the statements of profit or loss. The outstanding balance of these loans is presented as part of individual consumption and others under Loans and Receivables in the statements of financial position (see Note 8). The management has determined that no impairment loss is required to be provided on DOSRI loans in 2021 and 2020.

Deposits received from DOSRI are presented as part of Deposit Liabilities in the statements of financial position (see Note 12). Total interest expense on DOSRI deposits is presented as part of Interest Expense on Deposit Liabilities in the statements of profit or loss.

20.2 Key Management Personnel Compensations

The compensations of key management personnel are broken down as follows:

	2021	2020
Short-term benefits:		
Salaries and wages	**P 13,525,254**	P 12,652,740
Benefits and allowances	**13,358,453**	9,504,351
	P 26,883,707	P 22,157,091

Key management personnel compensations are presented as part of Compensation and employee benefits under Other Operating Expenses in the statements of profit or loss (see Note 17). There are no outstanding liabilities related to key management compensation in 2021 and 2020.

20.3 Retirement Plan

The Bank's retirement fund for its defined benefit post-employment plan is administered and managed by trustee banks. The fair value and the composition of the plan assets as of December 31, 2021 and 2020 are presented in Note 19.2.

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

The details of the contributions of the Bank and benefits paid out of the plan are presented in Note 19.2.

21. CURRENT AND DEFERRED TAXES

On March 26, 2021, Republic Act (R.A.) No. 11534, *Corporate Recovery and Tax Incentives for Enterprises (CREATE) Act*, as amended, was signed into law and shall be effective beginning July 1, 2020. The following are the major changes brought about by the CREATE Act that are relevant to and considered by the Bank:

- regular corporate income tax (RCIT) rate was reduced from 30% to 25% starting July 1, 2020;
- minimum corporate income tax (MCIT) rate was reduced from 2% to 1% starting July 1, 2020 until June 30, 2023; and,
- the allowable deduction for interest expense is reduced from 33% to 20% of the interest income subjected to final tax.

As a result of the application of the lower RCIT rate of 25% starting July 1, 2020, the current income tax expense and income tax payable, as presented in the 2020 annual income tax return (ITR) of the Bank, would be lower by P2.3 million than the amount presented in the 2020 financial statements and such amount was charged to 2021 profit or loss.

In 2021, the recognized net deferred tax assets as of December 31, 2020 was remeasured to 25%. This resulted in a decline in the recognized deferred tax asset in 2020 by P8.3 million and such was recognized in the 2021 profit or loss.

The components of tax income or expense relating to profit or loss and other comprehensive income follow:

	2021	2020
Reported in profit or loss		
Current tax expense:		
Regular corporate income tax (RCIT) at 25.00% in 2021 and 30.00% in 2020	**P 4,976,284**	P 4,607,517
Adjustment in 2020 income taxes due to change in income tax rate	**(2,286,448)**	-
	2,689,836	4,607,517
Deferred tax expense (income)		
Arising from:		
Effect of the change in income tax rate	**8,331,468**	-
Origination and reversal of temporary differences	**(4,253,200)**	(3,998,371)
	4,078,268	(3,998,371)
	P 6,768,104	P 609,146
Reported in other comprehensive income		
Deferred tax income (expense) relating to origination and reversal of temporary differences	(**P 838,523**)	P 3,644,838

The reconciliation of tax on pretax profit computed at the applicable statutory rates to tax income or expense reported in profit or loss is presented below.

	2021	2020
Tax on pretax profit at 25.00% in 2021 and 30.00% in 2020	**P 15,679,514**	P 11,380,526
Tax effects of:		
Non-taxable transactions with members	**(14,156,360)**	(11,265,195)
Non-taxable income	**(800,070)**	-
Non-deductible expense	**-**	493,815
Effect of change in income tax rate	**6,045,020**	-
Tax expense	**P 6,768,104**	P 609,146

The net deferred tax assets relate to the following as of December 31:

