COVER SHEET

A 1 9 9 7 0 1 5 8 4

S.E.C. Registration Number

P H I L I P P I N E B U S I N E S S B A N K , I N C .

a savings bank

(Company's Full Name)

350 RIZAL AVENUE EXTENSION

CORNER 8TH AVENUE GRACE PARK

CALOOCAN CITY

(Business Address: No. Street City / Town / Province)

Rolando G. Alvendia

Contact Person

8461-5800 local 5100

Company Telephone Number

Month Day

Fiscal Year

SEC FORM 17-Q

FORM TYPE

Month Day

Annual Meeting

Secondary License Type, if Applicable

Dept. Requiring this Doc.

Amended Articles Number/Section

Total Amount of Borrowings

Total No. of Stockholders

Domestic

Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document I.D.

Cashier

STAMPS

Remarks = pls. Use black ink for scanning purposes

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-Q

QUARTERLY REPORT PURSUANT TO SECTION 17 OF THE SECURITIES REGULATION CODE AND SRC RULE 17(2) (b) THEREUNDER

1. For the quarterly period ended **June 30, 2022**

2. SEC Identification Number **A199701584** 3. BIR Tax Identification No. **005-469-606**

4. Exact name of issuer as specified in its charter **Philippine Business Bank, Inc.**

5. **Caloocan**
Province, Country or other jurisdiction of incorporation or organization

6. [ ] (SEC Use Only)
Industry Classification Code:

7. **350 Rizal Avenue corner 8th Avenue Grace Park, Caloocan City** **1400**
Address of principal office Postal Code

8. **(02) 8363-3333**
Issuer's telephone number, including area code

9. **Not Applicable**
Former name, former address, and former fiscal year, if changed since last report.

10. Securities registered pursuant to Sections 8 and 12 of the SRC, or Sec. 4 and 8 of the RSA

Title of Each Class	Number of Shares of Common Stock Outstanding and Amount of Debt Outstanding
Common	**643,750,094**

11. Are any or all of the securities listed on a Stock Exchange?

Yes [x] No [ ]

The Bank was listed in Philippine Stock Exchange last February 19, 2013

If yes, state the name of such Stock Exchange and the class/es of securities listed therein:

PHILIPPINE STOCK EXCHANGE **COMMON SHARES OF STOCK**

12. Indicate by check mark whether the registrant:

1. has filed all reports required to be filed by Section 17 of the Code and SRC Rule 17 thereunder or Sections 11 of the RSA and RSA Rule 11(a)-1 thereunder, and Sections 26 and 141 of the Corporation Code of the Philippines, during the preceding twelve (12) months (or for such shorter period the registrant was required to file such reports)

Yes [√]   No [ ]

(b) has been subject to such filing requirements for the past ninety (90) days.

Yes [ ] No [√]

PART I – FINANCIAL INFORMATION

Item I:
Financial Statements (Attachment 1 - Unaudited Interim Financial Statements)

Item II:
Management's Discussion & Analysis of Financial Condition and Results of Operations

PART II – OTHER INFORMATION

Please refer to the following:

Attachment 2 – Aging of Past Due Loans and Other Receivables
Attachment 3 – Consolidated Financial Ratios

There are no material disclosures that have not been reported under SEC Form 17-C during the period covered by this report.

SIGNATURES

Pursuant to the requirements of the Securities Regulation Code, the issuer has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

PHILIPPINE BUSINESS BANK, INC.
Issuer

By:

ROLANDO R. AVANTE
Vice Chairman, President & CEO

CYNTHIA A. ALMIREZ
Operations and Control Group Head

ROLANDO G. ALVENDIA
Chief Accountant

PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

The accompanying financial reporting package (FRP) of Philippine Business Bank ("PBB" or the "Bank") which comprise the Bank's financial position as of June 30, 2022 and December 31, 2021 and the statements of income, statements of comprehensive income, statements of changes in equity and statements of cash flows for the six-month periods ending June 30, 2022 and June 30, 2021 have been prepared in compliance with Philippine Financial Reporting Standards (PFRS).

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Management's Discussion and Analysis

	For the six-months ended 6/30/2022	6/30/2021	Variance	%
Interest income				
Loans and other receivables	₱ 2,332,311,044	₱ 2,865,609,786	(₱ 533,298,742)	(18.6)
Investment and trading securities	362,027,915	214,285,046	147,742,869	68.9
Due from BSP and other banks	123,944,868	90,762,493	33,182,375	36.6
	2,818,283,827	3,170,657,325	(352,373,498)	(11.1)
Interest expense	(322,051,471)	(431,423,496)	109,372,025	(25.4)
Net interest income	**2,496,232,356**	**2,739,233,829**	**(243,001,473)**	**(8.9)**

The Bank recorded a decrease of 18.6% on interest income on loans and other receivables in the first half of 2022. Interest income on securities and due from BSP and other banks registered a 68.9% and 36.6% growth, respectively, as the Bank's placements in the BSP's overnight deposit facility and investment securities were higher within the first six-months of 2022. Overall interest income posted an 11.1% decrease YoY or ₱353.4 million decline from June 2021.

Funding cost improved in the first six-months of 2022, down by 25.4% versus 1H2021 due to lower rates, management of the Bank's deposit portfolio, and the repayment of the corporate notes last January 2022. Interest expense on deposit liabilities was 9.0% lower from ₱346.8 million last year to ₱315.6 million this year.

As a result, net interest income ended at ₱2,496.2 million for the six-months ended June 2022, 8.9% lower YoY.

	For the six-months ended			
	6/30/2022	6/30/2021	Variance	%
Core income				
Net interest income	₱ 2,496,232,356	₱ 2,739,233,829	(₱ 243,001,473)	(8.9)
Service charges, fees and commissions	180,632,099	58,914,768	121,717,331	206.6
Miscellaneous	493,343,622	181,276,543	312,067,079	172.1
	3,170,208,077	2,979,425,140	190,782,937	6.4
Non-interest expenses	(1,786,390,665)	(1,581,758,727)	(204,631,938)	12.9
Core income	**1,383,817,412**	**1,397,666,413**	**(13,849,001)**	**(1.0)**

Other income increased by 180.6% from ₱240.2 million to ₱674.0 million as pre-termination fees grew by ₱106.0 million and income collected from delayed loan payments increased by ₱227.2 million. Operating expenses in the first half of 2022 amounted to ₱1,786.4 million, or 12.9% higher than ₱1,581.8 million last year. The growth was accounted to the ₱109.0 million increase in taxes and licenses and ₱95.0 million growth in salaries and other employee benefits.

