



2021 Annual Report

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ABOUT THE COVER





LifeBank-A Rural Bank believes that coping with ever-changing times cannot be underscored. The ability to evolve will determine a business' viability. The digital economy basically tells business that they must change or other wise, they be left behind.

Transforming our Core banking System into cloud base, has allowed the bank to push itself to achieve new possibilities. It has opened up opportunities by providing linkages to many advances in technology. Employees were greatly assisted in performing their day-to-day tasks, becoming more efficient and channeling their energy to more productive and strategic pursuits.

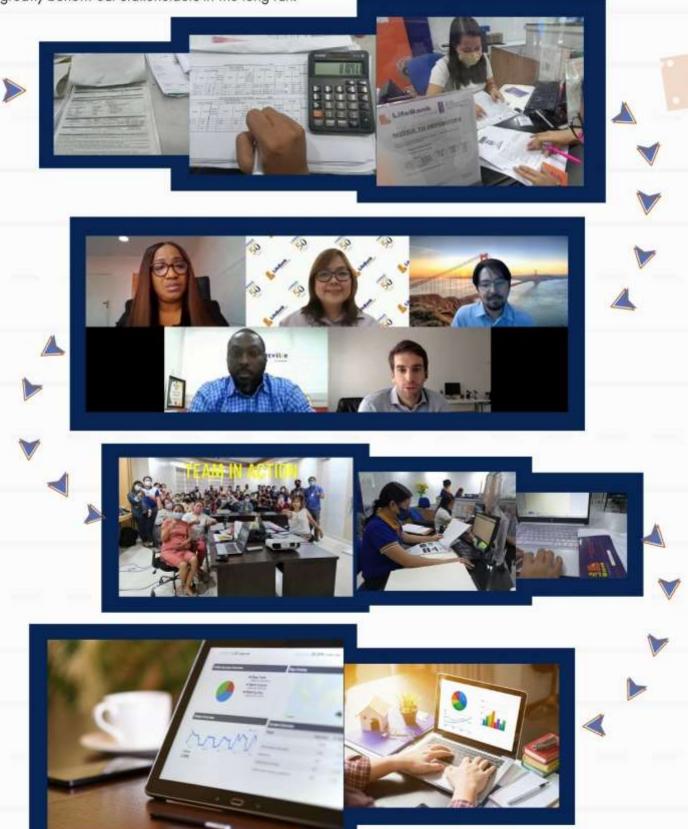
The bank continues its digitization journey by incorporating into its strategic initiatives every year, the goal to fully digitalize the bank, guided by digital transformation roadmaps and frameworks.

In the future, LifeBank aims to be a digitalized bank that will be able to respond to the needs of its customers. The bank also aims to get its customer onboard in its digital transformation journey. Giving customers new experience in a customer-friendly and accessible platforms, the bank will widen its reach and serve more clients even in remote areas where internet connection is available.

It is our hope that the bank will be the most preferred rural bank in Panay by 2026 by putting its customer first.

The STORY of our Digitalization Journey

The bank has taken the first step in its digitalization journey by partnering with a reliable, robust cloud-based core banking system. The applied technology digitized many of our procedures resulting to a more efficient operations and banking system. It was implemented on the 2nd Quarter of 2021. On the other hand, the PhilPaSS application was approved while EcPay was successfully implemented on the last quarter of 2021. Towards this end, we are looking forward to develop a partnership with a fintech company that creates systems for remittances and bills payment services using mobile phone technology. We believe that our digitalization program will scale up our reach and improve relationship with our clients hence, it will greatly benefit our stakeholders in the long run.



CORPORATE POLICY

What our Logo means

Each of the elements is symbolic of the values of LifeBank. The Mother and Child epitomizes nurture, family, support, and service.



OUR LOGO

As LBRB is moving forward, we created a brand identity that exemplifies how we approach our work in providing microfinance services to the enterprising poor.

We created a logo that encapsulates the elements of our reason for being and to demonstrate what we aim to do and how we do it. The logo highlights the initials L and B for LifeBank and it incorporated the Mother and Child, Earth, Sun and Water among its major elements forming a trademark.

ELEMENTS

Each of the elements is symbolic of the values of LifeBank. The Mother and Child epitomizes nurture, family, support, and service. The Earth embodies nature and shelter. The Sun as the provider of life, light, and warmth. The sun is further emphasized by seven rays that depict the seven pillars of sustainable development: ecological, cultural, economic, political, societal, human, and spiritual. The water describes life, growth, nurturing, and development. Water marked within the water symbol is the map of the Philippines which portrays the role of LifeBank in nation-building.

COLOR SELECTION

The colors of blue, orange, and yellow were carefully selected to reinforce the message among elements used and emphasize the meaning of LifeBank to its workers, partners, clients, and the public.



Blue

Blue is a color associated with the sea and the sky. For LifeBank, it relates to confidence, wisdom, depth, and stability and is linked to consciousness and intellect. It embodies the symbol of heaven, faith and piety and the virtues of trust, loyalty, and truth.

Blue is considered beneficial to the mind and body. It is a color that stands for tranquility, calmness, and healing for it is known to slow down human metabolism.

Orange

Orange combines the energy of red and the happiness of yellow. It is a color that exemplifies the tropics, sunshine, and joy and is the emblem of endurance and strength.

For LifeBank, it is a color that stimulates enthusiasm, fascination, determination, and creativity and it encourages attraction, happiness, and success.

It is a color that typifies fall and harvest. It offers sensation of heat to the senses and stimulates mental activity by increasing oxygen supply to the brain and delivering an invigorating effect.

Yellow

Yellow is the color of sunshine and depicts joy and happiness. For LifeBank, it is a color that represents intellect, loyalty, and honor. It is a warm color that enthuses cheerfulness and positive energy.

VISION

A leading provider of a range of financial services to bank clients, especially microfinance for the enterprising poor, and an important partner to support individuals, families and their communities in realizing their inherent potentials through a culture of caring, sharing, and respect for nature.

MISSION

The four pillars of our mission focus on our clients, our partners, the communities we are serving and our fellow Lifebankers.

To our Clients

We will provide a range of financial and social services and partner with like-minded institutions to respond to the needs of our clients.

To our partners

We will work together for the benefit of the poor, nature and society.

To the communities we serve

We will be a catalyst for poverty reduction and a model of societal responsibility.

To the Lifebankers

We will have a culture of excellence, providing opportunities for the personal, professional and spiritual growth and development of all.

CORE VALUES

We Excel

Competence

Professionalism

Integrity

Honesty

We Care

Loyalty

Obedience

Security and Safety

Customer Satisfaction and Service

We Share

Social Responsiveness

Sustainable Development



HISTORY

LBRB, formerly Rural Bank of Maasin (Iloilo), Inc. was established on March 21, 1970 by the Perlas Family and other prominent members of the community of the Municipality of Maasin, Iloilo. The objective of the bank was to extend financial services in areas where access to credit was limited.

In 1993, the Board of Directors held its first planning and visioning session where the bank's vision and mission was defined. This was when the Sustainable Development Investment Unit (SDIU) was set up.



This was a unit to be developed that would institutionalize lending for sustainable development projects, the objective of which is the development of the human potential.

In June 1995, a branch was established in the Municipality of Santa Barbara, Iloilo. The branch experienced phenomenal growth as its deposits, loan portfolio and resources increased beyond expectations while recognizing and affirming trust within the community. It was also in 1995 that the Ikabuhi Microfinance Program (IMP) was established. The program aims to activate savings and provide credit to enterprising poor women.

In 1998, the bank adopted the Grameen methodology for its microfinance program, which initially produced positive results. Later on,
weaknesses in the management information system and program
policies were observed prompting management to look for a better
alternative. It was in November 2000 where the bank became a program
partner of the Microfinance Support Program (MSP) of the UNDP where
the bank was introduced to the Association for Social Advancement
(ASA) pronounced as ASHA- a Bangla word meaning HOPE. Since then,
the bank has been implementing the Association for Social
Advancement (ASA) methodology with incredible results as proven by its
almost 100% repayment rate, early sustainability and rapid expansion.

After covering most of Iloilo, the Board created the LifeBank Foundation, Inc. (LBF), now known as LifeBank Microfinance Foundation, Inc. (LBMFI), in January 2003 to carry the expansion of the program outside the province. At the time, the Bank did not have the required capital to operate outside Iloilo province. While LBRB continued to grow in assets and capital, LBF's microfinance operation grew to cover Panay and other parts of the country (Luzon, Visayas and Mindanao). In 2008, LBRB, having reached the required capitalization to operate in other parts of the country, started purchasing microfinance portfolio from LBF in the provinces of Iloilo, Guimaras, Antique, Aklan and Capiz.

Currently, LBRB has a Head Office in Santa Barbara, Iloilo, three (3) branches and forty-four (44) BLUs. The branches are located in Maasin, Iloilo (since March 1970; formerly the Head Office), Iloilo City (since May 2011) and Roxas City, Capiz (since May 2013). In addition, forty-four (44) BLUs were established. These are operating in the Provinces of Iloilo, Guimaras, Capiz, Aklan and Antique.





MESSAGE FROM THE Chairperson of the Board

Dear Fellow Stakeholders,

2021 marked the second consecutive year that the global pandemic wreaked havoc on our stakeholders, our communities, and our bank. Healing the economic and social wounds inflicted by COVID-19 has taken much longer than all of us had anticipated it would take at the end of 2020.

Despite the continuing multiplication of variants though, there are reasons to be optimistic for 2022.

First, both the rate of contagion as well as the severity of medical casualties have subsided significantly.

Second, severe and harsh lockdowns have become a thing of the past as there is widespread resolve to live our normal lives with the pandemic and not let the pandemic continue to put our lives and our livelihoods on hold indefinitely.

Finally, as you will observe from this year's operating results, we have managed to move forward in our mission to remain relevant to the communities that we serve. They say that what doesn't kill you makes you stronger. Far from dealing us a fatal blow in the last two years, our Board is emerging from this pandemic with an even stronger resolve to be the best loved provider of financial services in the island of Panay.

To be sure, the future is not without its own challenges. New headwinds brought about by geopolitical tensions threaten spikes in energy and food prices. We will also have to contend with an extended period of loose monetary policy - and deal with inevitable inflationary pressures.

I am happy to report that our Board and our Management team have responded to all these challenges by leaning in. While the management team steadied the ship and attended to the needs of our customers, the members of our Board have rolled up their sleeves and divided the work that needs to be done to launch a rejuvenated LifeBank Rural Bank.

I hope to report more about that at this time next year.

JOHN ALOYSIUS S. BERNAS Chairperson of the Board





MESSAGE FROM THE President/Chief Executive Officer

Dear Fellow Stakeholders,

The year 2021 was characterized by a combination of challenge and recovery for LifeBank. Even if the bank was greatly affected by the continuing lockdown due to COVID-19 pandemic, I am extremely proud of the bank's ongoing response to these challenges. Rising to the challenge has always been present in LifeBank's DNA. A warm salute to the committed management and staff for weathering the storm with me, you did a great job!

In the backdrop of the pandemic, the bank has initiated strategies to earn revenues and cut expenses in order to meet our long-term objectives. In 2021, we continued to significantly fastened our belts, shifted our core banking system to cloud based software to promote work efficiency and reduce compensation expense by right-sizing our employees. We also pursued expansion by opening additional units amidst difficult economic condition due to the appearance of the COVID-19 Delta variant. These moves are very important for us as we foresee to expand our geographical footprint into new markets and plan to grow our loan portfolio to maintain our strong lending operations.

Moreover, 2021 was not only a challenging year, but also an extremely busy and productive year. The overall state of the bank's liquidity is strong and we remain well-positioned as the economy evolves and as the pandemic subsides towards the latter part of the year where the Omicron variant, less virulent type surfaced. We trust that our prudent moves over the past years will continue to support profitable operations and serve our ultimate goal.

I extend my special thanks to our stockholders and committed board of directors whose guidance and vision have been invaluable, and most of all, I dedicate this success to the dedicated and hardworking management and staff of the bank and all LifeBank clients who made the ordinary extraordinary, whose untiring service will make us the most preferred rural bank in Panay in 2026.

Together with Bangko Sentral ng Pilipinas (BSP) and our colleagues in the banking industry, I join hands with everyone to provide a better banking service to the community amidst an economic and political landscape full of uncertainty.

Our dream to provide a decent life for the poor and Filipinos in general remain to be our greatest aspiration!

We look forward to 2022 with great anticipation, hope and continued enthysiasm.

My wand ROSARIO B. PERLAS, M.D.

President/Chief Executive Officer



As the year set forward, work is constantly reshaped by technological progress.

New ways of reaching out markets and developing products are adopted, markets expand, and societies evolve. But some changes provoke more attention than others,

in part due to the vast uncertainty involved in making predictions about the future, a

classic example of which is the war in Ukraine provoked by Russia.

The last year's LifeBank Annual Report showed slow growth in the bank's financial aspect due to pandemic, but helps the bank to realize how the nature of work is changing as a result of advances in technology today in other industries.

We GO DIGITAL on 2026



Start of Digital Transformation

The bank started its digitization activity by converting physical records into digital copies. Each department took responsibility in determining manual processes that could be converted into digital/online process and make their plans of implementation. Continuing human development was pursued by means of webinars, most of the trainings were conducted through online platforms.

LifeBank website was officially launched last March 1, 2021 and also updated by August 2021. The bank pursues its goal to join the PhilPaSS. Application was approved October 2021 while we on boarded with ECPay last December 2021.

Successful Conversion to a Core Banking Sytem

The bank has successfully shifted its banking system into a more reliable and efficient system. Last February 1, 2021, the system rans off parallel with the old system and data migration was done. The live run happened last April 1, 2021. T

The year 2021 was still marked as a recovery period after the COVID-19 pandemic where it disturbed the world in the early year of 2020. It was still characterized by strict compliance to health protocols where operations underwent major adjustments. New variant has spread, lockdowns and restrictions once again was reopened. 2021 for LifeBank is still a challenging times.



Operational Highlights for 2021

The resurgence of COVID-19 with a new delta variant has brought immense fear throughout the year. Luckily, vaccine roll-out helped the economy slowly improve. The bank stands strong and PAR continues to decrease not until the Typhoon Odette struck parts of Panay Island that resulted to uncollected payments and increase in PAR. However, as compared to year end of 2020, the PAR has already decreased by 1.16% from 23.06% to 20.90%.



Amidst all these challenges, the operations has collectively strategized to stabilize operation and continue its effort to assist affected clients, process loans and collect payments. Bank has continued to lend amidst recovery period from the pandemic. It has released a total of 1.1 Billion of loans for the whole year.

These are results from the Bank's strategic goal of increasing its loan portfolio and widening the area of operations. A slight decrease for gross loan portfolio of the bank was recorded by 0.5%.

COVID-19 pandemic hugely impacted on the local economic environment drawing out legislative and regulatory responses that were designed to protect the interest of the public even though some of it heavily affected the bank's profitability.

The bank withstood the challenges by ensuring operational efficiency and prudent approach to lending. We took tough decisions to ensure that the bank's fundamentals remain strong and sustainable with profitability and liquidity at acceptable levels.

As the economic environment continues to improve, the bank started to relax the tight lending measures instituted during the pandemic.

As a result, loans remained steady at 424 M with the trend going up. Despite the pandemic headwinds, deposits increased 3.17% to 647 M, an indication of increased public confidence.

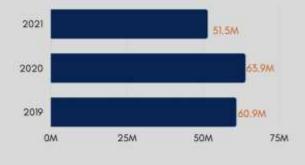
While we recognize the significant role the bank plays in the community's economic growth, we have to strike a balance between easing up access to loan facilities and increasing concerns on the rise in non-performing loans (NPLs) and PAR. Another direction is adoption of technology that can sustain critical business activities.

Moving forward, LifeBank must adapt its operating models to drive efficiency and resiliency under the new normal to serve the stakeholders better, through the right channels, with relevant products and services.

Rodolfo Pl Pap III Chief Operating Officer



The Credit Relationship Department also made good result in decreasing 11.2% of its Non-Performing Loans by Dec. 31, 2021 despite the decline in the Loan Portfolio of 19.40% as shown in the table.





Branch Banking Operations (BBOD)

| | Ending 2019 | Ending 2020 | Ending 2021 | Growth from the prev. year |
|--|----------------|----------------|----------------|----------------------------------|
| Bank Offices | 4 | 4 | 4 | 0% |
| # of Deposit Products | 4 | 4 | 4 | 0% |
| Number of Accounts | 4363 | 4502 | 5300 | 17.73% |
| Total Deposit Liability (In Millions) | 606.16 | 627.18 | 647.07 | 3.17% |



The Deposit Liability has recorded an increase of 3.17% amidst challenging economic situation.

2021

2020

2019

57.3M

As BSP keeps policy rates low and maintains accommodative policy stance, LifeBank has also passed a reduction of deposit interest rate approved at the last quarter of 2021 but will take effect in 2022.





Sustainable Development and Investment Department (SDID)

The SDID handles the microfinance operations and comprises 88% of the Bank's total loan portfolio. As of 2021, it has increased its loan portfolio and borrowers by 2.8% and 7.05%, respectively. Background and credit investigation was rigidly conducted to ensure high repayment rate for new and repeat borrowers. The team also exerted effort to collect past due loans which resulted to a decrease in the PAR by 20.39%. The re-implementation of municipal border restrictions and lockdowns by 2nd quarter halted the strategic expansion but this was pursued on the last quarter of 2021. Thus, Units 46-Duenas, 47-President Roxas, 48-Tobias Fornier and 49-Laua-an were opened. These are additional units added to 54 existing units of SDID.



SDID AT A GLANCE

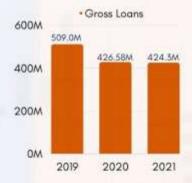
| | Ending 2019 | Ending 2020 | Ending 2021 | Growth from the prev. year |
|--|-----------------------------------|-----------------------------------|-----------------------------------|---------------------------------|
| Number of Branch-lite-Units (BLU) | 31 | 37 | 44 | 18.92% |
| Number of Business Units | 54 | 54 | 58 | 7.40% |
| Number of covered Provinces | 5 | 5 | 5 | 0% |
| Number of covered Cities | 3 | 3 | 3 | 0% |
| Number of covered Municipalities | 97 | 97 | 97 | 0% |
| Number of Unit Supervisors | 54 | 54 | 58 | 7.40% |
| Number of IMP Assistants 2 | 52 | 53 | 55 | 3.7% |
| Number of IMP Assistants 1 | 170 | 167 | 181 | 8.38% |
| Number of Members Active Inactive Total | 44,317 13,096 57,413 | 42,058 14,274 56,332 | 44,314 12,940 57,254 | 5.36% (9.35%) 1.64% |
| Savings Balance (in Millions) Active Inactive Total | 150.2 3.5 153.8 | 116.9 3.9 120.9 | 102.9 3.6 106.6 | (11.95%) (8.50%) (11.85%) |
| Number of Borrowers | 36,335 | 30,334 | 32,473 | 7.05% |
| Total Portfolio (Principal) (in Millions) | 444.3 | 362.6 | 372.7 | 2.8% |
| Portfolio-at-Risk (in Millions) | 31.9 | 78.4 | 62.4 | (20.39%) |
| PAR Ratio | 7.19% | 21.38% | 16.63% | (4.75%) |
| Member per Assistant (Active) | 260 | 251 | 244 | (2.78%) |
| Borrower per Assistant | 215 | 181 | 179 | (1.10%) |
| Loan Outstanding per Assistant | 2.6 | 2.1 | 2.07 | (4.43%) |
| Ave. Savings per Member | 3,391 | 2,781 | 2,324 | (16.43%) |
| Ave. Loan Outstanding per Member | 12,230 | 11,954 | 11,565 | (3.25%) |

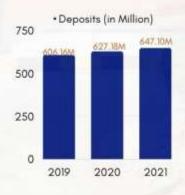


FINANCIAL REPORT

FINANCIAL HIGHLIGHTS

| In Php Millions | Ending | Ending | % of |
|--|---|--|---------------------------------------|
| | 2020 | 2021 | Growth |
| Profitability Total Net Interest Income Tatal Non-Interest Income Total Non-Interest Expense Allowance for Credit Losses Net Income | 181.1 | 225.4 | 25.4% |
| | 5.9 | 5.6 | -7.7% |
| | 186.0 | 204.9 | 10.2% |
| | 52.4 | 19.5 | -39.8% |
| | -35.4 | 2.7 | 108.1% |
| Selected Balance Sheet Data Liquid Assets Grass Loans Total Assets Deposits Total Equity | 526.0 426.5 997.1 627.1 286.1 | 574 424.5 1018.9 647.1 286.7 | 9.1% -0.5% 2.2% 3.2% 0.2% |
| Other Selected Accounts Assets Liabilities Equity Income Expense Microfinance Loans Regular Loans Deposits | 997.1 | 1018.9 | 2.2% |
| | 711.0 | 732.2 | 5.0% |
| | 286.1 | 286.7 | 0.2% |
| | 202.5 | 241.0 | 19.0% |
| | 236.0 | 238.3 | 1.0% |
| | 362.6 | 372.7 | 2.8% |
| | 63.9 | 51.5 | -19.4% |
| | 627.1 | 647.1% | 3.2% |
| Selected Ratios Return on Equity Return on Assets Capital Adequacy Ratio Minimum Liquidity Ratio | -11.70% -5.56% 22.01% 87.55% | 0.26% 0.94% 24.60% 91.65% | 102.5% 128.0% 11.8% 4.7% |

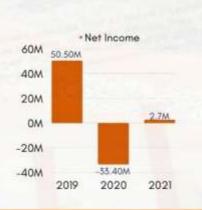




CAPITAL ADEQUACY AND STRUCTURE

| In Php Millions | Ending 2020 | Ending 2021 |
|---|---|---|
| Core Tier 1 Capital | | |
| Paid up common Stock Paid up perpetual and non-cumulative preferred stock Retained Earnings Undivided Profits Sub-total Deductions from Core Tier 1 Capital Deferred tax asset, net of deferred tax liability | 13.92 0.01 292.10 0.64 306.68 14.02 | 13.92 0.01 271.58 -1.62 283.70 27.19 |
| Total Core Tier 1 Capital | 292.65 | 256.51 |
| Upper Tier 2 Capital | | |
| General Loan loss provision Deductions from Core Tier 2 Capital Sinking fund for redemption of limited life redeemable preferred stock with the replacement requirement upon redemption | 7.48 0.01 | 7.19 0.01 |
| Total Upper Tier 2 Capital | 7.46 | 7.18 |
| Total Qualifying Capital | 300.12 | 263.68 |
| Risk-weighted Assets and Capital Requirements | | |
| Risk-weighted on Balance Sheet Assets | 747.55 | 720.06 |
| Deductions from Total Credit Risk-Weighted Assets General Loan Loss Provision | 2.29 | 2.57 |
| Total Credit Risk-Weighted Assets | 745.26 | 717.49 |
| Total Operational Risk-Weighted Assets | 399.70 | 378.73 |
| Total Operational Risk-Weighted Assets | 1,144.96 | 1,096.22 |
| Capital Requirements | 1/ | |
| Credit Risk Operational Risk | 74.53 39.97 | 71.75 57.87 |







INTEREST INCOME IN LOANS

The bank's interest income has significantly increased by 23.4%. The operations effort and perseverance to collect payments and increase loan releases has greatly contributed to this increase. The highest interest income for the year was recorded in March 2021 where it has over 24M interest income from loans.



INCOME AND EXPENSES

| In Millions | 2020 | 2021 | Growth | 400M | • Income | * Expenses | Net Income |
|-------------|-------|-------|--------|------|----------|------------|------------|
| Income | 202.5 | 241.0 | 19.0% | 200M | _ | 1 | |
| Expense | 236 | 238.5 | 1.0% | 100M | _ | | |
| Net Income | -55.4 | 2.7 | 108.1% | 100M | 2019 | 2030 | 2021 |

The year 2021 has recorded an increase in total income by 19.0% compared with 2020. The highest recorded was last March and December 2021.

While the expenses has increased by 1.0%. Operating Expenses was controlled but the increase in total was contributed by the booking of the allowance for probable loss amounting to 31 M at the last quarter.

The net income resulted to an increase of 108.1% considering that the year 2020 has marked a low collection and interest income from loans due to temporarily closure of branch-lite units during pandemic lockdowns.

REGULATORY QUALIFYING CAPITAL PERFORMANCE

LifeBank observes the latest regulatory policy governing Minimum Capitalization requirement approved by the Monetary Board in its Resolution No. 1607 dated October 9, 2014.

This is reflected in the latest Manual of Regulations for Banks (MORB) issued by the BSP, specifically Section 121 – on "Minimum Capitalization" which mandate to increase the minimum capital requirement for all bank categories, to ensure that banks stand on a strong capital base to support a threshold scale of operations, to operate viably and service effectively the needs of clients.

The Bank's Capital Adequacy Ratio (CAR) is 24.60percent and 22.01-percent representing December 31, 2021 and 2020, respectively. The figures demonstrate LifeBank's compliance status to the Capital Adequacy Ratio and Minimum Capitalization requirement.

The CAR of 24.60% is a result of a move of the Bank to increase the allowance for Credit Losses to thirty (P30) million to buffer the probable loan loss with doubtful recovery.

MINIMUM LIQUIDITY RATIO PERFORMANCE

In the same manner, LifeBank also observes the promotion of short-term resilience to liquidity shocks, banks shall maintain a stock of liquid assets proportionate to their on-and-off balance sheet liabilities as highlighted in the MORB.

The policy is specifically governed by Section 145 – "Minimum Liquidity Ratio (MLR) for Stand-Alone Thrift Banks, Rural Banks and Cooperative Banks" which states that ongoing prudential MLR of twenty percent (20.00%) shall apply to banks on an ongoing basis absent a period of financial stress.

The Bank's MLR is 91.63-percent and 87.55-percent for December 31, 2021 and 2020, respectively. It illustrates satisfactory compliance to MORB provision.

Human Development Department (HDD)



The manpower compliment decreased by 17.20% for year ending 2021 as compared with 2020.

Our HDD instituted organizational restructuring to promote work efficiency and enhanced the following policies for employee development:

- Training
- Attendance and Timekeeping
- Performance Management System & Recruitment
- Remote Work

| | Ending 2019 | Ending 2020 | Ending 2021 | Growth from the prev. year |
|--|-------------------|-------------------|-------------------|----------------------------------|
| Population Male **** Female **** | 565 175 390 | 471 146 325 | 467 147 320 | (17.20%) |
| Accession Rate | 21.81% | 5.20% | 17.09% | |
| Separation Count | 76 | 90 | 110 | |

Trainings

The bank recognizes the fact that personnel is the most valuable resource in LBRB, almost all departmental training initiatives and HD staff capacity building designed were implemented. Training Plan is executed well this year. In addition, HD also has conducted trainings that are important in the prevailing situation.

The bank has also initiated a training entitled "Life and COVID" that will improve the mental health of its staff conducted by Dr. Henrietta Espanola, a psychiatrist. It was a training indeed greatly appreciated by all staff as it provided assurance that it is okay not to be okay.







CHALLENGES FACED BY THE BANK



1. Recovery from Pandemic

As the Delta variant surfaced, the government has reimplemented lockdowns and border restrictions that affected the field operation. Some of the municipalities restricted field personnel to enter their area where collection is not possible. Likewise, businesses and livelihood of clients were also affected because of their limited movement.

The operations coped up with collections as soon as the restrictions loosened up a bit. Follow up with past due payments are done through virtual meet ups and payment through remittance centers.

Expansion and BLU opening only materialized on the last two quarters of the year.

With all these limitations, we remain to be compliant with the safety and health protocols.

The bank's head office was issued with the Safety Seal Certificate last September 21, 2021 by the local government of Sta. Barbara, Iloilo.

2. Competition

2021 have seen a cultural shift in consumer behavior and expectations. With emergence of today's technology, consumers demand more oversight and control over their finances. We recognized that we need to step up in this arena. There are ongoing talks initiated with possible partners to achieve the bank's goal to be at par with other banks with the same playing field.

The bank launched and accepted bills payments which took effect on the last quarter of the year.

3. Climate Change Risk

The super typhoon Odette on December 16, 2021 hit Panay area and destroyed houses, businesses and livelihoods of our clients in the first, second, third and fourth district of the Iloilo province and southern part of Antique and Guimaras.

The key solutions to the continuing challenge pose by climate change risk is ingrained in our ever evolving business continuity plan.

Strategic Directions 2021

The Strategic Initiatives for 2021 focuses on:

- 1. Sustain Economic Growth thru:
- a. Expansion Deepening and widening the bank's reach, while maintaining the bank's performance indicators:
 - Improving Portfolio Quality (Loan Releases and Collection)
 - ii. Opening of seven (7) new BLUs in Iloilo: Dumangas, Leon, Duenas, Capiz: President Roxas, Antique: Tobias Fornier, Laua-an, and Aklan: Numancia.
- Digital Transformation
 B. Go-Live of Cloud-based Core Banking System
- Capacity building thru: Succession and employee retention program
- Sustainable Finance Formulation of Transition Plan and Sustainable Finance Framework (BSP C. 1085).



CORPORATE SOCIAL RESPONSIBILITY

Educational Scholarship Program

The Educational Scholarship Program (ESP) in partnership with LifeBank Foundation Inc., a benefit offered to the children of LBRB's microfinance client is sustained for this year. The number of scholars continue to increase. There was a 20.8% increase of beneficiaries by 2021 compared to 2020. Among these 151 scholars, 30 or 19.87% already graduated and 8 were reported to have gained employment.





LBRB Scholars who are already employed as of December 2021 have reached to eight (8) scholars



RISK MANAGEMENT

The Risk Management process and practices of LBRB is anchored on its mandate and consistent with its Vision, Mission, strategies and business objectives, structure, policies, and overall risk management strategy.

The Risk Management Process is based on the guidelines and directions set forth by the Bangko Sentral ng Pilipinas.

Risk reporting apprises LifeBank's Top Management of the material risks confronting the Bank and it serves as guide in decision-making, specifically in determining viable solutions that will address the risks.

The Risk Management Process highlights risk management performed at three different levels: Strategic Level; Portfolio Level; and Transactional Level.

 Risk Management at the Strategic Level generally involves risk oversight and risk policy formulation and approval. Along the risk and control "line of defense", this level is ultimately responsible for the effectiveness of risk management activities across the organization.

