



AUDITED FINANCIAL STATEMENTS

PACIFIC ACE SAVINGS BANK
STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2021
(With Comparative Figures for 2020)
 In Philippine Peso

	Note s	2021	2020
ASSETS			
Cash on hand	8	10,138,168	11,341,153
		486,615,73	179,946,56
Due from Bangko Sentral ng Pilipinas	8	7	5
		65,551,911	300,916,64
Due from other banks	8		6
Investment securities at amortized cost	9	41,064,924	32,274,649
		103,389,91	
Loans receivables – net	10	0	82,141,758
Bank premises, furniture, fixtures and equipment – net	11	32,074,305	37,317,659
Investment properties – net	12	1,263,579	1,333,784
Other assets	13	3,638,015	4,984,612
		743,736,54	650,256,82
TOTAL ASSETS		9	6
LIABILITIES AND EQUITY			
LIABILITIES			
		517,947,13	491,033,58
Deposit liabilities	14	9	7
Income tax payable		195,503	308,740
Accrued and other liabilities	15	115,534,730	61,215,307
		633,677,37	552,557,63
Total Liabilities		2	4
EQUITY			
Share capital	16	68,117,500	68,117,500
Retained earnings – free	16	41,941,677	29,581,692
		110,059,177	97,699,192
Total Equity		110,059,177	97,699,192
		743,736,54	650,256,82
TOTAL LIABILITIES AND EQUITY		9	6

See Notes to Financial Statements.

PACIFIC ACE SAVINGS BANK
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2021
(With Comparative Figures for 2020)
 In Philippine Peso

	Notes	2021	2020
INTEREST INCOME			
Due from other banks	8	4,968,991	5,338,743
Investment securities at amortized cost	9	1,040,953	735,448
Loans receivables	10	17,423,205	21,031,719
		23,433,149	27,105,910
INTEREST EXPENSE			
Interest on deposit liabilities	14	(4,035,958)	(3,701,022)
NET INTEREST INCOME		19,397,191	23,404,888
OTHER OPERATING INCOME	17	18,165,069	15,781,767
TOTAL OPERATING INCOME		37,562,260	39,186,655
OPERATING EXPENSES	18	(22,331,111)	(24,045,419)
PROVISION FOR CREDIT LOSSES	10	(2,264,211)	(3,092,667)
PROFIT BEFORE TAX		12,966,938	12,048,569
INCOME TAX EXPENSE	19	(606,953)	(753,419)
PROFIT		12,359,985	11,295,150
OTHER COMPREHENSIVE INCOME		–	–
TOTAL COMPREHENSIVE INCOME		12,359,985	11,295,150

See Notes to Financial Statements.

PACIFIC ACE SAVINGS BANK
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2021
(With Comparative Figures in 2020)
 In Philippine Peso

	Share Capital (Note 16)	Retained Earnings – free (Note 16)	Total Equity
Balance at December 31, 2019	68,117,500	17,971,802	86,089,302
Adjustments	–	314,740	314,740
Profit	–	11,295,150	11,295,150
Balance at December 31, 2020	68,117,500	29,581,692	97,699,192
Profit	–	12,359,985	12,359,985
Balance at December 31, 2021	68,117,500	41,941,677	110,059,177

PACIFIC ACE SAVINGS BANK
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2021
(With Comparative Figures for 2020)
In Philippine Peso

	Notes	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		12,966,938	12,048,569
Adjustments for:			
Interest income	8,9	(6,009,944)	(6,074,191)
Provision for credit losses	10	2,264,211	3,092,667
Depreciation	11,12,18	6,031,266	6,025,999
Interest expense – lease liabilities	15	238,648	324,403
Gain on sale of non-financial assets	11,17	–	50,316
Operating cash flows before working capital changes		15,491,119	15,467,763
Changes in operating assets and liabilities			
Increase in:			
Loans receivables		(21,656,290)	(12,220,482)
Other assets		(659,054)	(1,271,295)
Increase in:			
Deposit liabilities		26,913,551	126,559,732
Accrued and other liabilities		55,631,175	20,992,077
Cash generated from operations		75,720,501	149,527,795
Interest received	8,9	6,009,944	6,074,191
Income tax paid		(720,190)	(763,878)
Net cash generated from operating activities		81,010,255	154,838,108
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from investment securities at amortized cost	9	1,209,725	1,209,725
Addition of investment securities at amortized cost	9	(10,000,000)	(20,164,925)
Proceeds from bank premises, furniture, fixtures and equipment	11	–	50,316
Acquisition of bank premises, furniture, fixtures, and equipment	11	(568,128)	(8,467,592)
Net cash used in investing activities		(9,358,403)	(27,372,476)
CASH FLOWS FROM FINANCING ACTIVITIES			
Payments of interest expense – lease liabilities	15	(238,648)	(324,403)
Payments of principal amount – lease liabilities	15	(1,311,752)	(1,225,997)
Net cash used in financing activities		(1,550,400)	(1,550,400)
NET INCREASE IN CASH AND CASH EQUIVALENTS		70,101,452	125,915,232
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR			
Cash and other cash items		11,341,153	6,140,477
Due from Bangko Sentral ng Pilipinas		179,946,565	30,261,346
Due from other banks		300,916,646	329,887,309
		492,204,364	366,289,132
CASH AND CASH EQUIVALENTS AT END OF YEAR			
Cash and other cash items	8	10,138,168	11,341,153
Due from Bangko Sentral ng Pilipinas	8	486,615,737	179,946,565
Due from other banks	8	65,551,911	300,916,646
		562,305,816	492,204,364

See Notes to Financial Statements

1. GENERAL INFORMATION

1.01 Corporate Information

PACIFIC ACE SAVINGS BANK (the "Bank") was duly registered with the Securities and Exchange Commission (SEC) on November 6, 1998 under SEC Registration No. A199816569. The Bank was granted authority by the Bangko Sentral ng Pilipinas (BSP) to engage in and carry on the general business of a savings/thrift bank, to exercise all the rights, attributes, powers, and privileges together with all the assumption of all duties and obligations of a savings/thrift bank as provided for the Thrift Banking Act of 1995 (Republic Act No. 7906) and other related laws, and to transact and do all matters and things incidental thereto or which may at any time hereafter be usual in connection with the business of a savings or thrift bank.

The Bank is registered with Subic Bay Metropolitan Authority (SBMA) as a Subic Bay Freeport (SBF) enterprise under Republic Act 7227, otherwise known as the bases conversion and development act of 1992. As a SBF registered enterprise the Bank is subject to 5% preferential tax rate on gross entitled to the privileges and benefits provided for under RA 7227 and its implementing rules and regulations such as not limited to tax and duty free importation of raw materials, capital equipment and household and personal items for use and only within SBF Zone. The Bank is 100.00% owned by Filipino Citizens.

On October 9, 2021, SBMA issued Certificate of Registration and Tax Exemption with No. 2001-2044, granting the Bank the rights, privileges, and benefits of a SBF. The Certificate is automatically renewed under Section 23 of the Implementing Rules from the set forth above until August 31, 2023.

The registered office, which is also its principal place of business, is located at Retail 1, Times Square, Cinema Complex, Subic Bay Freeport Zone, Olongapo City. The Bank is domiciled in the Philippines.

2. BASIS FOR THE PREPARATION AND PRESENTATION OF FINANCIAL STATEMENTS

2.01 Statement of Compliance

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

PFRSs include all applicable PFRSs, Philippine Accounting Standards (PASs), and Interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) as approved by the Financial Reporting Standards Council (FRSC) and adopted by the SEC. All provisions and requirements of PFRSs are applied by the Bank in preparation of its financial statements except for the requirements of the following standards:

- a. PFRS 9 Financial Instruments – For measurement and impairment, the Bank adopted Appendix 15 of the Manual of Regulations for Banks (MORB) that provides guidelines for provisioning based on number of days past due, collateral and type of loan.

2.02 Basis of Preparation

The financial statements are prepared on a going concern basis under the historical cost convention, except where a Financial Reporting Standard requires an alternative treatment (such as fair values) as disclosed where appropriate in these financial statements.

2.03 Presentation and Functional Currency

Items included in the financial statements of the Bank are measured using Philippine Peso, the currency of the primary economic environment in which the Bank operates (the “functional currency”). All presented financial information has been rounded to the nearest Peso, except when otherwise specified.

2.04 Use of Judgments and Estimates

The preparation of the Bank’s financial statements requires management to make judgments, estimates and assumptions that affect the amounts reported in the Bank’s financial statements and accompanying notes.

Judgments are made by management in the development, selection and disclosure of the Bank’s significant accounting policies and estimates and the application of these policies and estimates.

The estimates and assumptions are reviewed on an ongoing basis. These are based on management’s evaluation of relevant facts and circumstances as of the reporting date. Actual results could differ from such estimates.

Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

2.05 Going Concern Assumption

The Bank is not aware of any significant uncertainties that may cast doubts upon the Bank’s ability to continue as a going concern.

3. ADOPTION OF NEW AND AMENDED ACCOUNTING STANDARDS

3.01 New and Amended Standards, and Philippine Interpretation Adopted

The Bank applied, for the first time, the following applicable new and amended accounting standards.

Unless otherwise indicated, these new and amended accounting standards have no impact to the Bank. Except for these new and amended standards which were adopted as of January 1, 2021, the accounting policies adopted are consistent with those of previous financial year.

3.01.01 Amendments to PFRS 16, Covid-19-Related Rent Concessions beyond 30 June 2021

Amendments to PFRS 16:

- permit a lessee to apply the practical expedient regarding COVID-19-related rent concessions to rent concessions for which any reduction in lease payments affects only payments originally due on or before 30 June 2022 (rather than only payments originally due on or before 30 June 2021);
- require a lessee applying the amendment to do so for annual reporting periods beginning on or after 1 April 2021;
- require a lessee applying the amendment to do so retrospectively, recognizing the cumulative effect of initially applying the amendment as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate) at the beginning of the annual reporting period in which the lessee first applies the amendment; and
- specify that, in the reporting period in which a lessee first applies the amendment, a lessee is not required to disclose the information required by paragraph 28(f) of PAS 8.

3.02 Standards Issued but Not Yet Effective (Effective Beginning on or After January 1, 2022)

The new and amended standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Bank's financial statements are disclosed below. The Bank intends to adopt these new and amended standards and interpretations, if applicable, when they become effective.

3.02.01 Annual Improvements to PFRS Standards 2018-2020

PFRS 1 First-time Adoption of International Financial Reporting Standards

The amendment provides additional relief to a subsidiary which becomes a first-time adopter later than its parent in respect of accounting for cumulative translation differences. A subsidiary can elect to measure cumulative translation differences for all foreign operations at the carrying amount that would be included in the parent's consolidated financial statements.

A similar election is available to an associate or joint venture that uses the exemption in PFRS 1:D16(a).

The amendment is effective for annual periods beginning on or after January 1, 2022, with early application permitted.

PFRS 9 Financial Instruments

The amendment clarifies that in applying the '10 per cent' test to assess whether to derecognize a financial liability, an entity includes only fees paid or received between the entity (the borrower) and the lender, including fees paid or received by either the entity or the lender on the other's behalf.

The amendment is effective for annual periods beginning on or after January 1, 2022, with early application permitted.

PFRS 16 Leases

The amendment removes the illustration of the reimbursement of leasehold improvements.

No effective date is stated.

PAS 41 Agriculture

The amendment removes the requirement in PAS 41 for entities to exclude cash flows for taxation when measuring fair value.

The management of the Bank is still evaluating the impact of the new standards.

3.02.02 Amendments to PAS 37: Onerous Contracts – Costs of Fulfilling a Contract

The amendment specifies that the 'cost of fulfilling' a contract comprises the 'costs that relate directly to the contract'. Costs that relate directly to a contract can either be incremental costs of fulfilling that contract (examples would be direct labor, materials) or an allocation of other costs that relate directly to fulfilling contracts (an example would be the allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract).

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

The management of the Bank is still evaluating the impact of the new standard.