As a result, PBB's core income was slightly lower by 1.0% from ₱1,397.7 million last year to ₱1,383.8 million in the first half of 2022.

	For the six-months ended			
	6/30/2022	6/30/2021	Variance	%
Core income	₱ 1,383,817,412	₱ 1,397,666,413	(₱ 13,849,001)	(1.0)
Trading gains (losses)	(204,568,978)	(236,512,398)	31,943,420	(13.5)
Pre-tax pre-provision profit	**1,179,248,434**	**1,161,154,015**	**18,094,419**	**1.6**
LLR build-up (release)	(325,000,000)	(400,000,000)	75,000,000	(18.8)
Profits before tax	854,248,434	761,154,015	93,094,419	12.2
Taxes	(233,964,427)	(237,118,987)	3,154,560	(1.3)
Net income	**620,284,007**	**524,035,028**	**96,248,979**	**18.4**

Pre-tax pre-provision profit ended at ₱1,179.2 million in the first half of 2022, 1.6% higher versus the same period last year as the Bank incurred a lower trading loss this year.

The Bank set aside ₱325.0 million in provisions for loan losses, down by 18.8% from ₱400.0 million last year.

As a result, net income ended at ₱620.3 million as of the first half of 2022, 18.4% higher than the first half last year of ₱524.0 million.

Annualized return on equity (ROE) and annualized return on assets (ROA) stood at 9.14% and 1.00%, respectively.

For the quarters ended June 30, 2022 and March 31, 2022:

		For the quarters ended				
		6/30/2022		3/31/2022	Variance	%
Interest income						
Loans and other receivables	₱	1,149,268,449	₱	1,183,042,595	(₱ 33,774,146)	(2.9)
Investment and trading securities		161,273,657		200,754,258	(39,480,601)	(19.7)
Due from BSP and other banks		49,488,689		74,456,179	(24,967,490)	(33.5)
		1,360,030,795		1,458,253,032	(98,222,237)	(6.7)
Interest expense	(	159,311,790)	(	162,739,681)	3,427,891	(2.1)
Net interest income		**1,200,719,005**		**1,295,513,351**	**(91,366,454)**	**(7.3)**

Interest income in the second quarter of 2022 ended at ₱1,360.0 million, 6.7% lower than ₱1,458.3 million during the first quarter due to the decreases in volume and interest rates. Overall interest expense stood at ₱159.3 million in 2Q2021 versus last quarter's ₱162.7 million. This is partially due to the repayment of corporate notes payable in January 2022.

As a result, net interest income reached ₱1,200.7 million for the quarter ended June 2022, 7.3% higher against 1Q2022's ₱1,295.5 million.

		For the quarters ended				
		6/30/2022		3/31/2022	Variance	%
Core income						
Net interest income	₱	1,200,719,005	₱	1,295,513,351	(₱ 94,794,346)	(7.3)
Service charges, fees and commissions		54,497,956		126,134,143	(71,636,187)	(56.8)
Miscellaneous		291,916,461		201,427,161	90,489,300	44.9
		1,547,133,422		1,623,074,655	(75,941,233)	(4.7)
Non-interest expenses	(	895,637,067)	(	890,753,598)	(4,883,469)	0.5
Core income		**651,496,355**		**732,321,057**	**(80,824,702)**	**(11.0)**

Other income ended at ₱346.4 million in 2Q2022. Service charges, fees, and commissions was lower by 56.8% due to the pretermination fees collected during the first quarter of the year while miscellaneous income was higher by 44.9% as PBB earned income on fees from loan renewal, loan late payment, and trust fees.

Operating expenses slightly grew by 0.5% versus last linked quarter ("LLQ") following the increase in costs related to litigation of acquired assets in the second quarter of 2022 and salaries and compensation expenses.

As a result of the changes in the Bank's key income and expenses, core income posted an 11.0% drop in the second quarter versus the first quarter of 2022.

	For the quarters ended			
	6/30/2022	3/31/2022	Variance	%
Core income	₱ 651,496,355	₱ 732,321,057	(₱ 80,824,702)	(11.0)
Trading gains (losses)	(55,178,988)	(149,389,990)	94,211,002	(63.1)
Pre-tax pre-provision profit	**596,317,367**	**582,931,067**	**13,386,300**	**2.3**
LLR build-up (release)	(175,000,000)	(150,000,000)	(25,000,000)	16.7
Profits before tax	421,317,367	432,931,067	(11,613,700)	(2.7)
Taxes	(110,991,609)	(122,972,818)	11,981,209	(9.7)
Net income	**310,325,758**	**309,958,249**	**367,509**	**0.1**

Pre-tax pre-provision profit during the second quarter was 2.3% higher versus LLQ due to the lower trading losses incurred from ₱149.4 million in 1Q2022 to ₱55.2 million in 2Q.

The Bank set aside an additional ₱175.0 million for its loan loss reserves in 2Q2022.

As a result, net income was flat at ₱310.3 million compared to the first quarter income of ₱310.0 million, slightly higher by 0.1%.

For the quarters ended June 30, 2022 and 2021:

	For the quarters ended			
	6/30/2022	6/30/2021	Variance	%
Interest income				
Loans and other receivables	₱ 1,149,268,449	₱ 1,430,855,665	(₱ 281,587,216)	(19.7)
Investment and trading securities	161,273,657	103,958,213	57,315,444	55.1
Due from BSP and other banks	49,488,689	56,319,721	(6,831,032)	(12.1)
	1,360,030,795	1,591,133,599	(231,102,804)	(14.5)
Interest expense	(159,311,790)	(216,907,774)	57,595,984	(26.6)
Net interest income	**1,200,719,005**	**1,374,225,825**	**(173,506,820)**	**(12.6)**

Overall interest income in the second quarter of 2022 was lower by ₱231.1 million from ₱1,591.1 million in 2Q 2021. Interest income on loans was 19.7% lower compared to the same quarter last year due to the declining interest rate while the decrease in interest income on due from BSP and other banks was because of the higher volume last year.