The highest level of risk management involves: the LBRB President/CEO, other Board-level committees, and Management Committee.

The Board performs the risk management oversight at LBRB. They are responsible for reviewing and approving the Risk Management program. The Board is responsible for setting the risk appetite, approving policies and strategies.

The President/CEO, Board-level committees and Management Committee are responsible for creating a risk culture that promotes a deep sense of risk awareness among the Bank's officers and staff.

Portfolio level risk management involves the Department/ Division Managers and the Risk Management Department of the Bank (RMD).

The Department/Division Managers with the RMD are responsible for analyzing and controlling risks reported by the business units/ authorized risk takers under them. They monitor the occurrence of policy breaches and procedural infractions and deviations and ensure that risk measures are properly applied by the business and support units.

Should controls fail in addressing risks, the Department/ Division Managers should review attendant policies and propose workable adjustments when necessary.

The RMD/Department/Division Managers collate and consolidate all risk reports from its various risk-taking units and prepare the necessary analysis. The consolidated risk reports are then submitted by the RMD to the Board.

Portfolio-level risk reports generated by the Department/ Division Managers and RMD are escalated to the Board and Senior Management. These management reports should provide snapshots of overall risk positions of the Bank and should enable the Board to evaluate performance from a risk adjusted perspective and to initiate the necessary adjustments in the overall business strategy.

Risk Management at the Transactional Level is the first "line of defense" and is comprised of the business and support units that are directly responsible for the processes and the risks.

The transactional level involves specifics of day-today risk-taking activities as performed by the risk owners or the Authorized Risk Takers (ARTs). All transactions of ARTs should conform to LBRB's policies and procedures and should be within specified limits and approving authorities.

Identification and recognition of risks and the occurrence of risk events are documented by the ART and reported to the Department/ Division Head.

Risks are measured and quantified in terms of its impact on the unit's operations and on the targeted revenues.

RISK GOVERNANCE STRUCTURE AND RISK MANAGEMENT PROCESS

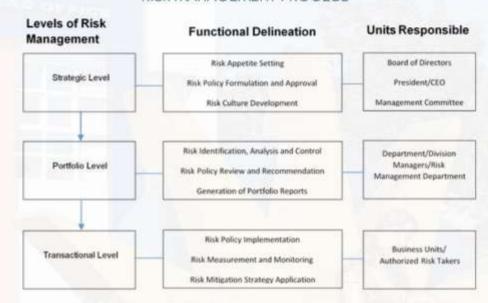
Reports on risk events, policy breaches and procedural infractions, and its corresponding risk mitigation strategies should be elevated to the Unit Managers. Risk reports should be prepared on a regular basis and must be submitted by the risk-taking units to the Unit Managers.

RISK MANAGEMENT APPROACHES

Risk management may be undertaken by using two approaches: The Silo and the Integrated Approach. The Silo Approach is used to tackle risks on an individual or compartmentalized basis. It is usually transactional and reactive and it concentrates on how individual business units operates and perform and with each department being responsible for managing its respective risks.

The Integrated Approach, on the other hand, is used by considering the risks at all levels of the organization, from strategic up to the day-to-day job of customer facing employees. It is a bank-wide and proactive in nature and it considers interdependencies of units as well as the inter-relationship of risks.

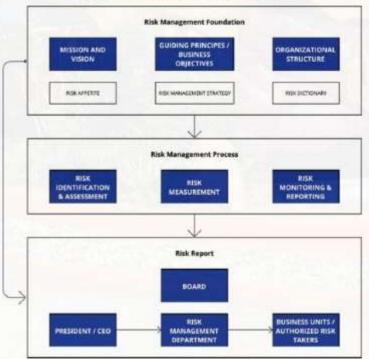
RISK MANAGEMENT PROCESS



RISK MANAGEMENT FRAMEWORK



RISK MANAGEMENT FRAMEWORK



RISK APPETITE & TOLERANCE

LBRB aims to be risk aware, but not overly risk averse, and to actively manage risks to protect and contribute to the growth of the Bank. To achieve its objectives, LBRB recognizes that it will take on certain risks.

The Bank aims to take risks in an informed and proactive manner, such that the level of risk is consistent with the potential rewards and that LBRB understands and is able to manage or absorb the impact of the risk in the event that it materializes.

Management established such risk responses as are required to achieve the objectives in accordance with the acceptability of the risk. Quantified risk tolerances has been formulated and regularly updated by Management at each business-unit level. The Bank aims to actively avoid risks that could:

- Negatively affect the Bank's stakeholders (clients, employees or other stakeholders);
- · Negatively affect LBRB reputation;
- · Lead to laws or regulations being breached; or
- Endanger the future existence of the organization.

1.Introduction

This Statement considers the most significant risks to which the LifeBank "Bank" is exposed and provides an outline of the approach to managing these risks. All strategic plans and business plans for functional areas need to be consistent with this Statement.

2.General Statement of Risk Appetite

LifeBank faces a broad range of risks reflecting its responsibilities as a bank.

These risks include those resulting from its responsibilities in the areas of monetary, financial stability and payments/collection system policy, as well as its day-to-day operational activities.

The risks arising from the Bank's policy responsibilities can be significant. These risks are managed through detailed processes that emphasize the importance of integrity, maintaining high quality staff, and public accountability.

In terms of operational issues, the Bank generally has a low appetite for risk. The Bank makes resources available to control operational risks to acceptable levels. The Bank recognizes that it is not possible or necessarily desirable to eliminate some of the risks inherent in its activities. Acceptance of some risk is often necessary to foster innovation and efficiencies within business practices.

3. Coverage

The Bank's attitude and core values towards its key strategic, financial, people and operational risks is described below.

3.1. Strategic Risks

The Bank aspires to be among the leading rural banks, measured by the quality and effectiveness of its operations. This requires ongoing development and innovation in its operations through strategic initiatives which often carry significant risk. The Bank has a low appetite for threats to the effective and efficient delivery of these initiatives. It recognizes that the actual or perceived inability to deliver strategic initiatives could have a significant impact on its ability to achieve its objectives as well as its reputation. The Bank's Senior Management meets regularly to discuss the major initiatives.

A framework is in place to ensure that these initiatives are prioritized appropriately, and that the associated risks are well managed and reported on a consistent basis.

3.2. Liquidity Risks (Financial Risks)

The Bank does not aim to eliminate this risk as this would significantly impair its ability to achieve its policy objectives. Instead, the risks are managed to an acceptable level (low appetite) through a framework of controls. The Bank acknowledges that there will be circumstances where the

risks carried on its balance sheet will have a material impact on its financial accounts. The Bank regards it as desirable to hold sufficient reserves to absorb potential losses.

The Bank manages this risk carefully by applying a strict set of criteria to investments, confining its dealings to institutions of high creditworthiness and ensuring that exposures to counterparties are appropriately secured, wherever feasible.

3.3. Operational Risks

The Bank's appetite for specific operational risks is detailed below. Risks are carefully analysed in all of the Bank's operational activities, including to ensure that the benefit of the risk control measures exceeds the costs of these measures.

3.3.a. Fraud and Misappropriation

The Bank has no appetite for any fraud or misappropriation perpetrated by its staff. The Bank takes all allegations of suspected fraud or misappropriation very seriously and responds fully and fairly as set out in the Code of Conduct and Ethics (CCE).

3.3.b. People and Culture Risks

The Bank's significant people and culture-related risks include:

Quality of People - The Bank relies on motivated, diverse and high quality staff to perform its functions. It aims to create an environment where employees are empowered to the full extent of their abilities. The appetite for quality staff which do not meet these standards is very low.

Conduct of People - The Bank expects employees to conduct themselves with a high degree of integrity, to strive for excellence in the work they perform and the outcomes they achieve, and to promote the public interest. The appetite for behaviors which do not meet these standards is very low. The Bank takes very seriously any breaches of its Code of Conduct and Ethics (CCE).

3.3.c. Security and Safety Personnel Security

The Bank is committed to creating a safe working environment for all of its staff, where people are protected from physical or psychological harm. It has a very low appetite for practices or behaviours that could be expected to lead to staff being harmed while at work.

Physical Security-The Bank provides a highly secure environment for its people and assets by ensuring its physical security measures meet high standards. The Bank has a very low appetite for the failure of physical security measures.

3.3.d. Information Technology

Information Technology (IT) risks cover both daily operations and ongoing enhancements to the Bank's IT systems. These include:

Technology Service Availability – The Bank has a very low appetite for risks to the availability of systems which support its critical business functions, including those which relate to inter-bank settlements, banking operations and financial markets operations. Service availability requirements have been identified and agreed with each business area.

Technology Change Management - The implementation of new technologies creates new opportunities, but also new risks. The Bank has a low appetite for IT system-related incidents which are generated by poor change management practices. Moderate risk appetite for innovation and digitalized bank operations.

Security -The Bank has no appetite for damage to Bank assets from threats arising from malicious attacks. To address this risk, the Bank aims for strong internal processes and the development of robust technology controls.

3.4. Credit Risks

The Bank has a very low appetite for credit risk. For microfinance lending the Bank has moderate risk appetite.

The Bank manages this risk carefully by applying a strict set of criteria to loan related activities and dealings to customers with high creditworthiness and ensuring that exposures in loan portfolio are properly monitored, recorded and reported to have sound credit practices.

3.5. Reputational Risk

Information Management – The Bank is committed to ensuring that its information is authentic, appropriately classified, properly conserved and managed in accordance with legislative and business requirements. Bank has no appetite for the deliberate misuse of its information which may result in tarnishing the Bank's image, financial losses and may result to legal suits.

The Employee's turnover rate should not be more than the industry level. The Bank has low appetite for high turnover rates.

3.6. Interest and Market Risk

The Bank is committed to a high level of competitive with relevant to interest rate setting. Regular review is conducted to ensure the competitiveness of the interest rate and ensure to have sustainable impact to the Bank to achieve its objectives and goals. The Bank has no appetite for deliberate or purposeful violations of internal policies or regulatory requirements.

3.7. Compliance Risk

The Bank is committed to a high level of compliance with relevant legislation, regulation, industry codes and standards as well as internal policies and sound corporate governance principles. Identified breaches of compliance will be remedied as soon as practicable. The Bank has no appetite for deliberate or purposeful violations of legislative or regulatory requirements.



| 2 mm - 2 m - 2 mm | Operational Risk – Information Technology | | | |
|-------------------|---|--|--|--|
| No Risk | No case of Malicious Attacks & No incidents generated | | | |
| Low Risk | 100% availability of system & Not significant IT Related incidents generated by poor management practices | | | |
| Medium Risk | Significant related incidents with regards to innovation and digitalized Bank's operations | | | |
| High Risk | Cases of Malicious Attacks and unavailability of System | | | |

| | Operational Risk - Fraud and Misappropriation |
|-------------|---|
| No Risk | No Case of Fraud & Misappropriation |
| Low Risk | With cases but with no financial loss |
| Medium Risk | With cases but resolved (below 10,000.00) |
| High Risk | Cases/Misappropriation (Above 10,000.00) |

| | Operational Risk - Internal Loss |
|-------------|---|
| Low Risk | Opportunity Loss / With No Financial Loss |
| Medium Risk | Potential Loss (Reputational) / With Financial Loss including Penalties < 10,000.00 |
| High Risk | Reputational Loss / With Financial Loss including Penalties =>10,000.00 |

| | Operational Risk – Personnel and Physical Security |
|-------------|---|
| | No. of Incidents |
| Low Risk | No incidents reported with regards to personnel safety and security |
| Medium Risk | With 1 or 2 incidents reported but operations remain unhampered |
| High Risk | With incidents that may hamper operations |

| | Reputational Risk - Turnover Rate |
|-------------|--|
| Low Risk | Turnover Rate less than the Industry Average (latest issuance of PSA) |
| Medium Risk | Turnover Rate equal to the Industry Average (latest issuance of PSA) |
| High Risk | Turmover Rate More than to the Industry Average (latest issuance of PSA) |

| | Reputational Risk | |
|-------------|--|--|
| Low Risk | No Case of Customer Complaints | |
| Medium Risk | Not more than 3 cases of Customer Complaints | |
| High Risk | More than 3 cases of Customer Complaints | |



| | Liquidity Risk – Minimum Liquidity Ratio | |
|-----------|--|--|
| Low Risk | Not less than the MLR required by BSP | |
| High Risk | Less than the MLR required by BSP | |

| Interest and Market Risk | | |
|--------------------------|---|--|
| Low Risk | No case of Deliberate and Purposeful violations of internal policies which resulting to negative effect in income | |
| High Risk | Cases of Purposeful Violations of Internal Policies which resulting to negative effect in income | |

| | Compliance Risk | |
|-----------|--|--|
| No Risk | No case for violations of legislative or regulatory requirements | |
| High Risk | Case for violations of legislative or regulatory requirements | |

| Credit Risk – PAR Ratio | | |
|---|---|--|
| Low Risk < PAR Industry Average (latest issuance of BSP | | |
| Medium Risk | = PAR Industry Average (latest issuance of BSP) | |
| High Risk | >PAR Industry Average (latest issuance of BSP) | |

| | Strategic Risk | |
|-------------|------------------------------|--|
| | Percentage of Accomplishment | |
| Low Risk | > 90% ≤ 100% | |
| Medium Risk | > 75% ≤ 90% | |
| High Risk | ≤ 75% | |

Thresholds

Risk Appetite

Tolerance Levels M

CORPORATE GOVERNANCE

Corporate governance in LifeBank is about effective oversight, strict compliance with regulations, and sustainable value creation to promote the best interest of its various stakeholders.

A. GOVERNANCE STRUCTURE

Board of Directors

Responsibility for good governance lies with the Board. It is responsible for providing effective leadership and overall direction to foster the long-term success of the Bank. It oversees the business affairs of the Bank, reviews the strategic plans and performance targets, financial plans and budgets, key operational initiatives, capital expenditures, acquisitions and divestments, annual and interim financial statements, and corporate governance practices. It oversees management performance, the enterprise risk management, internal control systems, financial reporting and compliance, related party transactions, continuing director education, and succession plans for the Board and the Chief Executive Officer (CEO).

The Board is composed of 11 members. The members of the Board are all professionals with various expertise in fields relevant to LifeBank's business and strategic plans such as banking, accounting and finance, law, merchandise marketing, strategy formulation, bank regulations, information technology, sustainability, and risk management. It is led by an Non-Executive, Independent Director Chairperson with one Independent Director, seven Non-Executive Directors, and two Executive Directors who are the the President /CEO and treasurer.

B. SELECTION PROCESS OF THE BOARD AND SENIOR MANAGEMENT

BOARD MEMBER SELECTION

The existing members of the Board of Directors can invite or nominate a stockholder regardless of the shares being held, particularly if the person's expertise, capacity, or specialized knowledge on a certain area is needed for the growth and development of the Bank. It is essential that a person possess a character of fairness and objectivity; who can think independently; and make decisions aligned with the vision and mission of the bank; and, who express opinions that support the best interests of the Bank.

SELECTION OF SENIOR MANAGEMENT

The Bank provides opportunities for existing employees to be appointed to managerial positions by enforcing a succession planning program that identifies potential managers even before vacancies occur. This facilitates an objective and transparent selection process of employees who will be appointed to management levels. However, if nobody among the existing employees are qualified for promotion to management levels at the time of a vacancy, the management exercises its prerogative to recruit and hire from outside of the Bank to ensure that operations are not hampered due to the absence of a management person who can undertake the functions.

BOARD SNAPSHOT

DIRECTOR DIVERSITY

Females

00000000000

Males

000000000000

Director Age

30-45

00000000000

46-60

0000000

61-85

00000000000

SKILLS, EXPERIENCE & BACKGROUND

Lawyers

00000000000

Bankers

00000000000

Entrepreneurs

000000000000

Accountant

00000000000

C. BOARD'S OVERALL RESPONSIBILITY

- To provide overall direction to the Bank in order to achieve its vision and mission.
- To approve and monitor the implementation of strategic objectives.
- 3. To pass, approve and adopt relevant policies governing major areas of banking operations and exercise oversight.
- To approve and adopt risk management policies and oversee its implementation and `compliance.
- To oversee selection and evaluate the performance of senior management.
- To ensure consistency on the conduct of LBRB's affairs with a high degree of integrity.
- To define and establish LBRB's governance policies and institutionalize practices by issuing guidelines for its compliance and implementation.
- To conduct periodic review of policy implementation for purpose of amendment, improvement or enhancement.
- To form committees that will increase efficiency and allow deeper focus on specific areas of concerns.
- 10. To utilize effectively the work conducted by the internal audit, risk management and compliance functions and the external auditors

D. ROLE AND CONTRIBUTION OF THE CHAIRPERSON OF THE BOARD

The Chairperson of the Board provides leadership to the Board of Directors. The chairperson ensures an effectively functioning Board of Directors and that relationships among members are maintained based on trust and confidence.

The chairperson ensures the following:

- That the meeting agenda are focused on strategic matters, including discussion on risk appetites and key governance concerns;
- 2. A sound decision making process;
- 3. That critical discussions are properly facilitated;
- That dissenting views can be expressed and discussed within the decision-making process;
- That members of the board receive accurate, timely, and relevant information;
- That the conduct of proper orientation for first time directors and provide training opportunities for all directors; and
- That performance evaluation are conducted among the Board of Directors at least once a year.

E. BOARD COMPOSITION

| Name of Director | Position/Type of Directorship | Number of Year as Director | Total Number of Direct(D) and Indirect (I) Shares as of December 31, 2021 | Percent to Total Outstanding Share |
|-----------------------------|--|-------------------------------|--|---------------------------------------|
| John Aloysius S. Bernas | Chairperson/Non-executive Director/Independent Director | 9 months | 1(D) | 0.00 |
| Rosario B. Perlas | President/CEO/Executive Director | 16 | 9,638 (D) | 6.93 |
| Ruth T. Jarantilla | Treasurer/Executive Director | 18 | 930 (D) | 0.67 |
| Vicente P. Perlas | Non-Executive Director | 34 | 14,847 (D) | 10.67 |
| Hermie R, Barbasa | Non-Executive Director | 12 | 9,067 (D) | 6.52 |
| Miguel Antonio O. Perlas | Non-Executive Director | 21 | 5,576 (D) | 4.01 |
| Carlo K. Perlas | Non-Executive Director | 4 | 5,633 (D) | 2.61 |
| Mikka Ella B. Perlas | Non-Executive Director | 4 | 1,287 (D) | 0.92 |
| Jesus Nicanor P. Perlas III | Non-Executive Director | 12 | 4,075 (D) | 2.93 |
| Joselita M. Perlas | Non-Executive Director | 2 months | 1 (D) | 0.00 |
| Clea P. Amenamen | Independent Director | 9 months | 1 (D) | 0.00 |
| | | | | |

JOHN ALOYSIUS S. BERNAS

Chairperson of the Board Independent Director

| AGE | NATIONALITY | NO, OF YEARS SERVED AS A DIRECTOR |
|-----|-------------|-----------------------------------|
| 60 | Filipino | 9 months |

EDITIONATION

AB Economics with Honor- Ateneo de Manila University

MBA - Darden School of Business - University of Virginia

MA in East Asian Studies - Graduate School of Arts and Sciences, University of Virginia

DIRECTORSHIP IN OTHER LISTED COMPANIES

Global Advisory Board and Senior Advisor for the Philippines - LeapFrog Investment
Independent Director - Credit Access Asia Phil
Independent Director - Intellicare Group
Independent Director - Tonic Digital Bank Inc.
Chairman of the Board - Transnational Educ,-Chair
Chairman of the Board - Coldfront Technologies PTE, LTD.
Director - MILVIK (BIMA) Philippines Insurance





ROSARIO B. PERLAS, M.D. President/Chief Executive Officer Director

AGE NATIONALITY NO. OF YEARS SERVED AS A DIRECTOR
58 Filipino 16

Doctor of Medicine - West Visayas State University

DIRECTORSHIP IN OTHER LISTED COMPANIE

Board of Trustees - LifeBank Microfinance Foundation Inc.
Director - BlueFields Trading Post Inc.

RUTH T. JARANTILLA

Treasurer Non - Executive Director

| AGE | NATIONALITY | NO. OF YEARS SERVED AS A DIRECTOR |
|-----|----------------------|-----------------------------------|
| 84 | Filipino | 18 |
| | EDUC | ATION |
| | BS Pharmacy - Unive | rsity of San Agustin |
| | DIRECTORSHIP IN OTHE | R LISTED COMPANIES |
| | No | ne |





VICENTE P. PERLAS, M.D.

Director

| AGE | NATIONALITY | NO. OF YEARS SERVED AS A DIRECTOR |
|-----|-------------|-----------------------------------|
| 71 | Filipino | 34 |
| | EDUC | ATION |

EDUCAL

Doctor of Medicine – West Visayas State University Masters in Business Administration (MBA) University of the Philippines Diliman

DIRECTORSHIP IN OTHER LISTED COMPANIES

Board of Trustees — BlueFields Enterprises Inc. Board of Trustees - LifeBank Microfinance Foundation Inc.



HERMIE R. BARBASA

Director

| AGE | NATIONALITY. | NO. OF YEARS SERVED AS A DIRECTOR | |
|-----|---|-----------------------------------|--|
| 68 | Filipino | 12 | |
| | EDUCA | ATION | |
| | BS Civil Engineering | University of Iloilo | |
| | DIRECTORSHIP IN OTHE | R LISTED COMPANIES | |
| Boo | Board of Trustees - LifeBank Microfinance Foundation Inc. | | |

MIGUEL ANTONIO O. PERLAS

| AGE | NATIONALITY | NO. OF YEARS SERVED AS A DIRECTOR |
|-----|-------------------------------|-----------------------------------|
| 49 | Filipino | 21 |
| | EDUC | ATION |
| | AB Communications - Ate | neo de Manila University |
| | DIRECTORSHIP IN OTHE | R LISTED COMPANIES |
| Bo | oard of Trustees - LifeBank A | Aicrofinance Foundation Inc. |





CARLO K. PERLAS Director

| | | and the second s |
|-----|---|--|
| AGE | NATIONALITY | NO. OF YEARS SERVED AS A DIRECTOR. |
| 37 | Filipino | 4 |
| | EDUC | ATION |
| | AB in Humanities - Universi tion Major in Integrated Ma and the | arketing Communications – University of Asia |

Board of Trustees - LifeBank Microfinance Foundation Inc.

MIKKA ELLA B. PERLAS Director

| AGE | NATIONALITY | NO. OF YEARS SERVED AS A DIRECTOR |
|-----|-------------------------------|-----------------------------------|
| 32 | Filipino | 4 |
| | EDUG | ATION |
| | BSBA Marketing – University | of the Philippines Visayas |
| | DIRECTORSHIP IN OTHE | R LISTED COMPANIES |
| В | oard of Trustees - LifeBank / | Vicrofinance Foundation Inc. |





JESUS NICANOR P. PERLAS III Director

| AGE | NATIONALITY | NO, OF YEARS SERVED AS A DIRECTOR |
|-----|------------------------------|-----------------------------------|
| 71 | Filipino | 12 |
| | EDUCA | ATION |
| | BS Agriculture, MS Boto | any - Xavier University |
| | DIRECTORSHIP IN OTHE | R LISTED COMPANIES |
| Во | ard of Trustees - LifeBank A | Aicrofinance Foundation Inc. |

JOSELITA M. PERLAS Director

| AGE | NATIONALITY | NO. OF YEARS SERVED AS A DIRECTOR |
|-----|---|--|
| 58 | Filipino | 2 months |
| | EDUCA | ATION |
| В | BS Economics - Lyceum o achelor of Laws - Manuel L | of the Philippines Manila . Quezon University, Manila |
| | DIRECTORSHIP IN OTHE | R LISTED COMPANIES |
| | No | ne |





CLEA P. AMENAMEN Independent Director

| AGE | NATIONALITY | NO. OF YEARS SERVED AS A DIRECTOR |
|-----|----------------------|---|
| 59 | Filipino | 9 months |
| | EDUC | ATION |
| | | y - University of the Philippines Visayas aduate School of Business ic Accountant |
| | DIRECTORSHIP IN OTHE | ER LISTED COMPANIES |
| | No | ne |

Corporate Secretary

Joseph A. Perlas

| AGE | NATIONALITY | NO, OF YEARS SERVED AS A DIRECTOR |
|--------|----------------------------|-----------------------------------|
| 59 | Filipino | |
| | EDUC | ATION |
| BS But | iness Administration Unive | ersity of the Philippines Diliman |
| | DIRECTORSHIP IN OTHE | RUSTED COMPANIES |
| | No | ne |



G. LIST OF BOARD LEVEL COMMITTEES

The Board of Directors has delegated certain functions to three committees to enable a more focused and specialized attention on specific areas. These are the Audit Committee, Credit Committee and Social Responsibility Committee.

| Name | Audit Committee | Credit Committee | Social Responsibility Committee |
|-----------------------------|-----------------|------------------|---------------------------------|
| John Aloysius S. Bernas | M | | |
| Rosario B. Perlas | | M | М |
| Ruth T. Jarantilla | | M | |
| Vicente P. Perlas | | M | M |
| Hermie R, Barbasa | | M | |
| Miguel Antonio O. Perlas | M | F | |
| Carlo K. Perlas | M | | |
| Mikka Ella B. Perlas | T- THEALTON | С | M |
| Jesus Nicanor P. Perlas III | | | С |
| Joselita M. Perlas | M | | |
| Clea P. Amenamen | С | | |

Legend: Chairperson - C Member - M

AUDIT COMMITTEE

Function

Assist the Board in the performance of its oversight responsibility relating to financial reporting process, systems
of internal control, audit process, and monitoring of compliance with applicable laws, rules and regulations.

Structure and Membership

- · chaired by an independent director
- composed entirely of independent and non-executive directors

Meetings and Attendance

- the committee charter stipulates that meetings shall be held at least 12 times a year.
- special meetings may be convened as necessary.
- · meetings can only be held if attended by the majority of the members
- · voting on committee matters shall be on one member-one-vote basis
- · majority vote of all members present shall constitute an official action of the committee.

CREDIT COMMITTEE

Function

- responsible for the establishment of the bank's overall credit risk strategy and credit policy
- review application for loans and make decisions on such applications within the authority delegated to the committee. All loans decision must be based on the loan policies established by the board of directors and in compliance with the BSP regulations
- · review the bank's loan and collection policies along with its performance
- recommend changes to the policies to improve loan and collection efforts.

Structure and Membership

composed of minimum of three members of the board, including the president as an ex-officio member

Meetings and Attendance

- the committee charter stipulates that meetings shall be held at least 12 times a year.
- the committee shall meet once a month or as often as maybe required on such date and on such time as
 determined by the chairkperson of the committee or majority of the committee members
- a majority vote among those present at the meeting shall be required to approve a loan, pass, o defeat any
 resolution.

SOCIAL RESPONSIBILITY COMMITTEE

Function

- · to assist the board in providing oversight of Lifebank's work in the area of social responsibility, so as to ensure that this work is consistent with LifeBank's vision, mission, policies and practices.
- · develop policies for the board's consideration
- · review and approve proposed programs and projects
- · provide oversight over policy and program implementation
- · assess the impact of irterventions carried out by the organization among the partners
- · report periodically to Lifebank's board of directors

Structure and Membership

· the committee shall consist of three directors one of whom will be designated by the board as the chairperson of the committee.