3.02.03 Amendments to PAS 16, Property, Plant and Equipment - Proceeds before Intended Use

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

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

The management of the Bank is still evaluating the impact of the new standard.

3.02.04 Amendments to PFRS 3, Reference to the Conceptual Framework

The changes include:

- update PFRS 3 so that it refers to the 2018 Conceptual Framework instead of the 1989 Framework;
- add to PFRS 3 a requirement that, for transactions and other events within the scope of PAS 37 or Philippine IFRIC 21, an acquirer applies PAS 37 or Philippine IFRIC 21 (instead of the Conceptual Framework) to identify the liabilities it has assumed in a business combination; and
- add to IFRS 3 an explicit statement that an acquirer does not recognize contingent assets acquired in a business combination.

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

The management of the Bank is still evaluating the impact of the new standard.

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

The amendments affect only the presentation of liabilities in the statement of financial position - not the amount or timing of recognition of any asset, liability income or expenses, or the information that entities disclose about those items. They:

- clarify that the classification of liabilities as current or non-current should be based on rights that are in existence at the end of the reporting period and align the wording in all affected paragraphs to refer to the "right" to defer settlement by at least twelve months and make explicit that only rights in place "at the end of the reporting period" should affect the classification of a liability;
- clarify that classification is unaffected by expectations about whether an entity will exercise its right to defer settlement of a liability; and
- make clear that settlement refers to the transfer to the counterparty of cash, equity instruments, other assets or services.

The amendments are effective for annual periods beginning on or after January 1, 2023.

The management of the Bank is still evaluating the impact of the new standard.

3.02.06 Amendments to PAS 8, Definition of Accounting Estimates

The changes focus entirely on accounting estimates and clarify the following:

- Under the new definition, accounting estimates are “monetary amounts in financial statements that are subject to measurement uncertainty”.
- Entities develop accounting estimates if accounting policies require items in financial statements to be measured in a way that involves measurement uncertainty.
- Clarified that a change in accounting estimate that results from new information or new developments is not the correction of an error. In addition, the effects of a change in an input or a measurement technique used to develop an accounting estimate are changes in accounting estimates if they do not result from the correction of prior period errors.
- A change in an accounting estimate may affect only the current period's profit or loss, or the profit or loss of both the current period and future periods. The effect of the change relating to the current period is recognized as income or expense in the current period. The effect, if any, on future periods is recognized as income or expense in those future periods.

The amendments are effective for annual periods beginning on or after January 1, 2023.

The management of the Bank is still evaluating the impact of the new standard.

3.02.07 Amendments to PAS 1 and PFRS Practice Statement 2, Disclosure Initiative – Accounting Policies

- An entity is now required to disclose its material accounting policy information (MAPI) instead of its significant accounting policies (SAP);
- Explains how an entity can identify MAPI and to give examples of when accounting policy information is likely to be material;
- Clarified that accounting policy information may be material because of its nature, even if the related amounts are immaterial;
- Clarified that accounting policy information is material if users of an entity's financial statements would need it to understand other material information in the financial statements; and
- Clarified that if an entity discloses immaterial accounting policy information, such information shall not obscure material accounting policy information.

Guidance and examples are added to explain and demonstrate the application of the 'four-step materiality process' to accounting policy information.

The amendments are effective for annual periods beginning on or after January 1, 2023.

The management of the Bank is still evaluating the impact of the new standard.

3.02.08 Amendments to PAS 12, Deferred Tax related to Assets and Liabilities from a Single Transaction

The main change is an exemption from the initial recognition exemption provided in PAS 12.15(b) and PAS 12.24. Accordingly, the initial recognition exemption does not apply to transactions in which equal amounts of deductible and taxable temporary differences arise on initial recognition. This is also explained in the newly inserted paragraph PAS 12.22A.

The amendments are effective for annual periods beginning on or after January 1, 2023.

The management of the Bank is still evaluating the impact of the new standard.

3.02.09 Amendments to PFRS 17, Insurance Contracts

The new standard requires insurance liabilities to be measured at a current fulfilment value and provides a more uniform measurement and presentation approach for all insurance contracts. These requirements are designed to achieve the goal of a consistent, principle-based accounting for insurance contracts.

PFRS 17 supersedes PFRS 4 'Insurance Contracts' and related interpretations.

The FRSC amended the mandatory effective date of PFRS 17 to January 1, 2025. This is consistent with Circular Letter No. 2020-62 issued by the Insurance Commission which deferred the implementation of IFRS 17 by two (2) years after its effective date as decided by the IASB.

The standard is not applicable to the Bank.

3.03 Deferred effectivity

Amendments to PFRS 10, *Consolidated Financial Statements* and PAS 28, *Investments in Associates and Joint Ventures - Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* - The amendments address the conflict between PFRS 10 and PAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that a full gain or loss is recognized when a transfer to an associate or joint venture involves a business as defined in PFRS 3, *Business Combinations*. Any gain or loss resulting from the sale or contribution of assets that does not constitute a business, however, is recognized only to the extent of unrelated investors' interests in the associate or joint venture. On January 13, 2016, the Financial Reporting Standards Council postponed the original effective date of January 1, 2016 of the said amendments until the International Accounting Standards Board has completed its broader review of the research project on equity accounting that may result in the simplification of accounting for such transactions and of other aspects of accounting for associates and joint ventures.

Under prevailing circumstances, the adoption of the foregoing new and amended PFRS is not expected to have any material effect on the financial statements of the Bank.

The Bank does not expect any effect on its financial statements upon adoption.

4. SIGNIFICANT ACCOUNTING POLICIES

Principal accounting and financial reporting policies applied by the Bank in the preparation of its financial statements are enumerated below and are consistently applied to all the years presented, unless otherwise stated.

4.01 Financial Assets

4.01.01 Initial Recognition and Measurement

Financial assets are recognized in the Bank's financial statements when the Bank becomes a party to the contractual provisions of the instrument. Financial assets are recognized initially at fair value. Transaction costs are included in the initial measurement of the Plan's financial assets, except for investments classified at fair value through profit or loss (FVTPL).

4.01.02 Classification

The Bank classifies its financial assets, other than hedging instruments, in the following categories: fair value through profit or loss (FVTPL), financial asset fair value through other comprehensive income (FVOCI) and financial asset at amortized cost. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

As of December 31, 2021 and 2020, the Bank has not designated any financial assets as at FVTPL.

Financial Assets at Amortized Cost

Financial assets at amortized cost are quoted non-derivative financial asset with fixed and determinable payment and fixed maturities for which Bank's management has the positive intention and ability to hold maturity.

A financial asset shall be measured at amortized cost if both of the following conditions are met:

- The asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows.
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

After initial recognition, financial assets at amortized cost are subsequently measured at amortized cost using the effective interest method, less impairment in value. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. Gains and losses are recognized in profit or loss when the financial assets are derecognized and through amortization process.

As of December 31, 2021 and 2020, the Bank's cash and cash equivalents, loans receivables and investment securities at amortized costs are classified under this category.

In the statement of cash flows, cash and cash equivalents includes cash in bank and temporary placements with original maturities of three months or less from dates of placement and that are subject to insignificant risk of changes in value.

Cash and cash equivalents are valued at face value. If a bank holding the funds of the Plan is in bankruptcy or financial difficulty, cash should be written down to estimated realizable value if the amount recoverable is estimated to be lower than the face amount.

The Bank recognizes each item of cash and cash equivalents as a current asset when the cash is not restricted from being exchanged or used to settle a liability for at least twelve months after the reporting date.

Loans and other receivable include those arising from direct loans to customers including officers and employees. These are initially recognized at fair value plus transaction costs that are directly attributable to the acquisition of the financial asset.

After initial measurement, 'Loans receivables' are subsequently measured at amortized cost using the effective interest method, less allowance for credit losses. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the effective interest rate. The amortization is included as 'Interest income' in the statement of comprehensive income. The losses arising from impairment are recognized in 'Provision for credit losses' in the statement of comprehensive income.

Financial assets at FVOCI

Financial assets at FVOCI include debt and equity securities.

Debt Instruments at FVOCI

For debt instruments that are not designated at FVPL under the fair value option, the financial assets are measured at FVOCI if both of the following conditions are met: (1) the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets; and (2) the contractual terms of the financial asset give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal amount outstanding.

After initial recognition, interest income (calculated using the effective interest rate method), foreign currency gains or losses and impairment gains or losses of debt instruments measured at FVOCI are recognized directly in profit or loss. When the financial asset is derecognized, the cumulative gains or losses previously recognized in OCI are reclassified from equity to profit or loss as a reclassification adjustment.

As of December 31, 2021 and 2020, the Bank does not have debt instruments at FVOCI.

Equity Instruments at FVOCI

For equity instruments that are not held for trading, the Bank may irrevocably designate, at initial recognition, a financial asset to be measured at FVOCI when it meets the definition of equity instrument under PAS 32, *Financial Instruments: Presentation*. This option is available and made on an instrument by instrument basis.

Dividends from equity instruments held at FVOCI are recognized in profit or loss when the right to receive payment is established, unless the dividend clearly represents a recovery of part of the cost of the investment. All other gains or losses from equity instruments are recognized in OCI and presented in the equity section of the statements of financial position. These fair value changes are recognized in equity and are not reclassified to profit or loss in subsequent periods, instead, these are transferred directly

to retained earnings. Equity securities at FVOCI are not subject to impairment assessment.

As of December 31, 2021 and 2020, the Bank does not have equity instruments at FVOCI.

4.01.03 Offsetting Financial Instruments

Financial assets and liabilities are offset and the net amount is reported in the statement of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

4.01.04 Impairment of Financial Assets

At the end of the reporting period, the Bank assess its expected credit losses (ECL). The Bank recognizes an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. The Bank being categorized as having simple and non-complex operations adopted the basic guidelines in setting up of allowance for credit losses provided for in Appendix 15 of the Manual of Regulations for Banks in recognizing expected credit losses (ECL) for its loans and other receivables. The Bank look beyond the past due/missed amortizations in classifying exposures and in providing allowance for credit losses.

The Bank considers a financial asset in default when contractual payments, i.e. last amortization paid are more than 30 days past due. However, in certain cases, the Bank may also consider a financial asset to be in default when internal or external information indicates that the Bank is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Bank. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

The Bank's ECL measurement, as determined by the Management, is disclosed in Note 6.01.05.

As of December 31, 2021 and 2020 the Bank did not assess the impact of ECL model that is in accordance with PFRS 9 due to certain limitations.

4.01.05 Derecognition

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

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

When the Bank has transferred its right to receive cash flows from a financial asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of ownership of the financial asset nor transferred control of the financial asset, the financial asset is recognized to the extent of the Bank's continuing involvement in the financial asset. Continuing involvement that takes the form of a guarantee over the transferred financial asset is measured at the lower of the original carrying amount of the financial asset and the maximum amount that the Bank could be required to repay.

4.02 Financial Liabilities

4.02.01 Initial Recognition and Measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss and financial liabilities at amortized cost.

All financial liabilities are recognized at fair value and, in the case of financial liabilities at FVTPL plus any directly attributable transaction costs.

The Bank's financial liabilities at amortized cost includes deposit liabilities and accrued and other liabilities.

4.02.02 Subsequent Measurement

The measurement of financial liabilities depends on their classification, as described as follows:

- Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term.

Gains or losses on liabilities held for trading are recognised in the statement of profit or loss.

Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in PAS 39 are satisfied.

As of December 31, 2021 and 2020, the Bank has not designated any financial liability as at FVTPL.

- Financial liabilities at amortized cost

After initial recognition, financial liabilities at amortized cost are subsequently measured at amortized cost using the EIR method. Gains and losses are recognised in statement of comprehensive income when the liabilities are derecognised as well as through the EIR amortization process.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included as finance costs in the statement of comprehensive income.