On the other hand, funding cost continue to decline resulting to the 7.5% decrease in interest expense on deposit liabilities. The decrease in interest expense was also partially due to the prepayment of the Bank's corporate note during the first quarter of 2022.

As a result, net interest income for 2Q2022 stood at ₱1,200.7 million, 12.6% lower than 2Q2021's ₱1,374.2 million.

	For the quarters ended			
	6/30/2022	6/30/2021	Variance	%
Core income				
Net interest income	₱ 1,200,719,005	₱ 1,374,225,825	(₱ 173,506,820)	(12.6)
Service charges, fees and commissions	54,497,956	30,499,017	23,998,939	78.7
Miscellaneous	291,916,461	98,922,085	192,994,376	195.1
	1,547,133,422	1,503,646,927	43,486,495	2.9
Non-interest expenses	(895,637,067)	(831,136,063)	(64,501,004)	7.8
Core income	**651,496,355**	**672,510,864**	**(21,014,509)**	**(3.1)**

Other income in the second quarter of 2022 recorded a 167.7% growth from ₱129.4 million in the same quarter last year. Non-interest expenses were up by 7.8% from ₱831.1 million to ₱895.6 million owing to the increases in taxes and licenses, salaries and other compensation benefits, and security, clerical, messengerial, and janitorial expenses.

As a result, core income was 3.1% lower than the second quarter last year of ₱672.5 million to ₱651.5 million in 2Q2022.

	For the quarters ended			
	6/30/2022	6/30/2021	Variance	%
Core income	₱ 651,496,355	₱ 672,510,864	(₱ 21,014,509)	(3.1)
Trading gains (losses)	(55,178,988)	94,394,538	(149,573,526)	(158.5)
Pre-tax pre-provision profit	**596,317,367**	**766,905,402**	**(170,588,035)**	**(22.2)**
LLR build-up (release)	(175,000,000)	(325,000,000)	150,000,000	(46.2)
Profits before tax	421,317,367	441,905,402	(20,588,035)	(4.7)
Taxes	(110,991,609)	(78,099,094)	(32,892,515)	42.1
Net income	**310,325,758**	**363,806,308**	**(53,480,550)**	**(14.7)**

PBB incurred trading losses this quarter amounting to ₱55.2 million versus the ₱94.4 million trading gain reported in 2Q2021. This brought the pre-tax pre-provision profit to a 22.2% decrease or ₱170.6 million.

Loan loss provision for the second quarter of 2022 reached ₱175.0 million versus ₱325.0 million in the same quarter last year.

As a result, net income posted a 14.7% drop from ₱363.8 million to ₱310.3 million in 2022.

Financial condition as of June 30, 2022 versus December 31, 2021:

Amounts in Thousand Pesos	6/30/2022	12/31/2021	Variance	%
Loans and other receivables	₱ 97,184,608	₱ 91,674,544	₱ 5,510,064	6.0
Non-performing loans	5,511,710	3,978,952	1,532,758	38.5
Loan loss reserves	4,535,500	4,214,380	321,120	7.6
Deposits	104,869,258	112,417,711	(7,548,453)	(6.7)
Assets	124,083,811	132,032,274	(7,948,463)	(6.0)
Equity	13,574,932	14,463,081	(888,149)	(6.1)

Net loans and other receivables, representing 78.32% and 69.43% of the Bank's total assets as of June 2022 and December 2021 respectively, grew to ₱97,184.6 million from ₱91,674.5 million or 6.0% increase YoY. Total assets reached ₱124,083.8 million as of the first half of 2022, down by 6.0% due to the significant deposit withdrawals during the first half of 2022.

The Bank's non-performing loans ended at ₱5,511.7 million as of June 2027. Consequently, the Bank's NPL ratio as of June 2022 ended at 5.63% versus 4.33% in year-end 2021.

PBB's loan loss reserves as of 1H2022 ended at ₱4,535.5 million from ₱4,214.4 million, up 7.6% as a result of the Bank's provisioning in 2022.

Deposit liabilities as of June 30, 2022 stood at ₱104,869.3 million, lower by 6.7% from ₱112,417.7 million as of year-end 2021 on account of the 13.7% decrease in CASA deposit.

Total equity stood at ₱13,574.9 million, down by 6.1% versus ₱14,463.1 million capital in year-end 2021 due to the higher marked-to-market losses of FVOCI. Net book value per share as of June 30, 2022 was at ₱20.12, down by 6.4% from ₱21.50 in December 2021.

A. Key Performance Indicators

Capital Adequacy Ratio (CAR): A measure of a bank's financial strength, stood at 13.45% by the end of the second quarter of 2022, above the 10.00% statutory requirement.

Asset Quality: The Bank's non-performing loans (NPL) ratio increased by 130 basis points to 5.63% as of June 30, 2022 from 4.33% in December 31, 2021.

Profitability: Return on average equity (ROAE) increased from 8.24% as of December 31, 2021 to 8.92% as of June 30, 2022. Return on average assets (ROAA) was 8 basis points higher from 0.93% in year-end 2021 to 1.01% in the first half of 2022.

Liquidity: The Bank's loans-to-deposit ratio stood at 92.67% as of 2Q2022.

Cost efficiency: Cost-to-income ratio was at 60.24% as of June 2022 from 56.27% in December 31, 2021.

B. Discussions on Key Variable and Other Qualitative and Quantitative Factors

Vertical and Horizontal Analysis

Financial Condition (June 30, 2022 vs. December 31, 2021)

- PBB's assets reached ₱124,083.8 million as of June 30, 2022. This is 6.0% lower compared to December 31, 2021's figure of ₱132,032.3 million. Significant changes (more than 5%) in assets were registered in the following accounts:

    a. Cash and other cash items decreased by 35.9% from ₱1,430.8 million to ₱917.4 million as of the second quarter of 2022

    b. Due from Bangko Sentral ng Pilipinas went down to ₱2,743.5 million as placements to the overnight deposit facility were down to ₱2,400.0 million in June 2022

    c. Due from other banks was up by 12.2% due to higher placements to local banks as of 1H2022

    d. Loans and other receivables grew 6.0% due to the increase in lending activities during the second quarter of 2022

    e. Investment properties was 65.0% higher as ROPA expanded

    f. Other resources grew by 47.2% from ₱2,061.0 million in 2021 to ₱3,034.6 million in the second quarter of 2022 due to the increases in deferred tax assets and prepaid expenses.