Meetings and Attendance

· the committee charter stipulates that the committee will meet as often as necessary but at least four times a

H. DIRECTORS' ATTENDANCE AT BOARD AND COMMITTEE MEETINGS

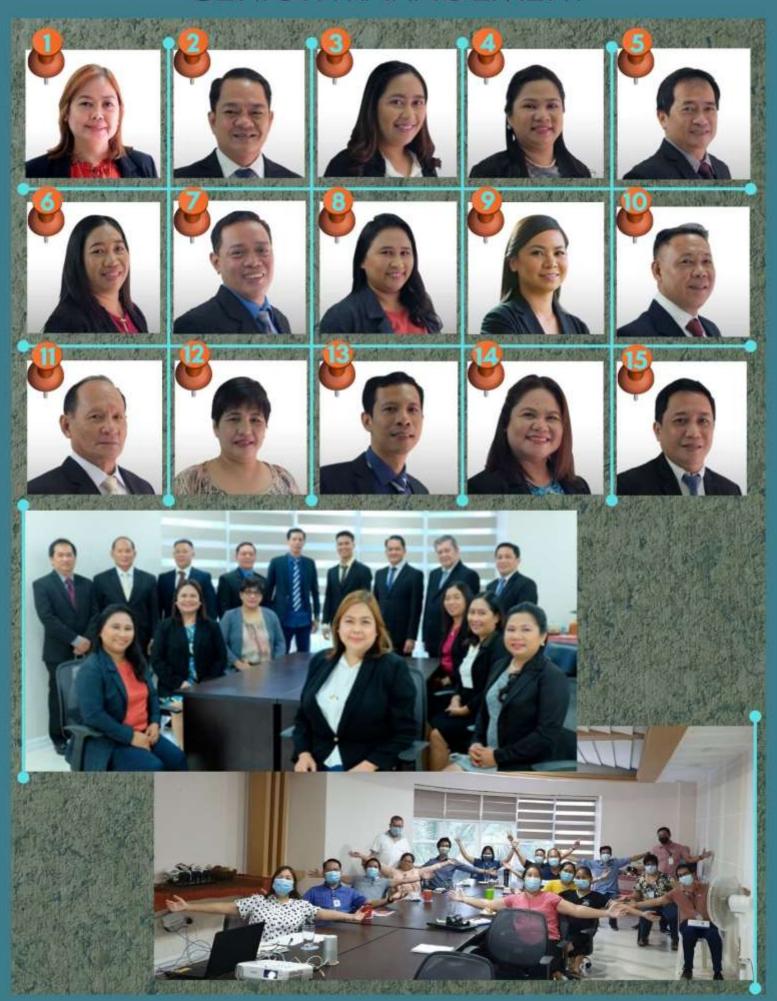
| Name | Board Number of Meetings (13) | | | Audit Committee Number of Meetings (12) | | 1 | Credit Committee Number of Meetings (12) | | | Social Responsibility Committee Number of Meetings (0) | |
|---------------------------------|-------------------------------------|-------|----------|---|-------|--------------|--|-------|----------|--|---|
| 1 | Attended | % | Position | Attended | % | Positio n | Attended | % | Position | Attended | % |
| John Aloysius S. Bernas | 7 | 53.85 | M | 5 | 41.67 | | | | | | T |
| Rosario B. Perlas | 15 | 100 | | | | М | 12 | 100 | M | 0 | 0 |
| Ruth T. Jarantilla | 12 | 92.31 | | | | М | 8 | 66.67 | | 14_ | |
| Vicente P. Perlas | 13 | 100 | | | | м | 12 | 100 | W | 0 | 0 |
| Hermie R, Barbasa | 15 | 100 | | | | M | 12 | 100 | | | |
| Miguel Antonio O. Perlas | 13 | 100 | M | 8 | 66.67 | | | | | | |
| Carlo K. Perlas | 15 | 100 | M | 12 | 100 | | | | | | |
| Mikka Ella B. Perlas | 13 | 100 | | | | С | 12 | 100 | W | 0 | 0 |
| Jesus Nicanor P. Perlas III | 9 | 69.23 | | | | | | | С | 0 | 0 |
| Joselita M. Perlas ² | 2 | 15.58 | M | 1 | 8.55 | | | | | | |
| Clea P. Amenamen ⁵ | 8 | 61.54 | С | 7 | 58.53 | | | | | | |

LEGEND: 1. Effective May 2021 2. Effective November 2021 5. Effective May 2021

I SENIOR MANAGEMENT

| | Name | Position | Previous Positions |
|----|----------------------------|---|--|
| 1 | Rosario B. Perlas | President/CEO | |
| 2 | Rodolfo P. Yap III | Chief Operating Officer | |
| 3 | Reynabelle M. Masacate | Manager - Human Development Department | Internal Audit Head 2012-2018 |
| 4 | Ma, Theresa L. Vista | Manager - Finance Department | |
| 5 | Francisco G. Jordan | Manager - Branch Banking Operations Department | |
| 6 | Rosalie F. Laubenia | Manager - Sustainable Development Investment Department | SDID IMP Division Manager 2015-2018 |
| 7 | Jessie C. Castigador | Manager - Credit Relationship Department | SDID IEP Division Manager 2015-2019 |
| 8 | Johna Mae A. Oresco | Manager - Administrative Department | SDID IMP Area Manager 2013-2017 |
| 9 | Opalyn M. Lopez | Manager - Knowledge Management and MIS Division | Knowledge Management Section Manager 2016-2018 |
| 10 | Romeo S. Banday Jr. | Manager - Information Technology Division | ICT Section Manager 2011-2016 |
| 11 | Roberto J. Nufable | Security Officer | |
| 12 | Ma. Catherine M. Villaluna | Social Responsibility Program Coordinator | |
| 13 | Joemar A. Cagurin | Manager - Strategic Research Development and Incubation | |
| 14 | Marjorie M. Nieva | Risk Management Officer/Data Protection Officer | KMMIS Division Manager 2014-2018 |
| 15 | Norbert A. Capileno | Chief Compliance Officer/Internal Audit Head | Risk Officer 2014-2018 |

SENIOR MANAGEMENT



J. THE PERFORMANCE ASSESSMENT PROGRAM

The evaluation process involves identification of areas for assessment. It started by accomplishing the applicable Performance Evaluation Form (PEF). The Chairperson then conducts interviews with individual directors, analyze the responses in the PEFs and from interviews; and make a report of the findings to the Board of Directors.

The Board of Directors deliberates the report and develops an action plan, and periodically review the progress of implementation. The performance evaluation is undertaken by the Board of Directors every end of the term of each of the board members which is during the election of board members every Annual Stockholder's Meeting.

Each Director should have the opportunity to meet with the Chairperson on an annual basis to discuss the contribution they have made to the board in the previous 12 months, plans for the next year considering the learning and development needs. It can also be a part of the performance evaluation of the board as required by the BSP.

In the conduct of the performance evaluation, the Chairperson of the Board of Directors, evaluates all the members of the Board, including the committee chairpersons, and the President/CEO while the Chairpersons of all the committees will do the initial evaluation of their members before submitting the same to the Board Chairperson for review and final evaluation.

The Board Chairperson will perform a self-performance evaluation. The implementation of the Succession Plan will be undertaken as follows:

- The appointed Corporate Secretary is tasked to ensure that the rules and regulations prescribed by the BSP with regards to membership in the Board as stated in Section 141 of the Manual of Regulations for Banks (MORB) are complied with.
- 2. The Human Development Organizational Development Division (HDOD) should keep a record of all trainings attended by all members of the Board of Directors and ensure that they are able to attend all other trainings required by the BSP. A copy of their training certificates are filed for the purpose of monitoring and updating.
- 3. The HD-OD develops the tools for use in the implementation of the succession planning policy for the Board of Directors, and submit regular updates to the Chairperson of the Board, such as the following:

Monitoring chart which will include the name of board members, their length of service, expiration of their current term, as well as committee and officer positions held to help provide a clear picture of upcoming vacancies which will need to be filled.

Annual reconfirmation of commitment signed by the board members together with the committees they are interested to join in.

With the guidance from the President/CEO or the Corporate Secretary, identify the skills of current board members as well as those of departing members who will need to be replaced.

4. Stockholders who are identified to become successors for Board officership (President, Chairperson of the Board, Treasurer, Secretary and Committee Chairs) should meet the following requirements in addition to the BSP requirements:

They must possess leadership skills and experience in handling business or is actively practicing as an entrepreneur, Certified Public Accountant (CPA), lawyer or a social responsibility advocate and other relevant professions.

They must be chosen as a representative of an ownership cluster representing a minimum number of shares to be entitled to one board seat and must have. They must have undergone the necessary orientation to perform the responsibility of being a Board of Director They must have been actively involved with the Board as a member of its committees, at least 12 months from the date of appointment.

In case of vacancy, appointment to the Board must have the approval of the majority of the existing board members.

- 5. Potential successors should attend all trainings required by the BSP (i.e. AMLA, Corporate Governance, etc.) to prepare them for the responsibilities and make them readily qualified to sit as members of the Board when a vacancy occurs.
- 6. The potential successors as well as incumbent members of the Board 's record must be updated with the HD-OD and compliance head overseeing the compliance to trainings and the Corporate Secretary should provide a copy of their certificates of trainings and other achievements to form part of the regular monitoring of potential successors.

PERFORMANCE MANAGEMENT SYSTEM

PERFORMANCE MANAGEMENT SYSTEM is a systematic process of aligning employees' performance with the goals of the organization. One of its purposes is to assess and ensure that the employee is carrying out their duties which they are employed to do in an effective and satisfactory manner, and is contributing to the overall business objectives. This drives non-performers to perform well and implements fairness in rating.

In connection with this, a tool has been created to measure the employees' performances, and this has also been modified, simplified and customized to our needs in order to be effective and user friendly.

The Performance Evaluation and Development Form (PEDF) is a tool used to all Board of Directors, Officers, Senior Management, Managers, Supervisors & Rank and File employees of the Bank, in order to measure the performance and to develop competencies and address weaknesses.

K. ORIENTATION AND EDUCATION PROGRAM

TRAINING POLICY

Trainings are necessary to ensure that the Bank is able to address the needed knowledge and skills of Board of Directors, Officers, Senior Management, Managers, Supervisors & Rank and File employees to reduce employee turnover and become better talents that they may develop into more effective and efficient talents, resulting in financial gain.

A. INTERNAL TRAINING

Trainings conducted exclusively within the organization by an internal trainer.

B. EXTERNAL TRAINING

Trainings provided from outside of the organization using consultants, specialists and outsourced speakers. These are also public seminars or trainings attended by the employee.

C. ON-THE-JOB TRAINING

As part of continuously educating its employees in the job sites, periodic shuffling and job rotations are being practiced. This will motivate employees to learn related jobs in their place of work and enable them to become well rounded practitioners of the Bank's varied services.

L. RETIREMENT AND SUCCESSION POLICY

RETIREMENT AND SUCCESSION PLANNING

To ensure that the Bank is led and run by adequately qualified and well-experienced Board of Directors, officers and managers as well as to support the Bank's policy on promotion from within, a succession plan is being established to systematically and objectively identify highly potential employees who can be developed as successors to key positions in the Bank. This will facilitate continuous leadership and a smooth transition of functions during turnover or vacancy of posts. This will also ensure that processes, systems and procedures are maintained despite the changing of roles among personnel responsible for essential tasks and significant decisions affecting Bank's overall management and vital operations.

The Bank has established a succession plan in order to achieve the following objectives:

- Determine critical roles within the Bank, identify and assess possible successors, and provide them with the appropriate skills and experiences for present and future, higher opportunities;
- Assist in facilitating the transfer of corporate skills and knowledge from a superior to a subordinate who has potential to succeed him;
- Operate within the principles of merit and transparency in the personnel selection and promotion processes;
- Develop personnel capabilities and competencies to ensure that there is a suitable pool of potential applicants when positions become available or turn vacant
- 5. Have on hand the right people with the right skills in the right place at the right time, thereby building a security net for the Bank and mitigating risks that could result in having leadership gaps and prolonged vacancies that could affect management decisions in the Bank.

GUIDELINES

- Employees who are included in the Pool of Promotable (refer to Policy on Promotion) shall initially compose the LBRB Succession Pool (LSP).
- In addition to meeting the LSP requirements, potential successors shall undergo a series of assessments to determine their capabilities to pursue the trainings and other undertakings that they are required to hurdle.
- The HDD shall spearhead the implementation of the Succession Plan and create a Management Development Program (MDP) for the purpose.
- 4. Potential successors should have a grade of "Passed" in all stages of the required activities. Those who do not meet this requirement shall remain in the Promotable Pool and may be considered for lower supervisory/managerial positions that become vacant.
- 5. A team of trainers may be created from outside sources/ experts who will initiate the process, and among the current Division/Department Managers who are found qualified to train, coach or mentor the potential successors. These trainers will also undergo assessment of their capabilities and be given Board appointment.
- Evaluation of progress shall be on a quarterly basis.
 HDD shall monitor their progress and achievements and submit a report to the President on a regular basis.
- 7. The potential successors, while taking part in the MDP shall be relieved of their usual workloads, but they will enjoy regular pay and training allowances as may be approved by the Board.
- 8. These potential successors shall be obliged to sign an agreement that will be enforced within the period of their involvement in the MDP. A fixed term of employment may be set before they can be allowed to leave the Bank for whatever personal reasons; otherwise they will be required to pay back the cost incurred on their participation in the MDP as may be prescribed by the Board.
- There shall be no more than ten (10) candidates for an MDP batch in order to ensure that they are given enough time and attention during the trainings and they are well guided during their actual job exposure or practicum.

10. Those employees who are 55 years old at the start of the succession planning process may no longer be considered in the MDP to ensure that those who pass the MDP will not be nearing the retirement age by the time they finish the MDP.

11. The Board of Directors, Board Committee Chairperson and members will be given trainings based on BSP required trainings as per stated in MORB, committees they handled and the result of the evaluation. As for Senior Management and Supervisors the development programs shall involve the following phases as enumerated below:

 a. Attendance in Supervisory and Management Trainings (internal/external) to include topics on:

For Supervisory Development Program (SDP):

- Management Principles
- Communication Strategies
- · Leadership and Team Building
- · Marketing and Sales Skills Development
- · Financial Management
- Business Ethics and Social Responsibility
- Performance Management
- Human Development Management

For Management Development Program (MDP):

- · Management and Organization
- · Banking and Financial Intermediation
- Risk Management and Control
- Strategic Thinking and Decision Making
- Good Corporate Governance
- Trainer's Training
- · Leadership Activation on Demand (LeAD)

b. Coaching and Mentoring - which involves assigning a potential successor to work closely with a Division/Department Manager who will regularly show him/her how work is being done and decisions made in the work unit.

c. Shadowing – which allows the potential successor to help or assist the Division/Department Manager as an understudy in the quasi-supervision or overseeing of the work unit, or in acting on the latter's behalf as Officerin-Charge. d. Inter-department Job Rotation – after having passed the previous phases, HDD will transfer the potential successors to another Division/Department so that the potential successor may learn the work processes and other business aspects of the Bank in various units. As a way to measure their learning progress, the potential successors may be subjected to comprehensive written and oral examinations before a panel consisting of selected members of the Management Committee and the Board as may be decided upon by the President.

PROCEDURES

 Identifying the critical management positions and leadership qualities

In identifying potential successors, Management looks beyond basic skills and knowledge required to perform an adequate job and into the deeply rooted capabilities an individual's social role, self-image, traits, and motives that can most accurately determine high-potential candidates. The parameters for identifying leadership roles and critical positions include:

- a. Cognitive capacity
- b. Systems thinking
- c. Emotional and social intelligence
- d. Creativity
- e. Values alignment with the Bank's vision, mission, goals, culture.

Based on the above-cited parameters, the specific skills, capabilities, knowledge and qualifications required for success in all leadership roles and critical positions should be observed in a candidate.

The following positions shall be included in the Succession Plan of the Bank:

- 1. President
- 2. Chief Compliance Officer
- 3. Internal Audit Head
- 4. Risk Management Officer
- 5. Chief Operating Officer
- 6. Chief Finance Officer
- 7. Chief Human Development Officer
- Chief Information & Communication Technology
 Officer
- 9. All Department Managerial Positions
- 10. All Division Managerial Positions

2. Developing the Succession Plan

After the leadership roles and critical positions are identified, we now know what our needs are both for the present and future and we can create a more comprehensive competency list based on our staffing needs. The following steps should be observed, namely:

- a. Identify the future vacancies in the higher levels of the organization.
- b. Create/develop a more detailed job description (JD) for the positions complete with the knowledge, skills, and experience that are required for success for anyone assuming the role. The JDs should include the competencies defined in identifying the leadership rolesand critical positions.
- c. Detail the type of learning and development curriculum that will be provided to train team members for these vacancies. Such development programs will be in line with developing the skills set for the defined leadership roles and critical positions which take the form of:

Training
Mentoring
Shadowing Senior Leaders
Coaching
Intra-departmental movement in line with vacancy
policy
Inter-departmental rotation programs

3. Populating the Succession Pool

An evaluation of the current employees to identify talent pool candidates will then be undertaken. HDD and their respective Department Heads will identify high performers as well as team members who display great potential. This stage includes:

- a. Reviewing performance metrics using the new Performance Management System (PMS), referrals, and past work experience.
- Having a conversation with employees who are being considered for the succession pool about their career plans.
- Assessing each individual on their ability to excel and take the Bank to new heights

4. Retirement Age and Tenure

BOARD OF DIRECTORS

- a. No age limit, as long as he/she is capable of sound decision making and business judgement;
- b. Physically and mentally fit. No major health issues and is able to attend BOD and Committee meetings as prescribed by BSP Circular 969 series of 2017.

QUALIFICATIONS OF A DIRECTOR

- a. He must have integrity/probity, physical/mental fitness; relevant education/financial literacy/training; possession of competencies such as knowledge and experience, skills, diligence and independence of mind, and sufficiency of time fully carry out responsibilities.
- b. He must have attended seminar on corporate governance for board of directors.

INDEPENDENT DIRECTORS

May only serve for a maximum cumulative term of nine (9) years as prescribed by BSP Circular 969 series of 2017.

SENIOR MANAGEMENT

Retirement Employees shall retire upon reaching the age of sixty (60) years or more but not beyond sixty-five (65) years old and having served the establishment for at least (5) years.* *Chapter 15, Article 302 of Department of Labor and Employment's, Workers' Statutory Monetary Benefits.

M. REMUNERATION POLICY

LIFE BANK A RURAL BANK REMUNERATION POLICY - BOARD AND SENIOR MANAGEMENT

The remuneration policy of the Bank is one of the key components of the HR strategy, which supports the overall business strategy. It promotes the achievement of the strategic objectives within the Bank's risk appetite.

The Bank implemented a new salary structure last October 2017. It shall be reviewed every two (2) years to ensure that it is competitive within the industry, helps build a culture of high performance, and can attract, retain, motivate and reward high performing employees.

For Board members, the compensation is by way of Honorarium given during its monthly Board meetings. The monthly honorarium to Board members is reviewed annually by the stockholders during the Annual Stockholders' meeting. Any increase will depend on the financial performance and condition of the Bank during the previous year. The increase in honorarium is not automatic and requires an improvement in the Bank's financial condition. The President/CEO recommends to the stockholders any increase in honorarium of Board members.

The President/CEO is appointed by the Board of Directors. The remuneration for this position is determined and decided upon by the Board. Any increase in salary of the President/CEO is anchored primarily on the achievement of strategic initiatives and the financial condition of the Bank. The salary is reviewed together with the general salary review every three (3) years. Any positive adjustment is taken up during a Board meeting and approved by the Board.

For other Senior Management positions, the remuneration follows the recommendation of the Human Development Department (HDD) after the general salary review. Any new salary structure which is recommended by HDD needs to be reviewed and approved by the Board of Directors.

N. RELATED PARTY TRANSACTIONS (RPTs)

In accordance with the regulations, policies and guidelines on Corporate Governance issued by Bangko Sentral ng Pilipinas (BSP), the Securities and Exchange Commission (SEC) and other regulatory bodies, LBRB recognizes the need to strengthen its policy on related party transactions (RPT) and other similar situations so as to prevent or mitigate abusive transactions with related parties and avoid risks of conflict of interest.

This is also in consonance with LBRB's adherence to the highest principles of good governance as the bank subscribes to the philosophy of integrity, accountability and transparency in doing business.

Similarly, Philippine Accounting Standard (PAS) 24 Related Party Disclosures provides that an entity should disclose information about the transactions and outstanding balances necessary for an understanding of the potential effect of the relationship on the financial statements.

The Bank considers the following factors to the extent relevant to the Related Party Transaction.

- (a) The identities of the parties involved in the transaction or relationship;
- (b) The terms of the transactions are fair and on arm's length basis to the Bank;
- (c) The impact on the Director's or Officer's independence;
- (d) Whether the RPT would present an improper conflict of interest for any Director, Stockholder or Officer of the Bank; and
- (e) Material RPTs will be reported to regulatory agencies as required and shall be ratified and approved by authorized signatories of the Bank.

REVIEW AND APPROVAL OF RPTs

- a. All credit and non-credit RPTs go through the normal approval process of the Bank given the delegated discretion after due consideration to existing DOSRI and Single Borrower's limits.
- b. Upon approval, all Php1,000,000.00 and above RPT including transactions falling under the Ordinary Course of Business with deviation are referred to the Board. The Board reviews, ratifies, and approves these RPTs

- c. The Board will consider the following factors to the extent relevant to the RPT in conducting an evaluation:
 - (i) the identities of the parties involved in the transaction or relationship;
 - (ii) the terms of the transactions are fair and on arm's length basis to the Bank;
 - (iii) the impact on the Director's or Officer's independence; and
 - (iv) whether the RPT would present an improper conflict of interest for any Director, Officer or Stockholder of the Bank.
- d. For a transaction involving a sale of bank assets, the Board shall review the following:
 - (i) results of the appraisal, valuation methodology used as well as alternative approaches to valuation:
 - (ii) description of the asset including date acquired and costs basis;
 - (iii) information concerning potential counterparties in the transactions:
 - (iv) approximated value of the transaction and the approximated value of the related party's interest in the transaction;
 - (v) description of provisions or limitations imposed as a result of entering into proposed transaction;
 - (vi) whether the proposed transaction includes any potential reputational risk issues that may arise as a result of or in connection with the proposed transaction;
 - (vii) purpose of transaction; and
 - (viii) potential benefits to the Bank.
- e. The Board approves and confirms all RPTs.

- f. Any member of the Board who has interest in the transaction must abstain from participation in the review and approval of any RPT.
- g. If an actual or potential conflict of interest arises on the part of a director, officer or stockholder, he is mandated to fully and immediately disclose the same and should not participate in the decision-making process relating to the transaction. Any member of the Board who has an interest in the transaction under discussion shall not participate therein and shall abstain from voting on the approval of the transaction.
- h. Transactions entered into with an unrelated party that subsequently becomes a related party shall not be covered by this policy requirement unless alteration to the terms and conditions, or increase in exposure level, related to these transactions after the non-related party becomes a related party has been made.
- i. Breaches in limits shall be reported to the Board with the decision of the Board to accept the exposure or to take steps to address the breaches, as may be necessary, duly documented in the minutes of meeting.

O. SELF-ASSESSMENT FUNCTION

Compliance Department

Role and Mandate

Compliance Department oversees the implementation of the LBRB's Compliance Management System which is designed to identify and mitigate risks which may erode the franchise value of the Bank such as risks of regulatory sanctions, material financial loss or loss to reputation the Bank may suffer as a result of its failure to comply with laws, rules, related self-regulatory organization standards, and codes of conduct applicable to its activities. Said risk may also arise from failure to manage conflict of interest, treat customers fairly, or effectively manage risks arising from money laundering and terrorist financial activities.

The Compliance Department performs the compliance function which is an independent function that defines, advises on, monitors and reports on the Bank's compliance risks. It shall facilitate effective management of compliance risk by: (a) advising the Board and Senior Management on relevant laws, rules and standards, including keeping them informed on developments in the area; (b) apprising the Bank's personnel on compliance issues, and acting as contact point with the Bank for compliance queries from its personnel; (c) establishing written guidance to staff on the appropriate implementation of laws, rules and standards through policies and procedures and other documents such as compliance manuals, code of conduct and practice guidelines, (d) identifying, documenting and assessing the compliance risks associated with the Bank's business activities, including new products and business units; (e) assessing the appropriateness of the Bank's compliance procedures and guidelines, promptly following up any identified deficiencies, and where necessary, formulating proposals for amendments; (f) monitoring and testing compliance by performing sufficient and representative compliance testing; and (g) maintaining a constructive working relationship with the BSP and other regulatory agencies.

The compliance function shall focus on identifying and mitigating risks (e.g., legal or regulatory sanctions, material financial loss, or loss to reputation) that may erode the franchise value of the Bank as a result of its failure to comply with laws, rules, related self-regulatory organization standards, and code of conduct, or inability to manage conflict of interest, treat customers fairly and money laundering and terrorist financing activities.

Moreover, Compliance Department is also responsible for the management of LBRB's Money Laundering and Terrorist Financing Prevention Program (MTPP) and oversight of its implementation and conduct of AML Compliance Checking for Bank proper, independent from that performed by Internal Audit. The MTPP is geared toward the promotion of high ethical and professional standards and prevention of the Bank being used, intentionally or unintentionally, for money laundering and terrorism financing activities. It is designed according to the Bank's corporate structure and risk profile and include written internal policies, controls and procedures to implement the relevant laws, rules, regulations and best practices to enable the Bank to manage and mitigate the risks that have been identified in its risk assessment, including taking enhanced measures for those classified as posing higher risks. The policies contained herein apply to all Bank personnel and its Business Units involved with all the transactions of the Bank, whether financial or non-financial. Heads of BUs ensures that all the business conducts and processes of their respective offices are in accordance with this policy. This MTPP is consistent with the Anti-Money Laundering Act, as amended, its respective Revised Implementing Rules and Regulations and other Anti-Money Laundering Council and Bangko Sentral ng Pilipinas issuances thus, are regularly updated at least once every two (2) years to incorporate changes.

Authority

The compliance function shall have a formal status a formal status within the organization. It shall be established by a charter or other formal document approved by the board of directors that defines the compliance function's standing, authority and independence. It shall have the right to obtain access to information necessary to carry out its responsibilities, conduct investigations of possible breaches of the compliance policy, and shall directly report to and have direct access to the board of directors through the board-level Audit Committee.

Reporting Process

The Compliance Department reports functionally to the Audit Committee and provides periodic reports concerning the Bank's state of compliance with rules and regulations of BSP and other regulatory bodies.

Internal Audit Department

Function

The Internal Audit Department (IAD) is an independent unit reporting functionally to the Audit Committee and administratively to the President. The IAD performs internal audit function which is an independent, objective, assurance and consulting function established to examine, evaluate and improve the effectiveness of internal control, risk management and governance systems and processes of LBRB, which helps management and the board of directors in protecting the Bank and its reputation.

The internal audit function shall both assess and complement operational management, risk management, compliance and other control functions. In this respect, the internal audit shall be conducted in frequencies commensurate with the assessed levels of risk in specific banking areas.

Mandate

Pursuant to Bangko Sentral regulations, LBRB have in place adequate and effective internal control framework for the conduct of its business taking into account its size, risk profile and complexity of operations. The internal control framework embody management oversight and control culture; risk recognition and assessment; control activities; information and communication; monitoring activities and correcting deficiencies.

Purpose, Authority and Responsibility

IAD, through the IAD Head, is authorized to direct a plan and program of internal control testing of LBRB policies, programs, procedures, actions, decisions, records, reports, personnel, properties, and operations as an effective tool and supply of information for internal control and review system and decision making policy. In accomplishing such function and activities, IAD shall have free and unrestricted access to all LBRB's functions, records, property, and personnel, full cooperation by the management and adequate resources to effectively discharge its function.

The Role and Scope of Internal Audit

Internal audit plays a vital role in governance and accountability. Without a strong, objective and independent assurance function, the effectiveness of the overall governance framework of the bank is severely weakened. With an effective internal audit function, there is greater confidence that the decisions being taken are informed by appropriate information on risk and control. Internal audit's systematic and disciplined approach adds value and improves the organization's operations.

The role of IAD function is to ensure that, the bank is provided with an independent assurance regarding the effectiveness of the risk management, control and governance process. The internal audit function fulfils this role by bringing a systematic, disciplined approach to assessing and improving the effectiveness of the bank's management, control and governance processes.

The scope of work of the internal audit function is to determine whether the bank's management, control and governance processes is adequate and functioning in a manner to ensure:

- 1. Risks are appropriately identified and managed;
- Financial, managerial, and operational information is accurate, reliable and timely;
- Compliance with policies, standards, procedures and applicable laws and regulation is achieved;
- Resources are acquired economically, used effectively and adequately protected;
- 5. Programs, plans and objectives are achieved;
- Quality and continuous improvement are fostered in the Department's control processes; and
- Legislative or regulatory issues affecting the Department are recognized and addressed properly.

When opportunities for improving management control, governance, or resource stewardship are identified during audits, they are communicated to the suitable level of management so that appropriate action can be taken. The internal audit function plays an important role in supporting departmental operations. It provides assurance on all the important aspects of the risk management strategy and practices, management control frameworks and practices and governance. Where control weakness exist and where the achievement of objectives is at risk, internal audit plays a role in providing constructive advice and recommendations. In this way, internal audit contributes to enhanced accountability and performance.

Reporting Process

The Audit Committee's primary purpose is to provide assistance to the LifeBank Board in fulfilling its oversight responsibilities over the Bank's reporting policies, practices and control, internal and external audit functions.

The IAD reports to the Audit Committee the results of its assurance services, special audits, and other services to ensure that Senior Management is taking necessary corrective actions in a timely manner to address any weakness, noncompliance with policies, laws and regulations, and other issues identified by auditors. The Audit Committee holds its meetings at least once a month to ensure the effectiveness and adequacy of the internal control system and that risks are properly managed. On top of the discussion and notation of the regular reports of the IAD and the Compliance Department, the Committee deliberates on various issues and concerns related to the Bank's existing internal controls, potential breaches and vulnerabilities and likewise recommends ways and measures to strengthen internal controls and manage risks. The business units that fail in the audit are also required to present to the Audit Committee the status/action taken on audit's recommendations to address internal control breaches or related plans.

P. LIFEBANK A RURAL BANK DIVIDEND POLICY

Dividends to stockholders are declared from the surplus profits arising from net income earned every fiscal year. The Board of Directors determine how much cash dividends to declare to stockholders based on the percentage increase in net income for the year compared to that of the previous year. Any planned investment or expansion of the business for the year is also considered before the final amount of cash dividends is recommended. Shareholders are either paid in cash or stock dividends on an annual basis. The Board ensures that such dividends declared is in accordance with applicable laws and guidelines set by the BSP

CONSUMER PROTECTION

The Consumer Protection Risk Management System (CPRMS) is a means by which a Bank identifies, measures, monitors, and controls consumer protection risks inherent in operations. These include both risks to the financial consumer and the Bank.

A carefully devised, implemented, and monitored CPRMS provides the foundation for ensuring the Bank's adherence to consumer protection standards of conduct and compliance with consumer protection laws, rules and regulations, thus ensuring that the Bank's consumer protection practices address and prevent identified risks to the Bank and associated risk of financial harm or loss to consumers.

ROLE OF BOARD OF DIRECTORS (BOARD) AND SENIOR MANAGEMENT IN CONSUMER ASSISTANCE MANAGEMENT SYSTEM

The Board of the Bank shall be responsible for the delivery of effective recourse to its consumers. Pursuant thereto, the Board shall:

- Approve the Consumer
- Assistance policies and procedures;
- Approve Risk Assessment Strategies relating to Effective Recourse by the Consumer;
- Ensure compliance with Consumer Assistance policies and procedures;
- Provide adequate resources devoted to Consumer Assistance; and
- Review the Consumer Assistance policies at least annually.

The Bank's Senior Management shall be responsible for the implementation of the Consumer Assistance policies and procedures.

CORPORATE STRUCTURE

The Bank has a dedicated Head Consumer Assistance Officer (HCAO) directly reporting under the Office of the President and has the following Consumer Assistance Officers (CAO) deployed in Branches and BLUs:

-Branches - The Branch Operations Officers acts as the CAO

·BLUs - The SDID Area Managers acts as the CAO.

FILING A COMPLAINT

A Customer who has a request or complaint against the Bank's personnel, policies and procedures, system or defective property may file a complaint before the Customer Assistance Officer.