4.02.03 Derecognition

The Bank derecognizes financial liabilities when, and only when, the Bank's obligations are discharged, cancelled or expired.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

4.03 Bank Premises, Furniture, Fixtures and Equipment

Bank premises, furniture, fixtures and equipment are measured at cost less any accumulated depreciation, amortization and impairment losses. Cost consists of purchase price and costs directly attributable to bringing the asset to its working condition for its intended use.

Subsequent expenditures relating to an item of bank premises, furniture, fixtures and equipment that have already been recognized are added to the carrying amount of the asset when it is probable that future economic benefits, in excess of the originally assessed standard of performance of the existing asset, will flow to the Bank. The carrying amount of replaced parts is derecognized. All other subsequent expenditures are recognized as expense in the period in which those are incurred.

Land is not depreciated. Depreciation is computed on the straight-line method based on the estimated useful lives of the assets as follows:

Transportation equipment	–	5 years
Furniture, fixtures and equipment	–	5 – 10 years
IT equipment	–	5 – 10 years
Other Equipment	–	5 – 10 years

Leasehold improvements are depreciated over the shorter between the improvements' useful life of 10 years or the lease term.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Fully depreciated assets still in use are retained in the financial statements. When assets are retired or otherwise disposed of, the cost and the related accumulated depreciation and any impairment in value are removed from the financial statements and any resulting gain or loss is credited or charged to profit or loss. Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized in profit or loss.

4.04 Investment Property

Properties that are held either to earn rental income or for capital appreciation or both, and are not significantly occupied by the Bank, are classified as investment properties.

Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, depreciable investment properties are carried at cost less accumulated depreciation and any impairment in value. Depreciation is computed using straight-line method based on the estimated useful lives of the assets of 10 years. Land is not depreciated. Impairment test is conducted when there is an indication that the carrying amount of the asset may not be recovered. An impairment loss is recognized for the amount by which the property's carrying amount exceeds its recoverable amount, which is the higher between the property's fair value less cost to sell and value in use.

Investment properties are derecognized by the Bank upon disposal or when the investment property is permanently withdrawn from use and no future benefit is expected to arise from the continued use of the asset. Any gain or loss on derecognition of an investment property, calculated as the difference between the net disposal proceeds and the carrying amount of the asset, is recognized in the statement of comprehensive income in the period in which the property is derecognized.

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

Transfers to and from investment property do not result in gain or loss.

4.05 Prepayment and other assets

Other assets not classified as financial assets, bank premises, furniture, fixture and equipment, and investment property, includes prepaid assets, prepaid income tax and the likes. These other assets qualifying into the definition of assets under PAS 1 Presentation of Financial Statements are resources controlled by the Bank as a result of past events and from which future economic benefits are expected to flow to the entity. Other assets are recognized on an accrual basis of accounting.

4.06 Impairment of Non-financial Assets

At the end of each reporting date, the Bank assesses whether there is any indication that any non-financial assets may have suffered an impairment loss. If any such indication exists, the recoverable amount of these assets is estimated in order to determine the extent of the impairment loss, if any. Where it is not possible to estimate the recoverable amount of an individual asset, the Bank estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. An impairment loss is recognized as an expense.

4.07 Related Party Relationships and Transactions

Related party transactions are transfer 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; and (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.

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

4.08 Revenue Recognition

4.08.01 Revenue Recognition for Revenues within the scope of PFRS 15

Prior to January 1, 2018, under PAS 18, Revenue, revenue is recognized to the extent that it is probable that the economic benefits will flow to the Bank and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is recognized to the extent that it is probable that the economic benefit will flow to the Bank and the revenue can be measured reliably. Revenue is measured at the fair value of the consideration received or receivable by the Bank for services provided in the normal course of business. In addition, the following specific recognition criteria must also be met before revenue is recognized.

Upon adoption of PFRS 15 beginning January 1, 2018, revenue from contracts with customers is recognized upon transfer of services to the customer at an amount that reflects the consideration to which the Bank expects to be entitled in exchange for those services.

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

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

Penalties and service charges

The Bank earns penalties and service charges from a diverse range of services it provides to its customers. Service fees earned for the provision of services over a period of time are accrued over that period. These fees include commission income and credit-related fees. Service fees are collected from borrowers to cover direct and indirect expenses in processing credit applications.

Other Income

Other income arises from bank fees and charges, bank commissions and miscellaneous income. Other income is recognized upon completion of the earning process and the collectability is reasonably assured.

4.08.02 Revenue Recognition for Revenues outside the scope of PFRS 15

For revenues outside the scope of PFRS 15, the following specific recognition criteria must also be met before revenue is recognized:

Interest on Loans

The Bank recognizes interest income on current loans not discounted with lump-sum payment and other loan-related income only to the extent of cash collections received. Under the PFRSs, interest income on loans should be recognized in the period it is earned regardless of when received using the effective interest method. The effect of the difference in the methods of interest income recognition has not been determined due to systems limitation.

Unearned discount is recognized as income over the terms of the receivables using the effective interest rate method and shown as deduction from loans.

Interest Income on Bank Deposits and Investment Securities at Amortized Cost

Interest on bank deposits and investment securities at amortized cost are recognized in profit or loss using the effective interest method.



4.09 Cost and Expense Recognition

Cost and expenses are recognized in profit or loss when a decrease in future economic benefit related to a decrease in an asset or an increase in a liability has arisen that can be measured reliably. Costs and expenses are recognized in profit or loss in the following manner:

- On the basis of a direct association between costs incurred and the earning of specific items of income;
- On the basis of a systematic and rational allocation procedures when economic benefits are expected to arise over several accounting periods and association with income can only be broadly or indirectly determined; or
- Immediately when an expenditure produces no future economic benefits or when, and to the extent that, future economic benefits do not qualify, or cease to qualify, for recognition in the statement of financial position as an asset.

4.10 Leases

4.10.01 The Bank as Lessee

For any new contracts entered into on or after January 1, 2019, 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 (3) 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.
- 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.

Recognition and Initial Measurement

At lease commencement date, the Bank recognizes a right-of-use asset and a lease liability on the balance sheet. 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).

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 in substance fixed), 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.

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



Subsequent Measurement

The Bank depreciates the right-of-use assets on a straight-line basis from the lease commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The Bank also assesses the right-of-use asset for impairment when such indicators exist.

Useful life considered in depreciating the right-of-use assets is the life of the asset or remaining term of the lease, whichever is shorter.

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.

4.11 Employee Benefits

Employee benefits are all forms of consideration given by the Bank in exchange for services rendered by employees, including trustees and management.

4.11.01 Short-term Employee Benefits

The Bank recognizes a liability net of amounts already paid and an expense for services rendered by employees during the accounting period. Short-term benefits given by the Bank to its employees include salaries and wages, bonus and incentives, directors' fees, SSS, PHIC, HDMF contributions, accumulating and vesting credit leaves and gratuity pay.

4.11.02 Post-employment Benefits

The Bank does not have an existing retirement plan. However, it is subject to the minimum retirement benefit under the Republic Act (RA) 7641, "The Retirement Pay Law," which provides for retirement pay to qualified employees in the absence of any retirement plan. RA 7641 requires that private employers should provide minimum retirement benefits to employees who have reached the age of 60 with at least five years of service to the Bank.

The retirement pay is equivalent to at least one-half month salary for every year of service, a fraction of at least six months being considered as one whole year. Unless the parties provide for broader inclusions, the term half-month salary shall mean 15 days plus one-twelfth of the 13th month pay and the cash equivalent of not more than five days of service incentive leave.

As of December 31, 2021 and 2020, the Bank has not established a retirement fund for its regular employees and no amount of retirement benefit obligation has been accrued since no employees have served the Bank more than five (5) years, hence no employees are qualified under R.A. 7641.

4.12 Income Tax

The tax expense for the period pertain to the current tax. Tax is recognized in the 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.

4.12.01 Current Income Tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the statements of comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Bank's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

4.13 Equity

Share capital represents the nominal value of shares that have been issued.

Retained earnings includes all current and prior period results of operations as reported in the statement of comprehensive income.

4.14 Earnings Per Share

Earnings per share is computed by dividing net income for the year by the weighted average number of common shares outstanding during each year after giving retroactive effect to share dividends and share splits declared during the year, if any.

4.15 Provisions, Contingent Liabilities and Contingent Assets

4.15.01 Provisions

Provisions are recognized when the Bank has a present obligation, whether legal or constructive, as a result of a past event, it is probable that the Bank will be required to settle the obligation, and a reliable estimate can be made for the amount of the obligation.

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

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

4.15.02 Contingencies

Contingent liabilities and assets are not recognized because their existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Bank. Contingent liabilities are disclosed, unless the possibility of an outflow of resources embodying economic benefits is remote.

Contingent assets are disclosed only when an inflow of economic benefits is probable.

4.16 Borrowing Costs

Borrowing costs are recognized in profit or loss in the period in which they are incurred.

4.18 Events After the End of the Reporting Date

The Bank identifies events after the reporting date as events that occurred after the reporting date but before the date the financial statements were authorized for issue. Any event that provides additional information about the Bank's financial position at the reporting date is reflected in the financial statements. Non-adjusting events are disclosed in the notes to the financial statements when material.

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

The preparation of financial statements in conformity with Financial Reporting Standards in the Philippines for Banks requires management to use estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes.

The estimates and assumptions used in the accompanying financial statements are based upon management's evaluation of relevant facts and circumstances as of the date of the financial statements. Actual results could differ from such estimates.

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

5.01 Critical Judgments in Applying Accounting Policies

The Bank has made the following judgments, apart from those involving estimation, which have the most significant effect on the amounts recognized in the financial statements.

5.01.01 Classification of financial assets (Note 4)

The Bank follows the guidance of PFRS 9 starting January 1, 2018 in classifying financial assets at initial recognition whether it will be subsequently measured at fair value through other comprehensive income, at amortized cost, or at fair value through profit or loss.

The Bank determines the classification based on the contractual cash flow characteristics of the financial assets and on the business model it uses to manage these financial assets. The Bank determines whether the contractual cash flows associated with the financial asset are solely payments of principal and interest (the "SPPI"). If the instrument fails the SPPI test, it will be measured at fair value through profit or loss.

5.01.02 Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, these are determined using internal valuation techniques using generally accepted market valuation models. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. These judgments may include considerations of liquidity and model inputs.

5.01.03 Determining Provisions and Contingencies

The Bank is currently involved in various legal proceedings. The estimate of probable costs for the resolution of these claims has been developed in consultation with outside counsel handling the Bank's defense in these matters and is based upon an analysis of potential result. The Bank currently does not believe that these proceedings will have a material adverse effect on its financial condition. It is possible, however, that future results of operations could be materially affected by changes in the estimates or in the effectiveness of the strategies relating to these proceedings.

5.01.04 Determining Fair Value of Financial Instruments

The Bank classifies financial assets by evaluating, among others, whether the asset is quoted or not in an active market. Included in the evaluation on whether a financial asset is quoted in an active market is the determination on whether quoted prices are readily

and regularly available, and whether those prices represent actual and regularly occurring market transactions on an arm's length basis.

Where the fair values of financial assets and financial liabilities recorded on the statements of financial position cannot be derived from active markets, these are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models was taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. These estimates may include considerations of liquidity, volatility, and correlation.

5.01.05 Determining Fair Value of Acquired Assets classified as Investment Properties

The Bank determines the fair value of the acquired properties through internally- or externally-generated appraisal. The appraised value is determined based on the current economic and market conditions as well as the physical condition of the properties.

The fair value of investment properties are disclosed in Note 12.

5.01.06 Determining Asset Impairment

The Bank performs an impairment review when certain impairment indicators are present. Determining the fair value of bank premises, furniture, fixtures and equipment, investments, assets held for sale and intangible assets, which require the determination of future cash flows expected to be generated from the continued use and ultimate disposition of such assets, requires the Bank to make estimates and assumptions that can materially affect the financial statements. Future events could cause the Bank to conclude that property and equipment, investments and intangible assets associated with an acquired business is impaired. Any resulting impairment loss could have a material adverse impact on the financial condition and results of operations. The preparation of the estimated future cash flows involves significant judgment and estimations. While the Bank believes that its assumptions are appropriate and reasonable, significant changes in the assumptions may materially affect the assessment of recoverable values and may lead to future additional impairment charges under generally accepted accounting principles in the Philippines.