- Total liabilities amounted to ₱110,508.9 million as of June 30, 2022 which is 6.0% lower than audited 2021's figure of ₱117,569.2 million. Significant changes (more than 5%) in liabilities were registered in the following account:

    a. CASA deposits declined by 13.7% from ₱70,784.7 million to ₱61,065.9 million due to withdrawals while time deposit grew by 5.2%

    b. The ₱3.0 billion corporate note was pre-paid last January 2022

    c. Accrued expenses and other liabilities grew by 161.6% due to the increases in accounts payable and manager's check

- Total equity in the first half of 2022 reached ₱13,574.9 million, down by 6.1% versus ₱14,463.1 million as of year-end 2021 due to the higher marked-to-market losses of FVOCI. Book value per share stood at ₱20.12 from ₱21.50 as of December 2021.

Results of Operations for the second quarter ended June 30, 2022 and June 30, 2021

- Interest income decreased to ₱1,360.0 million as interest on loans and other receivables and due from BSP and other banks declined by 19.7% and 12.1%, respectively. Interest expenses on deposit liabilities also decreased by ₱57.6 million, bringing the total interest expense to ₱159.3 million in the second quarter of 2022. As a result, net interest income ended at ₱1,200.7 million, down by 12.6%.

- Other income expanded by ₱217.0 million during the second quarter of 2022 from ₱129.4 million to ₱346.4 million due to the pre-termination and delayed loan payment fees collected during the quarter.

- Non-interest expenses stood at ₱895.6 million in the second quarter of 2022 against the ₱831.1 million figure of the same quarter last year. This is mainly due to the increases in taxes and licenses, salaries and other employee benefits, and security, clerical, messengerial and janitorial expenses.

- PBB recorded a ₱651.5 million core income during the second quarter of 2022, posting a 3.1% decline versus ₱672.5 million in the same quarter last year.

- The Bank suffered a total of ₱55.2 million in trading loss in 2Q2022 from a trading gain of ₱94.4 million in 2Q2021, bringing pre-tax pre-provision profit to an 22.2% decline.

- The Bank set aside a portion of its income for its loan loss provisions for the second quarter of 2022 amounting to ₱175.0 million, ₱150.0 million lower than the same quarter last year.

- As a result, net income for the second quarter of 2022 recorded a 14.7% YoY decrease from ₱363.8 million in 2021 to ₱310.3 million.

Significant Elements of Income or Loss

Significant elements of the net income of the Bank for the period ended June 30, 2022 came from its operations. A significant portion came from the core business of interest income on loans and trading gains/losses from the sale of Peso securities.

Known trends, demands, commitments, events or uncertainties

There are no known demands, commitments, events or uncertainties that will have a material impact on the Bank's liquidity within the next twelve (12) months.

Events that will trigger direct or contingent financial obligation

There are no events that will trigger direct or contingent financial obligation that is material to the Bank, including any default or acceleration of an obligation.

Material off-balance sheet transactions, arrangements or obligations

There are no material off-balance sheet transactions, arrangements, obligations (including contingent obligations), and other relationships of the Bank with unsolicited entities or other persons created during the reporting period other than those disclosed in the financial statements.

Significant Elements of Income or Loss

Significant elements of the consolidated net income for the six months period ended June 30, 2022 and 2021 came from its continuing operations.

Seasonal Aspects

There are no seasonal aspects that had a material effect on the Bank's financial position and results of operations.

Attachment 1

PHILIPPINE BUSINESS BANK, INC.
As of June 30, 2022 (Unaudited) and December 31, 2021 (Audited)
And for the Six Months Ended June 30, 2022 and 2021 (Unaudited)

PHILIPPINE BUSINESS BANK, INC., A SAVINGS BANK
STATEMENTS OF FINANCIAL POSITION
June 30, 2022 AND DECEMBER 31, 2021
(Amounts in Philippine Pesos)

	Notes	2022	2021
R E S O U R C E S			
CASH AND OTHER CASH ITEMS	9	**P 917,407,187**	P 1,430,787,675
DUE FROM BANGKO SENTRAL NG PILIPINAS	9	**2,743,451,202**	16,754,028,342
DUE FROM OTHER BANKS	10	**3,897,799,805**	3,474,970,323
TRADING AND INVESTMENT SECURITIES – Net	11		
At fair value through profit or loss (FVPL)		**2,310,539,509**	2,482,213,020
At fair value through other comprehensive income (FVOCI)		**11,125,534,943**	11,989,395,564
At amortized cost - net		**1,155,685,521**	883,787,046
LOANS AND OTHER RECEIVABLES – Net	12	**97,184,608,390**	91,674,544,156
BANK PREMISES, FURNITURE, FIXTURES AND EQUIPMENT – Net		**625,686,556**	621,805,020
INVESTMENT PROPERTIES – Net		**1,088,539,145**	659,704,957
DEFERRED TAX ASSETS -Net		**1,223,503,206**	1,142,253,206
OTHER RESOURCES – Net	13	**1,811,055,655**	918,785,181
TOTAL RESOURCES		**P 124,083,811,119**	P 132,032,274,490
LIABILITIES AND EQUITY			
DEPOSIT LIABILITIES	15		
Demand		**P 44,864,958,469**	P 47,578,111,107
Savings		**16,200,984,735**	23,206,594,816
Time		**43,803,314,949**	41,633,005,244
Total Deposit Liabilities		**104,869,258,153**	112,417,711,167
NOTES PAYABLE	16	-	2,995,352,640
ACCRUED EXPENSES AND OTHER LIABILITIES	17	**5,639,621,026**	2,156,130,088
Total Liabilities		**110,508,879,179**	117,569,193,895
EQUITY	18		
Capital stock		**7,057,500,940**	7,057,500,940
Additional paid-in capital		**1,998,396,816**	1,998,396,816
Surplus		**6,027,578,258**	5,619,577,477
Revaluation reserves		**(1,508,544,074)**	(212,394,638)
Total Equity		**13,574,931,940**	14,463,080,595
TOTAL LIABILITIES AND EQUITY		**P 124,083,811,119**	P 132,032,274,490

See Notes to Financial Statements.