The customer may file a request or complaint by accomplishing a Complaint Form to be provided by the Bank. The Customer/Requester observes the following procedures:

SIMPLE COMPLAINT

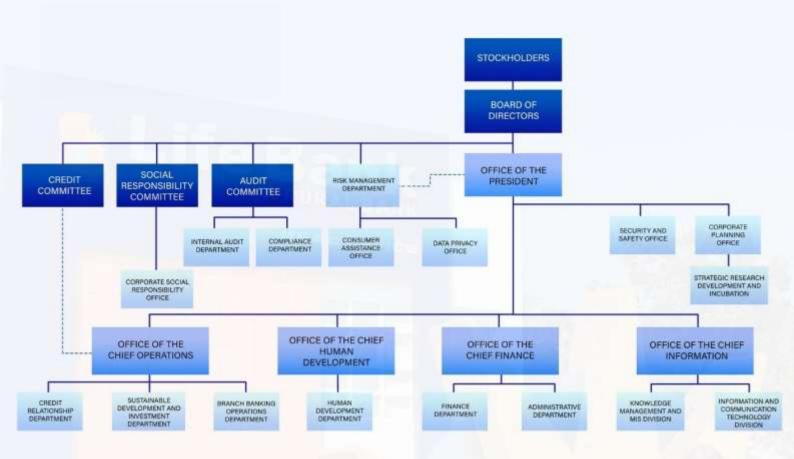
| STEP | PROCEDURE | RESPONSE TIME | PERSON INOCHARG E | FORMS |
|------|--|------------------|-------------------------|-------------------|
| 1 | Approach the Consumer Assistance Officer | 1 minute | CAO | |
| 2 | Fill up the Complaint Form | 5 minutes | CAO | Complaint Form |
| 3 | Submit the Complaint Form to the CAO | 1-5 minutes | CAO | Complaint Form |
| 4 | Investigate the complaint or request | 1-2 days | CAO | |
| 5 | Analyze the nature of complaints and propare the recommended solutions | 1-3 days | CAO | Memo |
| 6 | Approve the recommended solutions | 1-2 days | HCAO | Memo |
| 7 | Provide official reply to the Customer | 1-2 days | CAO | Letter |

COMPLEX COMPLAINT

| COM | COMPLEX COMPLAINT | | | | |
|------|---|------------------|-------------------------|-------------------|--|
| STEP | PROCEDURE | RESPONSE TIME | PERSON INOCHARG E | FORMS | |
| 1 | Approach the Consumer Assistance Officer | 1 minute | CAO | | |
| 2 | Fill up the Complaint Form | 5 minutes | CAO | Complaint Form | |
| 3 | Submit the Complaint Form to the CAO | 1-3 minutes | CAO | Complaint Form | |
| 4 | Refer the Complaint Form to the Head Consumer Assistance Officer (HCAO) | 1-2 days | CAO | Memo | |
| 5 | Investigate the complaint or request | 1-30 days | CAO | | |
| 6 | Analyse the nature of complaints and prepare the recommended solution(s) | 1-10 days | HCAO | Memo | |
| 7 | Review and Approve the recommended solution(s) | 1-5 days | President/ CEO/Board | Memo | |
| 8 | Provide official reply to the Customer | 1-2 days | CAO | Letter | |

CORPORATE INFORMATION

A. ORGANIZATIONAL STRUCTURE

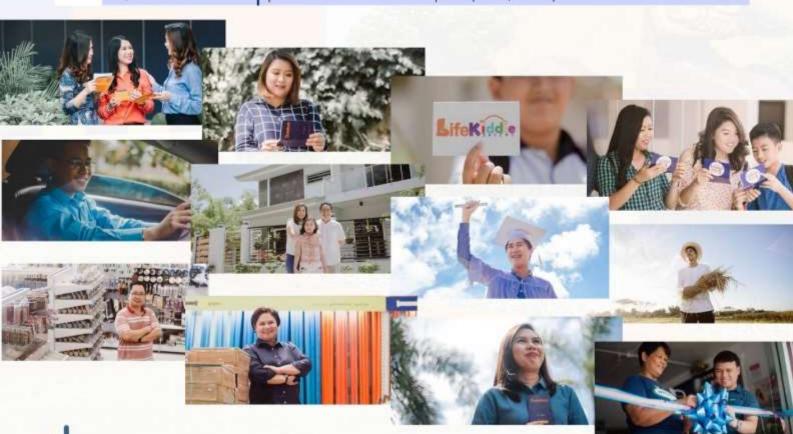


B. MAJOR STOCKHOLDERS OF THE BANK

| | Name of Director | Nationality | Number of shares | % of Stockholdings | Voting Status |
|----|-----------------------------|-------------|------------------|--------------------|---------------|
| 1 | Blue Fields Enterprises | Filipino | 19,373 | 13.92 | Voting |
| 2 | Joseph A. Perlas | Filipino | 14,863 | 10.68 | Voting |
| 3 | Vicente P. Perlas | Filipino | 14,847 | 10.67 | Voting |
| 4 | Rosario B. Perlas | Filipino | 9,466 | 6.80 | Voting |
| 5 | Bernardita J. Perlas | Filipino | 9,089 | 6.53 | Voting |
| 6 | Hermie R. Barbasa | Filipino | 9,067 | 6.52 | Voting |
| 7 | Jose P. Perlas | Filipino | 8,356 | 6.0 | Voting |
| 8 | Miguel Antonio O. Perlas | Filipino | 5,576 | 4.01 | Voting |
| 9 | Carlo K. Perlas | Filipino | 3,633 | 2.61 | Voting |
| 10 | Jesus Nicanor P. Perlas III | Filipino | 3,545 | 2.55 | Voting |

C. PRODUCTS AND SERVICES OFFERED

| | Name | Description |
|----|--|--|
| 1 | LifeSaver | a conventional way of savings and easy monitoring of your account transactions through a passbook. |
| 2 | LifeSaver Plus | equivalent of time deposit but instead of a certificate, a passbook is given. Fixed term and higher interest than a regular savings. Can be withdrawn upon maturity. |
| 3 | LifeKiddie Savers | a passbook-based savings account for kids ages 7 to 12 years old with low initial deposit and maintaining balance. |
| 4 | LifeTeen Savers | a passbook-based savings deposit for teenagers ages 13 to 18 years old with low initial deposit and maintaining balance. |
| 5 | AGRILife | is offered to small farmers and fisher folks engaged in the production of crops, poultry, livestock, and fishery. |
| 6 | LifeDRIVE | is offered to qualified clients who want to acquire brand new or second hand vehicles including trucks and refinancing chattel loan from other financial institutions. |
| 7 | Motorcycle Loan | a loan for Brand new motorcycle for personal or commercial use. |
| 8 | LifeHOME | is a secured loan extended to individuals for the purpose of lot purchase, house construction, improvement and renovation. |
| 9 | LifeSECURE | is a secured loan that provides cash requirements for personal consumption to all fixed income individuals. |
| 10 | LifePAC | is a standby loan available to existing LifeSaver or Special Savings Deposit account holders that intend to bridge financial gaps for personal and other purposes. |
| 11 | LifeSMILE | is a secured loan Product for Micro-Scale, Small Scale and Medium Scale Projects. |
| 12 | Ikabuhi Microfinance Program (IMP) | IMP offers loans for entrepreneurs for start-up or additional capital with no collateral up to fifty thousand pesos (P 50,000.00). Fast and easy loan processing with affordable interest rates. |
| 13 | Ikabuhi Entrepreneurial Program (IEP) | IEP offers loans to all qualified entrepreneurs for additional capital with no collateral up to three hundred thousand pesos (P 300,000.00). |



https://lifebankrb.com.ph D. BANK WEBSITE

E. BANK DIRECTORY

HEAD OFFICE

LIFEBANK BUILDING

Brgy. Duyan-duyan, Santa Barbara, Iloilo 5002 Tel: (033) 332-1436 and (033) 523-4506

BRANCHES

MAASIN

14 Taft St., Maasin, Iloilo 5030 Tel: (033) 333-1439

ILOILO CITY

Brgy, Maria Clara, Iznart Extension, Iloilo City 5000 Tel: (033) 336-0924, (033) 336-0426 and (033) 503-3193

ROXAS CITY

KM2 Lawaan, Roxas City, Capiz 5800 Tel: (036) 320-0077 and (036) 522-1097

BRANCH-LITE UNITS

PROVINCE OF LOLO

BAROTAC NUEVO

Mabini Corner Zamora St., flaud Pob., Barotac Nuevo, Ilaila 5007 Tel: (055) 525-0575

MIAG-AD

Nico St., Brgy. Ubos Hawod, Miag-ao, Iloilo Tel: (055) 5327-0575

PASSI CITY

Commonwealth St., Passi City, Ilolio 5037 Tel: (053) 536-7994

Tady St., Sara, Ilialio 5014 Tel: (055) 551-9505

BALASAN

Brgy, Camombugan, Balasan, Iloilo 5018 Tel: (035) 533-9505

blacion North, Oton, Iloila Tel: (055) 510-8501

Guance St., Pototan, Iloilo 5008 Tel: (055) 529-0052

BAROTAC VIE/O

Tupaz St., Barotac Viejo, Iloila

CAMPAINAGE.

No.6 Lobertza Street, Poblacion flawad, Lambunao, floilo

CALINOG

Brgy Poblacion Rizal Hawad, Calinog, Ilailo

SAN MIGUEL

RV Sanchez St., San Miguel, Iloilo

MARKAY

Brgy, San Julian, Janiuoy, Iloilo

ESTANCIA

Samonte St., Villa Paterna Subdivision, Estancia, fiolio

National Road, Guihaman, Legares, Iloilo

Purak 1, San Joaquin, Ilaila

BANATE

Brgy. Alacaygan, Banate, fioila

5th Avenue, Brgy. Jardin, Dumangas, Iloilo

Cabaluna St., Pablacion, Lean, Iloila Tel: (055) 530-1597

PROVINCE OF CAPIZ

MAMELESACI

Sta, Catalina St., Pob. Proper, Mambusaa, Capiz

CLIARRIERO

Brgy, Poblacion Takas, Cuartera, Capiz

PONTEVEDRA

Abucayan Rizal, Pontevedra, Capiz

PANT-AN

Poblacion llawod, Panit-an, Capiz

Poblacion Norte, Ivisan, Capiz

PRESIDENT ROKAS

Maraczy St. Pablacion, President Roxas, Copiz

PROVINCE OF AILAN

Abiera Rd. Roxas Ave. Ext., Andagao. Kaliba, Aklan Tel: (036) 500-7198

CATICIAN

Villar Commercial Complex Caticlan Malay, Aklan

ALTAVAS

Gregorio Bldg, Bonifacio St., Poblacian, Altavas, Aklar

MULINACI

Alfanso St., Malinao, Aklan

Dr. Jose C. Miraflores St., Ibajay, Aklan

Linabuan Sur, Banga, Aklan

NUMANCIA

Laguinbanwa East, Numancia, Aklan

PROVINCE OF ANTIQUE

SAN JOSE

Bagumbayan, San Jase, Antique

CLAST

Cadiao St., Poblacion, culasi, Antique

BUGASONG

Mascoso St., Brgy. Ilaya, Bugasang, Antique

Rodillon Building, Brgy, Dionela,

Pandan, Antique

TOBIAS FORMER

Rizal St., Brgy. Poblacion Sur, Tobias Fornier, Antique

EADA: AN

AKLAN

ANTIQUE

Poblacian, Laua-an, Antique

PROVINCE OF GUIMARIAS

JORDAN

Brgy, San Miguel, Jordan, Guimaras

Purak 4 New Poblacion,

Población, Nueva Valencia, Guimaras



Buenavista, Guimaras

NUEVA VALENCIA



HMARAS





R.G. Manabat & Co.
The KPMG Center, 6/F
6787 Ayala Avenue, Makati City
Philippines 1209
Telephone +63 (2) 8885 7000
Fax +63 (2) 8894 1985
Internet www.home.kpmg/ph
Email ph-inquiry@kpmg.com

REPORT OF INDEPENDENT AUDITORS
TO ACCOMPANY FINANCIAL STATEMENTS FOR FILING
WITH THE BUREAU OF INTERNAL REVENUE

The Board of Directors and Stockholders LifeBank - A Rural Bank Bypass Road, Brgy. Duyan-Duyan Sta. Barbara, Iloilo

We have audited the accompanying financial statements of LifeBank - A Rural Bank (the Bank) as at and for the year ended December 31, 2021, on which we have rendered our report dated April 28, 2022.

In compliance with Revenue Regulations V-20, we are stating that no partner of our Firm is related by consanguinity or affinity to the president, managers, members of the Board of Directors or principal stockholders of the Bank.

R.G. MANABAT & CO.

Partner

CPA License No. 0092183

BSP Accreditation No. 92183-BSP, Group A, valid for five (5) years

covering the audit of 2019 to 2023 financial statements

SEC Accreditation No. 92183-SEC, Group A, valid for one (1) year

covering the audit of 2021 financial statements

Tax Identification No. 162-411-175

BIR Accreditation No. 08-001987-034-2020

Issued July 20, 2020; valid until July 19, 2023

PTR No. MKT 8854069

Issued January 3, 2022 at Makati City

April 28, 2022

Makati City, Metro Manila

Firm Regulatory Registration & Accreditation:
PRC-BOA Registration No. 0003, valid until November 21, 2023
SEC Accreditation No. 0003-SEC, Group A, valid for five (5) years covering the audit of 2020 to 2024
linencial statements (2019 financial statements are covered by SEC Accreditation No. 0004-FR-5)
IC Accreditation No. 0003-IC, Group A, valid for five (5) years covering the audit of 2020 to 2024
financial statements (2019 financial statements are covered by IC Circular Letter (CL) No. 2019-39, Transition clause)
BSP Accreditation No. 0003-BSP, Group A, valid for five (5) years covering the audit of 2020 to 2024
financial statements (2019 financial statements are covered by BSP Monetary Board Resolution No. 2161, Transition clause)



R.G. Manabat & Co. The KPMG Center, 6/F 6787 Ayala Avenue, Makati City Philippines 1209 Telephone +63 (2) 8885 7000 Fax +63 (2) 8894 1985 Internet www.home.kpmg/ph Email ph-inquiry@kpmg.com

REPORT OF INDEPENDENT AUDITORS

LifeBank - A Rural Bank The Board of Directors and Stockholders

Bypass Road, Brgy. Duyan-Duyan Sta. Barbara, Iloilo

Report on the Audit of the Financial Statements Opinion

We have audited the financial statements of LifeBank - A Rural Bank (the Bank), which comprise the statements of financial position as at December 31, 2021 and 2020, and the statements of profit or loss and other comprehensive income (loss), changes in equity and cash flows for the years then ended, and notes, comprising significant accounting policies and other explanatory information.

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

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

Firm Regulatory Registration & Accreditation: PRC-BOA Registration No. 0003, valid until November 21, 2023
SEC Accreditation No. 0003-SEC, Group A, valid for five (5) years covering the audit of 2020 to 2024
linancial statements (2019 financial statements are covered by SEC Accreditation No. 0004-FR-5)
IC Accreditation No. 0003-IC, Group A, valid for five (5) years covering the audit of 2020 to 2024
financial statements (2019 financial statements are covered by IC Circular Letter (CL) No. 2019-39, Transition clause) BSP Accreditation No. 0003-BSP, Group A, valid for five (5) years covering the audit of 2020 to 2024 financial statements (2019 financial statements are covered by BSP Monetary Board Resolution No. 2161, Transition clause)



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

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

Identify and assess the risks of material misstatement of the financial statements,

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

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

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

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

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

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

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

Report on the Supplementary Information Required under Bangko Sentral ng Pilipinas Circular No. 1074 and Bureau of Internal Revenue Revenue Regulations No. 15-2010

Our audit was conducted for the purpose of forming an opinion on the Bank's financial statements taken as a whole. The supplementary information required under Bangko Sentral ng Pilipinas (BSP) Circular No. 1074 in Note 31 and Bureau of Internal Revenue (BIR) Revenue Regulations 15-2010 in Note 32 to the Bank's financial statements is presented for purposes of filing with the BSP and the BIR, respectively, and is not a required part of the Bank's financial statements. Such information is the responsibility of the Bank's management. The supplementary information has been subjected to the auditing procedures applied in our audit of the Bank's financial statements. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the Bank's financial statements taken as a whole.

R.G. MANABAT & CO.

Partner

CPA License No. 0092183

BSP Accreditation No. 92183-BSP, Group A, valid for five (5) years covering the audit of 2019 to 2023 financial statements

SEC Accreditation No. 92183-SEC, Group A, valid for one (1) year

covering the audit of 2021 financial statements

Tax Identification No. 162-411-175

BIR Accreditation No. 08-001987-034-2020

Issued July 20, 2020; valid until July 19, 2023

PTR No. MKT 8854069

Issued January 3, 2022 at Makati City

April 28, 2022

Makati City, Metro Manila

LIFEBANK - A RURAL BANK

FINANCIAL STATEMENTS December 31, 2021 and 2020

With Independent Auditors' Report

LIFEBANK - A RURAL BANK STATEMENTS OF FINANCIAL POSITION

December 31

| | Note | 2021 | 2020 | |
|--------------------------------------|--------|----------------|--------------|--|
| ASSETS | | | | |
| Cash and other cash items | 4, 25 | P14,743,134 | P17,521,158 | |
| Due from Bangko Sentral ng Pilipinas | 5, 25 | 16,688,796 | 17,207,826 | |
| Due from other banks | 6, 25 | 424,071,081 | 378,347,994 | |
| Loans to customers - net | 7, 25 | 350,067,378 | 371,705,463 | |
| Debt securities at amortized cost | 8, 25 | 118,828,135 | 112,980,191 | |
| Property and equipment - net | 9 | 49,459,183 | 52,355,929 | |
| Investment properties - net | 10 | 8,194,190 | 7,294,190 | |
| Right-of-use assets - net | 17 | 1,571,896 | 1,537,393 | |
| Deferred tax assets - net | 24 | 24,444,029 | 27,187,497 | |
| Other assets - net | 11, 25 | 10,822,203 | 11,015,333 | |
| Total Assets | 1 | P1,018,890,025 | P997,152,974 | |

LIABILITIES AND EQUITY

| | | P1,018,890,025 | P997,152,974 |
|---------------------------------|--------|----------------|--------------|
| Total Equity | | 286,651,685 | 286,143,160 |
| Employee benefits reserve | | 188,879 | (2,655,530) |
| Appropriated | | 135,370,187 | 132,915,843 |
| Unappropriated | | 137,177,119 | 141,967,347 |
| Retained earnings | 16 | | |
| Equity Capital stock | 15 | 13,915,500 | 13,915,500 |
| Total Liabilities | | 732,238,340 | 711,009,814 |
| Other liabilities | 14, 25 | 18,940,432 | 16,608,023 |
| Retirement liability | 22 | 13,878,936 | 15,828,512 |
| Lease liabilities | 17, 25 | 1,641,580 | 1,587,510 |
| Income tax payable | | 1,653,851 | 603,285 |
| Accounts payable | 13, 25 | 49,009,014 | 49,199,829 |
| Liabilities Deposit liabilities | 12, 25 | P647,114,527 | P627,182,655 |

See Notes to the Financial Statements.

LIFEBANK - A RURAL BANK

STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME (LOSS)

| Vann | E-d-d | Danamhar | 24 |
|-------|-------|----------|----|
| rears | Engeg | December | 31 |

| | | Years Ended December 31 | |
|---|--------|-------------------------|--------------|
| | Note | 2021 | 2020 |
| INTEREST INCOME | | | |
| Loans to customers | 7 | P233,660,165 | P192,180,451 |
| Debt securities at amortized cost | 8 | 3,110,612 | 4,806,507 |
| Due from other banks | 6 | 651,574 | 1,636,826 |
| | | 237,422,351 | 198,623,784 |
| INTEREST EXPENSE | | | |
| Deposit liabilities | 12 | 13,886,706 | 17,298,299 |
| Lease liabilities | 17 | 123,704 | 210,798 |
| | | 14,010,410 | 17,509,097 |
| NET INTEREST INCOME | | 223,411,941 | 181,114,687 |
| OTHER INCOME | | | |
| Service charges | | 1,263,334 | 1,432,707 |
| Fees and commissions | | 1,199,560 | 1,127,734 |
| Income from penalties | | 509,913 | 457,649 |
| Identification card lamination | | 188,941 | 130,202 |
| Membership fee | | 172,920 | 75,680 |
| Recovery of previously written off accounts | 7 | 151,368 | 106,556 |
| Passbook and checkbook sale | | 125,060 | 291,544 |
| Gain on sale of property and equipment | 9 | 1,000 | |
| Gain on rent concessions | 17 | | 344,973 |
| 0.0000000000000000000000000000000000000 | | 3,612,096 | 3,967,045 |
| OTHER EXPENSES | | | |
| Compensation and other benefits | 18, 22 | 110,355,406 | 113,327,206 |
| Travel and transportation | 19 | 24,254,591 | 19,469,504 |
| Impairment losses | 25 | 19,468,208 | 32,491,406 |
| Taxes and licenses | 20 | 16,558,377 | 12,123,122 |
| Information technology | 21 | 10,012,806 | 2,567,031 |
| Depreciation | 9, 17 | 6,780,369 | 12,212,309 |
| Rent | 17 | 6,636,722 | 3,577,058 |
| Communication, light, and water | | 6,433,442 | 5,136,031 |
| Stationery and supplies | | 4,463,368 | 3,466,162 |
| Repairs and maintenance | | 3,216,864 | 2,042,830 |
| Fuel and oil | | 2,519,085 | 1,820,851 |
| Insurance | | 2,271,395 | 2,402,737 |
| Security and janitorial services | | 1,868,850 | 2,250,855 |
| Professional fees | | 584,652 | 534,681 |
| Representation and entertainment | | 335,179 | 488,884 |
| Supervision fees | | 148,160 | 159,482 |
| Legal | | 2,034 | 64,185 |
| Miscellaneous | | 8,420,987 | 4,428,709 |
| | | 224,330,495 | 218,563,043 |

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| A THE RESIDENCE OF THE PARTY OF | The second secon | THE RESIDENCE OF THE PARTY OF T |
|--|--|--|
| Vanne | Endad | December 31 |
| TRACE | E HORE | DECEMBER 31 |

| | | Tours Ended December of | |
|---|------|-------------------------|---------------|
| | Note | 2021 | 2020 |
| INCOME (LOSS) BEFORE INCOME TAX EXPENSE (BENEFIT) | | P2,693,542 | (P33,481,311) |
| INCOME TAX EXPENSE (BENEFIT) | 24 | 5,029,426 | (11,180,030) |
| NET LOSS | | (2,335,884) | (22,301,281) |
| OTHER COMPREHENSIVE INCOME (LOSS) | | | |
| Items that will not be reclassified to profit or loss | | | |
| Remeasurement gain (loss) on retirement liability | 22 | 3,792,546 | (1,474,251 |
| Deferred tax effect | 24 | (948,137) | 442,275 |
| | | 2,844,409 | (1,031,976) |
| TOTAL COMPREHENSIVE INCOME (LOSS) | | P508,525 | (P23,333,257 |

See Notes to the Financial Statements.

LIFEBANK - A RURAL BANK STATEMENTS OF CHANGES IN EQUITY

| | Capital Stock | Retained Earnin | tetained Earnings (Note 16) | | |
|---|---------------|-----------------|-----------------------------|--------------|--------------------------|
| | (Note 15) | Unappropriated | Appropriated | Reserve | Total Equity |
| Balance at January 1, 2021 | P13,915,500 | P141,967,347 | P132,915,843 | (P2,655,530) | P286,143,160 |
| Total Comprehensive Income Net loss for the year Other comprehensive income | | (2,335,884) | : | 2,844,409 | (2,335,884) 2,844,409 |
| | * | (2,335,884) | 200 | 2,844,409 | 508,525 |
| Appropriation for the year | | (2,454,344) | 2,454,344 | | |
| Balance at December 31, 2021 | P13,915,500 | P137,177,119 | P135,370,187 | P188,879 | P286,651,685 |
| Balance at January 1, 2020 | P13,915,500 | P129,230,941 | P173,520,000 | (P1,623,554) | P315,042,887 |
| Total Comprehensive Loss Net loss for the year Other comprehensive loss | : | (22,301,281) | : | (1,031,976) | (22,301,281) |
| | (6) | (22,301,281) | 1985 | (1,031,976) | (23,333,257) |
| Appropriation for the year | 167 | (132,915,843) | 132,915,843 | | - 2 |
| Reversal of appropriation | | 173,520,000 | (173,520,000) | | |
| Transactions with Owners of the Bank Declaration of cash dividends | | (5,566,470) | | | (5,566,470) |
| Balance at December 31, 2020 | P13,915,500 | P141,967,347 | P132,915,843 | (P2,655,530) | P286,143,160 |

See Notes to the Financial Statements.

LIFEBANK - A RURAL BANK STATEMENTS OF CASH FLOWS

| M | | D |
|-------|-------|-------------|
| rears | Ended | December 31 |

| | | Years Ended December 31 | | |
|--|---------|-------------------------|------------------|--|
| | Note | 2021 | 2020 | |
| CASH FLOWS FROM OPERATING | | | | |
| ACTIVITIES | | | | |
| Income (loss) before income tax expense | | | | |
| (benefit) | | P2,693,542 | (P33,481,311) | |
| Adjustments for: | | 200 00 | 5 6 8 6 | |
| Impairment losses | 25 | 19,468,208 | 32,491,406 | |
| Interest expense | 12, 17 | 14,010,410 | 17,509,097 | |
| Depreciation | 9, 17 | 6,780,369 | 12,212,309 | |
| Retirement costs | 18, 22 | 3,739,893 | 1,507,974 | |
| Gain on rent concessions | 17 | - | (344,973) | |
| Gain on sale of property and equipment | 9 | (1,000) | | |
| Interest income | 6, 7, 8 | (237,422,351) | (198,623,784) | |
| STATE OF THE PARTY | | (190,730,929) | (168,729,282) | |
| Changes in: | | | **************** | |
| Loans to customers | | 2,169,877 | 83,284,385 | |
| Other assets | | 239,066 | 1,752,962 | |
| Deposit liabilities | | 19,931,873 | 21,020,892 | |
| Accounts payable | | (190,815) | (8,006,639) | |
| Other liabilities | | 1,839,942 | (10,619,885) | |
| | | (166,740,986) | (81,297,567) | |
| Interest received | | 237,741,689 | 199,310,667 | |
| Income taxes paid | | (1,580,244) | (12,747,056) | |
| Benefits paid | 22 | (1,896,923) | (1,060,867) | |
| Interest paid | | (14,191,619) | (17,610,016) | |
| Net cash provided by operating activities | | 53,331,917 | 86,595,161 | |
| CASH FLOWS FROM INVESTING | | | | |
| ACTIVITIES | | | | |
| Proceeds from redemption of debt securities at | | 04 700 0 | 40 400 470 | |
| amortized cost | | 21,733,355 | 19,169,178 | |
| Changes in security deposits | | (247,124) | (49,615) | |
| Acquisitions of: | | /0.00E.000 | 10 515 000 | |
| Property and equipment | 9 | (2,995,663) | (2,515,990 | |
| Debt securities at amortized cost | | (27,581,299) | (28,930,325) | |
| Net cash used in investing activities | | (9,090,731) | (12,326,752) | |
| | | | | |

Forward

| W | W-4-4 | D | ľ |
|-------|-------|-------------|---|
| Tears | Ended | December 31 | ı |

| | | Tours Elles | d December of |
|---|-------|--------------|---------------|
| | Note | 2021 | 2020 |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| Payment of lease liabilities | 17 | (P1,787,393) | (P3,809,037 |
| Cash dividends paid | 16 | (27,760) | (4,722,180 |
| Total cash used in financing activities | | (1,815,153) | (8,531,217 |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | | 42,426,033 | 65,737,192 |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR | | | |
| Cash and other cash items | | 17,521,158 | 12,139,398 |
| Due from Bangko Sentral ng Pilipinas | | 17,207,826 | 17,367,308 |
| Due from other banks | | 378,347,994 | 317,833,080 |
| | | 413,076,978 | 347,339,786 |
| CASH AND CASH EQUIVALENTS AT END OF YEAR | | | |
| Cash and other cash items | 4, 25 | 14,743,134 | 17,521,158 |
| Due from Bangko Sentral ng Pilipinas | 5, 25 | 16,688,796 | 17,207,826 |
| Due from other banks | 6, 25 | 424,071,081 | 378,347,994 |
| | | P455,503,011 | P413,076,978 |

See Notes to the Financial Statements.

LIFEBANK - A RURAL BANK

NOTES TO THE FINANCIAL STATEMENTS

1. Reporting Entity

LifeBank - A Rural Bank (the Bank) was registered with Philippine Securities and Exchange Commission (SEC) on March 10, 1970 principally to carry and engage in the business of extending rural credit to small farmers and tenants and to deserving rural industries or enterprises, to have and exercise all authority and powers, to do and perform all acts, and to transact all business which may legally be done by rural banks organized under and in accordance with the Rural Banks' Act, as it exists or may be amended; and to do all other things incident thereto and necessary proper in connection with the said purpose within such territory, as may be determined by the Monetary Board of the Bangko Sentral ng Pilipinas (BSP).

The Bank is majority owned by Joseph Perlas, Vicente Perlas and Bernardita Perlas.

The registered address of the Bank's head office is at Bypass Road, Brgy. Duyan-Duyan, Sta. Barbara, Iloilo and its three (3) other branches are located at Roxas City, Iloilo City, and Maasin, Iloilo.

2. Basis of Preparation

Basis of Accounting

These financial statements have been prepared in accordance with Philippine Financial Reporting Standards (PFRSs). They were authorized for issue by the Bank's board of directors (BOD) on April 27, 2022.

The details of the Bank's significant accounting policies are included in Note 30.

Basis of Measurement

These financial statements have been prepared on the historical cost basis of accounting except for retirement liability which is measured at the present value of the defined benefit obligation (DBO).

Presentation of Financial Statements

The Bank presents their statement of financial position broadly in order of liquidity.

Functional and Presentation Currency

These financial statements are presented in Philippine peso (Php), which is the Bank's functional currency. All amounts have been rounded to the nearest Php, unless otherwise indicated.

3. Use of Judgments and Estimates

In preparing these financial statements, management has made judgments, estimates and assumptions that affect the application of the Bank's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognized prospectively.

Judgments

Information about judgments made in applying accounting policies that have the most significant effects on the amounts recognized in the financial statements is as follows:

Determining the Lease Term for Lease Contracts with Renewal and Termination Options - The Bank as a Lessee

The Bank determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Bank has several lease contracts that include extension and termination options. The Bank applies judgment in evaluating whether it is reasonably certain whether or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination. After the commencement date, the Bank reassesses the lease term if there is a significant event or change in circumstances that is within its control that affects its ability to exercise or not to exercise the option to renew or to terminate (e.g., construction of significant leasehold improvements or significant customization of the leased asset).

Assets Held-for-Sale versus Owner-occupied Properties versus Investment Properties

The Bank determines whether a property qualifies as an investment property based on whether the property generated cash flows largely independent from other assets held by the Bank. Owner-occupied property generates cash flows that are attributable not only to the property but also to other assets used for administrative purposes.