In both years, Management determined that there was an indication of impairment that occurred on its investment properties, as disclosed in Note 12.

5.02 Key Sources of Estimation Uncertainties

The Bank makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates assumptions and judgments that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

5.02.01 Estimating Allowances for Credit Losses

The Bank estimates the allowance for credit losses related to its loans and receivables based on assessment of specific accounts where the Bank has information that certain customers are unable to meet their financial obligations. In these cases, judgment used was based on the best available facts and circumstances including but not limited to, the length of relationship with the customer and the customer's current credit status based on third party credit reports and known market factors. The Bank used judgment to record specific reserves for customers against amounts due to reduce the expected collectible amounts. These specific reserves are re-evaluated and adjusted as additional information received impacts the amounts estimated, notwithstanding the provisioning requirements under Manual of Regulations for Banks (MORB).

The amounts and timing of recorded expenses for any period would differ if different judgments were made or different estimates were utilized. An increase in the allowance for credit losses would increase the recognized operating expenses and decrease current assets.

In both years, the collectability of Bank's loans receivables and other assets are assessed and determined that certain borrowers are unable to meet their financial obligations. Consequently, the Bank recognized total provision for credit losses amounting to ₱2,264,211 and ₱3,092,667 in 2021 and 2020, respectively, as disclosed in Note 10. Allowance for credit losses – loans receivables amounted to ₱16,255,539 and ₱14,036,324 as of December 31, 2021 and 2020, respectively, as disclosed in Note 10.

Allowance for credit losses – accounts receivables amounted to ₱3,448,968 as of December 31, 2021 and 2020, as disclosed in Note 13.

5.02.02 Reviewing Residual Values, Useful Lives and Depreciation Method of Bank's Premises, Furniture, Fixtures and Equipment and Investment Properties

The residual values, useful lives and depreciation method of the Bank's premises, furniture, fixtures and equipment and investment properties are reviewed at least annually, and adjusted prospectively if appropriate, if there is an indication of a significant change in, how an asset is used; significant unexpected wear and tear; technological advancement; and changes in market prices since the most recent annual reporting date. The useful lives of the Bank's assets are estimated based on the period over which the assets are expected to be available for use. In determining the useful life of an asset, the Bank considers the expected usage, expected physical wear and tear, technical or commercial obsolescence arising from changes or improvements in production, or from a change in the market demand for the product or service output and legal or other limits on the use of the Bank's assets. In addition, the estimation of the useful lives is based on Bank's collective assessment of industry practice, internal technical evaluation and experience with similar assets. It is possible, however, that future results of operations could be materially affected by changes in estimates brought about by changes in factors mentioned above. The amounts and timing of recorded expenses for any period would be affected by changes in these factors and circumstances.

A reduction in the estimated useful lives of bank's premises, furniture, fixtures and equipment and investment properties would increase the recognized operating expenses and decrease non-current assets.

The Bank uses a depreciation method that reflects the pattern in which it expects to consume the asset's future economic benefits. If there is an indication that there has been a significant change in the pattern used by which the Bank expects to consume an asset's future economic benefits, the entity shall review its present depreciation method and, if current expectations differ, change the depreciation method to reflect the new pattern.

The Bank has bank premises, furniture, fixtures and equipment stated at carrying value of ₱32,074,305 and ₱37,317,659 as of December 31, 2021 and 2020, respectively, as disclosed in Note 11. The carrying amounts of investment properties amounted to ₱1,263,579 and ₱1,333,784, as of December 31, 2021 and 2020, respectively, as disclosed in Note 12.

5.02.03 Determining Impairment of Non-Financial Asset

The Bank performs an impairment review when certain impairment indicators are present. Determining the fair value of investment properties, and bank premises, furniture, fixtures and equipment, which require the determination of future cash flows expected to be generated from the continued use and ultimate disposition of such assets, requires the Bank to make estimates and assumptions that can materially affect the financial statements. Future events could cause the Bank to conclude that investment properties and bank premises, furniture, fixtures and equipment are impaired. Any resulting impairment loss could have a material adverse impact on the financial condition and results of operations.

The preparation of the estimated future cash flows involves significant judgment and estimations. While the Bank believes that its assumptions are appropriate and reasonable, significant changes in the assumptions may materially affect the assessment of recoverable values and may lead to future additional impairment charges under PFRS.

In both years, Management determined that there was no indication of impairment that occurred on its investment properties.

6. RISK MANAGEMENT OBJECTIVES AND POLICIES

6.01 General risk management principles

The Bank's financial instruments comprise cash and cash equivalents, loans and other receivables, other assets, and other financial liabilities such as deposit liabilities, deferred income and other accrued expenses to finance the Bank's operations.

The main risks arising from the Bank's financial instruments are credit risk, market risk, liquidity risk and operation risk. The management reviews and agrees on policies for managing each of these risks and they are summarized below.

The following table summarizes the carrying amount of financial assets and liabilities recorded by category:

	Note	2021	2020
	s		
Financial assets at amortized cost			
Cash and other cash items	8	₱ 10,138,168	₱ 11,341,153
Due from BSP	8	486,615,737	179,946,565
Due from other banks	8	65,551,911	300,916,646
Investment securities at amortized cost	9	41,064,924	32,274,649
Loans and other receivables – net	10	103,389,910	82,141,758
Other assets*	13	1,875,024	2,005,650
		₱ 708,635,674	₱ 608,626,421
Financial liabilities at amortized cost			
Deposit liabilities	14	517,947,139	491,033,587
Accrued and other liabilities**	15	115,274,135	60,736,368
		₱ 633,221,274	₱ 551,769,955

*excluding non-financial assets amounting to ₱1,762,991 and ₱2,978,962, respectively and net of allowance of ₱3,448,968 in 2021 and 2020.

**excluding non-financial liabilities amounting to ₱260,595 and ₱478,939, respectively.

6.02 Credit risk

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Bank. The Bank has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults.

On-going credit evaluation is performed on the financial condition of loans and other receivable and, where appropriate, obtaining additional collateral is requested to cover the loans.

The Bank does not have significant credit risk exposure to any single counterparty or any Bank of counterparties having similar characteristics. The Bank defines counterparties as having similar characteristics if they are related entities.

Also, the Bank manages its credit risk by depositing its cash with high credit quality banking institutions.

The carrying amount of financial assets recognized in the financial statements represents the Bank's maximum exposure to credit risk.

6.02.01 Credit Risk Exposure

The table below shows the gross maximum exposure to credit risk of the Bank as of December 31, 2021 and 2020, without considering the effects of credit risk mitigation techniques.

	Notes	2021	2020
Due from BSP	8	₱ 486,615,737	₱ 179,946,565
Due from other banks	8	65,551,911	300,916,646
Investment securities at amortized cost	9	41,064,924	32,274,649
Loans and other receivables – gross*	10	119,645,449	96,178,082
Other assets**	13	1,875,024	2,005,650
		₱ 714,753,045	₱ 611,321,592

*gross of allowance for credit losses amounting to ₱16,255,539 and ₱14,036,324 in 2021 and 2020, respectively.

**excluding non-financial assets amounting to ₱1,762,991 and ₱2,978,962, respectively and net of allowance of ₱3,448,968 in 2021 and 2020.

6.02.02 Risk Concentration of the Maximum Exposure to Credit Risk

Concentrations arise when a number of counterparties are engaged in similar business activities or activities in the same geographic region or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions, concentrations indicate the relative sensitivity of the Bank's performance to developments affecting a particular industry or geographical location. Such credit risk concentrations, if not properly managed, may cause significant losses that could threaten the Bank's financial strength and undermine public confidence.

6.02.03 Credit Quality of Financial Assets

The table below shows the credit quality by class of financial assets as of December 31, 2021 and 2020.

2021				
	Neither past due nor impaired	Past due but not impaired	Impaired	Total
Due from BSP	486,615,737	–	–	486,615,737
Due from other banks	65,551,911	–	–	65,551,911
Investment securities at amortized cost	41,064,924	–	–	41,064,924
Loans and other receivables*	71,743,189	7,155,971	40,746,289	119,645,449
Other assets**	1,875,024	–	–	1,875,024
	666,850,785	7,155,971	40,746,289	714,753,045
2020				
Due from BSP	179,946,565	–	–	179,946,565
Due from other banks	300,916,646	–	–	300,916,646
Investment securities at amortized cost	32,274,649	–	–	32,274,649
Loans and other receivables*	71,551,701	–	24,626,381	96,178,082
Other assets**	2,005,650	–	–	2,005,650
	586,695,211	–	24,626,381	611,321,592

*gross of allowance for credit losses amounting to ₱16,255,539 and ₱14,036,324 in 2021 and 2020, respectively.

**excluding non-financial assets amounting to ₱1,762,991 and ₱2,978,962, respectively and net of allowance of ₱3,448,968 in 2021 and 2020.

Neither past due nor impaired cash on hand and in banks are working capital cash fund placed, invested, or deposited in local banks belonging to the top ten (10) banks in the Philippines in terms of resources and profitability. Other neither past due nor impaired accounts are loans and other receivables and investment securities which have a very remote likelihood of default and have consistently exhibited good paying habits.

Past due but not impaired loans and receivables and investment securities are loans and receivables and investment securities where contractual interest or principal payments

are past due but the Bank believes that impairment is not appropriate on the basis of the level of collateral available or status of collection of amounts owed to the Bank.

Loans with negotiated terms are loans that have been restructured due to deterioration in the borrower's financial position. In respect of some of these loans, the Bank has made concessions that it would not otherwise consider. Once the loan is restructured, it remains in this category independent of satisfactory performance after restructuring.

Impaired Loans and receivables and investment securities are loans and receivables and investment securities for which the Bank determines that it is probable that it will be unable to collect all principal and interest due based on the contractual terms of the promissory notes and securities agreements. Loans and receivables that have been provided with 100% allowance for credit losses and those under litigation are considered impaired.

The Bank holds collateral against loans receivables in the form of real estate and chattel mortgages, and deposit hold outs over assets.

6.02.04 Aging Analysis

An aging analysis of the Bank's loans and other receivable as of December 31, 2021 and 2020 are as follows:

	2021	2020
Outstanding receivables:		
Current accounts	P 71,743,189	71,551,701
Past due accounts:		
1 – 30 days past due	230,618	–
31 – 60 days past due	690,867	–
61 – 90 days past due	6,234,486	–
91 – over 180 days past due	40,746,289	24,626,381
	P 119,645,449	96,178,082

6.02.05 Measurement of ACL

As a general rule, Especially Mentioned and Substandard – Underperforming [e.g., substandard accounts that are unpaid or with missed payment of less than ninety (90) days] shall be considered as Stage 2 accounts, while Substandard Non-performing, Doubtful, and Loss accounts shall be considered as Stage 3 accounts.

Individually Assessed Loans and Other Credit Exposures

1. Loans and other credit exposures with unpaid principal and/or interest shall be classified and provided with allowance for credit losses (ACL) based on the number of days of missed payments, as follows:

For unsecured loans and other credit exposures:

No. of days unpaid/with missed payments	Classification	Minimum ACL	Stage
31 – 90 days	Substandard (underperforming)	10%	2
91 – 120 days	Substandard (non-performing)	25%	3
121 – 180 days	Doubtful	50%	3
181 days and over	Loss	100%	3

For secured loans and other credit exposures:

No. of days unpaid/with missed payments	Classification	Minimum ACL	Stage
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31 – 90 days*	Substandard (underperforming)	10%	2
91 – 180 days*	Substandard (non-performing)	10%	3
181 – 365 days	Substandard (non-performing)	25%	3
Over a year – 5 years	Doubtful	50%	3
Over 5 years	Loss	100%	3

*When there is imminent possibility of foreclosure and expectation of loss, ACL shall be increased to 25%

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

2. Loans and other credit exposures that exhibit the characteristics for classified accounts described under Sec. 143 (Credit Classification and Provisioning) shall be provided with ACL, as follows:

Classification	Minimum ACL	Stage
Especially mentioned	5%	2
Substandard – secured	10%	2 or 3
Substandard – unsecured	25%	2 or 3
Doubtful	50%	3
Loss	100%	3

3. Unsecured loans and other credit accommodations classified as “Substandard” in the last two (2) internal credit reviews which have been continuously renewed/extended without reduction in principal and is not in process of collection, shall be downgraded to “Doubtful” classification and provided with a fifty percent (50%) allowance for credit losses.