	Statements of Financial Position		Profit or Loss		Other Comprehensive Income	
	2021	2020	**2021**	2020	**2021**	2020
Deferred tax assets:						
Allowance for impairment	**P 43,386,431**	P 46,645,041	**(P 3,258,160)**	P 4,099,109	**P -**	P -
Unamortized past service cost	**2,299,429**	838,120	**1,461,309**	838,120	**-**	-
Lease liability	**116,348**	286,075	**(169,727)**	(41,051)	**-**	-
Post-employment defined benefit obligation	**-**	2,501,155	**(1,662,634)**	(1,143,683)	**(838,523)**	3,644,838
Deferred tax liability –						
Post-employment defined benefit asset	**(619,337)**	-	**(619,337)**	212,438	**-**	-
Right-of-use asset	**(110,868)**	(281,596)	**170,281**	45,530	**-**	-
Deferred tax assets - net	**P 45,072,004**	P 49,988,795				
Deferred tax income (expense)			**(P 4,078,268)**	P 3,998,371	**(P 838,523)**	P 3,644,838

The Bank is subject to MCIT, which is computed at 2.00% (1.00% until June 30, 2023) of gross income net of allowable deductions, as defined under the tax regulations or the RCIT, whichever is higher. No MCIT was reported in 2021 and 2020 as the RCIT was higher than MCIT in both years.

In 2021 and 2020, the Bank claimed itemized deductions in computing for income tax due.

22. EARNINGS PER SHARE

Basic earnings per share amounts are computed as follows:

	2021	2020
(a) Interest on share capital and patronage refund attributable to common and preferred shares	**P 39,164,968**	P 26,128,160
(b) Interest on share capital and patronage refund attributable to preferred shares	**-**	2,839
(c) Net interest on share capital and patronage refund available for common shares	**P 39,164,968**	P 26,125,321
(d) Weighted average number of outstanding common shares	**67,429**	62,772
Basic earnings per share *(c/d)*	**P 581**	P 416

As of December 31, 2021 and 2020, the Bank has no outstanding potentially dilutive securities; hence, basic earnings per share is equal to diluted earnings per share.

23. COMMITMENTS AND CONTINGENCIES

There are contingent liabilities such as litigations and claims that arise in the normal course of the Bank's operations which are not reflected in the financial statements. The Bank's management is of the opinion that losses, if any, as of December 31, 2021 and 2020, from these claims will not have any material effect on the Bank's financial statements.

24. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

Presented below is the reconciliation of the Bank's liabilities arising from financing activities, which includes both cash and non-cash changes.

	Bills Payable (Note 13)	Cash Dividend Payable (Note 14)	Lease Liability (Note 14)	Total
Balance as of January 1, 2021	P 389,082,076	P 28,382,855	P 2,072,998	P 419,537,929
Cash flows from financing activities:				
Additional borrowings	287,605,921	-	-	287,605,921
Repayment of borrowings	(376,978,287)	-	-	(376,978,287)
Payment of dividends	-	(11,079,627)	-	(11,079,627)
Repayment of lease liability	-	-	(1,572,000)	(1,572,000)
Non-cash financing activities –				
Additional lease liabilities	-	-	2,062,549	2,062,549
Interest amortization on lease liabilities	-	-	92,636	92,636
Balance as of December 31, 2021	**P 299,709,710**	**P 17,303,228**	**P 2,656,183**	**P 319,669,121**
Balance as of January 1, 2020	P 315,493,659	P 27,585,870	P -	P 343,079,529
Cash flows from financing activities:				
Additional borrowings	404,411,223	-	-	404,411,223
Repayment of borrowings	(330,822,806)	-	-	(330,822,806)
Payment of dividends	-	(10,635,807)	-	(10,635,807)
Repayment of lease liability	-	-	(358,000)	(358,000)
Non-cash financing activities –				
Dividend declaration	-	11,432,792	-	11,432,792
Additional lease liabilities	-	-	2,393,390	2,393,390
Interest amortization on lease liabilities	-	-	37,608	37,608
Balance as of December 31, 2020	P 389,082,076	P 28,382,855	P 2,072,998	P 419,537,929

25. SUPPLEMENTARY INFORMATION REQUIRED BY THE BANGKO SENTRAL NG PILIPINAS

Presented below is the supplementary information required by the BSP under Section 174 (Appendix 55) of the BSP Manual of Regulations for Banks (MORB) to be disclosed as part of the notes to financial statements.

(a) Selected Financial Performance Indicators

The following are some indicators of the Bank's financial performance:

	2021	2020
Return on average equity:		
Net income after income tax / Average total capital accounts	**8.17%**	5.73%

	2021	2020
Return on average assets:		
Net income after income tax / Average total assets	**2.23%**	1.63%
Net interest margin:		
Net interest income / Average interest earning assets	**11.22%**	9.38%

(b) Capital Instruments Issued

Summarized below are the capital instruments issued by the Bank as of the end of the reporting periods. The significant information related to each instrument are described in more detail in the respective note.