PHILIPPINE BUSINESS BANK, INC. A SAVINGS BANK
UNAUDITED STATEMENTS OF INCOME
FOR SIX MONTHS PERIOD ENDED JUNE 30, 2022 AND JUNE 30, 2021
(Amounts in Philippine Pesos)

	For the quarter ended June 30, 2022	For the quarter ended June 30, 2021	Unaudited For the six months ended June 30, 2022	Unaudited For the six months ended June 30, 2021
INTEREST INCOME				
Loans and other receivables	P 1,149,268,449	P 1,430,855,665	P 2,332,311,044	P 2,865,609,786
Investment and trading securities	161,273,657	103,958,213	362,027,915	214,285,046
Due from Bangko Sentral ng Pilipinas and other banks	49,488,689	56,319,721	123,944,868	90,762,493
	1,360,030,795	1,591,133,599	2,818,283,827	3,170,657,325
INTEREST EXPENSE				
Deposit liabilities	159,311,790	172,277,121	315,615,170	346,808,110
Corporate notes payable	-	44,630,653	6,436,301	84,615,386
	159,311,790	216,907,774	322,051,471	431,423,496
NET INTEREST INCOME	1,200,719,005	1,374,225,825	2,496,232,356	2,739,233,829
IMPAIRMENT LOSSES	175,000,000	325,000,000	325,000,000	400,000,000
NET INTEREST INCOME AFTER IMPAIRMENT LOSSES	1,025,719,005	1,049,225,825	2,171,232,356	2,339,233,829
OTHER INCOME				
Trading gains - net	(55,178,988)	94,394,538	(204,568,978)	(236,512,398)
Service charges, fees and commissions	54,497,956	30,499,017	180,632,099	58,914,768
Miscellaneous	291,916,461	98,922,085	493,343,622	181,276,543
	291,235,429	223,815,640	469,406,743	3,678,913
OTHER EXPENSES				
Salaries and other employee benefits	291,928,812	271,885,002	575,792,358	480,743,308
Taxes and licenses	194,829,657	142,170,852	400,598,366	291,592,842
Occupancy	109,105,504	97,469,158	213,795,245	196,137,024
Management and other professional fees	45,696,298	78,015,299	92,313,930	120,510,915
Depreciation and amortization	47,440,478	45,647,781	91,803,383	84,934,427
Insurance	59,589,428	61,511,824	129,916,540	130,918,300
Representation and entertainment	13,441,835	10,623,069	26,218,936	22,922,584
Miscellaneous	133,605,055	123,813,078	255,951,907	253,999,327
	895,637,067	831,136,063	1,786,390,665	1,581,758,727
PROFIT BEFORE TAX	421,317,367	441,905,402	854,248,434	761,154,015
TAX EXPENSE	110,991,609	78,099,094	233,964,427	237,118,987
NET PROFIT	P 310,325,758	P 363,806,308	P 620,284,007	P 524,035,028
Earnings Per Share				
Basic			P 0.78	P 0.81
Diluted			P 0.78	P 0.81

PHILIPPINE BUSINESS BANK, INC., A SAVINGS BANK
STATEMENTS OF COMPREHENSIVE INCOME
FOR SIX MONTHS PERIOD ENDED JUNE 30, 2022, 2021 AND 2020
(Amounts in Philippine Pesos)

	2022	2021	2020
NET PROFIT	**P 620,284,007**	P 524,035,028	P 794,874,290
OTHER COMPREHENSIVE INCOME (LOSS)			
Items that will be reclassified subsequently to profit or loss			
Fair value losses on investment securities at FVOCI during the year - net	**(1,300,378,893)**	(175,550,728)	385,066,665
Realized fairvalue (gains) losses on FVOCI securities disposed during the year - Net	**-**	-	(18,587,371)
Expected credit losses on AFS investments	**4,229,457**	-	4,229,457
	(1,296,149,436)	(175,550,728)	370,708,751
Other Comprehensive Income (Loss) - Net of Tax	**(1,296,149,436)**	(175,550,728)	370,708,751
TOTAL COMPREHENSIVE INCOME	**(P 675,865,429)**	P 348,484,300	P 1,165,583,041

See Notes to Financial Statements.

PHILIPPINE BUSINESS BANK, INC., A SAVINGS BANK
STATEMENTS OF CHANGES IN EQUITY
FOR SIX MONTHS PERIOD ENDED JUNE 30, 2022, 2021 AND 2020
(Amounts in Philippine Pesos)

	Notes	Capital Stock (see Note 18.1) Preferred Stock	Capital Stock (see Note 18.1) Common Stock	Additional Paid-in Capital (see Note 18.4)	Surplus (see Note 18.3) Appropriated	Surplus (see Note 18.3) Unappropriated	Value Losses on Investment Securities at AFS	Value Losses on Investment Securities at FVOCI	P Accumulated Actuarial Losses	Total Equity
BALANCE AS OF JANUARY 1, 2022		**P 620,000,000**	**P 6,437,500,940**	**P 1,998,396,816**	**P 374,242,445**	**P 5,245,335,032**	**-**	**(P 125,395,426)**	**(P 86,999,212)**	**P 14,463,080,595**
Prior year adjustment not yet taken up in the books		**-**	**-**	**-**	**-**	**(93,483,226)**	**-**	**-**	**-**	**(93,483,226)**
Cash dividend on preferred shares		**-**	**-**	**-**	**-**	**(118,800,000)**	**-**	**-**	**-**	**(118,800,000)**
Total comprehensive income (loss)		**-**	**-**	**-**	**-**	**620,284,007**	**-**	**(1,296,149,437)**	**-**	**(675,865,430)**
BALANCE AS OF JUNE 30, 2022		**P 620,000,000**	**P 6,437,500,940**	**P 1,998,396,816**	**P 374,242,445**	**P 5,653,335,813**	**-**	**(P 1,421,544,863)**	**(P 86,999,212)**	**P 13,574,931,939**
BALANCE AS OF JANUARY 1, 2021		620,000,000	6,437,500,940	1,998,396,816	46,814,378	4,404,594,754	-	457,765,830	(89,321,633)	13,875,751,085
Translation difference of FCDU undivided profits transferred to RBU books		-	-	-	-	2,078,833	-	-	-	2,078,833
Total comprehensive income (loss)		-	-	-	-	524,035,028	-	(175,550,729)	-	348,484,299
BALANCE AS OF JUNE 30, 2021		P 620,000,000	P 6,437,500,940	P 1,998,396,816	P 46,814,378	P 4,930,708,615	-	P 282,215,101	(P 89,321,633)	P 14,226,314,217
BALANCE AS OF JANUARY 1, 2020		620,000,000	6,437,500,940	1,998,396,816	541,778,181	2,970,748,064	-	387,886,373	(88,628,361)	12,867,682,013
Translation difference of FCDU undivided profits transferred to RBU books		-	-	-	-	11,467,461	-	-	-	11,467,461
Total comprehensive income (loss)		-	-	-	-	794,874,290	-	370,708,751	-	1,165,583,041
BALANCE AS OF JUNE 30, 2020		P 620,000,000	P 6,437,500,940	P 1,998,396,816	P 541,778,181	P 3,777,089,815	-	P 758,595,124	(P 88,628,361)	P 14,044,732,515