Properties held for uncertain future purposes are classified as investment properties.

A property qualifies as an asset held-for-sale when the management is committed to a plan to sell, when asset is available for immediate sale, when there is an active program to locate a buyer is initiated and the sale is highly probable within twelve (12) months.

Assumptions and Estimation Uncertainties

Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment to the carrying amounts of assets and liabilities in the next financial year is as follows:

Estimating Incremental Borrowing Rate

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

Provision for Expected Credit Losses of Financial Assets

The measurement of impairment losses under PFRS 9, Financial Instruments, across all categories of financial assets requires judgment, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances.

The Bank's expected credit loss (ECL) calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgments and estimates include:

- the Bank's internal credit grading model, which assigns the probability of defaults (PDs) to individual grades;
- the Bank's criteria for assessing if there has been a significant increase in credit risk and so allowances for financial assets should be measured on a lifetime ECL basis and the qualitative assessment;
- the segmentation of financial assets when their ECL is assessed on a collective
- development of ECL models, including the various formulas and the choice of
- determination of associations between macroeconomic scenarios and economic inputs, such as unemployment levels and collateral values, and the effect on PDs; and
- selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models.

Further details on the carrying amounts of financial assets are discussed in Notes 4, 5, 6, 7, 8 and 11.

Estimating Useful Lives of Property and Equipment and Investment Properties The Bank estimates useful lives of property and equipment and investment properties based on the period over which the assets are expected to be available for use. The estimated useful lives of property and equipment and investment properties are reviewed periodically and updated if expectations differ materially from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the property and equipment, and investment properties. However, it is possible that future results of operations could be materially affected by changes in the estimates brought about by changes in factors mentioned above. The amounts and timing of recording of expenses for any period would be affected by changes in these factors and circumstances. A reduction in the estimated useful lives of the property and equipment and investment properties would increase the recorded expenses and decrease the property and equipment and investment properties.

Further details on property and equipment and investment properties are disclosed in Notes 9 and 10, respectively.

Impairment of Nonfinancial Assets

The Bank assesses at each reporting date whether there is an indication that the carrying amount of nonfinancial assets may be impaired.

The factors that the Bank considers important which could trigger an impairment review include the following:

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

Based on management's assessment, the carrying amounts of the Bank's nonfinancial assets are not impaired as at the reporting date except for investment properties and due from employees with allowance for impairment losses amounting to P0.10 million and P0.56 million, respectively, as at December 31, 2021 and 2020 (see Notes 10 and 11).

Further details on the carrying amounts of nonfinancial assets are disclosed in Notes 9, 10, 11 and 17.

Taxes

The Bank reviews its deferred tax assets at each reporting date and reduces it to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilized. The Bank's assessment on the recognition of deferred tax assets is based on the projected taxable income in the following periods.

Further details on deferred tax assets are disclosed in Note 24.

Defined Benefit Plan

The present value of DBO depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining retirement cost include the discount rate, future salary rate increase and mortality rate. Any changes in these assumptions will impact the carrying amount of the retirement liability.

Further details on retirement liability are disclosed in Note 22.

Fair Value Measurement of Financial Instruments

If the fair value of financial instruments is not traded in an active market, the fair value is determined using valuation techniques. Where valuation techniques are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of the area that created them.

All models are certified before they are used and models are calibrated to ensure that outputs reflect actual data and comparative market prices. To the extent practical, models use only observable data, however areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect reported fair values of financial instruments.

The specific methods and assumptions used by the Bank in estimating the fair values of its financial instruments are disclosed in Note 25.

4. Cash and Other Cash Items

This account consists of:

| | Note | 2021 | 2020 |
|---------------------------|------|-------------|-------------|
| Cash on hand and in vault | | P13,794,864 | P16,617,122 |
| Checks | | 948,270 | 904,036 |
| | 25 | P14,743,134 | P17,521,158 |

Cash on hand and in vault consist primarily of funds in the form of Philippine currency notes and coins in the Bank's vault and those in the possession of tellers.

Checks pertain to cash items (other than Philippine currency notes and coins on hand) such as checks drawn on other banks after the Bank's clearing cut-off time until the close of the regular banking hours.

5. Due from Bangko Sentral ng Pilipinas

Due from BSP amounting to P16.69 million and P17.21 million as at December 31, 2021 and 2020, respectively, represents deposit with BSP to meet the reserve requirement against deposit and deposit substitute liabilities in accordance with Section 252, Composition of Reserves, of the latest Manual of Regulations for Banks (MORB) (see Note 25).

On July 27, 2020, the BSP issued Circular No. 1092, Reduction in Reserves Requirement, which approved the reduction in the required reserves against deposit and deposit substitute liabilities of banks. In 2021 and 2020, the required reserve against demand, savings, and time deposits is 2% for rural banks.

As at December 31, 2021 and 2020, the Bank is in compliance with such provision.

6. Due from Other Banks

Due from other banks amounting to P424.07 million and P378.35 million as at December 31, 2021 and 2020, respectively, represent deposits with other domestic banks (see Note 25).

All accounts under due from other banks are classified as cash and cash equivalents for cash flow purposes since they are composed of savings and time deposits that can be withdrawn anytime. Savings deposits earn interest ranging from 0.05% to 0.25% and 0.05% to 0.13% in 2021 and 2020, respectively, while time deposits earn interest of 0.50% to 0.75% and 0.10% to 0.63% in 2021 and 2020, respectively.

Interest income on due from other banks amounted to P0.65 million and P1.64 million in 2021 and 2020, respectively, and is presented under "Interest income" in the statement of profit or loss and other comprehensive income (loss).

7. Loans to Customers

Details of this account are as follows:

| | Note | 2021 | 2020 |
|------------------------------------|------|--------------|--------------|
| Microfinance | | P372,756,682 | P362,625,363 |
| Commercial | | 48,749,495 | 60,974,079 |
| Agricultural | | 2,841,758 | 2,989,315 |
| | 25 | 424,347,935 | 426,588,757 |
| Unamortized interest and discounts | | (543,882) | (614,827) |
| | | 423,804,053 | 425,973,930 |
| Allowance for impairment losses: | | | |
| Microfinance | | (61,735,772) | (45,961,368) |
| Commercial | | (10,366,079) | (7,416,207) |
| Agricultural | | (1,634,824) | (890,892) |
| | 25 | (73,736,675) | (54,268,467) |
| | 25 | P350,067,378 | P371,705,463 |

Interest income on loans to customers amounted to P233.66 million and P192.18 million in 2021 and 2020, respectively, and is presented under "Interest income" in the statement of profit or loss and other comprehensive income (loss).

Accrued interest receivable as at December 31, 2021 and 2020 amounted to P3.42 million and P3.74 million, respectively (see Note 11).

Reversal of provision for impairment loss amounted to P5.31 million as at December 31, 2021.

Recovery of previously written off accounts amounted to P0.15 million and P0.11 million as at December 31, 2021 and 2020.

8. Debt Securities at Amortized Cost

This account consists of:

| | Note | 2021 | 2020 |
|--|------|--------------|--------------|
| Land Bank of the Philippines (LBP) | | | |
| 10-year bonds | | P39,246,836 | P47,274,912 |
| Philippine retail treasury bonds (RTBs): | | | |
| China Banking Corporation | | 33,962,292 | 17,009,584 |
| Philippine National Bank | | 13,000,000 | 19,010,695 |
| Bank of the Philippine Islands | | 13,000,000 | 17,685,000 |
| EastWest Bank | | 7,619,007 | |
| Security Bank Corporation | | 7,000,000 | 7,000,000 |
| Banco De Oro Unibank, Inc. | | 5,000,000 | 5,000,000 |
| | 25 | P118,828,135 | P112,980,191 |

LBP 10-year bonds earn interest ranging from 0.75% to 1.43% and have various maturity dates from January 2022 to January 2023.

Philippine RTBs purchased from various domestic banks earn interest ranging from 1.03% to 6.25% and have various maturity dates from February 2022 to June 2027.

Interest income on debt securities at amortized cost amounted to P3.11 million and P4.81 million in 2021 and 2020, respectively, and is presented under "Interest income" in the statement of profit or loss and other comprehensive income (loss).

9. Property and Equipment

The movements in this account are as follows:

| | As at December 31, 2021 | | | | |
|------------------------------|-------------------------|-------------------------|----------------------------|---------------|--------------|
| | | | Furniture, Fixtures and | Construction- | |
| | Land | Buildings | Equipment | in-Progress | Total |
| Cost | | | | | |
| Balance at beginning of year | P26,451,398 | P35,865,069 | P44,773,125 | P11,549,834 | P118,639,426 |
| Additions | And the second | - 1.04.00 CO. 15.00 CO. | 1,389,063 | 1,606,600 | 2,995,663 |
| Disposal | | | (48,000) | | (48,000 |
| Transfer to investment | | | | | |
| property | (900,000) | | | | (900,000) |
| Balance at end of year | 25,551,398 | 35,865,069 | 46,114,188 | 13,156,434 | 120,687,089 |
| Accumulated | | | | | |
| Depreciation | | | | | |
| Balance at beginning of year | | 23,006,386 | 43,277,111 | | 66,283,497 |
| Depreciation | | 2,910,211 | 2,063,198 | | 4,973,409 |
| Disposal | | | (29,000) | | (29,000 |
| Balance at end of year | | 25,916,597 | 45,311,309 | | 71,227,906 |
| Carrying Amount | P25,551,398 | P9,948,472 | P802,879 | P13,156,434 | P49,459,183 |

| _ | As at December 31, 2020 | | | | |
|--|-------------------------|-------------------------|---|------------------------------|--------------------------------------|
| | Land | Buildings | Furniture, Fixtures and Equipment | Construction- in-Progress | Total |
| Cost Balance at beginning of year Additions Disposal | P26,451,398 | P35,865,069 | P43,476,095 1,305,630 (8,600) | P10,339,474 1,210,360 | P116,132,036 2,515,990 (8,600) |
| Balance at end of year | 26,451,398 | 35,865,069 | 44,773,125 | 11,549,834 | 118,639,426 |
| Accumulated Depreciation Balance at beginning of year Depreciation Disposal | : | 20,096,175 2,910,211 | 38,580,782 4,704,929 (8,600) | : | 58,676,957 7,615,140 (8,600) |
| Balance at end of year | (8) | 23,006,386 | 43,277,111 | | 66,283,497 |
| Carrying Amount | P26,451,398 | P12,858,683 | P1,496,014 | P11,549,834 | P52,355,929 |

Depreciation amounting to P4.97 million and P7.62 million in 2021 and 2020, respectively, is included as part of "Depreciation" in the statement of profit or loss and other comprehensive income (loss).

During 2021, the Bank transferred a parcel of land amounting to P0.90 million to investment property as per advise by the Compliance Department pursuant to Section 109, Bank Premises and Other Fixed Assets, of the MORB (see Note 10).

On May 25, 2021, the Bank sold a transportation equipment with a carrying amount of P19,000 in payment of a payable amounting to P20,000. The gain of P1,000 is presented as "Gain on sale of property and equipment" in the statements of profit or loss and other comprehensive income (loss).

The cost of fully depreciated property and equipment used by the Bank amounted to P42.97 million and P39.79 million as at December 31, 2021 and 2020, respectively.

There were no property and equipment pledged or mortgaged as security as at December 31, 2021 and 2020.

10. Investment Properties

Investment properties consist of parcels of land acquired in settlement of loans upon foreclosure. The movements in this account as at December 31 are as follows:

| 2021 | 2020 |
|------------|--|
| | |
| P7,393,950 | P7,393,950 |
| 900,000 | * |
| 8,293,950 | 7,393,950 |
| | |
| (99,760) | (99,760) |
| P8,194,190 | P7,294,190 |
| | P7,393,950 900,000 8,293,950 (99,760) |

In 2021, a parcel of land was transferred from property and equipment amounting to P0.90 million to investment properties. This pertains to a property that was foreclosed and was earmarked for future use as a new site for Iloilo City Branch. However, the management assessed that the plan for relocation will be put on hold due to the current unfavorable situation brought by the pandemic (see Note 9).

As at December 31, 2021, the fair value of investment properties cannot be determined due to the absence of active market or a recent sale transaction of similar properties within the areas where the properties are located thus, "Gain on sale of investment properties" is measured as the excess of selling price of the investment property over carrying amount at the time of sale.

11. Other Assets

This account consists of:

| | Note | 2021 | 2020 |
|-------------------------------------|-------|-------------|-------------|
| Accrued interest receivable | 7, 25 | P3,422,723 | P3,742,061 |
| Prepaid expenses | | 1,932,772 | 312,332 |
| Stationary and supplies on hand | | 1,804,247 | 1,690,374 |
| Sales contract receivable | 25 | 1,742,498 | 2,756,295 |
| Security deposits | 25 | 1,475,539 | 1,228,415 |
| Due from employees | | 1,032,389 | 1,827,824 |
| Others | 25 | 45,510 | 91,507 |
| | | 11,455,678 | 11,648,808 |
| Allowance for impairment losses on: | | | |
| Due from employees | | (563,685) | (563,685) |
| Accrued interest receivable | 25 | (69,790) | (69,790) |
| | | P10,822,203 | P11,015,333 |

Accrued interest receivable pertains to the interest earned but not yet collected in relation to the loans extended by the Bank to its borrowers (see Note 7).

Prepaid expenses pertain to payments to Asalus Corporation for the 2021 to 2022 Health Maintenance Organization New Enrollment with Intellicare for the insurance of the Bank's employees, and prepayments to real property taxes, Iloilo Electric Cooperative, Inc. deposit and Electronic Network Cash Tellers, Inc. deposit.

Stationery and supplies on hand pertain to office supplies used by the Bank for its daily operations.

Sales contract receivable pertains to investment properties acquired in settlement of loans that were subsequently sold on an installment basis whereby their titles are transferred to the buyers only upon full payment of the agreed selling price (see Note 10).

Security deposits include amounts paid as security for the faithful performance of the terms of the lease which were refundable at the end of the lease term. These are carried at amortized cost as at December 31, 2021 and 2020.

Due from employees are cash advances that are settled through expense liquidation within seven working days after return from trip or completion of a project.

12. Deposit Liabilities

This account consists of:

| | Note | 2021 | 2020 |
|--------------------------|------|--------------|--------------|
| Special savings deposits | | P337,269,739 | P316,844,407 |
| Regular savings deposits | | 309,828,243 | 310,321,703 |
| Time deposits | | 16,545 | 16,545 |
| 5 | 25 | P647,114,527 | P627,182,655 |

In 2021 and 2020, savings deposits have an annual interest rate of 0.25% while time deposits have interest rates ranging from 0.75% to 2.75%.

Interest expense on deposit liabilities amounted to P13.89 million and P17.30 million in 2021 and 2020, respectively, and is presented under "Interest expense" in the statement of profit or loss and other comprehensive income (loss).

13. Accounts Payable

Accounts payable primarily pertains to the Bank's payable to Country Bankers Life Insurance Corporation and Pioneer Life Insurance, Inc. for the insurance premiums of its borrowers.

14. Other Liabilities

This account consists of:

| | Note | 2021 | 2020 |
|--------------------------|--------|-------------|-------------|
| Accrued expenses | 25 | P11,627,787 | P9,433,069 |
| Cash dividends payable | 23, 25 | 3,284,679 | 3,312,439 |
| Statutory payables | | 2,495,313 | 2,528,789 |
| Accrued interest payable | 25 | 1,152,517 | 1,333,726 |
| Miscellaneous | 25 | 380,136 | |
| | - | P18,940,432 | P16,608,023 |

Accrued expenses consist mainly of accruals for employee benefits, repairs and maintenance, professional fees, and utilities.

Cash dividends payable are dividends that the Bank's BOD has declared to be payable to its shareholders.

Statutory payables consist of Social Security System (SSS), Philippine Health Insurance Corporation (PHIC) and Home Development Mutual Fund (HDMF) contributions of employees to different government agencies withheld by the Bank through salary deductions.

Accrued interest payable pertains to the interest incurred but not yet paid in relation to the deposits of the Bank's customers.

Miscellaneous primarily pertains to liability for the purchase of office supplies from various suppliers.

15. Capital Stock

This account consists of:

| | 2021 | | 2020 | |
|--|---------------------|-------------|---------------------|-------------|
| | Number of Stocks | Amount | Number of Stocks | Amount |
| Authorized Capital Stock P100 par value per common stock | 140,000 | P14,000,000 | 140,000 | P14,000,000 |
| Outstanding, Issued and Paid Balance at beginning and end of year | 139,155 | P13,915,500 | 139,155 | P13,915,500 |

The holders of common stocks are entitled to receive dividends as and when declared by the Bank. All common stocks carry one (1) vote per stock without restrictions.

16. Retained Earnings

Dividend Declarations

On January 7, 2020, the BOD declared 40% cash dividends equivalent to P5.57 million or P40 per stock on common stocks for stockholders on record at January 7, 2020.

On January 12, 2019, the BOD declared 34% cash dividends equivalent to P4.73 million or P34 per stock on common stocks for stockholders on record at January 21, 2019.

Total cash dividends paid as at December 31, 2021 and 2020 amounted to P0.03 million and P4.72 million, respectively.

Appropriation of Retained Earnings

The Bank has retained earnings in excess of one hundred percent (100%) of paid-in capital stock as at December 31, 2021. The SEC in its Financial Reporting Bulletin 15 reiterated the provisions of Section 42, Power to Declare Dividends, of the Revised Corporation Code which states that stock corporations are prohibited from retaining surplus profits in excess of 100% of their paid-in capital stock, except:

 when justified by definite corporate expansion projects or programs approved by the BOD; or

- when the corporation is prohibited under any loan agreement with any financial institution or creditor, whether local or foreign, from declaring dividends without its consent, and such consent has not yet been secured; or
- when it can be clearly shown that such retention is necessary under special circumstances obtaining in the corporation, such as when there is need for special reserve for probable contingencies. The foregoing provisions indicate that the retention for expansion projects must be definite and approved by the BOD.

On a meeting dated December 16, 2019, the BOD approved the appropriation of P173.52 million from the Bank's unappropriated retained earnings to finance its future corporate expansion. The following strategic initiatives are as follows:

- appropriation of P64.00 million for loan expansion to be broken down as follows:
 - Ikabuhi Microfinance Program P39.00 million
 - Regular Loan Program P25.00 million
- appropriation of P7.50 million for the purchase of a lot in San Jose, Antique for the Antique Branch operations;
- appropriation of P40 million for the construction of branch offices in Kalibo, Aklan, Iloilo City and San Jose, Antique; and
- appropriation of P62.02 million as capital reserve to buffer the effect on the Bank's capital adequacy ratio as a result of the increasing incidence of calamities.

On a meeting dated December 8, 2020, the BOD approved the reversal of 2019 appropriated retained earnings amounting to P173.52 million and approved the appropriation of P132.92 million from the Bank's unappropriated retained earnings to expand operations as a response to the impact of Coronavirus Disease 2019 (COVID-19). The following strategic initiatives are as follows:

- appropriation of P87 million for loan expansion to be broken down as follows:
 - Ikabuhi Microfinance Program P77 million
 - Regular Loan Program P10 million
- appropriation of P45.92 million as capital reserve to buffer the effect on the Bank's capital adequacy ratio as a result of the increasing incidence of pandemic, calamities and disasters.

On a meeting dated November 24, 2021, the BOD approved the extension of the strategic initiatives of the 2020 appropriated retained earnings amounting to P132.92 million through the year 2022 and the appropriation of P2.45 million from the Bank's unappropriated retained earnings as an additional capital reserve to buffer the effect of the Bank's capital adequacy as a result of the increasing incidence of pandemic, calamities and disasters.

In addition, under Section 121, Minimum Required Capital, of the latest MORB, the Bank is required to maintain a capital of P30 million and under Appendix to Section 127, Revised Risk-Based Capital Adequacy Framework for Stand-Alone Thrift Banks, Rural Banks and Cooperative Banks, of the latest MORB, the Bank is required to maintain net worth of P107.18 million which is 10% of risk-weighted assets, thus, are considered as mandatory reserves (see Note 27). Given this regulatory reserve requirement, the Bank's retention of excess retained earnings is allowed pursuant to Section 42 of the Revised Corporation Code.

17. Leases

The Bank as a Lessee

The Bank leases several office spaces for its branch and unit operations. The lease contracts cover a period of 1 to ten (10) years and renewable under certain terms and conditions as agreed by both parties.

Right-of-Use Assets

The carrying amount of right-of-use assets recognized and movements during the year are as follows:

| | 2021 | 2020 |
|------------------------------|-------------|-------------|
| Cost | | |
| Balance at beginning of year | P3,571,147 | P11,293,373 |
| Additions | 1,841,463 | 596,744 |
| Write-offs | (1,008,500) | (8,318,970) |
| Balance at end of year | 4,404,110 | 3,571,147 |
| Accumulated Depreciation | | |
| Balance at beginning of year | 2,033,754 | 5,755,555 |
| Depreciation | 1,806,960 | 4,597,169 |
| Write-offs | (1,008,500) | (8,318,970) |
| Balance at the end of year | 2,832,214 | 2,033,754 |
| Carrying Amount | P1,571,896 | P1,537,393 |

Depreciation amounting to P1.81 million and P4.60 million in 2021 and 2020, respectively, is presented as part of "Depreciation" in the statement of profit or loss and other comprehensive income (loss).

Write-offs pertain to terminated lease contracts in 2021 and 2020.

Lease Liabilities

The carrying amount of lease liabilities and the movements during the year are as follows:

| | Note | 2021 | 2020 |
|------------------------------|------|-----------------|-------------|
| Balance at beginning of year | | P1,587,510 | P5,144,776 |
| Additions | | 1,701,463 | 596,744 |
| Accretion of interest | | 123,704 | 210,798 |
| Gain on rent concessions | | C-120000 CH1000 | (344,973) |
| Payments | | (1,771,097) | (4,019,835) |
| Balance at end of year | 25 | P1,641,580 | P1,587,510 |

| | 2021 | 2020 |
|------------|------------|------------|
| Current | P649,067 | P693,025 |
| Noncurrent | 992,513 | 894,485 |
| | P1,641,580 | P1,587,510 |

In 2020, the Bank negotiated rent concessions with its landlords for the majority of its office space leases as a result of the severe impact of COVID-19 pandemic during the year. The Bank applied the practical expedient for COVID-19-related rent concessions consistently to eligible rent concessions relating to its office space leases.

The gain recognized in the statement of profit or loss and other comprehensive income (loss) for the reporting period to reflect changes in lease payments arising from rent concessions to which the Bank has applied the practical expedient for COVID-19-related rent concession is P0.34 million in 2020.

For the years ended December 31, 2021 and 2021, the amount recognized in the statement of profit or loss and total comprehensive income (loss) for leases under PFRS 16, is as follows:

| | 2021 | 2020 | |
|-----------------------------|----------|----------|--|
| Interest on lease liability | P123,704 | P210,798 | |

Further, the amount recognized in statement of cash flows is as follows:

| | 2021 | 2020 |
|-------------------------------|------------|------------|
| Total cash outflow for leases | P8,407,819 | P7,596,893 |

The rent expense associated with short-term leases in 2021 and 2020 amounted to P6.64 million and P3.58 million, respectively, and is presented under "Rent" in the statement of profit or loss and other comprehensive income (loss).

18. Compensation and Other Benefits

| | Note | 2021 | 2020 |
|--------------------------|------|--------------|--------------|
| Salaries and wages | | P81,358,106 | P84,338,694 |
| Government contributions | | 9,536,167 | 9,732,260 |
| Retirement costs | 22 | 3,739,893 | 1,507,974 |
| Directors' fee | | 764,646 | 853,368 |
| Other benefits | | 14,956,594 | 16,894,910 |
| | | P110,355,406 | P113,327,206 |

Salaries and wages primarily pertain to gross remuneration of officers and employees for regular and overtime services rendered.

Government contributions include contributions to SSS, PHIC and HDMF.

Other benefits refer to the expenses for any good, service or other benefit furnished or granted by the Bank to its officers, in cash or in kind, in addition to basic salaries, such as, but not limited, to housing, life or health insurance as well as expenses for allowances and other fringe benefits granted to employees in accordance with management policy such as bonuses, profit shared, including those for special studies or seminars but excluding medical, dental and hospitalization benefits.

19. Travel and Transportation

This account pertains to the expenses incurred for the official travel of directors, officers and employees, including fares, and hotel accommodations. This account also includes expenses incurred by employees for fuel and minor repairs in using their own vehicles during fieldwork. Travel and transportation amounted to P24.25 million and P19.47 million for the years ended December 31, 2021 and 2020, respectively.

20. Taxes and Licenses

This account refers to the expenses incurred for taxes and licenses other than income tax, such as gross receipts tax, documentary stamps, license and permit fees, and real estate taxes.

21. Information Technology

This refers to subscription fees paid to Oradian, the Bank's system provider, for the Instafin Core Banking System, computer repairs and purchases of computer supplies and peripherals.

22. Retirement Liability

The Bank has an unfunded, non-contributory defined benefit retirement plan covering all regular employees which provide retirement benefits equivalent to 22.50 days of the current basic monthly salary for every year of continuous service upon retirement or death.

The retirement plan is exposed to both financial and demographic risks. Risks associated to the retirement plan are as follows:

- Liquidity risk The inability to meet benefit obligation payout when due.
- Interest rate risk The present value of DBO is relatively sensitive and inversely related to the discount rate. In particular, if the discount rate, which is referenced to government bonds, decreases then, the DBO increases.
- Salary risk The present value of DBO is relatively sensitive and directly related to future salary increases. In particular, if the actual salary increases in the future are higher than expected then the DBO and benefits are higher as well.
- Persistency risk The present value of DBO is relatively sensitive and inversely related to the turnover rates. In particular, lower turnover rates, which means employees persist or stay with the Bank longer, correspond to higher DBO and benefit payouts.

Since there is no retirement plan asset, there is no asset-liability matching strategy.

The present value of the DBO and the related retirement cost of the Bank were actuarially measured using the projected unit credit method. The most recent actuarial valuation was carried out at December 31, 2021 by a qualified independent actuary.

The following table below shows the reconciliation from the opening to the closing balances for retirement liability and its components:

| | Note | 2021 | 2020 |
|-------------------------------------|------|-----------------------|-------------|
| Balance at January 1 | | P15,828,512 | P13,907,154 |
| Included in Profit or Loss | | | |
| Current service cost | | 1,593,972 | 1,403,204 |
| Interest cost | | 668,190 | 717,445 |
| Settlement loss (gain) | | 1,477,731 | (612,675) |
| | 18 | 3,739,893 | 1,507,974 |
| Included in Other Comprehensive | | | |
| Income (OCI) | | | |
| Remeasurement (gain) loss: | | | |
| Actuarial (gain) loss arising from: | | | |
| Experience adjustment | | (4,052,634) | (1,410,810) |
| Transferred out liability | | (84,896) | (16,124) |
| Financial assumptions | | 344,984 | 2,901,185 |
| | | (3,792,546) | 1,474,251 |
| Other | | 201-12522-1-8-2-1-1-1 | |
| Benefits paid | | (1,896,923) | (1,060,867) |
| Balance at December 31 | | P13,878,936 | P15,828,512 |

The retirement costs amounting to P3.74 million and P1.51 million in 2021 and 2020, respectively, are presented as part of "Compensation and other benefits" in the statement of profit or loss and other comprehensive income (loss) (see Note 18).

A subset of employee workforce was involuntarily separated in 2020 resulting in settlement calculations. The settlement loss amounting to P1.48 million and settlement gain amounting to P0.61 million as at December 31, 2021 and 2020 are presented as part of "Compensation and other benefits" in the statement of profit or loss and other comprehensive income (loss) (see Note 18).

The principal actuarial assumptions used to determine the present value of DBO and retirement costs as at and for the years ended December 31, 2021 and 2020 are as follows:

| | 2021 | 2020 |
|------------------------------|-----------------|-----------------|
| Discount rate | 5.10% | 4.10% |
| Future salary rate increases | 2.00% | 0% |
| Mortality rate | 2017 PICM Table | 2017 PICM Table |

The weighted average duration of the DBO is 17.60 years and 17.30 years as at December 31, 2021 and 2020, respectively.

Maturity analysis of the benefit payments:

| | | | 2021 | | |
|----------------------|--------------------|---------------------------|------------------|-----------------------|----------------------|
| | Carrying | Contractual Cash Flows | Within 1 Year | Within 1 - 5 Years | More than 5 Years |
| Retirement liability | P13,878,936 | P158,055,828 | P379,561 | P415,568 | P157,260,699 |
| | | | 2020 | | |
| | Carrying Amount | Contractual Cash Flows | Within 1 Year | Within 1 - 5 Years | More than 5 Years |
| Retirement liability | P15,828,512 | P154,624,554 | P525,687 | P792,795 | P153,306,072 |

Sensitivity Analysis

Reasonably possible changes at the reporting date to one of the relevant actuarial assumptions, holding other assumptions constant, would have affected the DBO by the amounts shown below.

| | Retirement Liability | | |
|------------------------------------|----------------------|--------------|--|
| 2021 | Increase | Decrease | |
| Discount rate (1% movement) | (P11,472,057) | P16,909,064 | |
| Future salary growth (1% movement) | 16,981,821 | (11,498,113) | |
| Future mortality (1% movement) | (12,837,927) | 15,042,206 | |

| | Retirement Liability | | | |
|------------------------------------|----------------------|-------------|--|--|
| 2020 | Increase | Decrease | | |
| Discount rate (1% movement) | (P13,044,352) | P19,350,217 | | |
| Future salary growth (1% movement) | 19,441,184 | (13,575,349 | | |
| Future mortality (1% movement) | (14,604,577) | 17,204,386 | | |

Each sensitivity run is based on a change in a sole actuarial assumption while holding all other assumptions constant. However, the sensitivity runs may not be representative of the actual change in the DBO as it is unlikely that a change in assumption would occur in isolation as the assumptions may be correlated.

Furthermore, DBO figures in this sensitivity runs have been calculated using the projected unit credit method, the same method used in the calculation of DBO.