Type of Instrument	Note	**2021**	2020
Common share (CET 1)	15.1	**P 69,579,000**	P 65,113,000
Preferred share (AT 1)	15.1	**3,441,000**	3,441,000

(c) Significant Credit Exposures for Loans

The Bank's concentration of credit as to industry for its receivables from customers' portfolio (gross of allowance for ECL) follows:

	2021	**%**	2020	%
Agriculture, forestry and fishing	**P 815,586,367**	**40.26%**	P 547,810,814	31.02%
Information and communication	**478,472,383**	**23.62%**	398,170,607	22.55%
Wholesale and retail trade	**306,230,074**	**15.12%**	194,116,081	11.00%
Human health and social work activities	**179,950,802**	**8.88%**	365,449,294	20.69%
Real estate activities	**88,318,306**	**4.36%**	149,127,114	8.44%
Accommodation and food storage	**49,069,194**	**2.42%**	8,910,988	0.50%
Financial and insurance activities	**36,931,801**	**1.82%**	57,303,115	3.24%
Construction	**24,395,338**	**1.20%**	4,941,863	0.28%
Manufacturing	**13,038,311**	**0.65%**	1,079,190	0.06%
Transportation and storage	**3,847,822**	**0.19%**	4,624,914	0.26%
Other service activities	**29,934,761**	**1.48%**	34,522,812	1.96%
	P 2,025,775,159	**100.00%**	P 1,766,056,792	100.00%

The BSP considers that loan concentration exists when the total loan exposure to a particular industry exceeds 30.00% of the total loan portfolio plus the outstanding interbank loans receivable or 10.00% of Tier 1 capital. Management believes that the Bank's loan concentration in agriculture, forestry, and fishing as of December 31, 2021 and 2020, is justifiable considering that additional loans were extended to farmers, who are the Bank's primary clientele, to meet their needs in the ongoing pandemic.

(d) Credit Status of Loans

The breakdown of total loans (receivable from customers) as to status is shown below.

	2021		
	Performing	**Non-performing**	**Total Loan Portfolio**
Gross carrying amount:			
Agricultural loans	P 303,312,001	P 103,110,187	P 406,422,188
Commercial loans	317,618,937	44,470,309	362,089,246
Micro/Small/Medium enterprises	126,178,525	3,702,653	129,881,178
Microfinance loan	303,723,582	24,770,552	328,494,134
Salary loans	618,819,072	180,069,341	798,888,413
Total gross carrying amount	1,669,652,117	356,123,042	2,025,775,159
Allowance for ECL	(14,281,550)	(193,116,495)	(207,398,045)
Net carrying amount	**P 1,655,370,567**	**P 163,006,547**	**P 1,818,377,114**

	2020		
	Performing	Non-performing	Total Loan Portfolio
Gross carrying amount:			
Agricultural loans	P 476,216,579	P 36,605,195	P 512,821,774
Commercial loans	112,887,560	27,069,389	139,956,949
Micro/Small/Medium enterprises	42,783,835	2,320,586	45,104,421
Microfinance loan	207,420,699	26,172,477	233,593,176
Salary loans	699,625,877	134,954,595	834,580,472
Total gross carrying amount	1,538,934,550	227,122,242	1,766,056,792
Allowance for ECL	(21,203,697)	(132,320,285)	(153,523,982)
Net carrying amount	P 1,517,730,853	P 94,801,957	P 1,612,532,810

(e) *Analysis of Loan Portfolio as to Type of Security*

The breakdown of total loans (receivable from customers, net of unearned interests or discounts) as to security follows:

	2021	2020
Secured:		
Real estate mortgage	**P 165,936,930**	P 72,721,374
Chattel mortgage	**11,011,468**	9,852,191
Other securities	**36,119,471**	16,631,821
	213,067,869	99,205,386
Unsecured	**1,812,707,290**	1,666,851,406
	P 2,025,775,159	P 1,766,056,792

(f) *Information on Related Party Loans*

In the ordinary course of business, the Bank has loan transactions with each other, their other affiliates, and with certain DOSRIs. Under existing policies of the Bank, these loans are made substantially on the same terms as loans to other individuals and businesses of comparable risks.