See Notes to Financial Statements.

PHILIPPINE BUSINESS BANK, INC., A SAVINGS BANK
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2022 AND DECEMBER 31, 2021
(Amounts in Philippine Pesos or As Otherwise Indicated)

1. CORPORATE MATTERS

1.1 Incorporation and Operations

Philippine Business Bank, Inc., A Savings Bank (the Bank or PBB) was incorporated in the Philippines on January 28, 1997 to engage in the business of thrift banking. It was authorized to engage in foreign currency deposit operations on August 27, 1997 and in trust operations on November 13, 2003. The Bank is a publicly listed entity in the Philippine Stock Exchange (PSE). It had its initial public offering (IPO) of shares on February 13, 2013 (see Note 18).

As a banking institution, the Bank's operations are regulated and supervised by the Bangko Sentral ng Pilipinas (BSP). In this regard, the Bank is required to comply with rules and regulations of the BSP such as those relating to maintenance of reserve requirements on deposit liabilities and those relating to adoption and use of safe and sound banking practices, among others, as promulgated by the BSP. Its activities are subject to the provisions of the General Banking Law of 2000 [Republic Act (RA) No. 8791] and other relevant laws.

PBB is the first savings bank in the Philippines that obtained the BSP approval to issue foreign letters of credit and pay/accept/negotiate import/export drafts/bills of exchange under RA Nos. 8791 and 7906 and the Manual of Regulations for Banks. It was granted in April 2010.

The Bank operates in the Philippines and as of June 30, 2021, it has 159 branches located nationwide.

The Bank's registered address, which is also its principal place of business, is at 350 Rizal Avenue Extension corner 8th Avenue, Grace Park, Caloocan City.

1.2 Approval of the Financial Statements

The financial statements of the Bank as of and for the six months period ended June 30, 2022 (including the comparative financial statements as of December 31, 2021 and for the six months period ended June 30, 2022 and 2021) were authorized for issue by the Bank's Board of Directors (BOD) on July 20, 2022.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of Preparation of Financial Statements

(a) Statement of Compliance with Philippine Financial Reporting Standards

The financial statements of the Bank have been prepared in accordance with Philippine Financial Reporting Standards (PFRS). PFRS are adopted by the Financial Reporting Standards Council (FRSC), from the pronouncements issued by the International Accounting Standards Board, and approved by the Philippine Board of Accountancy.

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

(b) Presentation of Financial Statements

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

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

(c) Functional and Presentation Currency

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

Items included in the financial statements of the Bank are measured using its functional currency. Functional currency is the currency of the primary economic environment in which the Bank operates. The financial statements of the Bank's foreign currency deposit unit (FCDU), which is reported in United States (US) dollar, are translated to Philippine peso based on Bankers Association of the Philippine (BAP) closing rate prevailing at the end of reporting period for the statement of financial position accounts and at BAP weighted average rate for the period for the profit and loss.

2.2 Adoption of New and Amended PFRS

(a) Effective in 2020 that are Relevant to the Bank

The Bank adopted for the first time the following amendments and revision to PFRS, which are mandatorily effective for annual periods beginning on or after January 1, 2020:

Conceptual Framework	:	Revised Conceptual Framework for Financial Reporting
PAS 1 and PAS 8 (Amendments)	:	Presentation of Financial Statements and Accounting Policies, Changes in Accounting Estimates and Errors – Definition of Material
PFRS 3 (Amendments)	:	Business Combinations – Definition of a Business
PFRS 7 and PFRS 9 (Amendments)	:	Financial Instruments: Disclosures and Financial Instruments – Interest Rate Benchmark Reform

Discussed below are the relevant information about these pronouncements.

(i) *Revised Conceptual Framework for Financial Reporting*. The revised conceptual framework will be used in standard-setting decisions with immediate effect. Key changes include (a) increasing the prominence of stewardship in the objective of financial reporting, (b) reinstating prudence as a component of neutrality, (c) defining a reporting entity, which may be a legal entity, or a portion of an entity, (d) revising the definitions of an asset and a liability, (e) removing the probability threshold for recognition and adding guidance on derecognition, (f) adding guidance on different measurement basis, and, (g) stating that profit or loss is the primary performance indicator and that, in principle, income and expenses in other comprehensive income should be recycled where this enhances the relevance or faithful representation of the financial statements. The application of the revised conceptual framework had no significant impact on the Bank's financial statements because the amendments merely clarified existing provisions of PFRS.

(ii) PAS 1 (Amendments), *Presentation of Financial Statements*, and PAS 8 (Amendments), *Accounting Policies, Changes in Accounting Estimates and Errors – Definition of Material*. The amendments provide a clearer definition of 'material' in PAS 1 by including the concept of 'obscuring' material information with immaterial information as part of the new definition, and clarifying the assessment threshold (i.e., misstatement of information is material if it could reasonably be expected to influence decisions made by primary users, which consider the characteristic of those users as well as the entity's own circumstances). The definition of material in PAS 8 has been accordingly replaced by reference to the new definition in PAS 1. In addition, amendment has also been made in other standards that contain definition of material or refer to the term 'material' to ensure consistency. The application of these amendments had no significant impact on the Bank's financial statements because said amendment merely clarified the definition of materiality.