23. Related Parties

Identity of the Related Parties

The Bank, in the norm all course of business, has significant transactions with members of the BOD, officers, stockholders and related interests (DOSRI), Lifebank Microfinance Foundation, Inc. (LMFI), an entity under common control, and key management personnel (KMP), consisting mainly of the following:

| Category/Transaction | Year | Note | Amount of the Transaction | Deposit Liabilities (Note 12) | Dividends Payable (Note 14) | Right-of- Use Assets (Note 17) | Lease Liabilities (Note 17) | Nature, Terms and Conditions |
|------------------------------|------|------|---------------------------------|-------------------------------------|-----------------------------------|--------------------------------------|-----------------------------------|---|
| DOSRI Deposit liabilities | 2021 | ta | P8,646,011 | P73,298,606 | р. | P - | Р. | Interest-bearing; due and demandable; unsecured |
| | 2020 | fa | 52,191,074 | 64,632,595 | * | 12 | | Interest-bearing; due and demandable; unsecured |
| Rentals | 2021 | 16 | 85,200 | | 200 | 120,723 | 133,613 | |
| | 2020 | th | 85.200 | | | 193,157 | 206.587 | |
| Dividends paid | 2021 | tic | 27,760 | | 3.284,679 | | | |
| | 2020 | 70 | 4,722,180 | | 3,312,439 | | | |
| LMFI | | | | | | | | |
| Deposit liabilities | 2021 | 28 | (1,209,689) | 80,677,978 | | 3.8 | * | Interest-bearing; due and demandable; unsecured |
| | 2020 | 24 | (12,295,163) | 70,416,728 | - | | - | Interest-bearing, due and demandable; unsecured |
| Rentals | 2021 | 26 | 275.897 | | | 372,969 | 381,345 | |
| | 2020 | 26 | 277,294 | | | 142,639 | 153,710 | |
| KMP | | | | | | | | |
| Compensation | 2021 | 20 | 10.466,092 | | | 22 | | 2 |
| | 2020 | 38 | 10,126,223 | - | | - 2 | | |
| TOTAL | 2021 | | | P153,976,584 | P3,284,679 | P493,692 | P514,958 | |
| TOTAL | 2020 | | | P135,049,323 | P3,312,439 | P335,796 | P360,297 | |

1. DOSRI

- a) The Bank's DOSRI has several deposit accounts with the Bank which bear interest ranging from 0.75% to 2.75% per annum in 2021 and 2020, respectively. Deposit liabilities amounted to P73.30 million and P64.63 million in 2021 and 2020, respectively (see Note 12).
- b) On August 1, 2018, the Bank entered into a 5-year lease contract with a director to lease an office space for its Maasin Branch. The right-of-use asset recognized amounted to P0.12 million and P0.19 million as at December 31, 2021 and 2020, respectively. Lease liability recognized amounted to P0.13 million and P0.21 million as at December 31, 2021 and 2020, respectively. The rental payments amounted to P0.09 million in 2021 and 2020 (see Note 17).
- c) Cash dividends paid to the BOD amounted to P0.03 million and P4.72 million as at December 31, 2021 and 2020, respectively. Dividends payable amounted to P3.28 million and P3.31 million in 2021 and 2020, respectively (see Note 14).

LMFI

- a) LMFI has several deposit accounts with the Bank which bear interest ranging from 0.75% to 2.75% in 2021 and 2020, respectively. Deposit liabilities amounted to P80.68 million and P70.42 million as at December 31, 2021 and 2020, respectively (see Note 12).
- b) On May 1, 2011, the Bank entered into a 10-year lease contract with LMFI to lease office space for its Iloilo City Branch. The contract was renewed on May 1, 2021 for a 2-year term. The right-of-use asset recognized amounted to P0.37 million and P0.14 million in December 31, 2021 and 2020. Lease liability recognized amounted to P0.38 million and P0.15 million as at December 31, 2021 and 2020. The rental payments amounted to P0.28 million in 2021 and 2020, respectively (see Note 17).
- KMP are those persons having authority and responsibility for planning, directing and controlling the activities of the Bank, directly or indirectly. The Bank's KMP consist of executive officers, bank managers, and an operations manager.
 - a) The compensation of Bank's KMP is composed of the following:

| | 2021 | 2020 |
|------------------------------|-------------|-------------|
| Short-term employee benefits | P9,915,000 | P9,881,831 |
| Post-employment benefits | 448,957 | 176,687 |
| Director's fee | 102,135 | 67,705 |
| | P10,466,092 | P10,126,223 |

This is presented as part of "Compensation and other benefits" account in the statement of profit or loss and other comprehensive income (loss) (see Note 18).

All outstanding related party balance will be settled in cash.

24. Income Tax

The details of the Bank's income tax expense (benefit) are as follows:

| | 2021 | 2020 |
|------------------------------|-------------|---------------|
| Recognized in Profit or Loss | | |
| Income tax: | | |
| Current | P3,619,624 | P1,542,116 |
| Effect on change in tax rate | (385,529) | |
| | 3,234,095 | 1,542,116 |
| Deferred tax: | | |
| Current | 5,970,789 | (12,722,146) |
| Effect on change in tax rate | (4,175,458) | |
| | 1,795,331 | (12,722,146) |
| | P5,029,426 | (P11,180,030) |
| Recognized in OCI | | |
| Current | (P874,424) | P442,275 |
| Effect on change in tax rate | (73,713) | |
| | (P948,137) | P442,275 |

The reconciliation of the income tax expense (benefit) computed at the statutory tax rate to the income tax expense (benefit) recognized in the statement of profit or loss and other comprehensive income (loss) at December 31 is as follows:

|) | 2021 | 2020 |
|---|--|---------------------------|
| Income (loss) before income tax expense (benefit) | P2,693,542 | (P33,481,311) |
| Tax at statutory tax rate of 25% and 30% in | (MATERIAL STATE OF ST | ACED - TROOTS AND SERVICE |
| 2021 and 2020, respectively | P673,386 | (P10,044,393) |
| Adjustments for tax effects of: | | |
| Tax effect due to change in tax rate in 2020 | 4,634,700 | |
| Derecognition of deferred tax assets (DTA) of | | |
| net operating loss carryover (NOLCO) | 1,919,942 | * |
| Derecognition of DTA of minimum corporate | | |
| income tax (MCIT) | 1,156,587 | |
| Nondeductible expense | 426,750 | |
| Interest expense limitation | 235,137 | 797,362 |
| Interest income subject to final tax | (940,547) | (1,932,999) |
| Application of MCIT | (1,156,587) | A Marinetta and |
| Application of NOLCO | (1,919,942) | |
| Income tax expense (benefit) | P5,029,426 | (P11,180,030) |

The movements of deferred tax assets (liabilities) are as follows:

| 2021 | Balance January 1 | Recognized in Profit or Loss | Recognized in OCI | Balance December 31 |
|--|---|--|------------------------------|---|
| Deferred Tax Assets | | | | |
| Allowance for impairment losses: | | | 54400.00 | |
| Loans to customers | P16,280,540 | P2,153,629 | Р. | P18,434,169 |
| Other assets | 190,043 | (31,674) | | 158,369 |
| Investment properties | 29,928 | (4,988) | | 24,940 |
| Lease liability | 476,253 | (65,860) | | 410,393 |
| Retirement liability | 4,748,554 | (330,683) | (948,137) | 3,469,734 |
| Accrued expenses | 2,829,921 | 77,026 | • | 2,906,947 |
| NOLCO | 2,303,930 | (2,303,930) | | |
| MCIT | 1,542,116 | (1,542,116) | • | 200 420 |
| Accrued interest payable | 400,118 | (111,988) | * | 288,130 |
| | 28,801,403 | (2,160,584) | (948,137) | 25,692,682 |
| Deferred Tax Liabilities | | | | |
| Right-of-use assets | (491,288) | 98,315 | | (392,973) |
| Accrued interest receivable | (1,122,618) | 266,938 | | (855,680) |
| | (1,613,906) | 365,253 | - | (1,248,653) |
| | | | | |
| | P27,187,497 | (P1,795,331) | (P948,137) | P24,444,029 |
| 2020 | Balance | (P1,795,331) Recognized in Profit or Loss | Recognized | Balance |
| 2020 Deferred Tay Assets | | Recognized in Profit or | | Balance |
| Deferred Tax Assets | Balance | Recognized in Profit or | Recognized | Balance |
| Deferred Tax Assets Allowance for impairment losses: | Balance January 1 | Recognized in Profit or Loss | Recognized | Balance December 3 |
| Deferred Tax Assets Allowance for impairment losses: Loans to customers | Balance January 1 | Recognized in Profit or | Recognized in OCI | Balance December 3 |
| Deferred Tax Assets Allowance for impairment losses: Loans to customers Other assets | Balance January 1 | Recognized in Profit or Loss | Recognized in OCI | Balance December 31 P16,280,540 190,043 |
| Deferred Tax Assets Allowance for impairment losses: Loans to customers Other assets Investment properties | Balance January 1 P6,533,118 190,043 29,928 | Recognized in Profit or Loss P9,747,422 | Recognized in OCI | Balance December 31 P16,280,540 190,043 29,920 |
| Deferred Tax Assets Allowance for impairment losses: Loans to customers Other assets Investment properties Lease liability | Balance January 1 P6,533,118 190,043 29,928 1,543,433 | Recognized in Profit or Loss P9,747,422 | Recognized in OCI | Balance December 31 P16,280,540 190,041 29,921 476,253 |
| Deferred Tax Assets Allowance for impairment losses: Loans to customers Other assets Investment properties Lease liability Retirement liability | Balance January 1 P6,533,118 190,043 29,928 1,543,433 4,172,147 | P9,747,422 (1,067,180) 134,132 | Recognized in OCI | Balance December 31 P16,280,540 190,041 29,921 476,253 4,748,554 |
| Deferred Tax Assets Allowance for impairment losses: Loans to customers Other assets Investment properties Lease liability | Balance January 1 P6,533,118 190,043 29,928 1,543,433 | P9,747,422 (1,067,180) 134,132 (1,284,121) | Recognized in OCI | Balance December 31 P16,280,540 190,041 29,921 476,251 4,748,554 2,829,921 |
| Deferred Tax Assets Allowance for impairment losses: Loans to customers Other assets Investment properties Lease liability Retirement liability Accrued expenses NOLCO | Balance January 1 P6,533,118 190,043 29,928 1,543,433 4,172,147 | P9,747,422 (1,067,180) 134,132 (1,284,121) 2,303,930 | Recognized in OCI | Balance December 31 P16,280,540 190,043 29,923 476,253 4,748,555 2,829,921 2,303,930 |
| Deferred Tax Assets Allowance for impairment losses: Loans to customers Other assets Investment properties Lease liability Retirement liability Accrued expenses | Balance January 1 P6,533,118 190,043 29,928 1,543,433 4,172,147 | P9,747,422 (1,067,180) 134,132 (1,284,121) | Recognized in OCI | Balance December 31 P16,280,540 190,043 29,924 476,253 4,748,554 2,829,92 2,303,930 1,542,116 |
| Deferred Tax Assets Allowance for impairment losses: Loans to customers Other assets Investment properties Lease liability Retirement liability Accrued expenses NOLCO MCIT | Balance January 1 P6,533,118 190,043 29,928 1,543,433 4,172,147 4,114,042 | P9,747,422 (1,067,180) 134,132 (1,284,121) 2,303,930 1,542,116 | Recognized in OCI | Balance December 31 P16,280,540 190,043 29,923 476,253 4,748,554 2,829,921 2,303,930 1,542,116 400,118 |
| Deferred Tax Assets Allowance for impairment losses: Loans to customers Other assets Investment properties Lease liability Retirement liability Accrued expenses NOLCO MCIT Accrued interest payable | Balance January 1 P6,533,118 190,043 29,928 1,543,433 4,172,147 4,114,042 | Recognized in Profit or Loss P9,747,422 - (1,067,180) 134,132 (1,284,121) 2,303,930 1,542,116 (30,276) | Recognized in OCI P 442,275 | Balance December 3 P16,280,540 190,04 29,92 476,25 4,748,55 2,829,92 2,303,930 1,542,110 400,110 |
| Deferred Tax Assets Allowance for impairment losses: Loans to customers Other assets Investment properties Lease liability Retirement liability Accrued expenses NOLCO MCIT | Balance January 1 P6,533,118 190,043 29,928 1,543,433 4,172,147 4,114,042 430,394 17,013,105 | Recognized in Profit or Loss P9,747,422 - (1,067,180) 134,132 (1,284,121) 2,303,930 1,542,116 (30,276) | Recognized in OCI P 442,275 | Balance December 31 P16,280,544 190,041 29,928 476,253 4,748,555 2,829,921 2,303,930 1,542,116 400,118 28,801,403 |
| Deferred Tax Assets Allowance for impairment losses: Loans to customers Other assets Investment properties Lease liability Retirement liability Accrued expenses NOLCO MCIT Accrued interest payable Deferred Tax Liabilities Right-of-use assets | Balance January 1 P6,533,118 190,043 29,928 1,543,433 4,172,147 4,114,042 | Recognized in Profit or Loss P9,747,422 - (1,067,180) 134,132 (1,284,121) 2,303,930 1,542,116 (30,276) 11,346,023 | Recognized in OCI P 442,275 | Balance December 31 P16,280,540 190,043 29,928 476,253 4,748,554 2,829,921 2,303,930 1,542,116 400,118 28,801,403 |
| Deferred Tax Assets Allowance for impairment losses: Loans to customers Other assets Investment properties Lease liability Retirement liability Accrued expenses NOLCO MCIT Accrued interest payable Deferred Tax Liabilities | Balance January 1 P6,533,118 190,043 29,928 1,543,433 4,172,147 4,114,042 430,394 17,013,105 (1,661,345) | P9,747,422 (1,067,180) 134,132 (1,284,121) 2,303,930 1,542,116 (30,276) 11,346,023 | Recognized in OCI P 442,275 | P24,444,029 Balance December 31 P16,280,540 190,043 29,928 476,253 4,748,554 2,829,921 2,303,930 1,542,116 400,118 28,801,403 (491,288 (1,122,618 (1,613,906 |

On September 30, 2020, BIR issued RR No. 25-2020, pursuant to the provisions of Section 244 of the National Internal Revenue Code, as amended, these Regulations are hereby promulgated to implement Section 4, COVID-19 Response and Recovery Interventions of Republic Act (R.A.) No. 11494, otherwise known as "Bayanihan to Recover as One Act", to wit: "notwithstanding the provision of existing laws to the contrary, the net operating loss of the business or enterprise for taxable years 2020 and 2021 shall be carried over as a deduction from gross income for the next five (5) consecutive taxable years immediately following the year of such loss; Provided, That this subsection shall remain in effect even after the expiration of this Act."

The details of the Bank's NOLCO covered by RR No. 25-2020 are as follows:

| Year Incurred | Expiry Date | Balance January 1, 2021 | Addition | Expired/ Applied | Balance December 31, 2021 |
|---------------|-------------------|-------------------------------|----------|---------------------|---------------------------------|
| 2020 | December 31, 2025 | P7,679,767 | Р. | (P7,679,767) | Р- |

The details of the Bank's outstanding MCIT are as follows:

| Year Incurred | Expiry Date | Balance January 1, 2021 | Addition | Expired/ Applied | Balance December 31, 2021 |
|---------------|-------------------|-------------------------------|------------|---------------------|---------------------------------|
| 2020 | December 31, 2023 | P1,156,587 | Р. | (P1,156,587) | Р. |
| Year Incurred | Expiry Date | Balance January 1, 2020 | Addition | Expired/ Applied | Balance December 31, 2020 |
| 2020 | December 31, 2023 | P - | P1,156,587 | Р - | P1,156,587 |

On March 26, 2021, the President of the Philippines has approved the Corporate Recovery and Tax Incentives for Enterprises (CREATE) Act (the CREATE Act), with nine (9) provisions vetoed by the President. Below are the salient features of the Act that are relevant to the Bank:

- a) Corporate income tax rate is reduced from 30% to 20% for domestic corporations with net taxable income not exceeding P5 million and with total assets not exceeding P100 million. All other domestic corporations and resident foreign corporations will be subject to 25% income tax. Said reductions are effective July 1, 2020.
- b) MCIT rate is reduced from 2% to 1% effective July 1, 2020 to June 30, 2023.
- The imposition of improperly accumulated earnings tax has been repealed.

On April 8, 2021, the BIR issued the following implementing RR that are effective immediately upon publication:

- BIR RR No. 2-2021, Amending Certain Provisions of RR No. 2-98, As Amended, to Implement the Amendments Introduced by Republic Act No. 11534, or the CREATE Act, to the National Revenue Code of 1997, as Amended, Relative to the Final Tax on Certain Passive Income;
- BIR RR No. 3-2021, Rules and Regulations Implementing Section 3 of the CREATE Act, Amending Section 20 of the National Internal Revenue Code of 1997, As Amended;
- BIR RR No. 4-2021, Implementing the Provisions on Value-Added Tax (VAT) and Percentage Tax Under the CREATE Act Which Further Amended the National Revenue Code of 1997, as Amended, as Implemented by RR No. 16-2005 (Consolidated VAT Regulations of 2005), As Amended; and
- BIR RR No. 5-2021, Implementing the New Income Tax Rates on the Regular Income of Corporations, on Certain Passive Incomes, Including Additional Allowable Deductions from Gross Income of Persons Engaged in Business or Practice of Profession Pursuant to CREATE Act, Which Further Amended the National Revenue Code of 1997.

Further, the BIR has issued its RR No. 5-2021 to promulgate the implementation of the new income tax rates on the regular income of corporations, on certain passive incomes and additional allowable deductions of persons engaged in business or practice of profession as provided for in CREATE Act. The corporate income tax of the Company will be lowered from 30% to 25% on which the Company would qualify, effective July 1, 2020.

25. Financial Instruments

Exposure to Credit Risk

The carrying amounts of financial assets represent the maximum credit exposure. An analysis of concentration of credit risk by sector on due from BSP, due from other banks, loans to customers, debt securities at amortized cost and other assets as at December 31, 2021 and 2020 is shown below:

| Concentration by Sector | Note | 2021 | 2020 |
|-----------------------------------|------|--------------|--------------|
| Banks: | | | |
| Due from BSP | 5 | P16,688,796 | P17,207,826 |
| Due from other banks | 6 | 424,071,081 | 378,347,994 |
| Debt securities at amortized cost | 8 | 118,828,135 | 112,980,191 |
| | | 559,588,012 | 508,536,011 |
| Retail: | | | |
| Loans to customers - net | 7 | 350,067,378 | 371,705,463 |
| Other assets - net* | 11 | 6,616,480 | 7,748,488 |
| | | 356,683,858 | 379,453,951 |
| | | P916,271,870 | P887,989,962 |

^{*}Excluding prepaid expenses, stationary and supplies on hand, and due from employees.

The summary of concentration of credit risk by sector on loans to customers as to industry is presented in Note 31 to the financial statements.

The maximum exposure to credit risk at the reporting dates are as follows:

| | Note | 2021 | 2020 |
|-----------------------------------|------|--------------|--------------|
| Due from BSP | 5 | P16,688,796 | P17,207,826 |
| Due from other banks | 6 | 424,071,081 | 378,347,994 |
| Loans to customers - net | 7 | 350,067,378 | 371,705,463 |
| Debt securities at amortized cost | 8 | 118,828,135 | 112,980,191 |
| Other assets - net* | 11 | 6,616,480 | 7,748,488 |
| | | P916,271,870 | P887,989,962 |

^{*}Excluding prepaid expenses, stationary and supplies on hand, and due from employees.

Credit Quality Per Class of Financial Assets

The credit quality of financial assets is monitored and managed based on the credit standing and history. Credit exposures are classified into three stages of credit impairment with corresponding time horizons in measuring ECL:

- Stage 1 Credit exposures that are considered "performing" and with no significant increase in credit risk since initial recognition or with low credit risk -12 months ECL;
- Stage 2 Credit exposures that are considered "under-performing" or not yet "non-performing" but with significant increase in credit risk since initial recognition - Lifetime ECL; and
- Stage 3 Credit exposures with objective evidence of impairment, thus, considered as "non-performing" - Lifetime ECL.

The Bank classifies its neither past due nor impaired financial assets subject to credit risk into the following credit grades:

- High grade represents bank deposits, loans, advances or investments which
 have a high probability of collection. The counterparty has the apparent ability to
 satisfy its obligation. These also include deposits with reputable institutions from
 where the deposits may be withdrawn and recovered with certainty.
- Standard grade are neither past due nor impaired loans and with partially secured loan status. The standard grade category includes loans for which collections are probable due to the reputation and the financial ability to pay of the counterparty.
- Substandard grade includes loans which have risk of default higher than normal. Substandard grade loans are those where the counterparties are expected to be able to service its debt under normal economic and business conditions. Any prolonged economic or business downturn would however ostensibly create liquidity issues for the borrower.

The credit quality by class of financial assets (gross of allowance for impairment losses and unamortized interest and discounts) of the Bank as at December 31, 2021 and 2020 is as follows:

| | | | r 31, 2021 | |
|--|--------------|-------------|------------|--------------|
| | 0.00 | ECL | 141 | |
| | Stage 1 | Stage 2 | Stage 3 | Total |
| Due from BSP: | | | | |
| High grade | P16,688,796 | Р. | P - | P16,688,796 |
| Due from other banks: | | | | |
| High grade | 424,071,081 | | | 424,071,081 |
| Loans to customers: | | | | |
| High grade | 25,557,373 | | * | 25,557,373 |
| Standard grade | 3,559,979 | | | 3,559,979 |
| Substandard grade | 313,865,700 | | | 313,865,700 |
| Past due but not impaired | | 73,561,309 | | 73,561,309 |
| Past due and impaired | | ** | 7,803,574 | 7,803,574 |
| | 342,983,052 | 73,561,309 | 7,803,574 | 424,347,935 |
| Debt securities at amortized cost: High grade | 118,828,135 | | | 118,828,135 |
| | 110 020 100 | | | 7.1010201100 |
| Accrued interest receivable: High grade | 3,422,723 | | | 3,422,723 |
| Sales contract receivable: | | | | |
| High grade | 1,742,498 | | | 1,742,498 |
| Security deposits: | | | | |
| High grade | 1,475,539 | | | 1,475,539 |
| Others: | | | | |
| High grade | 45,510 | | | 45,510 |
| | P909,257,334 | P73,561,309 | P7,803,574 | P990,622,217 |

| | | | er 31, 2020 | |
|--|--------------|--------------|-------------|--------------|
| | Ctoop 1 | ECL Street 2 | Ctage 2 | Total |
| | Stage 1 | Stage 2 | Stage 3 | TOTAL |
| Due from BSP: High grade | P17,207,826 | Р. | Р. | P17,207,826 |
| Due from other banks: | | | | |
| High grade | 378,347,994 | | | 378,347,994 |
| Loans to customers: | | | | |
| High grade | 47,346,178 | - | - | 47,346,178 |
| Standard grade | 11,253,888 | | | 11,253,888 |
| Substandard grade | 266,593,413 | | - | 266,593,413 |
| Past due but not impaired | | 89,644,626 | | 89,644,626 |
| Past due and impaired | | | 11,750,652 | 11,750,652 |
| | 325,193,479 | 89,644,626 | 11,750,652 | 426,588,757 |
| Debt securities at amortized cost: High grade | 112,980,191 | | | 112,980,191 |
| Accrued interest receivable: | | 0 | 50 | 0.710.004 |
| High grade | 3,742,061 | | | 3,742,061 |
| Sales contract receivable: High grade | 2,756,295 | 9 | - 3 | 2,756,295 |
| Security deposits: High grade | 1,228,415 | | * | 1,228,415 |
| Others: High grade | 91,507 | | | 91,507 |
| | P841,547,768 | P89,644,626 | P11,750,652 | P942,943,046 |

The movements in gross carrying amount of loans to customers between stages are as follows:

| | | December | 31, 2021 | |
|--|--|--|-------------------------|----------------------------------|
| | | ECL Staging | | |
| | Stage 1 12-month ECL | Stage 2 Lifetime ECL | Stage 3 Lifetime ECL | Total |
| Gross Carrying Amount | | | | |
| at January 1, 2021 | P325,193,479 | P89,644,626 | P11,750,652 | P426,588,757 |
| New financial assets originated or | 700742447444744474 | | | Particular and American American |
| purchased | 1,167,987,394 | | | 1,167,987,394 |
| Transfers: | | | | |
| Transfer to stage 1 | 178,694 | (38,221) | (140,473) | |
| Transfer to stage 2 | (4,164,377) | 4,164,377 | ****** | |
| Transfer to stage 3 | (13,390,988) | (851,831) | 14,242,819 | ** *** *** |
| Financial assets derecognized | (1,132,821,150) | (19,357,642) | (18,049,424) | (1,170,228,216) |
| Gross Carrying Amount at December 31, 2021 | P342,983,052 | P73,561,309 | P7,803,574 | P424,347,935 |
| | <u> </u> | December | 31, 2020 | |
| | | | | |
| | | ECL Staging | | - : |
| | Stage 1 | Stage 2 | Stage 3 | es . |
| | Stage 1 12-month ECL | | Stage 3 Lifetime ECL | Total |
| Gross Carrying Amount | The same and the s | Stage 2 Lifetime ECL | Lifetime ECL | VIANCE INCOME VAL |
| at January 1, 2020 | The same and the s | Stage 2 | | Total P509,810,050 |
| at January 1, 2020 New financial assets originated or | 12-month ECL | Stage 2 Lifetime ECL | Lifetime ECL | VIANCE INCOME VAL |
| at January 1, 2020 New financial assets originated or purchased | 12-month ECL | Stage 2 Lifetime ECL | Lifetime ECL | Visconi narono vici |
| at January 1, 2020 New financial assets originated or purchased Transfers: | 12-month ECL P465,596,664 898,566,600 | Stage 2 Lifetime ECL P31,496,445 | Lifetime ECL | P509,810,050 |
| at January 1, 2020 New financial assets originated or purchased Transfers: Transfer to stage 1 | 12-month ECL P465,596,664 898,566,600 10,710,422 | Stage 2 Lifetime ECL P31,496,445 - (10,710,422) | Lifetime ECL | P509,810,050 |
| at January 1, 2020 New financial assets originated or purchased Transfers: Transfer to stage 1 Transfer to stage 2 | 12-month ECL P465,596,664 898,566,600 10,710,422 (106,981,683) | Stage 2 Lifetime ECL P31,496,445 - (10,710,422) 106,981,683 | P12,716,941 | P509,810,050 |
| at January 1, 2020 New financial assets originated or purchased Transfers: Transfer to stage 1 Transfer to stage 2 Transfer to stage 3 | 12-month ECL P465,596,664 898,566,600 10,710,422 (106,981,683) (6,101,211) | Stage 2 Lifetime ECL P31,496,445 - (10,710,422) 106,981,683 (12,829,365) | P12,716,941 | P509,810,050 898,566,600 |
| at January 1, 2020 New financial assets originated or purchased Transfers: Transfer to stage 1 Transfer to stage 2 | 12-month ECL P465,596,664 898,566,600 10,710,422 (106,981,683) | Stage 2 Lifetime ECL P31,496,445 - (10,710,422) 106,981,683 | P12,716,941 | P509,810,050 |
| at January 1, 2020 New financial assets originated or purchased Transfers: Transfer to stage 1 Transfer to stage 2 Transfer to stage 3 | 12-month ECL P465,596,664 898,566,600 10,710,422 (106,981,683) (6,101,211) | Stage 2 Lifetime ECL P31,496,445 - (10,710,422) 106,981,683 (12,829,365) | P12,716,941 | P509,810,050 898,566,600 |

The movements of the allowance for impairment losses between stages are as follows:

| | | December | 31, 2021 | |
|---|-------------------------|-------------------------|-------------------------|---------------|
| | to the same | | | |
| | Stage 1 12-month ECL | Stage 2 Lifetime ECL | Stage 3 Lifetime ECL | Total |
| Allowance for Impairment Losses at January 1, 2021 | P37,805,717 | P4,770,184 | P11,692,566 | P54,268,467 |
| Movements with Profit or Loss Impact | | | | |
| New financial assets originated or purchased | 202,764,710 | | | 202,764,710 |
| Transfers: | | | | |
| Transfer to stage 1 | 31,022 | (6,635) | (24,387) | |
| Transfer to stage 2 | (722,943) | 722,943 | • | - |
| Transfer to stage 3 | (2,324,700) | (147,879) | 2,472,579 | |
| Financial assets derecognized | (175,296,808) | (1,623,935) | (6,375,759) | (183,296,502) |
| Total Net Profit or Loss Charge | 24,451,281 | (1,055,506) | (3,927,567) | 19,468,208 |
| Allowance for Impairment Losses at December 31, 2021 | P62,256,998 | P3,714,678 | P7,764,999 | P73,736,675 |
| | | December | 31, 2020 | |
| | | ECI Staging | | |

| | December 31, 2020 | | | | | | |
|---|-------------------------|-------------------------|-------------------------|--------------|--|--|--|
| | | 17. | | | | | |
| | Stage 1 12-month ECL | Stage 2 Lifetime ECL | Stage 3 Lifetime ECL | Total | | | |
| Allowance for Impairment Losses at January 1, 2020 | P5,709,336 | P3,400,784 | P12,666,941 | P21,777,061 | | | |
| Movements with Profit or Loss Impact | | | | | | | |
| New financial assets originated or | | | | | | | |
| purchased | 60,718,583 | | 100 | 60,718,583 | | | |
| Transfers: | | | | | | | |
| Transfer to stage 1 | 571,313 | (571,313) | | | | | |
| Transfer to stage 2 | (3,595,654) | 3,595,654 | | | | | |
| Transfer to stage 3 | (1,134,384) | (1,229,067) | 2,363,451 | | | | |
| Financial assets derecognized | (24,463,477) | (425,874) | (3,337,826) | (28,227,177) | | | |
| Total Net Profit or Loss Charge | 32,096,381 | 1,369,400 | (974,375) | 32,491,406 | | | |
| Allowance for Impairment Losses at December 31, 2020 | P37,805,717 | P4,770,184 | P11,692,566 | P54,268,467 | | | |

The movements in the allowance for impairment losses in respect of loans and advances to customers during the year are as follows:

| | Note | 2021 | 2020 |
|------------------------------|------|-------------|-------------|
| Balance at beginning of year | | P54,268,467 | P21,777,061 |
| Provision for the year | | 19,468,208 | 32,491,406 |
| Balance at end of year | 7 | P73,736,675 | P54,268,467 |

Impairment losses on loans to customers amounting to P19.47 million and P32.49 million in 2021 and 2020, respectively, are presented as "Impairment losses" in the statement of profit or loss and other comprehensive income (loss).