4. Loans and other credit accommodations under litigation which have been classified as “Pass” prior to the litigation process shall be classified as “Substandard” and provided with twenty-five percent (25%) allowance for credit losses.

5. Loans and other credit accommodations that were previously classified as “Pass” but were subsequently restructured shall have a minimum classification of EM and provided with a five percent (5%) allowance for credit losses, except for loans which are considered non-risk under existing laws, rules and regulations.

6. Classified loans and other credit accommodations that were subsequently restructured shall retain their classification and provisioning until the borrower has sufficiently exhibited that the loan will be fully repaid.

Collectively Assessed Loans and Other Credit Exposure

1. Current “Pass” loans and other credit accommodations should be provided with a reasonable level of collective allowance, using historical loss experience adjusted for current conditions.

2. Loans and other credit exposures with unpaid principal and/ or interest shall be classified and provided with ACL based on the number of days of missed payments, as follows:

For unsecured loans and other credit exposures:

No. of days unpaid/with missed payments*	Classification	Minimum ACL	Stage
1 – 30 days	Especially Mentioned	2%	2
31 – 60 days/1 st restructuring	Substandard	25%	2 or 3
61 – 90 days	Doubtful	50%	3

91 days and over/2 nd restructuring	Loss	100%	3
--	------	------	---

*PAR for microfinance loans

For secured loans and other credit accommodations:

No. of days unpaid/with missed payments*	Classification	ACL (%)		Stage
		Other types of collateral	Security by real estate	
31 – 90 days	Substandard (underperforming)	10	10	2
91 – 120 days	Substandard (non-performing)	25	15	3
121 – 360 days	Doubtful	50	25	3
361 days – 5 years	Loss	100	50	3
Over 5 years	Loss	100	100	3

Provided, that where the quality of physical collaterals or financial guarantees securing the loans and advances is determined to be insufficient, weak or without recoverable values, such loans and advances shall be treated as if these are unsecured.

6.03 Liquidity risk

Ultimate responsibility for liquidity risk management rests with the board of directors, which has established an appropriate liquidity risk management framework for the management of the Bank's short-, medium- and long-term funding and liquidity management requirements.

The Bank manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows, and by matching the maturity profiles of financial assets and liabilities.

The Bank seeks to manage its liquidity profile to be able to finance its capital expenditures and cover its operating costs. The Bank's objective is to maintain a balance between continuity of funding and flexibility. In the management of liquidity risk, the Bank monitors and maintains a level of cash and due from other banks deemed adequate by the Management to finance the Bank's operations.

As of December 31, 2021 and 2020, minimum liquidity ratio of the Bank is 123.40% and 117.34%, respectively.

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	On Demand	Due within 1 year	Due beyond 1 year but not more than 5 years	Due beyond 5 years but not more than 15 years	Total
Financial Assets:					
Due from BSP	₱ 486,615,737	₱ —	₱ —	₱ —	₱ 486,615,737
Due from other banks	65,551,911	—	—	—	65,551,911
Investment securities at amortized cost	—	900,000	39,264,924	—	39,264,924
Loans and other receivables*	55,116,631	5,480,862	20,948,642	38,099,314	119,645,449
Other assets**	1,875,024	—	—	—	1,875,024
	₱ 56,991,655	₱ 6,380,862	₱ 60,213,566	₱ 38,099,314	₱ 712,953,045
Financial Liabilities:					
Deposit liabilities	₱ 512,626,603	₱ 1,123,228	₱ 4,197,308	₱ —	₱ 517,947,139
Accrued and other liabilities***	115,274,135	—	—	—	115,274,135
	₱ 627,900,738	₱ 1,123,228	₱ 4,197,308	₱ —	₱ 633,221,274

The table below summarizes maturity profile of the Bank's financial assets and liabilities as of December 31, 2021 and 2020 based on undiscounted

*gross of allowance for credit losses amounting to ₱16,255,539 in 2021.
 **excluding non-financial assets amounting to ₱1,762,991 and net of allowance of ₱3,448,968 in 2021.
 ***excluding non-financial liabilities amounting to ₱260,595 in 2021.

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2020	On Demand	Due Within 1 Year	Due Beyond 1 Year But Not More Than 5 Years	Due Beyond 5 Years	Total
Financial Assets:					
Due from BSP	₱ —	₱ —	₱ 179,946,565	₱ —	₱ 179,946,565
Due from other banks	300,916,646	—	—	—	300,916,646
Investment securities at amortized cost	10,000,000	22,274,649	—	—	32,274,649
Loans and other receivables*	13,072,127	4,758,633	31,605,452	46,741,870	96,178,082
Other assets**	2,005,650	—	—	—	2,005,650
	₱ 325,994,423	₱ 27,033,282	₱ 211,552,017	₱ 46,741,870	₱ 611,321,592
Financial Liabilities:					
Deposit liabilities	₱ 291,829,692	₱ 4,198,941	₱ 146,366,673	₱ 48,638,282	₱ 491,033,588
Other liabilities***	60,736,368	—	—	—	60,736,368
	₱ 352,566,060	₱ 4,198,941	₱ 146,366,673	₱ 48,638,282	₱ 551,769,956

*gross of allowance for credit losses amounting to ₱14,036,324 in 2020.

**excluding non-financial assets amounting to ₱2,978,962, respectively and net of allowance of ₱3,448,968 in 2020.

***excluding non-financial liabilities amounting to ₱478,939 in 2020.

7. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

Cash and other cash item, Due from BSP, Due from other banks, Other assets, Accrued and other liabilities

The carrying values of these financial assets and liabilities approximate their fair values due to the relatively short-term maturities of these financial assets and liabilities.

Loans and other receivables

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

Deposit liabilities

Fair values are estimated using the discounted cash flow methodology using the incremental borrowing rates for similar borrowings with maturities consistent with those remaining liability being valued.

Fair Value Hierarchy

In accordance with PFRS 13, the fair value of financial assets and 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 asset or liability is classified is determined based on the lowest level of significant input to the fair value measurement.

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

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

There were neither transfers between Levels 1 and 2 instruments in both years.

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

Fair Value Measurement for Non-financial Assets

The fair value of the Bank's land classified under Investment Properties account, as disclosed in Note 12, is determined on the basis of the appraisals performed by an appraiser with appropriate qualifications and recent experience in the valuation of similar properties in the relevant locations. To some extent, the valuation process was conducted by the appraiser in discussion with the Bank's management with respect to the determination of the inputs such as the size, age, and condition of the land and buildings, and the comparable prices in the corresponding property location.

The fair value of investment properties for the years ended December 31, 2021 and 2020 amounted to ₱4,067,200, as disclosed in Note 12, is currently categorized within Level 2. In estimating the fair value of these properties, management takes into account the market participant's ability to generate economic benefits by using the assets in their highest and best use. There has been no change to the valuation techniques used by the Bank during the year for its non-financial assets.

8. CASH ON HAND

Cash and cash equivalents include the following:

	2021	2020
Cash on hand	₱ 10,138,168	₱ 11,341,153
Due from BSP	486,615,737	179,946,565
Due from other banks	65,551,911	300,916,646
TOTAL	₱ 562,305,816	₱ 492,204,364

Cash on hand represents actual cash in vault – local and foreign currencies, and those in possession of the cashier and the tellers as of December 31, 2021 and 2020.

Due from BSP is the deposit balance maintained with the Bangko Sentral ng Pilipinas to meet reserve requirements. During 2021 and 2020, the Bank has satisfactorily complied with the said reserve requirement. Deposits with the BSP do not earn interest.

Due from other banks represent funds deposited with domestic banks which are used by the Bank as part of its working funds. Peso denominated deposits earn interest at annual rates ranging from 0.01% to 32.48% in 2021 and 2020.

Interest earned on deposits on local banks amounted to ₱4,968,991 and ₱5,338,743 in 2021 and 2020, respectively.

9. INVESTMENT SECURITIES AT AMORTIZED COST

These accounts consist of investment in Land Bank of the Philippines and Development Bank of the Philippines in the form of treasury bills.

Movements in the account are disclosed below:

	2021	2020
Balance at January 1	₱ 32,274,649	₱ 13,319,449
Acquisitions	10,000,000	20,164,925
Maturities	(1,209,725)	(1,209,725)
Balance, December 31	₱ 41,064,924	₱ 32,274,649

Interest rate ranges from 2.0% to 3.0% in 2021 and 2020 with maturity ranging from one (1) year to five (5) years.

The Bank assesses at each financial reporting date whether there is an indication that an investment may be impaired and believes that there is no such indication as of December 31, 2021 and 2020.

No impairment was recognized as of and for the years ended December 31, 2021 and 2020.

Interest earned amounted to ₱1,040,953 and ₱735,448 for the years ended December 31, 2021 and 2020, respectively.

10. LOANS RECEIVABLES – net

The Bank's loan receivables consist of:

	2021	2020
Current loans	₱ 71,743,189	₱ 71,551,701
Past due loans	47,902,260	24,626,381
Total loans receivable	119,645,449	96,178,082
Allowance for credit losses – loans receivable	(16,255,539)	(14,036,324)
Total loans receivables – net	₱ 103,389,910	₱ 82,141,758

As of December 31, 2021 and 2020, no loans receivable was used as collateral for bills payable.

Total earned interest amounts to ₱17,423,205 and ₱21,031,719 as of December 31, 2021 and 2020, respectively.

The reconciliation of the allowance for credit losses at December 31 is summarized as follows:

	2021	2020
At January 1	₱ 14,036,324	₱ 10,943,657
Provision for credit losses	2,264,211	3,092,667
Reversal	(44,996)	–
	₱ 16,255,539	₱ 14,036,324

Allowance for credit losses is comprised of the following:

	2021	2020
Specific allowance for probable losses	₱ 15,410,181	₱ 13,221,276
General loan loss provision	845,358	815,048
	₱ 16,255,539	₱ 14,036,324

The allowance for credit losses which includes both specific and general loan loss reserves, represents management estimates of credit losses inherent in the portfolio, after consideration of the prevailing and anticipated economic conditions, prior to loss experience, estimated recoverable value based on fair market values of underlying collateral and prospects of support from guarantors, subsequent collections and evaluations made by BSP Supervision and Examination Sector. The BSP observes certain criteria and guidelines based largely on the classification of loans in establishing specific loss reserves.

In compliance with the regulations of the BSP, the Bank strictly adheres to the setting up the valuation allowance for risk assets. The Bank reviews the quality of its loan portfolio and prepares a quantitative classification of its risk assets including loans. Accordingly, a specific valuation allowance for probable losses was provided on regular loans based on the following schedule:

Classification of risk assets	Required valuation allowance
Loans especially mentioned	5%
Substandard – secured	10%
Substandard – unsecured	25%
Doubtful	50%
Loss	100%

For micro-finance portfolio, the specific allowances are computed based on portfolio at risk. Portfolio at risk (PAR) refers to loan outstanding with one day amortization missed payment. Specific allowance based on PAR follows:

Number of days PAR	Required allowance
1 – 30 days	2%
31 – 60 days	25%
61– 90 days	50%
91 days and over	100%

For unclassified loans whether regular or micro-finance, a general loan loss provision equivalent to 1% of the total loan portfolio is provided.

The Bank loan loss methodology is consistent with Appendix 15 or MORB.

10.01 Past Due Loans

Past due loans of a bank shall, as a general rule, refer to all accounts in its loan portfolio, all receivable components of trading account securities and other receivables, which are not paid at maturity.