Under the current BSP regulations, the amount of individual loans to a DOSRI, 70% of which must be secured, should not exceed the amount of the encumbered deposit and book value of the investment in the Bank and/or any of its lending and nonbank financial subsidiaries. In the aggregate, loans to DOSRIs, generally, should not exceed the total equity or 15% of the total loan portfolio of the Bank. However, non-risk loans are excluded in both individual and aggregate ceiling computation.

The following table shows the information relating to the loans, other credit accommodations and guarantees granted to DOSRI as of December 31 in accordance with BSP reporting guidelines:

	Note	**2021**	2020
Total DOSRI loans	8	**P 23,771,758**	P 23,187,286
Unsecured DOSRI loans		**15,853,374**	17,591,947
% of DOSRI loans to total loan portfolio	8	**1.17%**	1.31%
% of unsecured DOSRI loans to total DOSRI loans		**66.69%**	75.87%
% of total past due loans to total DOSRI loans		**9.88%**	5.94%
% of total non-performing DOSRI loans to total DOSRI loans		**9.88%**	5.94%

(g) *Secured Liabilities and Assets Pledged as Security*

Assets pledged by the Bank as security for liabilities are shown below.

	2021	2020
Aggregate amount of secured liabilities	**P 226,556,272**	P 111,556,813
Aggregate amount of resources pledged as security	**P 383,437,897**	P 150,289,663

(h) *Contingencies and Commitments Arising from Off-balance Sheet Items*

The Bank has no transactions involving contingencies and commitments arising from off-balance sheet items that would result in recognition or disclosures of this information in the financial statements or inclusion thereof in this supplemental information.

26. SUPPLEMENTARY INFORMATION REQUIRED BY THE BUREAU OF INTERNAL REVENUE

Presented below and in the succeeding pages is the supplementary information on taxes, duties and license fees paid or accrued during the year which is required by the Bureau of Internal Revenue (BIR) under Revenue Regulations (RR) No. 15-200 is to be disclosed as part of the notes to financial statements. This supplementary information is not a required disclosure under PFRS.

(a) *Gross Receipts Tax*

In lieu of the value-added tax, the Bank is subject to the gross receipts tax (GRT) imposed on all banks and non-bank financial intermediaries pursuant to Section 121.2 of the National Internal Revenue Code. For the year ended December 31, 2021, the Bank paid GRT amounting to P 5,857,853, which is presented as part of Taxes and licenses under the caption Other Operating Expenses in the 2021 statement of profit or loss.

(b) *Taxes on Importation*

The Bank does not have any landed cost, customs duties and tariff fees in 2021 since it does not have any importation during the year.

(c) *Excise Tax*

The Bank did not have transactions in 2021, which are subject to excise tax.

(d) *DST*

As a Cooperative Bank, the Bank is entitled to tax exemptions and incentives with its transactions with members which include DST, provided, however, that the other party to the taxable document or transaction who is not exempt shall be the one directly liable for the tax (R.A. No. 9520).

Accordingly, the Bank's transactions with non-members has been paid and/or accrued with DST during the year. In general, the Bank's DST transactions with non-members arise from the execution of debt instruments and time deposits.

For the year ended December 31, 2021, the composition of DST is as follows:

Debt instruments	P	7,480,899
Time deposits		4,388,087
	P	11,868,986

DST amounting to P9,082,250 pertaining to the Bank's loan releases and portion of time deposits was shouldered by its corresponding borrowers and depositors; remittance is done by the Bank.

The DST shouldered by the Bank amounting to P2,786,736, are recorded as an expense and is included in the taxes and licenses account under Other Expense in the 2021 statement of profit or loss.

(e) Taxes and Licenses

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

GRT	P	5,857,853
DST		2,786,736
Municipal license and permits		372,392
Real property tax		324,433
Voluntary taxes		225,170
Miscellaneous		1,461,289
	P	11,027,873

The amounts of taxes and licenses are presented as Taxes and licenses under the caption Other Operating Expenses in the 2021 statement of profit or loss.

(f) Withholding Taxes

The details of total withholding taxes for the year ended December 31, 2021 are shown below.

Compensation and benefits	P	6,435,144
Final		6,298,310
Expanded		1,612,657
	P	14,346,111

(g) Deficiency Tax Assessments and Tax Cases

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