(iii) PFRS 3 (Amendments), *Business Combinations – Definition of a Business*. The amended definition of a business requires an acquisition to include an input and a substantive process that together significantly contribute to the ability to create outputs. The definition of the term 'outputs' is amended to focus on goods and services provided to customers, generating investment income and other income, and it excludes returns in the form of lower costs and other economic benefits. The application of these amendments had no significant impact on the Bank's financial statements because there is no business acquisition during the year.

(iv) PFRS 7 (Amendments), *Financial Instruments: Disclosures,* and PFRS 9 (Amendments), *Financial Instruments – Interest Rate Benchmark Reform*. The amendments clarify that an entity would continue to apply certain hedge accounting requirements assuming that the interest rate benchmark on which the hedged cash flows and cash flows from the hedging instrument are based will not be altered as a result of interest rate benchmark reform. The application of these amendments had no significant impact on the Bank's financial statements because the Bank has no hedging transactions.

(b) Effective Subsequent to 2020 but not Adopted Early

There are amendments and annual improvements to existing standards effective for annual periods subsequent to 2020, which are adopted by the FRSC. Management will adopt the following relevant pronouncements in accordance with their transitional provisions; and, unless otherwise stated, none of these are expected to have significant impact on the Bank's financial statements:

(i) PFRS 16 (Amendments), *Leases COVID-19-Related Rent Concessions* (effective from June 30, 2020). The amendments permit lessees, as a practical expedient, not to assess whether particular rent concessions occurring as a direct consequence of the COVID-19 pandemic are lease modifications and instead to account for those rent concessions as if they are not lease modifications.

(ii) PAS 16 (Amendments), *Property, Plant and Equipment – Proceeds Before Intended Use* (effective from January 1, 2022). The amendments prohibit deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognizes the proceeds from selling such items, and the cost of producing those items, in profit or loss.

(iii) PAS 37 (Amendments), *Provisions, Contingent Liabilities and Contingent Assets – Onerous Contracts – Cost of Fulfilling a Contract* (effective January 1, 2022). The amendments specify that the 'cost of fulfilling' a contract comprises the 'costs that relate directly to the contract'. Costs that relate directly to a contract can either be incremental costs of fulfilling that contract (examples would be direct labor, materials) or an allocation of other costs that relate directly to fulfilling contracts (an example would be the allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract).

(iv) PFRS 3 (Amendments), *Business Combination – Reference to the Conceptual Framework* (effective from January 1, 2022). The amendments update an outdated reference to the Conceptual Framework in PFRS 3 without significantly changing the requirements in the standard.

(v) Annual Improvements to PFRS 2018-2020 Cycle. Among the improvements, the following amendments, which are effective from January 1, 2022, are relevant to the Bank, which management does not expect to have significant impact to the financial statements:

- PFRS 9 (Amendments), Financial Instruments – *Fees in the '10 per cent' Test for Derecognition of Liabilities*. The improvements clarify the fees a company includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability.

- Illustrative Examples Accompanying PFRS 16 – *Lease Incentives*. The improvement merely removes from the example the illustration of the reimbursement of leasehold improvements by lessor in order to resolve any potential confusion regarding the treatment of lease incentives.

(vi) PAS 1 (Amendments), Presentation of Financial Statements – Classification of Liabilities as Current or Non-current (effective January 1, 2023). The amendments aim to promote consistency in applying the requirements by helping companies determine whether, in the statement of financial position, debt and other liabilities with an uncertain settlement date should be classified as current (due or potentially due to be settled within one year) or non-current.

2.3 Business Combinations

Business acquisitions are accounted for using the acquisition method of accounting.

Goodwill acquired in a business combination is initially measured at cost being the excess of the cost of a business combination over the Bank's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities of the acquired entity or net assets. Subsequent to initial recognition, goodwill is tested annually for impairment and carried at cost less any accumulated impairment losses. Impairment losses on goodwill are not reversed (see Note 2.19).

Gain on bargain purchase which is the excess of the Bank's interest in the net fair value of net identifiable assets acquired over acquisition cost is charged directly to profit or loss.

For the purpose of impairment testing, goodwill is allocated to cash-generating units (CGUs) or groups of CGUs that are expected to benefit from the business combination in which the goodwill arose. The CGUs or groups of CGUs are identified according to operating segment.

If the business combination is achieved in stages, the acquirer is required to remeasure its previously held equity interest in the acquiree at its acquisition-date fair value and recognize the resulting gain or loss, if any, in profit or loss or other comprehensive income, as appropriate.

Any contingent consideration to be transferred by the Bank is recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognized in accordance with PAS 37 either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

2.4 Segment Reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the Bank's chief operating decision-maker. The chief operating decision-maker is responsible for allocating resources and assessing performance of the operating segments.

In identifying its operating segments, management generally follows the Bank's products and services as disclosed in Note 8.

Each of these operating segments is managed separately as each of these services requires different technologies and resources as well as marketing approaches. All inter-segment transfers are carried out at arm's length prices.

The measurement policies of the Bank used for segment reporting under PFRS 8, *Operating Segments,* is the same as those used in its financial statements. In addition, corporate resources which are not directly attributable to the business activities of any operating segment are not allocated to a segment.

There have been no changes from prior periods in the measurement methods used to determine reported segment profit or loss.

The Bank's operations are organized according to the nature of the products and services provided.

2.5 Financial Assets

Financial assets are recognized when the entity becomes a party to the contractual provisions of the instrument. At initial recognition, the Bank measures a financial asset at its fair value plus or minus, in the case of a financial asset not at fair value through profit or loss (FVPL), transaction costs that are incremental or directly attributable to the acquisition or issue of the financial asset, such as fees and commissions. Transaction costs of financial assets carried at FVPL are expensed outright in profit or loss. Unless specifically indicated to apply to either year, the policies that follow apply to both years.