BSP Manual of Regulations for Banks, Sec. 304, as amended by BSP Circular 941, defined the classification of past due loans as follows:

As a general rule, loans, investments, receivables, or any financial asset, including restructured loans, shall be considered past due when any principal and/or interest or instalment due, or portions thereof, are not paid at their contractual date, in which case, the total outstanding balance thereof shall be considered past due.

Installment refers to principal and/or interest amortizations that are due on several dates as indicated in the loan documents. The allowance for loan losses is the estimated amount of losses in the Bank's loan portfolio, based on evaluation of the collectability of loans and prior loss experience.

Any amounts set aside in respect of losses on loans and advances in addition to those losses that have been specifically identified or potential losses which experience indicates to be present in the portfolio of loans and advances are accounted for as appropriations from retained earnings. Any credits resulting from the reduction of such amounts result in an increase in retained earnings and are not included in the determination of net profit or loss for the period.

The allowance is increased by provisions charged to expenses and reduced by write-offs and reversals.

10.02 Non-Performing Loans

BSP Circular 941 defined non-performing loans (NPLs) as follows:

Loans, investments, receivables or any financial asset shall be considered non-performing, even without missed contractual payments, when it is considered impaired under existing accounting standards, classified as doubtful or loss, in litigation, and/or there is evidence that full repayment of principal and interest is unlikely without foreclosure of collateral. All other loans, even if not considered impaired, shall be considered non-performing if any principal and/or interest are unpaid for more than 90 days from contractual due date, or accrued interests for more than 90 days have been capitalized, refinanced, or delayed by agreement.

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

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

As of December 31, 2021 and 2020, non-performing loans (NPLs) not fully covered by allowance for credit losses are as follows:

	2021	2020
Total Non-performing loans	P 40,746,289	P 24,626,381
Less: Non-performing loans covered by allowance for credit losses	(14,312,051)	(13,221,277)
	P 26,434,238	P 11,405,104

Information regarding the Bank's non-performing loans (based on Circular 941) are as follows:

	2021	2020
Ratio of gross NPLs to gross TLP (%)	34.06%	25.60%
Ratio of net NPLs to gross TLP (%)	22.09%	11.86%
Ratio of total allowance for credit losses to gross NPLs (%)	39.89%	57.00%
Ratio of specific allowance for credit losses on gross TLP to gross NPLs (%)	37.82%	53.69%

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11. BANK PREMISES, FURNITURE, FIXTURES AND EQUIPMENT (BPFFE) – net

The carrying amounts of the Bank's BPFFE are as follows:

2021	Leasehold improvement	Furniture, fixtures, and other equipment	Transportation equipment	Right-of-use assets	Total
Cost:					
At January 1	₱ 12,427,258	₱ 51,080,678	₱ 1,257,417	₱ 5,780,122	₱ 70,545,475
Additions	—	568,128	—	—	568,128
Adjustments	—	(5,142,180)	(86,720)	—	(5,228,900)
At December 31	12,427,258	46,506,626	1,170,697	5,780,122	65,884,703
Accumulated Depreciation:					
At January 1	3,378,284	26,964,646	302,404	2,582,482	33,227,816
Depreciation (Note 18)	779,702	3,487,160	402,958	1,291,241	5,961,061
Adjustments	106,179	(5,409,608)	(75,050)	—	(5,378,479)
At December 31	4,264,165	25,042,198	630,312	3,873,723	33,810,398
Carrying Amount	₱ 8,163,093	₱ 21,464,428	₱ 540,385	₱ 1,906,399	₱ 32,074,305

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2020	Leasehold improvement	Furniture, fixtures, and other equipment	Transportation equipment	Right-of-use assets	Total
Cost:					
At January 1	₱ 16,820,098	₱ 43,169,431	₱ 1,166,617	₱ 5,780,122	₱ 66,936,268
Additions	—	8,376,792	90,800	—	8,467,592
Disposals	(4,392,840)	(413,055)	—	—	(4,805,895)
Adjustments	—	(52,490)	—	—	(52,490)
At December 31	12,427,258	51,080,678	1,257,417	5,780,122	70,545,475
Accumulated Depreciation:					
At January 1	6,450,322	34,372,561	186,978	1,291,241	42,301,102
Depreciation (Note 18)	1,362,751	3,256,581	115,426	1,291,241	6,025,999
Disposals	(4,392,840)	(413,055)	—	—	(4,805,895)
Adjustments	(41,949)	(10,251,441)	—	—	(10,293,390)
At December 31	3,378,284	26,964,646	302,404	2,582,482	33,227,816
Carrying Amount	₱ 9,048,974	₱ 24,116,032	₱ 955,013	₱ 3,197,640	₱ 37,317,659

Based on the management's assumptions, which is based on the recoverable amount of the properties, no impairment loss is required to be recognized both in 2021 and 2020.

No properties were used as collateral for liabilities as at December 31, 2021 and 2020.

In 2020, the Bank sold bank premises, furniture, fixtures and equipment with carrying value amounting to nil for a total consideration of ₱50,316 resulting to a gain on sale amounting to ₱50,316, as disclosed in Note 17.

All additions in 2021 and 2020 were paid in cash.

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

12. INVESTMENT PROPERTIES – net

This investment properties pertains to real properties, such as land held by the Bank for capital appreciation.

Movement of investment properties as follows:

2021	Land	Building	Total
Cost:			
Ending balance	₱ 1,251,877	₱ 702,056	₱ 1,953,933
Accumulated depreciation:			
Beginning balance	–	620,149	620,149
Addition	–	70,205	70,205
Ending balance	–	690,354	690,354
Balance, December 31	₱ 1,251,877	₱ 11,702	₱ 1,263,579
2020	Land	Building	Total
Cost:			
Ending balance	₱ 1,251,877	₱ 702,056	₱ 1,953,933
Accumulated depreciation:			
Beginning balance	–	549,944	549,944
Depreciation	–	70,205	70,205
Ending balance	–	620,149	620,149
	₱ 1,251,877	₱ 81,907	₱ 1,333,784

The Bank acquired its investment properties from foreclosure of properties.

The Bank carried out a review of the recoverable amounts of its investment properties. The Bank has determined that there is no indication that an impairment loss has occurred on its investment properties.

All real and other properties acquired are accounted for as investment properties.

No amount of investment properties of the Bank has been pledged to secure general banking facilities granted to the Bank.

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

The fair value of investment properties for the years ended December 31, 2021 and 2020 amounted to ₱4,067,200 is currently categorized within Level 2. In estimating the fair value of these properties, management takes into account the market participant's ability to generate economic benefits by using the assets in their highest and best use. There has been no change to the valuation techniques used by the Bank during the year for its non-financial assets.

13. OTHER ASSETS

This account consists of:

	2021	2020
Accounts receivables	P 5,323,992	P 5,454,618
Stationeries and supplies on hand	862,931	2,978,962
Prepaid expenses	781,330	–
Advances to others	118,730	–
	7,086,983	8,433,580
Allowance for losses – accounts receivable	(3,448,968)	(3,448,968)
	P 3,638,015	P 4,984,612

Account receivables pertain to the unliquidated cash advance of its employees and related party.

Prepaid expenses include the remaining unexpired portion of the cost of insurance on fire, MSPR, cash-in vault and fidelity bonds of employees.

14. DEPOSIT LIABILITIES

The Bank's deposit liabilities as of December 31 consist of the following:

	2021	2020
Savings deposits	P 414,682,194	P 391,915,276
Demand deposits	97,442,585	94,193,226
Time deposits	5,822,360	4,925,085
	P 517,947,139	P 491,033,587

Savings deposits are composed of regular savings accounts which are withdrawable upon demand and those with special terms and withdrawable at certain period of time. Time deposits have different maturity dates maximum of which is one (1) year term/maturity and bear different interest rates based on the amount of deposits and term of placements. Time deposits with term of five (5) years or more are exempt from tax in accordance with BIR regulation.

Interest rates on savings deposits ranges from 0.25% to 1.0% per annum and interest on time deposit ranges from 0.25% to 5.0% per annum for time deposits, both in 2021 and 2020.

Interest expense on deposit liabilities charged to statements of comprehensive income in 2021 and 2020 amounted to P4,035,958 and P3,701,022, respectively.

In 2021 and 2020, the BSP issued Circular No. 1092, reduction in reserve requirements and decreasing the required reserves to 3% of the deposit level.

The Bank is in compliance with these regulations as the Bank's Due from BSP account, amounting to P486,615,737 and P179,946,565 as of December 31, 2021 and 2020, respectively, as disclosed in Note 8, and is enough to cover the required reserve requirements.

15. ACCRUED AND OTHER LIABILITIES

This account consists of:

	2021	2020
Accounts payable	P 113,177,553	P 57,328,034
Lease liability	2,096,582	3,408,334
Withholding tax payable	220,202	9,816
SSS, Philhealth, & Pag-ibig contribution payable	40,393	3,287
Accrued taxes and other expenses payable	-	465,836
	P 115,534,730	P 61,215,307

Account payable pertains to remittance in the electronic money issuers of the Bank and other expenses incurred but not yet paid.

The details of the Bank's lease liabilities and their carrying amount as of December 31, 2021 and 2020 are as follows:

	2021	2020
Beginning balance, January 1,	P 3,408,334	P 4,634,331
Interest	238,648	324,403
Payments	(1,550,400)	(1,550,400)
Total	P 2,096,582	P 3,408,334

The breakdown of lease liabilities as to current and non-current is as follows:

	December 31, 2021	December 31, 2020
Current	P 2,096,582	P 1,311,752
Non-current	-	2,096,582
Total	P 2,096,582	P 3,408,334

The maturity analysis of lease liabilities as at December 31, 2021 is as follows:

	Lease Payments	Finance Charges	Net Present Values
Within 1 year	P 2,304,000	P 207,418	P 2,096,582

The maturity analysis of lease liabilities as at December 31, 2020 is as follows:

	Lease Payments	Finance Charges	Net Present Values
within 1 year	P 1,550,400	P 238,648	P 1,311,752
1 – 2 years	2,304,000	207,418	2,096,582
Total	P 3,854,400	P 446,066	P 3,408,334

16. EQUITY

16.01 Ordinary Shares

Shown below are the details on the movement of ordinary shares.

	2021		2020	
	Shares	Amount	Shares	Amount
Authorized capital at ₱100 par value	3,000,000	₱ 300,000,000	3,000,000	₱ 300,000,000
Subscribed and paid up:				
Beginning, ordinary	681,175	68,117,500	681,175	68,117,500
Issuance of new shares	–	–	–	–
Total Ordinary	681,175	₱ 68,117,500	681,175	₱ 68,117,500

16.02 Retained earnings – free

The table below shows the movement in the Bank's earnings free as of December 31, 2021 and 2020:

	2021		2020	
Beginning	₱	29,581,692	₱	17,971,802
Profit for the year		12,359,985		11,295,150
Adjustment		–		314,740
Total	₱	41,941,677	₱	29,581,692

The adjustment pertains to additional provision for retirement.

16.03 Capital Management Objectives, Policies, and Procedures

The primary objectives of the Bank's capital management are to ensure the ability of the Bank to have sufficient capital to underpin the Bank's risk taking activities, to continue as a going concern, to maintain a strong credit rating and quality capital adequacy ratios, to ensure compliance with BSP regulations and to provide reasonable returns and benefits to shareholders.

The Bank manages its capital structure, which composed of paid-up capital and surplus reserve, and makes adjustments to these ratios in light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Bank may adjust the amount of dividend payment to shareholders, return capital structure or issue capital securities.

Under the current banking regulations, the qualifying capital accounts of the Bank should not be less than an amount equal to ten percent (10%) of its risk-weighted assets. The qualifying capital of the Bank for purposes of determining the capital-to-risk assets is total capital funds excluding:

- unbooked valuation reserves and other capital adjustments as may be required by the BSP;
- total outstanding unsecured credit accommodations to DOSRI;
- deferred tax asset;
- goodwill, if any;
- sinking fund for redemption of redeemable preferred stock; and

(f) other regulatory deductions.