Aging details of loans to customers are as follows:

| | 2021 | | 20 | 20 |
|------------------------|--------------|-------------|--------------|-------------|
| | Gross | Impairment | Gross | Impairment |
| Not past due | P340,014,179 | P7,248,023 | P325,193,478 | P5,339,380 |
| Past due 1 - 30 days | 9,261,118 | 197,418 | 14,506,559 | 145,431 |
| Past due 31 - 90 days | 4,730,855 | 100,847 | 1,590,712 | 74,291 |
| Past due 91 - 180 days | 6,984,336 | 6,565,276 | 6,463,066 | 4,836,422 |
| More than 180 days | 63,357,447 | 59,625,111 | 78,834,942 | 43,872,943 |
| | P424,347,935 | P73,736,675 | P426,588,757 | P54,268,467 |

On March 25, 2020, R.A. No. 11469, Bayanihan to Heal as One Act (Bayanihan 1 Act) was enacted. Bayanihan 1 Act provides that all covered institutions shall implement a 30-day grace period for all loans with principal and/or interest falling due within the enhanced community quarantine period without incurring interest on interest, penalties, fees and other charges. Subsequently, on September 11, 2020, R.A. No. 11494, Bayanihan to Recover as One Act (Bayanihan 2 Act) was enacted. Under Bayanihan 2 Act, a one-time 60-day grace period is granted for the payment of all existing, current and outstanding loans falling due, or any part thereof, on or before December 31, 2020, without incurring interest on interests, penalties, fees and other charges and thereby extending the maturity of the said loans.

Based on the Bank's assessment, the modifications in the contractual cash flows as a result of the above reliefs are not substantial and therefore do not result in the derecognition of the affected financial assets. The impact of the loan modification including the subsequent accretion of the modified loans is not significant to the Bank's financial statements.

Carrying Amount of Loans to Customers which Terms have been Renegotiated Restructured receivables have principal terms and conditions that have been modified in accordance with an agreement setting forth a new plan of payment or a schedule of payment on a periodic basis.

Liquidity Risk

Liquidity risk is the risk that the Bank will encounter difficulty in meeting its financial obligations due to shortage of funds.

The Bank's approach to managing liquidity risk is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Bank's reputation.

The daily liquidity position is monitored and regular liquidity stress testing is conducted under a variety of scenarios covering both normal and more severe market conditions.

All liquidity policies and procedures are subject to review and approval by the BOD.

Exposure to Liquidity Risk

The table below summarizes the maturity profile of the Bank's financial assets and liabilities (in thousands) based on contractual repayment arrangements:

| | | Total Contractual Undiscounted Payment | | | | | nts | | |
|------------------------------|------|--|------------------|------------------|-------------------|-------------|---------|--|--|
| December 31, 2021 | Note | Carrying Amount | Up to 1 Month | 1 to 6 Months | 6 to 12 Months | Over 1 Year | Tota | | |
| Assets | | | | | | | | | |
| Cash and other cash items | 4 | P14,743 | P14,743 | P . | P . | P - | P14,743 | | |
| Due from BSP | 5 | 16,689 | 16,689 | | | | 16,681 | | |
| Due from other banks | 5 | 424,071 | 372,571 | 51,500 | | | 424,07 | | |
| Loans to customers - net | 7 | 350,067 | 65,313 | 255,679 | 6,897 | 34,765 | 362.65 | | |
| Debt securities at amortized | | | | -3320 | | 53775 | 361533 | | |
| cost | 8 | 118,828 | 395 | 15,327 | 15,092 | 88,014 | 118,82 | | |
| Other assets - net* | 11 | 6,616 | 3,463 | 422 | 507 | 2,274 | 6,68 | | |
| | | 931,014 | 473,194 | 322,928 | 22,496 | 125,053 | 943,67 | | |
| Liabilities | | | | | | | | | |
| Deposit liabilities | 12 | 647,115 | 409,828 | 237,270 | 17 | | 647,11 | | |
| Accounts payable | 13 | 49,009 | 49,009 | | * 2 | | 49,00 | | |
| Lease liabilities** | 17 | 1,642 | 118 | 527 | 403 | 658 | 1,70 | | |
| Other liabilities*** | 14 | 16,445 | 12,780 | 3,665 | | | 16,44 | | |
| | | 714,211 | 471,735 | 241,462 | 420 | 658 | 714,27 | | |
| Net Liquidity Gap | | P216,803 | P1,459 | P81,466 | P22,076 | P124,395 | P229,39 | | |

[&]quot;Excluding prepaid expenses, stationary and supplies on hand, and due from employees "Including future interest payments

^{***}Excluding statutory payables

| | | Total | Contractual Undiscounted Payments | | | | |
|------------------------------|------|--------------------|-----------------------------------|------------------|-------------------|-------------|----------|
| December 31, 2020 | Note | Carrying Amount | Up to 1 Month | 1 to 6 Months | 6 to 12 Months | Over 1 Year | Total |
| Assets | | | | | | | |
| Cash and other cash items | 4 | P17.521 | P17.521 | p . | P . | P . | P17,521 |
| Due from BSP | 5 | 17,208 | 17,208 | | W. | | 17,208 |
| Due from other banks | 6 | 378,348 | 333,191 | 45,157 | 9 | | 378,348 |
| Loans to customers - net | 7 | 371,705 | 76,310 | 274,614 | 10,769 | 50,616 | 412,309 |
| Debt securities at amortized | | | | | | | |
| cost | 8 | 112,980 | 6 | 1,702 | 1,892 | 109,380 | 112,980 |
| Other assets - net* | 11 | 7,748 | 4,606 | 738 | 765 | 1,709 | 7,818 |
| | | 905.510 | 448,842 | 322,211 | 13,426 | 161,705 | 945,184 |
| Liabilities | | | | | THE RESIDENCE | | |
| Deposit liabilities | 12 | 627,183 | 378,719 | 237,004 | 11,460 | | 627,183 |
| Accounts payable | 13 | 49,200 | 49,200 | | | | 49,200 |
| Leane liabilities** | 17 | 1,588 | 90 | 374 | 242 | 979 | 1,685 |
| Other liabilities*** | 14 | 14,079 | 10,767 | 3,312 | - | | 14,079 |
| | | 692,050 | 438,776 | 240,690 | 11,702 | 979 | 692,147 |
| Net Liquidity Gap | | P213,460 | P10,066 | P81,521 | P1,724 | P160,726 | P254,037 |

^{*}Excluding prepaid expenses, stationary and supplies on hand, and due from employees

Market Risk

Market risk is the risk of loss in future earnings, fair values or future cash clows that may result from changes in the price of a financial instrument. The value of a financial instrument may change as a result of changes in interest rates. The financial instruments of the Bank have fixed interest rates, and therefore are not subject to any risk.

[&]quot;Including future interest payments
""Excluding statutory payables

Interest Rate Risk

At the reporting date, the interest rate profile of the Bank's interest-bearing financial instruments is as follows:

| | Note | 2021 | 2020 |
|-----------------------------------|------|--------------|--------------|
| Fixed Rate Instruments | | | |
| Financial assets: | | | |
| Due from other banks | 6 | P424,071,081 | P378,347,994 |
| Loans to customers - net | 7 | 350,067,378 | 371,705,463 |
| Debt securities at amortized cost | 8 | 118,828,135 | 112,980,191 |
| | | 892,966,594 | 863,033,648 |
| Financial liabilities: | | | |
| Deposit liabilities | 12 | 647,114,527 | 627,182,655 |
| Lease liabilities | 17 | 1,641,580 | 1,587,510 |
| | | P244,210,487 | P234,263,483 |

Effective interest rates for 2021 and 2020 are as follows:

| | 2021 | 2020 |
|-----------------------------------|-------------|-------------|
| Assets | | |
| Due from other banks | 0.05%-0.75% | 0.05%-0.63% |
| Loans to customers - net | 6%-78.68% | 6%-78.68% |
| Debt securities at amortized cost | 0.75%-6.25% | 0.75%-6.25% |
| Liabilities | | |
| Deposit liabilities | 0.25%-2.75% | 0.25%-2.75% |
| Lease liabilities | 6.87% | 6.33% |

The financial instruments of the Bank have fixed interest rates and the management assessed that the Bank's exposure to changes in interest rate risk is immaterial.

26. Fair Value Measurement

Valuation Methodologies of Financial Instruments Not Measured at Fair Value
The methods and assumptions used by the Bank in estimating the fair values of the
financial assets and financial liabilities are as follows:

Cash and Other Cash Items, Due from BSP, Due from Other Banks, and Other Financial Assets under "Other Assets" - Carrying amounts approximate fair values in view of the relatively short-term maturities.

Loans to Customers and Debt Securities at Amortized Cost - Carrying amounts approximates fair value as at reporting dates because these bear interest rates that approximate market rates.

Deposit Liabilities, Lease Liabilities, and Other Financial Liabilities under "Accounts Payable and Accrued Expenses" and "Other Liabilities" - Carrying amounts approximate fair values considering that these are due and demandable or with shortterm maturities.

Fair Value Hierarchy

The Company uses the following hierarchy for determining and disclosing the fair value of financial assets by valuation technique:

- Level 1: quoted (unadjusted) market prices in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liabilities, either directly (i.e., as prices) or indirectly (i.e., derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The following table sets out the fair values of financial instruments not measured at fair value and analyses them by the level in the fair value hierarchy into which each fair value measurement is categorized:

| | | December 31, 2021 | | | | | |
|------------------------|------------|-------------------|--------------|------------|--------------|---------|--|
| | | | | Fair Value | Hierarchy | | |
| | Note | Carrying Value | Total | Level 1 | Level 2 | Level 3 | |
| Financial Assets | | | | | | | |
| Cash and other cash | | | | | | | |
| items | 4 | P14,743,134 | P14,743,134 | P - | P14,743,134 | P - | |
| Due from BSP | 5 | 16,688,796 | 16,688,796 | | 16,688,796 | | |
| Due from other banks | 6 | 424,071,081 | 424,071,081 | | 424,071,081 | | |
| Loans to customers | 7 | 350,067,378 | 350,067,378 | | 350,067,378 | | |
| Debt securities at | | | | | | | |
| amortized cost | 8 | 118,828,135 | 118,828,135 | - | 118,828,135 | | |
| Other assets* | 11 | 6,686,270 | 6,686,270 | | 6,686,270 | | |
| | | P931,084,794 | P931,084,794 | Р. | P931,084,794 | Р. | |
| Financial Liabilities | | * *1.5*********** | 500000000 | | | | |
| Deposit liabilities | 12 | P647,114,527 | P647,114,527 | P . | P647,114,527 | P . | |
| Accounts payable | 13 | 49,009,014 | 49,009,014 | | 49,009,014 | | |
| Other liabilities** 14 | 16,445,119 | 16,445,119 | | 16,445,119 | | | |
| | | P712,568,660 | P712,568,660 | р. | P712,568,660 | р. | |

^{*}Excluding prepaid expenses, stationary and supplies on hand, and due from employees **Excluding statutory payables

| | | Dec | ember 31, 202 | 0 | |
|------|-----------------------------|---|--|--------------|---|
| | e4 Vi 96 3 10 | c | Fair Valu | e Hierarchy | |
| Note | Carrying Value | Total | Level 1 | Level 2 | Level 3 |
| | | | | | |
| 4 | P17,521,158 | P17,521,158 | P - | P17,521,158 | P - |
| 5 | 17,207,826 | 17,207,826 | | 17,207,826 | |
| 6 | 378,347,994 | 378.347,994 | - | 378.347.994 | |
| 7 | 371,705,463 | 371,705,463 | 7.4 | 371,705,463 | |
| | | | | | |
| 8 | 112,980,191 | 112,980,191 | | 112,980,191 | |
| 11 | 7,818,278 | 7,818,278 | | 7,818,278 | |
| | P905,580,910 | P905,580,910 | Р. | P905,580,910 | P - |
| | | | | | |
| 12 | P627,182,655 | P627,182,655 | P - | P627,182,655 | P - |
| 13 | 49,199,829 | 49,199,829 | | 49,199,829 | |
| 14 | 14,079,234 | 14,079,234 | | 14,079,234 | |
| | P690,461,718 | P690,461,718 | P - | P690,461,718 | P - |
| | 4 5 6 7 8 11 | 4 P17,521,158 5 17,207,826 6 378,347,994 7 371,705,463 8 112,980,191 11 7,818,278 P905,580,910 12 P627,182,655 13 49,199,829 14 14,079,234 | Note Carrying Value Total 4 P17,521,158 P17,521,158 5 17,207,826 17,207,826 6 378,347,994 378,347,994 7 371,705,463 371,705,463 8 112,980,191 112,980,191 17 7,818,278 7,818,278 P905,580,910 P905,580,910 12 P627,182,655 P627,182,655 13 49,199,829 49,199,829 14 14,079,234 14,079,234 | Fair Value | 4 P17,521,158 P17,521,158 P - P17,521,158 5 17,207,826 17,207,826 - 17,207,826 6 378,347,994 378,347,994 - 378,347,994 7 371,705,463 371,705,463 - 371,705,463 8 112,980,191 112,980,191 - 112,980,191 11 7,818,278 7,818,278 - 7,818,278 P905,580,910 P905,580,910 P - P905,580,910 12 P627,182,655 P627,182,655 P - P627,182,655 13 49,199,829 49,199,829 - 49,199,829 14 14,079,234 14,079,234 - 14,079,234 |

^{*}Excluding prepaid expenses, stationary and supplies on hand, and due from employees

There were no transfers among levels in the fair value hierarchy in 2021 and 2020.

[&]quot;Excluding statutory payables

27. Financial Risk and Capital Management, Policies and Objectives

Introduction and Overview

The Bank has exposure to the following risks from its use of financial instruments:

- credit risk
- liquidity risk; and
- market risk.

Risk Management Framework

The Bank manages risk and capital through a framework of principles, organizational structures as well as measurement and monitoring process.

Financial Risk and Capital Management Principles

The Bank's BOD has overall responsibility for the establishment and oversight of the risk management framework. The BOD has established Credit Committee, which are responsible for developing and monitoring risk management policies in their specified areas. All BOD Committees have both executive and non-executive members and report regularly to the BOD on their activities.

The Bank's risk management policies are established to identify and analyze the risks faced by the Bank, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are viewed regularly to reflect changes in market conditions, products and services offered.

The Bank, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

The Audit Committee is responsible for monitoring compliance with the risk management policies and procedures and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Bank. The Audit Committee is assisted in these functions by the Internal Audit. Internal Audit undertakes both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

The following information discusses the Bank's exposure to each of the above risks and its objectives, policies and processes for measuring and managing risks:

Credit Risk

Credit risk is the risk of financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from loans to customers and other banks' investment securities. For risk management reporting purposes, the Bank considers and consolidates all elements of credit risk exposure (such as individual obligor default risk, country and sector risk).

The Bank holds collateral against loans to customers (except microfinance loans) in the form of mortgage interest over property. Estimates of fair value are based on the value of collateral assessed at the time of borrowing and generally are not updated except when a loan is individually assessed as impaired. Generally, collateral is not held over due from other banks and microfinance loans.

The BOD has established a credit policy under which, each new customer is analyzed individually for creditworthiness before approval of loan application.

The review and analysis is based on information and documents submitted, which includes external ratings and investigations.

In response to the COVID-19 pandemic, the Board has also been performing more frequent reviews of creditworthiness of the borrowers severely impacted.

ECL Parameters and Methodologies

In compliance with PFRS 9, the Bank developed ECL parameters and methodologies for each portfolio, using historical data as well as forward-looking inputs and assumptions. The Bank uses a provision matrix to calculate ECLs for loans to customers. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns.

The provision matrix is initially based on the Bank's historical observed default rates. The Bank will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions are expected to deteriorate over the next year which can lead to an increased number of defaults in the banking sector, the historical default rates are adjusted. At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analyzed.

The assessment of the correlation between historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. The Bank's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future.

Definition of Default

As a part of a qualitative assessment of whether a customer is in default, the Bank considers a variety of instances that may indicate unlikeliness to pay. The Bank's definition of default is aligned with the non-performing loan criteria as prescribed in Section 304, Accounts Considered as Past Due, of the latest MORB. Defaults refer to loans, investments, receivables, or any financial asset, even without missed contractual payments, that satisfy any of the following conditions: impaired under existing accounting standards, classified as doubtful or loss, in litigation, and/or there is evidence that full repayment of principal and interest is unlikely without foreclosure of collateral, if any. All other loans, even if not considered impaired, shall be considered non-performing if any principal and/or interest are unpaid for more than ninety (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 nonperforming 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.

Significant Increase in Credit Risk

When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Bank considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Bank's historical experience and expert credit assessment and including forward-looking information. A significant increase in credit risk can be measured by comparing the probability of default of the borrower from the initial recognition and the result of the current probability of default.

Other indications may include, among others, indications that a borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in principal and/or interest payments, probability that the borrower will enter bankruptcy or other financial reorganization/restructuring, and other observable data indicating measurable decrease in the estimated future cash flows, such as changes in business or economic conditions that correlate with defaults.

Generally, the Bank applies a rebuttable presumption that the credit risk on a financial asset has increased significantly since initial recognition when contractual payments are more than 30 days past due.

Incorporation of Forward-looking Information

The Bank incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL. A broad range of forward-looking information are considered as economic inputs. The inputs and models used for calculating ECL may not always capture all characteristics of the market at the date of the financial statements. To reflect this, qualitative adjustments or overlays are occasionally made as temporary adjustments when such differences are significantly material. The Bank's loans to customers consist of different portfolios, such as microfinance, commercial and consumer loans.

The key forward-looking economic variables used in each of the economic scenarios for the ECL calculations are gross domestic product (GDP) and consumer price index (CPI) rates for 2020 and CPI rates for 2021.

The specific rates used are shown in the table below:

| | 2021 | 2020 |
|----------|----------------|-------------|
| CPI | 1941-2020-2011 | 77700000000 |
| Peak* | 4.50% | 4.00% |
| Trough** | 2.13% | 1.40% |
| GDP | | |
| Peak* | | 6.50% |
| Trough** | | -16.50% |

^{*}Peak represents the highest average rate **Trough represents the lowest average rate

In monitoring credit risk, customers are banked according to their credit characteristics, including whether they are individual or legal entity, industry, aging profile and maturity (see Note 25).

In response to the impact of COVID-19 pandemic, the Bank revised its economic forecasts used as an input into ECL as at December 31, 2021 and 2020.

Liquidity Risk

Liquidity risk is the risk that the Bank will encounter difficulty in meeting obligations from its financial liabilities (see Note 25).

The Bank's approach to managing liquidity risk is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Bank's reputation.

The daily liquidity position is monitored and regular liquidity stress testing is conducted under a variety of scenarios covering both normal and more severe market conditions. All liquidity policies and procedures are subject to review and approval by the BOD.

All liquidity policies and procedures are subject to review and approval by the BOD. The Bank assessed the concentration of risk with respect to its financial liabilities and concluded it to be low. The Bank has access to a sufficient variety of sources of funding and liabilities maturing within 12 months can be rolled over with existing creditors.

Market Risk

Market risk is the risk that changes in market prices, such as interest rate, equity prices, foreign exchange rates and credit spreads (not relating to changes in the obligor's/issuer's credit standing) will affect the Bank's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control risk exposures within acceptable parameters, while optimizing the return on risk.

The Bank is not exposed to foreign exchange and price risks because it does not have foreign currency denominated financial assets and liabilities nor holds investments in equity securities classified as fair value through other comprehensive income (FVOCI) or fair value through profit or loss (FVTPL), respectively. The Bank is not also engaged in commodity trading; hence, is not exposed to commodity price risk.

Interest Rate Risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial assets.

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

Interest computation used by the Bank is add-on for microfinance and based on diminishing balance for small and medium enterprises loans. As to the interest rate of the Bank's deposits from customers, the substantial amount are the termed deposits.

Capital Management

The BOD's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The BOD monitors the return on equity, which the Bank defines as net income divided by the average capital accounts.

Capital is composed of the total of the unimpaired paid-in capital, surplus and undivided profits, less:

- unbooked valuation reserves and other capital adjustments as may be required by the BSP;
- unsecured loans, other credit accommodations and guarantees granted to subsidiaries and affiliates; and
- deferred tax.

The BOD seeks to maintain a balance between the higher returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position.

There were no changes in the Bank's approach to capital management during the year.

Regulatory Qualifying Capital

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

The BSP sets and monitors capital requirements for the Bank. It requires the Bank to maintain a prescribed risk-based capital adequacy ratio (expressed as a percentage of qualifying capital to risk weighted assets) of not less than 10%.

The Bank's regulatory capital is analyzed into two tiers:

- Tier 1 capital, which includes ordinary share capital, share premium, retained earnings and other regulatory adjustments relating to items that are included in equity but are treated differently for capital adequacy purposes; and
- Tier 2 capital, which includes collective impairment allowances (general loan loss provision subject to certain limitation).

Risk-weighted assets are computed under Appendix to Section 127, Revised Risk-Based Capital Adequacy Framework for Stand-Alone Thrift Banks, Rural Banks and Cooperative Banks, of the latest MORB.

The capital-to-risk assets ratio of the Bank as reported to the BSP is shown in the table below (amounts in millions):

| | 2021 | 2020 |
|---|-----------|-----------|
| Tier 1 capital | P256.51 | P239.31 |
| Tier 2 capital | 7.19 | 7.18 |
| Total Qualifying Capital | P263.70 | P246.49 |
| Risk-weighted Assets | P1,071.77 | P1,119.67 |
| Total qualifying capital expressed as a percentage of total risk-weighted assets | 24.60% | 22.01% |
| Total tier 1 capital expressed as a percentage of risk-weighted assets | 23.93% | 21.37% |

Section 121, Minimum Capitalization, of the latest MORB, increased the minimum capital requirement for all bank categories to ensure that banks stand on a strong capital base to support a threshold scale of operations, to operate viably and service effectively the needs of clients as approved by the Monetary Board in its Resolution No. 1607 dated October 9, 2014.

Under Section 121 of the latest MORB, the required minimum capitalization for the Bank as a rural bank with up to 10 branches is P30 million.

The Bank is compliant with the capital adequacy ratio and required minimum capitalization for the years ended December 31, 2021 and December 31, 2020.

Minimum Liquidity Ratio

To promote short-term resilience to liquidity shocks, banks shall maintain a stock of liquid assets proportionate to their on and off-balance sheet liabilities. In accordance with Section 145, Minimum Liquidity Ratio (MLR) for Stand-Alone Thrift Banks, Rural Banks and Cooperative Banks, of the latest MORB, a prudential MLR of twenty percent (20%) shall apply to banks on an on-going basis absent a period of financial stress. The liquidity ratio is expressed as a percentage of a bank's eligible stock of liquid assets to its total qualifying liabilities.

In accordance with BSP Memorandum No. M-2020-020, Reduction in the MLR in response to COVID-19, pursuant to Monetary Board Resolution No. 427.B dated March 26, 2020, the MLR for stand-alone thrift banks, rural banks and cooperative banks, as set out in Section 145 of the MORB, is hereby reduced from 20% to 16% effective until December 31, 2020, and was extended until December 31, 2021, by virtue of BSP Memorandum No. M-2020-085, Extension of the Effectivity of the Temporary Reduction in the MLR in response to COVID-19.

Further, in accordance with BSP Memorandum No. M-2022-024, the effectivity of the temporary reduction in the MLR was extended until December 31, 2022.

The Bank's MLR as percentage are as follows:

| | 2021 | 2020 |
|------------------------|--------------|--------------|
| Stock of liquid assets | P573,354,718 | P525,259,515 |
| Qualifying liabilities | 625,742,132 | 599,983,687 |
| | 91.63% | 87.55% |

The Bank is in compliance with such MORB provision for the years ended December 31, 2021 and December 31, 2020.

Minimum Leverage Ratio

In accordance with Section 3, Prompt Corrective Action Framework, of the latest MORB, the minimum leverage ratio requirement is 5%.

The Bank's leverage ratios as percentage are as follows:

| | 2021 | 2020 |
|---------------|---------------|--------------|
| Total capital | P286,651,685 | P286,143,160 |
| Total assets | 1,018,890,025 | 997,157,974 |
| | 28.13% | 28.70% |

Consequently, the Bank is compliant for the years ended December 31, 2021 and December 31, 2020.

28. Commitments and Contingencies

In the normal course of the Bank's operations, there are various outstanding commitments and contingent liabilities, such as commitments to extend credit and similar arrangements which are not reflected in the accompanying financial statements. No material losses are anticipated as a result of these transactions.

29. Other Matter - Continuing Impact of COVID-19

The COVID-19 outbreak has spread across the globe causing disruptions to businesses and economic activities. On January 30, 2020, the World Health Organization announced COVID-19 as a global health emergency and, on March 11, 2020, declared it as a pandemic.

As at the date of BOD's approval of the financial statements, lloilo Province has been placed under Alert Level 1, which allows for, among others, normal movements of people provided they continue to wear face masks, maintain social distancing, and observe other necessary health protocols; work in all sectors; companies can operate at 100% capacity; and resumption of public transportation, among others.

The Bank has assessed that although COVID-19 will not have significant effect on its ability to continue as a going concern, it will still have continuing impact on its operations. The pandemic generally affected the whole economy with some sectors impacted severely, including financial services. The major income source of banking is lending. Coupled with sporadic local lockdown and restrictions, the Bank took cautious steps towards lending resulting to periodic dips in the loan portfolio. This led to reduce earnings, higher account delinquencies and increased allowances for credit losses. This is evidenced by the Bank's year-end bottomline.

30. Significant Accounting Policies

The Bank has consistently applied the following accounting policies to all periods presented in these financial statements, except for the amendments to standards as discussed below.

Adoption of Amendments to Standards

The Bank has adopted the following amendments to standards starting January 1, 2021 and accordingly, changed its accounting policies. Except as otherwise indicated, the adoption of these amendments to standards did not have any significant impact on the Bank's financial statements.

 COVID-19-Related Rent Concessions beyond 30 June 2021 (Amendment to PFRS 16, Leases). The amendment extends the practical expedient introduced in the 2020 amendment which simplified how a lessee accounts for rent concessions that are a direct consequence of COVID-19, permitting lessees to apply the practical expedient to rent concessions for which any reduction in lease payments affects only payments originally due on or before June 30, 2022.

The amendment is effective for annual reporting periods beginning on or after April 1, 2021. Earlier application is permitted. A lessee applies the amendments retrospectively, recognizing the cumulative effect of the amendments as an adjustment to the opening balance of retained earnings or other component of equity, as appropriate. The adoption is mandatory for lessees that chose to apply the practical expedient introduced by the 2020 amendments and may result in reversal of lease modifications that was ineligible for the practical expedient under the 2020 amendments, but becomes eligible as a result of the extension.

Financial Assets and Liabilities

Recognition and Measurement

The Bank initially recognizes loans and advances to customers on the date on which they are originated. All other financial instruments (including regular-way purchases and sales of financial instruments) are recognized on the trade date, which is the date on which the Bank becomes a party to the contractual provisions of the instrument. A financial asset or financial liability is measured initially at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue.

Classification

Financial Assets

On initial recognition, a financial asset is measured at: amortized cost, FVOCI or FVTPL.

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at FVTPL:

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

A debt security is measured at FVOCI only if it meets both of the following conditions and is not designated as at FVTPL:

- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI.

On initial recognition of an equity investment that is not held for trading, the Bank may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an investment-by-investment basis.

All other financial assets are classified as measured at FVTPL.

In addition, on initial recognition, the Bank may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortized cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Business Model Assessment

The Bank makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

 the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest income, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of any liabilities or expected sale of the assets;

- how the performance of the portfolio is evaluated and reported to the Bank's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed; and
- how managers of the business are compensated e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected.

Financial assets that are held for trading and whose performance is evaluated on a fair value basis are measured at FVTPL.

Assessment of Whether Contractual Cash Flows are SPPI

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin.

In assessing whether the contractual cash flows are SPPI, the Bank considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Bank considers:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms; and
- terms that limit the Bank's claim to cash flows from specified assets (e.g. non-recourse asset arrangements).

'Day 1' Difference

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

Reclassification

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Bank changes its business model for managing financial assets.

Subsequent Measurement and Gains and Losses

 Financial assets at FVTPL - Measured at fair value. Net gains and losses, including any interest or dividend income, are recognized in profit or loss;

- Financial assets at amortized cost Measured at amortized cost using effective interest method. The amortized cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognized in profit or loss. Any gain or loss on derecognition is recognized in profit or loss;
- Debt securities at FVOCI Measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognized in profit or loss. Other net gains and losses are recognized in OCI. On derecognition, gains and losses accumulated in OCI are reclassified to profit or loss; and
- Equity investments at OCI Measured at fair value. Dividends are recognized as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of investment. Other net gains and losses are recognized in OCI and are never reclassified to profit or loss.

Financial Liabilities

Financial liabilities are subsequently measured at amortized cost using the effective interest method, except where the Bank designates liabilities at FVTPL.

Derecognition

Financial Assets

The Bank derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Bank neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognized) and the sum of the consideration received (including any new asset obtained less any new liability assumed) and any cumulative gain or loss that had been recognized in OCI is recognized in profit or loss.

The Bank enters into transactions whereby it transfers assets recognized on its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. In such cases, the transferred assets are not derecognized. Examples of such transactions are securities lending and sale-and-repurchase transactions.

Any cumulative gain or loss recognized in respect of equity investment securities designated as at FVOCI is not recognized in profit or loss on derecognition of such securities. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Bank is recognized as a separate asset or liability.

In transactions in which the Bank neither retains nor transfers substantially all of the risks and rewards of ownership of a financial asset and it retains control over the asset, the Bank continues to recognize the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

Financial Liabilities

The Bank derecognizes a financial liability when its contractual obligations are discharged or cancelled, or expired.

Impairment: Nonderivative Financial Assets
The Bank recognizes loss allowances for ECLs on:

- financial assets that are debt instruments;
- lease receivables:
- financial guarantee contracts issued; and
- loan commitments issued.