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

As of December 31, 2021 and 2020, the Bank is in compliance with the current banking regulation.

The regulatory capital is analysed into two tiers which are Tier 1 Capital plus Tier 2 Capital less allowable deductions from the total of Tier 1 and Tier 2 capital.

Tier 1 Capital and Tier 2 are defined as follows:

- a. Tier 1 Capital includes the following:
- i. paid up common stock
 - ii. surplus,
 - iii. surplus reserves, and
 - iv. undivided profits

Subject to deductions for:

- i. deferred income tax

- b. Tier 2 Capital includes:

- i. general loan loss provision

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

Information regarding the Bank's "unimpaired capital" as of December 31, 2021 and 2020 is shown below.

	2021	2020
Core Tier 1 Capital – gross	P 110,059,177	P 97,699,192
Less: Regulatory adjustments to Core Tier 1	–	–
Core Tier 1 Capital – net	110,059,177	97,699,192
Add: Hybrid Tier 1	–	–
Tier 1 Capital	110,059,177	97,699,192
Tier 2 Capital	845,358	815,048
Total qualifying capital	P 110,904,535	P 98,514,240
Total risk-weighted assets	P 257,728,421	P 465,050,166
Tier 1 Capital ratio	42.70%	21.00%
Total capital adequacy ratio	43.03%	21.18%

In addition, Section 127 and Appendix 62 of the MORB discusses the guidelines implementing the risk-based capital adequacy framework for stand-alone thrift banks, rural banks and cooperative banks. The said framework was amended by BSP Circular No. 1079 dated March 9, 2020 and BSP Circular No. 1084 dated April 28, 2020 to strengthen the quality of capital of the covered entities by the introduction of other capital requirements such as the Common Equity Tier (CET) 1 ratio in addition to the existing minimum CAR of 10%. The CET1 ratio is calculated by dividing CET1 capital by total risk-weighted assets.

The implementation of the enhanced capital standards, which include the CET1 ratio, to the aforementioned banks will take effect on January 1, 2023.

The Bank's leverage ratio, computed as Tier 1 Capital over total assets, is 14.80% and 15.02%, as of December 31, 2021 and 2020, respectively.

17. OTHER OPERATING INCOME

The account is composed of the following:

	2021	2020
Fees and commission income	P 6,026,673	P 2,622,650
ATM services fees	1,248,908	2,728,029
Recovery on charged off assets	388,445	-
Gain on sale of non-financial assets	-	50,316
Miscellaneous income	10,501,043	10,380,772
	P 18,165,069	P 15,781,767

Miscellaneous income pertains to fees and commission income earned by the Bank from service charge on loans, deposits below maintaining balance and on cancellation of certificates and appraisal fees.

18. OPERATING EXPENSES

The account is composed of the following:

	Note	2021	2020
Compensation and fringe benefits		₱ 8,565,184	₱ 8,439,788
Depreciation and amortization	11	6,031,266	6,025,999
Information technology expenses		1,153,526	1,454,326
Management and other professional fees		1,067,307	587,884
Fees and commissions		893,383	1,837,372
Security, clerical, messengerial and janitorial services		885,250	1,069,855
Litigation expense		616,254	262,169
Power, light and water		546,787	669,603
Insurance – PDIC		486,136	859,134
Stationery and supplies used		251,967	265,029
Interest expense – lease liability		238,648	324,403
Repairs and maintenance		231,298	183,191
Postage, telephone, cables and telegrams		219,410	180,325
Membership fees and dues		200,572	168,237
Rent expense		188,614	114,810
Fuel and lubricants		112,451	64,285
Insurance expenses – others		67,259	79,356
Periodicals and magazines		65,350	–
Traveling expenses		55,796	107,488
Representation and entertainment		51,902	232,886
Supervision fees		48,308	37,852
Documentary stamps used		31,650	22,350
Taxes and licenses		8,030	1,387
Fines and penalties		3,000	174,823
Advertising and publicity		1,275	14,621
Miscellaneous expenses		310,488	868,246
Total		₱ 22,331,111	₱ 24,045,419

Compensation and other benefits are comprised of the following:

	2021	2020
Salaries and wages	₱ 7,542,224	₱ 7,414,827
Mandatory payables	553,843	569,658
Director's fee	452,109	426,667
Fringe benefits to officers and employees	17,008	28,636
	₱ 8,565,184	₱ 8,439,788

19.

INCOME TAXES

Section 12 (c) of Republic Act No. 7227, states that no taxes, local and national shall be imposed to the businesses and enterprise within the Subic Special Economic Zone. In lieu of paying taxes three percent (3%) of the gross income earned shall be remitted to the national Government, one percent (1%) each to the local government units affected by the declaration of the zone in proportion to their population area, and other factors. In addition, there is hereby established a development fund of one percent (1%) of the gross income earned to be utilized for the development of municipalities outside the City of Olongapo and the Municipality of Subic, and other municipalities contiguous to the base area.

In case of conflict between national and local laws with respect to the tax exemption privileges in the Subic Special Economic Zone, the same shall be resolve in favor of the latter.

The Bank's liability for income tax is based on existing tax laws and BIR regulations. However, income tax expense as shown on the statement of position comprehensive income is determined under the provision of PAS 12 Income Taxes. Under PAS 12, income tax expense is the sum of current tax expense computed under tax laws and deferred tax expense determined through the use of balance sheet liability method.

Deferred tax expense is the sum of changes in deferred tax asset and deferred tax liability. The balance sheet liability method focuses on temporary differences. Temporary differences are differences between the tax base of an asset or liability and its carrying amount in the statement of financial position. The tax base of an asset or liability is the amount attributed to that asset or liability for tax purposes.

19.01 Income Tax Recognized in Profit or Loss

Components of income tax expense are as follows:

	2021	2020
Income tax expense – current	P 606,953	P 753,419

A numerical reconciliation between tax expense and the product of accounting loss multiplied by the tax rate in 2021 and 2020 is as follows:

	2021	2020
Subject to special tax rate of 5%:		
Gross income	P 907,450	P 602,428
Income tax effects of:		
Non-deductible expenses	–	300,067
Provision for credit losses	–	154,633
Interest income subject to final tax	(300,497)	(303,709)
	P 606,953	P 753,419

19.02 Republic Act No. 11534, otherwise known as the “Corporate Recovery and Tax Incentives for Enterprises (CREATE)” Act

On February 03, 2021, the final provisions of Senate Bill No. 1357 and House Bill No. 4157 or the Corporate Recovery and Tax Incentives for Enterprises (CREATE) Bill, which seeks to reform corporate income taxes and incentives in the country, had been ratified by the Senate and the House of Representatives of the Philippines.

Under the proposed law, effective July 1, 2020, the corporate income tax will be reduced from the current 30% to 20% for domestic corporations with total assets not exceeding P100 million, excluding land, and total net taxable income of not more than P5 million. The corporate income tax of all other corporations (domestic and resident foreign), meanwhile, will be lowered to 25%. The bill would also lower the minimum corporate income tax (MCIT) from 2% to 1% effective July 2020 until June 30, 2023.

Other key provisions of the CREATE bill include:

- Effective January 1, 2021, income tax rate for nonresident foreign corporation is reduced from 30% to 25%.
- Preferential income tax rate for proprietary educational institutions and hospitals which are nonprofit is reduced from 10% to 1% effective July 1, 2020 to June 30, 2023.
- Effective January 1, 2022, regional operating headquarters (ROHQ) currently enjoying 10% preferential income tax rate shall be subject to RCIT.

- Imposition of improperly accumulated earnings tax (IAET) is repealed.
- Foreign-sourced dividends received by domestic corporations are exempt from income tax subject to the following conditions:
 - The funds from such dividends actually received or remitted into the Philippines are reinvested in the business operations of the domestic corporation in the Philippines within the next taxable year from the time the foreign-sourced dividends were received;
 - Shall be limited to funding the working capital requirements, capital expenditures, dividend payments, investment in domestic subsidiaries, and infrastructure project; and
 - The domestic corporation holds directly at least 20% of the outstanding shares of the foreign corporation and has held the shareholdings for a minimum of 2 years at the time of the dividend distribution.
- Qualified export enterprises shall be entitled to 4 to 7 years income tax holiday (ITH) to be followed by 10 years 5% special corporate income tax (SCIT) or enhanced deductions (ED).
- Qualified domestic market enterprises shall be entitled to 4 to 7 years ITH to be followed by 5 years ED.
- For investments prior to effectivity of CREATE:
 - Registered business enterprises (RBEs) granted only an ITH – can continue with the availment of the ITH for the remaining period of the ITH.
 - RBEs granted an ITH followed 5% GIT or are currently enjoying 5% GIT – allowed to avail of the 5% GIT for 10 years.

The said bill was signed into law on March 26, 2021, except for certain provisions that were vetoed, by the President of the Philippines.

As clarified by the Philippine Financial Reporting Standards Council in its Philippine Interpretations Committee Q&A No. 2020-07, the CREATE Act was not considered substantively enacted as of December 31, 2020 even though some of the provisions have retroactive effect to July 1, 2020. The passage of the CREATE Act into law on March 26, 2021 is considered as a non-adjusting subsequent event. Accordingly, current and deferred taxes as of and for the year ended December 31, 2020 continued to be computed and measured using the applicable income tax rates as of December 31, 2020 (i.e., 30% RCIT / 2% MCIT) for financial reporting purposes.

20. RELATED PARTY TRANSACTIONS

Related party relationship exists when one party has the ability to control, directly or indirectly through one or more intermediaries, the other party or exercise significant influence over the other party in making financial and operating decisions. Such relationship also exists between and/or among the reporting entities, which are under common control with the reporting enterprise, or between, and/or among the reporting entities and its key management personnel, directors, or its shareholders.

There are transactions and arrangements between the Bank and its related parties and the effects of these on the basis determined between the parties are reflected in these financial statements.

The Bank have related party transactions with Pacific Ace Forex HK Ltd. as of and for the years ended December 31, 2021 and 2020.

Account	Terms and conditions	Transactions/Volume		Outstanding Balance	
		2021	2020	2021	2020
Pacific Ace Forex HK Ltd.					
Nature of relationship: Owned by Stockholder					
Accounts receivables	Unsecured, non-interest bearing No impairment	6,828,200	7,388,060	638,440	721,770

This account consists of non-interest-bearing receivables to affiliate for the commission on remittance transactions. This amount is unsecured and collectible on the following month.

The General Banking Act and BSP regulations limit the amount of loans to each Directors, officers, shareholders and related interest (DOSRI).

- a) The individual ceiling for credit accommodation of a rural bank to each of its DOSRI shall be equivalent to his outstanding deposits and book value of his paid-in capital in the lending bank. The unsecured credit accommodation to each of the Bank's DOSRI shall not exceed thirty percent (30%) of his total credit accommodations.
- b) The aggregate ceiling for credit accommodation whether direct or indirect, to DOSRI of a cooperative bank shall not exceed fifteen percent (15%) of the total loan portfolio of the Bank or tis combined capital accounts met of deferred income tax, unbooked valuation reserves and other capital adjustments required by the BSP, whichever is lower. The total unsecured direct and indirect borrowings of DOSRI shall not exceed thirty percent (30%) of the aggregate ceiling or outstanding direct/indirect credit accommodation thereto, whichever is lower.

20.01 Real estate transaction with DOSRI

The Bank leases its office from Pacific Ace Subic Corporation and Pacific Ace Management Corporation with term of 5-year contract for a monthly rental ranging from ₱14,000 to ₱134,415 with escalation clause as determined by both parties and paid a total amount of ₱1,562,172 and ₱176,842, respectively in 2021 and ₱1,482,081 and ₱176,842, respectively in 2020. The Bank paid its water expense to Pacific Ace Subic Corporation as lease a total amount of ₱17,182 and ₱15,268 in 2021 and 2020, respectively.

20.02 Remuneration of Key Management Personnel

The key management compensation during as of December 31, 2021 and 2020 is composed of the following:

	2021		2020	
Short-term employee benefits	₱	458,717	₱	455,302
Post-employment benefits		-		-
	₱	458,717	₱	455,302

21. CHANGES IN LIABILITIES ARISING FROM FINANCING ACTIVITIES

The following shows the movement of financial liabilities.

2021	January 1	Cash flows	Interest expense	Non-cash changes		December 31
				Foreign exchange	Fair value changes	
Lease liability	₱ 3,408,334	₱ (1,550,400)	₱ 238,648	₱ -	₱ -	₱ 2,096,582
<hr/>						
2020	January 1	Cash flows	Interest expense	Non-cash changes		December 31
				Foreign exchange	Fair value changes	
Lease liability	₱ 4,634,331	₱ (1,550,400)	₱ 324,403	₱ -	₱ -	₱ 3,408,334

Cashflow in lease liability includes payment of interest expense.

22. RETIREMENT BENEFIT OBLIGATION

Under Republic Act (RA) No. 7641, otherwise known as the Retirement Pay Law that took effect on January 17, 1993, the Bank is required to provide minimum retirement benefits to qualified retiring employees.

The Bank has not yet established a formal retirement plan for its regular employees. The determination of the Bank's obligation and cost of post-employment defined benefit is dependent on the selection of certain assumptions used by actuaries in calculating such amounts.

23. RECLASSIFICATION OF ACCOUNTS

Certain amounts in the 2020 financial statements and note disclosures have been reclassified to conform to the current year's presentation. Details are as follows:

Old accounts	New accounts	Note	Amount
Right-of-use Asset	Bank premises, fixtures and equipment – net	11	3,197,640
Accrued interest, taxes, and other expenses payable	Accrued and other liabilities	15	465,836

24. PROVISIONS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS

Provisions are recognized when the Bank has a present obligation, whether legal or constructive, as a result of past event, or when it is probable that the Bank will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

No amount of provision is recognized and no circumstance that gives rise to disclosure of contingent liabilities and contingent assets has been identified as of December 31, 2021 and 2020.

Further, no amount of contingencies and commitments arising from off-balance sheet items during 2021 and 2020.

25. EVENTS AFTER THE REPORTING DATE

No events after the end of the reporting date were identified in these financial statements that provide evidence of conditions that existed at the reporting date (adjusting events after reporting date), and that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).

26. APPROVAL OF FINANCIAL STATEMENTS

These financial statements were approved and authorized for issue by the Board of Directors on April 13, 2022.

27. SUPPLEMENTARY INFORMATION UNDER REVENUE REGULATIONS NO. 15 – 2010

Revenue Regulations (RR) No. 21–2002 prescribing additional procedural and/or documentary requirements in connection with the preparation and submission of financial statements accompanying income tax returns was amended under RR 15-2010. The amendment that became effective on December 28, 2010 requires the inclusion in the notes to financial statements, information on taxes, duties and license fees paid or accrued during the year in addition to what is required under the Philippine Financial Reporting Standards and such other standards and/or conventions.

Below are the additional information required by RR 15–2010. This information is presented for purposes of filing with the BIR and is not a required part of the basic financial statements.

27.01 Gross Receipts Tax

The Bank is exempt from gross receipts tax as of December 31, 2021 and 2020.

27.02 Withholding Taxes

Withholding taxes paid and accrued during the year are as follows:

2021	Paid	Accrued	Total
Expanded withholding tax	₱ 120,359	₱ 10,730	₱ 131,089
Final withholding tax	602,367	199,269	801,636
Withholding tax on compensation	95,272	10,203	105,475
	₱ 817,998	₱ 220,202	₱ 1,038,200

2020	Paid	Accrued	Total
Expanded withholding tax	₱ 101,546	₱ 56,787	₱ 158,333
Final withholding tax	720,380	9,816	730,196
Withholding tax on compensation	105,229	–	105,229
	₱ 927,155	₱ 66,603	₱ 993,758

27.03 Taxes and Licenses

Taxes and licenses paid and accrued during the year are as follows:

	2021	2020
Registration of vehicle	₱ 5,945	₱ 877
Registration – SBMA	1,602	–
Annual registration – BIR	484	510
	₱ 8,031	₱ 1,387

27.04 Deficiency Tax Assessments and Tax Cases

The Bank has no deficiency tax assessments for the years ended December 31, 2021 and 2020.

28. SUPPLEMENTARY INFORMATION UNDER REVENUE REGULATIONS 19 – 2011

Revenue Regulation No. 19 – 2011 was issued to prescribe the new BIR forms that will be used for Income Tax filing covering and starting with December 31, 2011. In case of the corporations using BIR form 1702, the taxpayer is now required to include as part of its notes to the audited financial statements, which will be attached to the income tax return (ITR), the schedules and information on taxable income and deductions to be taken. The information is presented for the purposes of filing with the BIR and is not required part of the basic financial statements.

The following are the schedules prescribed under existing revenue issuances applicable to the Bank as of December 31, 2021:

28.01 Interest Income

The breakdown of the Bank's interest income consists of:

	Per financial statements	Per income tax return
Interest income on loans and other receivables	₱ 17,423,205	₱ 17,423,205
Interest on deposit from other banks	4,968,991	–
Interest on investment securities at amortized cost	1,040,953	–
	₱ 23,433,149	₱ 17,423,205

28.02 Cost of Service

Deductible interest expense for the year ended December 31, 2021 consists of:

	Per financial statements	Per income tax return
Compensation and other benefits	₱ 8,565,184	₱ 8,565,184
Interest expense on deposits	4,035,958	4,035,958
Management and other professional fees	1,067,307	1,067,307
Insurance expenses – PDIC	486,136	486,136
Membership	133,973	133,973
Fuel and lubricants	112,451	112,451
Stationery and supplies used	87,474	87,474
Repairs and maintenance	66,370	66,370
Insurance expenses – others	62,242	62,242
Traveling expenses	55,796	55,796
Representation and entertainment	51,902	51,902
Supervision fee	48,308	48,308
Fines and penalties	3,000	3,000
Taxes and licenses	2,085	2,085
Other cost of services	8,671,029	8,671,029
	₱ 23,449,215	₱ 23,449,215

28.03 Other Operating Income

Non-operating and taxable other income for the year ended December 31, 2021 consists of:

	Per financial statements	Per income tax return
Fees and commission income	₱ 6,026,673	₱ 6,026,673
ATM Services fees	1,248,908	1,248,908
Recovery on charged off assets	388,445	388,445
Miscellaneous income	10,501,043	10,501,043
	₱ 18,165,069	₱ 18,165,069

28.04 Non-deductible expenses

Non-deductible expenses for the year ended December 31, 2021 consist of:

	Note	2021	2020
Information technology expenses	₱	1,153,526	₱ –
Fees and commissions		893,383	–
Security, clerical, messengerial and janitorial services		885,250	–
Litigation expense		616,254	–
Power, light and water		546,787	–
Interest expense – lease liability		238,648	–
Postage, telephone, cables and telegrams		219,410	–
Rent expense		188,614	–
Periodicals and magazines		65,350	–
Documentary stamps used		31,650	–
Advertising and publicity		1,275	–
Other operating expenses		341,918	–
Total	₱	5,182,065	₱ –

29. SUPPLEMENTARY INFORMATION REQUIRED UNDER BSP CIRCULAR NO. 1074

On January 8, 2020, the Monetary Board (MB) amended BSP Circular No. 1074, requiring Banks to include the additional information on the following:

29.01 Basic Quantitative Indicators of Financial Performance

The following basic ratio measures the financial performance of the Bank:

	2021	2020
Return on average equity	11.90%	12.29%
Return on average assets	1.77%	1.99%
Net interest margin	6.20%	3.72%
Debt-to-equity ratio	5.76:1	5.66:1
Capital adequacy ratio	43.03%	21.18%
Leverage ratio	14.80%	15.02%

29.02 Capital Instruments Issued

Description of capital instrument issued by the Bank is disclosed in Note 16.

29.03 Significant Credit Exposures

Disclosures as to industry/economic sector are as follows (net of unamortized discount):

	2021			2020		
	Amount	% as to industry	% as to Tier 1	Amount	% as to industry	% as to Tier 1
Construction	31,343,842	26.20	28.48	8,024,255	8.34	8.21
Real estate activities	28,174,414	23.55	25.60	26,509,639	27.56	27.13
Arts, entertainment and recreation	21,793,159	18.21	19.80	4,932,742	5.13	5.01
Agriculture, forestry, and fishing	15,544,352	12.99	14.12	21,995,925	22.87	22.51
Loans to individuals primarily for personal use purposes	10,743,721	8.98	9.76	11,666,292	12.13	11.94
Wholesale and retail trade, repair of motor, vehicles, motorcycles	6,876,195	5.75	6.25	21,938,973	22.81	22.46
Education	5,045,493	4.22	4.58	—	—	—
Manufacturing	101,224	0.08	0.9	1,110,256	1.15	1.14
Transportation and storage	23,049	0.02	0.2	—	—	—
Total	119,645,449	100		96,178,082	100	

The BSP considers the concentration of credit exists when the total loan exposure to a particular industry or economic sector exceeds 30% of the total loan portfolio or 10% of Tier 1 Capital which is equivalent to ₱11,005,918 and ₱9,769,919, as of December 31, 2021 and 2020, respectively.

In 2021, the Bank has no exposure to credit risk concentration more than 30% of the total loan portfolio. The Bank is exposed to credit risk concentration on construction, real estate activities, arts entertainment and recreation, and agriculture, forestry, and fishing amounting to more than 10% of Tier 1 Capital.

In 2020, the Bank has no exposure to credit risk concentration more than 30% of the total loan portfolio. The Bank is exposed to credit risk concentration on real estate activities, agriculture, forestry, and fishing, loans to individuals primarily for personal use purposes, and wholesale and retail trade, repair of motor, vehicles, motorcycles amounting to more than 10% of Tier 1 Capital.

29.04 Breakdown of Total Loans

29.04.01 As to Security

Breakdown of loans as to secured and unsecured, and secured loans as to type of security are disclosed below:

	2021	2020
Secured by real estate mortgage	91,945,770	76,790,951
Unsecured	27,699,679	19,387,131
	119,645,449	96,178,082

29.04.02 As to Status

Breakdown of loans as to performing and non-performing status per product is as follows:

2021	Performing	Non-performing	Total
Microfinance loans	26,534,487	19,275,236	45,809,723
Small enterprises	21,793,159	5,920,312	27,713,471
Loans to individuals for housing purposes	13,355,525	6,044,118	19,399,643
Salary-based general consumptions purposes	8,375,362	2,368,359	10,743,721
Agrarian reform loans	6,545,338	7,138,264	13,683,602
Medium enterprises	2,295,289	–	2,295,289
	₱ 78,899,160	₱ 40,746,289	₱ 119,645,449
2020	Performing	Non-performing	Total
Microfinance loans	26,134,710	14,702,385	40,837,095
Loans to individuals for housing purposes	14,622,941	2,138,042	16,760,983
Agrarian reform loans	11,529,297	103,334	11,632,631
Salary-based general consumptions purposes	9,903,984	1,762,308	11,666,292
Small enterprises	4,932,742	5,920,312	10,853,054
Medium enterprises	4,428,027	–	4,428,027
	₱ 71,551,701	₱ 24,626,381	₱ 96,178,082

29.05 Information on Related Party Loans

Information on related party loans is disclosed in Note 20.

29.06 Aggregate Amount of Secured Liabilities and Assets Pledged as Security

As of December 31, 2021 and 2020, no loans receivable was used as a collateral for liabilities.

29.07 Contingencies and Commitments Arising from Off-balance Sheet Items

The following is a summary of the Bank's contingent accounts arising from off-balance sheet as describe in BSP Circular 1074 as of December 31, 2021 and 2020:

	2021		2020	
Items held as collateral	₱	57	₱	57
Items held for safekeeping		–		–
	₱	57	₱	57