The Bank measures allowance for impairment losses at an amount equal to lifetime ECL, except for the following, for which they are measured as 12-month ECL:

- debt investment securities that are determined to have low credit risk at the reporting date; and
- other financial instruments (other than lease receivables) on which credit risk has not increased significantly since their initial recognition.

Loss allowances for lease receivables are always measured at an amount equal to lifetime ECLs.

12-month ECL are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Financial instruments for which a 12-month ECL is recognized are referred to as 'Stage 1 financial instruments'.

Lifetime ECL are the ECL that result from all possible default events over the expected life of the financial instrument. Financial instruments for which a lifetime ECL is recognized but which are not credit-impaired are referred to as 'Stage 2 financial instruments' otherwise are referred to as 'Stage 3 financial instruments'.

Measurement of ECL

ECLs are a probability-weighted estimate of credit losses. They are measured as follows:

- financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Bank expects to receive);
- financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows:
- undrawn loan commitments: as the present value of the difference between the contractual cash flows that are due to the Bank if the commitment is drawn down and the cash flows that the Bank expects to receive; and
- financial guarantee contracts: the expected payments to reimburse the holder less any amounts that the Bank expects to recover.

Restructured Financial Assets

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognized and ECLs are measured as follows:

- if the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset; and
- if the expected restructuring will result in derecognition of the existing asset, then
 the expected fair value of the new asset is treated as the final cash flow from the
 existing financial asset at the time of its derecognition. This amount is included in
 calculating the cash shortfalls from the existing financial asset that are
 discounted from the expected date of derecognition to the reporting date using
 the original effective interest rate of the existing financial asset.

Credit-impaired Financial Assets

At each reporting date, the Bank assesses whether financial assets carried at amortized cost are credit-impaired (referred to as 'Stage 3 financial assets'). A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the borrower or issuer;
- a breach of contract such as a default or past due event;
- the restructuring of a loan or advance by the Bank on terms that the Bank would not consider otherwise;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganization; or
- the disappearance of an active market for a security because of financial difficulties.

Presentation of Allowance for ECL in the Statement of Financial Position
Loss allowances for ECL are presented in the statement of financial position as
follows:

- financial assets measured at amortized cost: as a deduction from the gross carrying amount of the assets;
- loan commitments and financial guarantee contracts: generally, as a provision;
- where a financial instrument includes both a drawn and an undrawn component, and the Bank cannot identify the ECL on the loan commitment component separately from those on the drawn component: the Bank presents a combined allowance for impairment losses for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the allowance for impairment losses over the gross amount of the drawn component is presented as a provision; and

 debt securities measured at FVOCI: no allowance for impairment losses is recognized in the statement of financial position because the carrying amount of these assets is their fair value. However, the allowance for impairment losses is disclosed and is recognized in the fair value reserve.

Write-off

Loans and debt securities are written off (either partially or in full) when there is no realistic prospect of recovery. This is generally the case when the Bank determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. This assessment is carried out at the individual asset level.

Recoveries of amounts previously written off are included in 'recovery of previously written off accounts' in the statement of profit or loss and other comprehensive loss.

Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Bank currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realize the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted under PFRSs, or for gains and losses arising from a group of similar transactions.

Fair Value Measurement

'Fair value' is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Bank has access at that date. The fair value of a liability reflects its non-performance

When one is available, the Bank measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as 'active' if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the Bank uses valuation techniques that maximize the use of relevant observable inputs and minimize the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

The best evidence of the fair value of a financial instrument on initial recognition is normally the transaction price - i.e. the fair value of the consideration given or received. If the Bank determines that the fair value on initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique for which any unobservable inputs are judged to be insignificant in relation to the measurement, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value on initial recognition and the transaction price. Subsequently, that difference is recognized in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

If an asset or a liability measured at fair value has a bid price and an ask price, then the Bank measures assets and long positions at a bid price and liabilities and short positions at an ask price.

Portfolios of financial assets and financial liabilities that are exposed to market risk and credit risk that are managed by the Bank on the basis of the net exposure to either market or credit risk are measured on the basis of a price that would be received to sell a net long position (or paid to transfer a net short position) for the particular risk exposure. Portfolio-level adjustments - e.g. bid-ask adjustment or credit risk adjustments that reflect the measurement on the basis of the net exposure - are allocated to the individual assets and liabilities on the basis of the relative risk adjustment of each of the individual instruments in the portfolio.

The fair value of a financial liability with a demand feature (e.g. a demand deposit) is not less than the amount payable on demand, discounted from the first date on which the amount could be required to be paid.

The Bank recognizes transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

Cash and Cash Equivalents

For purposes of reporting cash flows, cash and cash equivalents include cash and other cash items, and amounts due from BSP and other banks that are convertible to known amounts of cash with original maturities of three months or less from dates of placements and that are subject to insignificant risk of changes in value. The components of cash and cash equivalents are shown in the statement of cash flows. Cash and cash equivalents are carried at amortized cost in the statement of financial position.

Property and Equipment

Items of property and equipment is measured at its cost, which comprises its purchase price and any directly attributable costs of bringing the asset to the location and condition for its intended use.

Subsequent expenditures are added to the carrying amount of the asset when it is probable that future economic benefits associated with the asset, in excess of the originally assessed standard of performance, will flow to the Bank. The costs of day-to-day servicing of an asset are recognized as an expense in the period in which they are incurred.

The cost of self-constructed assets includes the cost of materials and direct labor, any other costs directly attributable to bringing the assets to a working condition for their intended use, the costs of dismantling and removing the items and restoring the site on which they are located, if any.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets.

The estimated useful lives are as follows:

| | Number of Years |
|-----------------------------------|-----------------|
| Buildings | 12 |
| Furniture, fixtures and equipment | 0.5 to 5 |

The depreciation methods and useful lives are reviewed at each reporting date to ensure that the period and methods of depreciation are consistent with the expected pattern of economic benefits from the assets.

Construction-in-progress is stated at cost and is not depreciated until such time that assets are put into operational use.

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

When an asset is disposed of, or is permanently withdrawn from use and no future economic benefits are expected from its disposal, the cost and accumulated depreciation and impairment losses, if any, are removed from the accounts and any resulting gain or loss arising from the retirement or disposal is reflected in current operations.

Investment Properties

Investment properties are accounted for using cost model. Under this model, investment properties are measured at cost less accumulated depreciation and any accumulated impairment losses. An investment property acquired through an exchange transaction is measured at the fair value of the asset acquired unless the fair value of such an asset cannot be measured in which case the investment property acquired is measured at the carrying amount of the asset given up. Foreclosed properties are classified under 'Investment properties' upon:

- · entry of judgment in case of judicial foreclosure;
- · execution of Sheriff's Certificate of Sale in case of extra-judicial foreclosure; or
- notarization of Deed of Dacion in case of payment in kind (dacion en pago).

When the use of a property changes such that it is reclassified as property and equipment, its fair value at the date of reclassification becomes its cost for subsequent accounting.

Direct operating expenses related to investment properties, such as repairs and maintenance costs, are normally charged to profit or loss in the year in which the costs are incurred.

Subsequent to initial recognition, depreciable investment properties are carried at cost less accumulated depreciation and any impairment in value. Depreciation is computed on a straight-line basis over the estimated useful lives of the investment properties of 10-20 years.

Investment properties are derecognized when it has either been disposed of or when the investment properties are permanently withdrawn from use and no future benefit is expected from its disposal. Any gains and losses on derecognition of investment properties are recognized in profit and loss in the year of derecognition.

Impairment of Nonfinancial Assets

Property and Equipment, Investment Properties, and Right-of-Use Assets

The carrying amounts of the Bank's nonfinancial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the assets' recoverable amount is estimated.

Any impairment loss is recognized if the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognized in profit or loss.

The recoverable amount of an asset is the greater of its value in use and its fair value less costs of disposal. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In respect of nonfinancial assets, impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined at reversal date, net of depreciation or amortization, if no impairment loss had been recognized.

Leases

At inception of a contract, the Bank assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Bank uses the definition of a lease in PFRS 16.

Bank as Lessee

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

The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Bank's IBR. Generally, the Bank uses its IBR as the discount rate.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Bank is reasonably certain to
 exercise, lease payments in an optional renewal period if the Bank is reasonably
 certain to exercise an extension option, and penalties for early termination of a
 lease unless the Bank is reasonably certain not to terminate early.

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Bank's estimate of the amount expected to be payable under a residual value guarantee, if the Bank changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Bank presents right-of-use asset that do not meet the definition of investment property and property and equipment in 'right-of-use assets' and lease liability in 'lease liabilities' in the statement of financial position.

Short-term Leases

The Bank has elected not to recognize right-of-use assets and lease liabilities for short-term leases. The Bank recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

COVID-19-Related Rent Concessions

The Bank has applied COVID-19-related rent concessions. The Bank applies the practical expedient allowing it not to assess whether eligible rent concessions that are a direct consequence of the COVID-19 pandemic are lease modifications. The Bank applies the practical expedient consistently to contracts with similar characteristics and in similar circumstances. For rent concessions in leases to which the Bank chooses not to apply the practical expedient, or that do not qualify for the practical expedient, the Bank assesses whether there is a lease modification.

Equity

Capital Stock

Capital stocks are classified as equity. Incremental costs directly attributable to the issuance of ordinary stocks and stock options are recognized as deduction from equity, net of any tax effects.

Dividends on Common Stocks

Dividends on common stocks are recognized as a liability and deducted from equity when approved by the BOD or respective shareholders of the Bank. Dividends for the year that are approved after the financial reporting date are dealt with as subsequent event.

Retained Earnings

Retained earnings include profit or loss attributable to the equity holders of the Bank and reduced by dividends on capital stock. It may also include changes in accounting policy to the extent practicable, except when the transition provisions in other standards require otherwise, restatements to correct errors, all current and prior period results as disclosed in the statement of profit or loss and comprehensive loss.

Appropriated Retained Earnings

Appropriated retained earnings are portions of retained earnings that are set aside for a specific purpose and are not available for dividend distributions.

Unappropriated Retained Earnings

Unappropriated retained earnings are portion of retained earnings that are not classified as appropriated retained earnings and are available for dividend distributions.

Revenue Recognition

Revenue is recognized to the extent that it is probable that economic benefits will flow to the Bank and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received.

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 a principal or agent. The Bank concluded that it is acting as a principal in all of its revenue arrangements, except for fees and commissions.

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

Revenues within the scope of PFRS 15:

Service Charges

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

Fees and Commissions

Fees and commissions arising from providing transaction services are recognized upon completion of the transaction. Fees are linked to a certain performance of a service or a condition and are recognized after performing the service or fulfilling the condition.

Gains

Gain on sale of properties is recognized when control transfers to the recipient. Gains are measured as the excess of selling price of the property over carrying amount at the time of sale.

Revenue outside the scope of PFRS 15:

Interest Income

Interest income is recognized using the effective interest method at the effective interest rate of a particular financial asset. The effective interest rate is the rate that exactly discounts the estimated future cash receipts through the expected life of a financial asset to the net carrying amount of that financial asset.

The calculation of the effective interest rate includes all origination fees, transaction costs, and discounts or premiums. Origination fees are incremental fees and charges received by the Bank in facilitating a transaction involving a financial asset. For the loans to customers, origination fees include service fees and charges.

On the other hand, transaction costs are incremental costs that are directly attributable to the acquisition or disposal of a financial asset.

Recovery of Previously Written off Accounts

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

Expense Recognition

Expenses are decreases in economic benefits during the accounting period in the form of outflows or decreases of assets or incurrence of liabilities that result in decrease in equity, other than those relating to distributions to equity holders. Expenses are recognized in profit or loss in the year these are incurred.

Income Taxes

Income tax expense for the year comprises current and deferred tax. Income tax is recognized in profit or loss except to the extent that it relates to items recognized directly in equity or in OCI, in which case it is recognized in equity or OCI, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax base. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amounts of assets and liabilities, using tax rates enacted or substantively enacted at the reporting date.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized. The deferred tax asset is reviewed at each reporting date and reduced, if appropriate.

The Bank offsets deferred tax assets and deferred tax liabilities if the Bank has a legally enforceable right to set off current tax assets against current tax liabilities; and the deferred tax assets and the deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realize the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

Retirement Liability

The Bank has no established retirement plan for its permanent employees and only conforms to the minimum regulatory benefit under the Republic Act No. 7641, Retirement Pay Law, which is of the defined benefit type. The retirement cost of the Bank is determined using the projected unit credit method. Under this method, the current service cost is the present value of retirement liability in the future with respect to services rendered in the current year.

Projected unit credit method reflects services rendered by employees to the date of valuation and incorporates assumptions concerning employees' projected salaries. Actuarial gains and losses are recognized in full in the period in which they occur in OCI. Such actuarial gains and losses are also immediately recognized in equity and are not reclassified to profit or loss in subsequent period.

The retirement liability is the aggregate of the present value of the amount of future benefit that employees have earned in return for their service in the current and prior periods. Defined benefit costs comprise the following:

- service costs;
- net interest on the defined benefit retirement liability; and
- remeasurements of defined benefit retirement liability

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

Net interest on the defined benefit retirement liability is the change during the period as a result of contributions and benefit payments, which is determined by applying the discount rate based on the government bonds to the defined benefit retirement liability. Net interest on the defined benefit retirement liability is recognized as expense or income in profit or loss.

Remeasurements of DBO comprising actuarial gains and losses are recognized immediately in OCI in the period in which they arise under "Employee benefits reserve", net of income tax effect.

Short-term Employee Benefits

Short-term employee benefits are expensed as the related service is provided. A liability is recognized for the amount expected to be paid if the Bank has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

Other Long-term Employee Benefits

The Bank's net obligation in respect of long-term employee benefits is the amount of future benefit that employees have earned in return for their service in the current and prior periods. That benefit is discounted to determine its present value. Remeasurements are recognized in profit or loss in the period in which they arise.

Provisions

Provisions are recognized when the Bank has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as interest expense.

Contingencies

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

Related Party Transactions

Parties are considered related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control. Related parties may be individuals or corporate entities. In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form. The transactions with each related parties, together with the terms, conditions and outstanding balances, are disclosed in the financial statements.

Events After the End of the Reporting Period

The Bank identifies post-yearend events as events that occurred after the reporting period but before the date when the financial statements were authorized for issue. Any post-yearend events that provide additional information about the Bank's financial position or performance at the end of a reporting period (adjusting events) are reflected in the financial statements. Post-yearend events that are not adjusting events are disclosed in the notes to the financial statements when material.

Amendments to Standard Not Yet Adopted

A number of amendments to standard is effective for annual periods beginning January 1, 2022 and January 1, 2023 and earlier application is permitted; however, the Bank has not early adopted these amendments to standards in preparing these financial statements. The following amendments to standards are not expected to have significant impact on the Bank's financial statements.

To be Adopted on January 1, 2022

Property, Plant and Equipment - Proceeds before Intended Use (Amendments to PAS 16, Property, Plant and Equipment). The amendments prohibit an entity from deducting from the cost of an item of property, plant and equipment the proceeds from selling items produced before that asset is available for use. The proceeds before intended use should be recognized in profit or loss, together with the costs of producing those items which are identified and measured in accordance with PAS 2, Inventories.

The amendments also clarify that testing whether an item of property, plant and equipment is functioning properly means assessing its technical and physical performance rather than assessing its financial performance.

For the sale of items that are not part of a company's ordinary activities, the amendments require the company to disclose separately the sales proceeds and related production cost recognized in profit or loss and specify the line items in which such proceeds and costs are included in the statement of comprehensive income. This disclosure is not required if such proceeds and cost are presented separately in the statement of comprehensive income.

The amendments are effective for annual reporting periods beginning on or after January 1, 2022. Earlier application is permitted. The amendments apply retrospectively, but only to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented in the financial statements in which the company first applies the amendments.

 Onerous Contracts - Cost of Fulfilling a Contract (Amendment to PAS 37, *Provisions*, Contingent Liabilities and Contingent Assets). The amendments clarify that the cost of fulfilling a contract when assessing whether a contract is onerous includes all costs that relate directly to a contract - i.e. it comprise both incremental costs and an allocation of other direct costs.

The amendments are effective for annual reporting periods beginning on or after January 1, 2022 to contracts existing at the date when the amendments are first applied. At the date of initial application, the cumulative effect of applying the amendments is recognized as an opening balance adjustment to retained earnings or other component of equity, as appropriate. The comparatives are not restated. Earlier application is permitted.

- Fees in the '10 per cent' Test for Derecognition of Financial Liabilities (Amendment to PFRS 9). The amendment clarifies that for the purpose of performing the '10 per cent' test for derecognition of financial liabilities, the fees paid net of fees received included in the discounted cash flows include only fees paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. It applies to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment.
- Lease Incentives (Amendment to PFRS 16). The amendment deletes the reimbursement relating to leasehold improvements to remove the potential for confusion because the example had not explained clearly enough the conclusion as to whether the reimbursement would meet the definition of a lease incentive in PFRS 16.

To be Adopted on January 1, 2023

- Classification of Liabilities as Current or Noncurrent (Amendments to PAS 1, *Presentation of Financial Statements*). To promote consistency in application and clarify the requirements on determining whether a liability is current or noncurrent, the amendments:
 - removed the requirement for a right to defer settlement of a liability for at least 12 months after the reporting period to be unconditional and instead requires that the right must have substance and exist at the end of the reporting period;
 - clarified that a right to defer settlement exists only if the company complies with conditions specified in the loan agreement at the end of the reporting period, even if the lender does not test compliance until a later date; and
 - clarified that settlement of a liability includes transferring a company's own
 equity instruments to the counterparty, but conversion options that are
 classified as equity do not affect classification of the liability as current or
 non-current.

The amendments apply retrospectively for annual reporting periods beginning on or after January 1, 2023. Earlier application is permitted.

In November 2021, the International Accounting Standards Board issued the Exposure Draft, Noncurrent Liabilities with Covenants after considering stakeholder feedback on the December 2020 tentative agenda decision issued by the IFRS Interpretations Committee about the amendments. The exposure draft proposes to again amend IAS 1 as follows:

- Conditions which the entity must comply within twelve months after the reporting period will have no effect on the classification as current or noncurrent.
- Additional disclosure requirements will apply to non-current liabilities subject to such conditions to enable the assessment of the risk that the liability could become repayable within twelve months.
- Separate presentation in the statement of financial position will be required for non-current liabilities for which the right to defer settlement is subject to conditions within 12 months after the reporting period.
- The effective date of the amendments will be deferred to no earlier than January 1, 2024.

Comments on the Exposure Draft was due on March 21, 2022.

Definition of Accounting Estimates (Amendments to PAS 8, Accounting Policies, Changes in Accounting Estimates and Errors). To clarify the distinction between changes in accounting policies and changes in accounting estimates, the amendments introduce a new definition for accounting estimates, clarifying that they are monetary amounts in the financial statements that are subject to measurement uncertainty. The amendments also clarify the relationship between accounting policies and accounting estimates by specifying that an accounting estimate is developed to achieve the objective set out by an accounting policy. Developing an accounting estimate includes both selecting a measurement technique and choosing the inputs to be used when applying the chosen measurement technique. The effects of changes in such inputs or measurement techniques are changes in accounting estimates. The definition of accounting policies remain unchanged. The amendments also provide examples on the application of the new definition.

The amendments are effective for annual reporting periods beginning on or after January 1, 2023, with earlier application permitted, and will apply prospectively to changes in accounting estimates and changes in accounting policies occurring on or after the beginning of the first annual reporting period in which the amendments are applied.

- Disclosure of Accounting Policies (Amendments to PAS 1 and PFRS Practice Statement 2, Making Materiality Judgements). The amendments are intended to help companies provide useful accounting policy disclosures. The key amendments to PAS 1 include:
 - requiring companies to disclose their material accounting policies rather than their significant accounting policies;
 - clarifying that accounting policies related to immaterial transactions, other events or conditions are themselves immaterial and as such need not be disclosed; and

 clarifying that not all accounting policies that relate to material transactions, other events or conditions are themselves material to a company's financial statements.

The amendments to PFRS Practice Statement 2 includes guidance and additional examples on the application of materiality to accounting policy disclosures.

The amendments are effective from January 1, 2023. Earlier application is permitted.

• Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to PAS 12, Income Taxes). The amendments clarify that that the initial recognition exemption does not apply to transactions that give rise to equal taxable and deductible temporary differences such as leases and decommissioning obligations. The amendments apply for annual reporting periods beginning on or after January 1, 2023. Earlier application is permitted. For leases and decommissioning liabilities, the associated deferred tax assets and liabilities will be recognized from the beginning of the earliest comparative period presented, with any cumulative effect recognized as an adjustment to retained earnings or other appropriate component of equity at that date. For all other transactions, the amendments apply to transactions that occur after the beginning of the earliest period presented.

31. Supplementary Information Required Under BSP Circular No. 1074

On February 7, 2020, the BSP issued Circular No. 1074, Amendments to Regulations on Financial Audit of Banks, to amend certain provisions of the latest MORB and latest Manual of Regulations for Foreign Exchange Transactions. The Circular provides for new and amended disclosure requirements to the audited financial statements, which are to be presented either: (i) on specific notes to the financial statements, or (ii) in a separate note containing supplementary information as required by the BSP. This supplementary information is not a required disclosure under PFRSs.

In compliance with the requirements set forth by Circular No. 1074, hereunder are the supplementary information:

A. Financial Performance Indicators

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

| | 2021 | 2020 | |
|--------------------------|--------|--------|--|
| Return on average equity | -0.80% | -7.42% | |
| Return on average assets | -0.23% | -2.19% | |
| Net interest margin | 22.16% | 20.45% | |

B. Capital Instruments

The Bank considers its capital stock as capital instrument for purposes of calculating its capital adequacy ratio as at December 31, 2021 and 2020.

C. Significant Credit Exposures as to Industry or Economic Sector

As at December 31, 2021 and 2020, information on the concentration of credit as to industry or economic sector, net of unamortized interest and discounts, are as follows:

| | 2021 | | | 2020 | |
|--|--------------|-------|---|-------|--|
| | Amount | % | Amount | - 5 | |
| Wholesale and retail trade, and repair of motor | | | | | |
| vehicles, motorcycles | P269,908,244 | 63.69 | P294,102,182 | 69.04 | |
| Accommodation and food service activities | 52,728,513 | 12.44 | 18.884.181 | 4.43 | |
| Other service activities | 36,549,468 | 8.62 | 27,918,320 | 6.55 | |
| Agriculture, forestry and fishing | 20,817,021 | 4.91 | 40,117,775 | 9.42 | |
| Real estate activities | 15,991,409 | 3.77 | 19,741,502 | 4.63 | |
| Transportation and storage | 7,127,085 | 1.68 | 8.044,588 | 1.89 | |
| Personal consumption | 6,932,155 | 1.64 | 5,808,591 | 1.36 | |
| Education | 5,166,265 | 1.22 | 4,708,457 | 1.11 | |
| Water supply, sewerage, waste management and | | | 150000000000000000000000000000000000000 | | |
| remediation activities | 4,934,816 | 1.16 | 815,351 | 0.19 | |
| Manufacturing | 1,433,348 | 0.34 | 3,152,329 | 0.74 | |
| Construction | 1,234,604 | 0.29 | 858,352 | 0.20 | |
| Human health and social work activities | 618,299 | 0.15 | 833,405 | 0.20 | |
| Electricity, gas, steam and air conditioning supply | 124,582 | 0.03 | 213,316 | 0.05 | |
| Information and communication | 73,864 | 0.02 | 189,741 | 0.04 | |
| Arts, entertainment and recreation | 72,920 | 0.02 | 36,292 | 0.0 | |
| Professional, scientific, and technical activities | 68,208 | 0.02 | 101,771 | 0.02 | |
| Administrative and support service activities | 23,252 | 0.01 | 300,552 | 0.07 | |
| Activities of households as employers and undifferentiated goods-and-services-producing | 555.00 | | | | |
| activities of households for own use | - | - | 112,932 | 0.03 | |
| Mining and quarrying | | | 34,293 | 0.0 | |
| | P423,804,053 | 100 | P425,973,930 | 100 | |

The BSP considers that concentration of credit exists when total loan exposure to a particular industry or a particular economic sector exceeds 30% of total loan portfolio or 10.0% of Tier 1 capital. Management believes that the Bank's credit concentration in loans to "Wholesale and retail trade, and repair of motor vehicles, and motorcycles" as at December 31, 2021 and 2020 is justifiable considering that it correlates with the nature of its operation as a rural bank, whose main customers are group of individual entrepreneurs with businesses mostly operating in wholesale and retail industry, repair of motor vehicles and motorcycles.

As at December 31, 2021 and 2020, 10.0% of Tier 1 capital amounted to P25.65 million and P23.93 million, respectively. The tables above include three industry groups exceeding these levels as of these periods.

D. Breakdown of Total Loans as to Security and Status

The following table shows the breakdown of loans to customers, net of unamortized interest and discounts, as to secured and unsecured and the breakdown of loans to customers as to the type of security as at December 31, 2021 and 2020:

| | 2021 | | | 2020 | |
|----------------------|--------------|-------|--------------|-------|--|
| | Amounts | % | Amounts | % | |
| Secured: | | | | | |
| Real estate mortgage | P37,052,185 | 8.74 | P48,391,634 | 11.36 | |
| Chattel mortgage | 1,979,105 | 0.47 | 1,347,029 | 0.32 | |
| Others | | | 17,708 | 0 | |
| | 39,031,290 | 9.21 | 49,756,371 | 11.68 | |
| Unsecured | 384,772,763 | 90.79 | 376,217,559 | 88.32 | |
| | P423,804,053 | 100 | P425,973,930 | 100 | |

The following table shows the breakdown of loans to customers, net of unamortized interest and discounts, as to performing and non-performing loans as at December 31, 2021 and 2020:

| | 2021 | 2020 |
|--|--------------|--------------|
| Performing loans | P342,525,964 | P334,404,606 |
| Non-performing loans | 81,278,089 | 91,569,324 |
| | 423,804,053 | 425,973,930 |
| Allowance attributable to performing loans Allowance attributable to non-performing | (59,595,291) | (42,602,667) |
| loans | (14,141,384) | (11,665,800) |
| | (73,736,675) | (54,268,467) |
| | P350,067,378 | P371,705,463 |

In accordance with Section 304, Past Due Accounts and Non-performing Loans, of the latest MORB, loans, investments, receivables, or any financial asset shall be considered non-performing, even without any missed contractual payments, when it is considered impaired under existing accounting standards, classified as doubtful or loss, in litigation, and/or there is evidence that full repayment of principal and interest is unlikely without foreclosure of collateral, if any. All other loans, even if not considered impaired, shall be considered non-performing if any principal and/or interest are unpaid for more than 90 days from contractual due date, or accrued interests for more than 90 days have been capitalized, refinanced, or delayed by agreement. 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.

E. Information on Related Party Loans

DOSRI transactions usually arise from normal banking activities such as lending, borrowing, deposit arrangements and trading of securities, among others. Under existing policies of the Bank, these transactions are made substantially on the same terms as with other individuals and businesses of comparable risks.

Under Section 344, *Individual Ceilings*, of the latest MORB, the total outstanding loans, other credit accommodations and guarantees to each of the bank's DOSRI shall be limited to an amount equivalent to their respective unencumbered deposits and book value of their paid-in capital contribution in the bank. Provided, however, that unsecured loans, other credit accommodations and guarantees to each of the bank's DOSRI shall not exceed 30% of their respective total loans, other credit accommodations and guarantees.

Under Section 345, Aggregate Ceiling, of the latest MORB, loans to DOSRI generally should not exceed the lower of the bank's net worth or fifteen percent (15%) of the total loan portfolio. Provided, however, that unsecured loans, other credit accommodations and guarantees to each of the bank's DOSRI shall not exceed 30% of the aggregate ceiling or the outstanding loans, other credit accommodations and guarantees, whichever is lower.

The Bank is in compliance with such MORB provisions as at December 31, 2021 and 2020.

The following table shows information relating to DOSRI loans as part of loans to customers:

| | | 2021 | | 2020 | |
|---|---|------|---|------|--|
| Total outstanding loans to Bank's DOSRI | P | | P | | |
| Percent of DOSRI loans to total loan portfolio | | 0% | | 0% | |
| Percent of unsecured DOSRI loans to total DOSRI loans | | 0% | | 0% | |
| Percent of past due DOSRI loans to total DOSRI loans | | 0% | | 0% | |
| Percent of non-performing DOSRI loans to total DOSRI | | | | | |
| loans | | 0% | | 0% | |

F. Aggregate Amount of Secured Liabilities and Assets Pledged as Security

The Bank has no secured liabilities and assets pledged as security as at December 31, 2021.

G. Commitments and Contingent Liabilities

The Bank has no contingencies and commitments arising from off-balance sheet items as at December 31, 2021.

Other relevant disclosures required under BSP Circular No. 1074 are in the audited financial statements under Notes 25, 26, and 27.

32. Supplementary Information Required Under RR No. 15-2010 of the BIR

In addition to the disclosures mandated under PFRSs, and such other standards and/or conventions as may be adopted, companies are required by the BIR to provide in the notes to the financial statements, certain supplementary information for the taxable year. The amounts relating to such supplementary information may not necessarily be the same with those amounts disclosed in the notes to the basic financial statements which were prepared in accordance with PFRSs. The following is the supplementary tax information required for the taxable year ended December 31, 2021:

A. Withholding Taxes

| Final withholding taxes on interest paid on deposits | P2,741,988 | |
|--|------------|--|
| Tax on compensation and benefits | 782,820 | |
| Expanded withholding taxes | 703,579 | |
| Final withholding taxes on deposit account of decedent | 87,913 | |
| | P4,316,300 | |

B. All Other Taxes (Local and National)

| Other taxes paid during the year recognized under "Taxes and licenses" account under Other expenses | |
|--|-------------|
| Gross receipts tax | P11,488,294 |
| Documentary stamps | 2,159,731 |
| License and permit fees | 875,808 |
| Real estate tax | 271,130 |
| Others | 1,763,414 |
| | P16,558,377 |

C. Tax Cases and Assessments

On October 3, 2018, the Bank received a Letter of Authority from the BIR to examine their books of accounts and other accounting records for all internal revenue taxes for the year ended December 31, 2017. On May 28, 2021, the Bank has settled the deficiency taxes due amounting to P1.71 million. As at December 31, 2021, the Bank has no pending tax cases and assessments.

OUR PARTNERS

















MEMBER