(a) Classification, Measurement and Reclassification of Financial Assets

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

(i) Financial Assets at Amortized Cost

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

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

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

All financial assets meeting these criteria are measured initially at fair value plus transaction costs. These are subsequently measured at amortized cost using the effective interest method, less any impairment in value.

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

The Bank's financial assets at amortized cost are presented in the statement of financial position as Cash and Other Cash Items, Due from BSP, Due from Other Banks, Investment Securities at Amortized Cost, Loans and Other Receivables and as part of Other Resources in respect of security deposits, petty cash fund and foreign currency notes and coins on hand which are included in the account.

For purposes of cash flows reporting and presentation, cash and cash equivalents include cash and other cash items, due from BSP and other banks, foreign currency notes and coins on hand and securities under reverse repurchase agreement (SPURRA) with original maturities of three months or less.

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

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

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

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

At initial recognition, the Bank can make an irrevocable election (on an instrument-by-instrument basis) to designate equity investments as at FVOCI; however, such designation is not permitted if the equity investment is held by the Bank for trading or as mandatorily required to be classified as FVPL. The Bank has no equity instruments as at the reporting periods.

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

(iii) Financial Assets at Fair Value Through Profit or Loss

Financial assets that are held within a different business model other than "hold to collect" or "hold to collect and sell" are categorized at FVPL. Further, irrespective of business model, financial assets whose contractual cash flows are not SPPI are accounted for at FVPL. The Bank's financial assets at FVPL include debt securities which are held for trading purposes or designated as at FVPL.

Financial assets at FVPL are measured at fair value with gains or losses recognized in profit or loss as part of Trading Gains or Losses in the statement of profit or loss. The fair values of these financial assets are determined by reference to active market transactions or using a valuation technique where no active market exists.

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

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

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

(b) *Effective Interest Rate Method and Interest Income*

Interest income on financial assets measured at amortized cost and all interest-bearing debt financial assets classified as at FVPL, or at FVOCI, is recognized using the effective interest rate method. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument or, when appropriate, a shorter period, to the net carrying amount of the financial asset.

The effective interest rate is calculated by taking into account any discount or premium on acquisition, fees and costs that are an integral part of effective interest rate. The Bank recognizes interest income using a rate of return that represents the best estimate of a constant rate of return over the expected life of the instrument; hence, it recognizes the effect of potentially different interest rates charged at various stages, and other characteristics of the product life cycle (including prepayments, penalty interest and charges).

If expectations regarding the cash flows on the financial asset are revised for reasons other than credit risk, the adjustment is booked as a positive or negative adjustment to the carrying amount of the asset with an increase or reduction in interest income.

The Bank calculates interest income by applying the effective interest rate to the gross carrying amount of the financial assets, except for those that are subsequently identified as credit-impaired and or are purchased or originated credit-impaired assets.

For financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the net carrying amount of the financial assets (after deduction of the loss allowance). If the asset is no longer credit-impaired, the calculation of interest income reverts to gross basis. For financial assets that were credit-impaired on initial recognition, interest income is calculated by applying a credit-adjusted effective interest rate to the amortized cost of the asset. The calculation of interest income does not revert to a gross basis even if the credit risk of the asset subsequently improves.

(c) *Impairment of Financial Assets*

The Bank assesses its ECL on a forward-looking basis associated with its financial assets carried at amortized cost and debt instruments measured at FVOCI and other contingent accounts. The Bank considers a broader range of information in assessing credit risk and measuring expected credit losses, including past events, current conditions, reasonable and supportable forecasts that affect collectability of the future cash flows of the financial assets.

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

- all current loan accounts, except restructured loans;
- debt securities that are identified to have 'low credit risk' at the reporting date; and,
- other financial instruments on which credit risk has not increased significantly since their initial recognition.

For these financial instruments, the allowance for credit losses is based on 12-month ECL associated with the probability of default of a financial instrument in the next 12 months (referred to as 'Stage 1' financial instruments). Unless there has been a significant increase in credit risk subsequent to the initial recognition of the financial asset, a lifetime ECL (which are the expected shortfalls in contractual cash flows, considering the potential for default at any point during the life of the financial asset) will be recognized (referred to as 'Stage 2' financial instruments).

'Stage 2' financial instruments also include the following characteristics:

- performing accounts but with occurrence of loss event;
- accounts with missed payments but not yet classified as defaulted;
- current restructured loans; and,
- current loans that are rated as Especially Mentioned based on the Internal Credit Risk Rating System (ICRRS) of the Bank.

A lifetime ECL shall be recognized for 'Stage 3' financial instruments, which include financial assets considered as credit-impaired, purchased or originated credit-impaired assets, and those classified as Past Due and Items in Litigation based on the ECL methodology of the Bank.

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

Measurement of ECL

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

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

- *Probability of default (PD)*– This is a quantitative measure of default risk based on the general credit worthiness of the borrower or issuer. It is the likelihood of a borrower defaulting on its obligation over a given time horizon, either over the next 12 months (12-month PD) or over the remaining lifetime (lifetime PD) of the obligation. A related measurement of default is the survival rate, which is the chance that the loan will be repaid.

- *Loss given default (LGD)* – The fraction of loan value or exposure that is likely to be lost in the event of borrower default. The loss statistic is specific to the facility structure and thus, associated with the facility risk rating. A related measure is the recovery rate, which is the percentage of the defaulted principal that can be recovered if default occurs.

- *Exposure at default (EAD)* – It represents the gross carrying amount of the financial instruments subject to the impairment calculation. The EAD is measured at book value of facilities granted with an assumption that most short-term lines and credit commitments are fully drawn at default. In case of a loan commitment, the Bank shall include the potential availment (up to the current contractual limit) at the time of default should it occur.

The Bank calculates ECL either on an individual or a collective basis. For modelling ECL parameters which were carried out on a collective basis, the financial instruments are grouped on the basis of shared credit risk characteristics, such as but not limited to instrument type, credit risk rating, collateral type, product type, historical net charge-offs, industry type, and geographical locations of the borrowers or counterparties.

The Bank applies a simplified ECL approach for its accounts receivables wherein the Bank uses a provision matrix that considers historical changes in the behavior of the portfolio of credit exposures based on internally collected data to predict conditions over the span of a given observation period. These receivables include claims from various counterparties, which are not originated through the Bank's lending activities. For these instruments, the Bank measures the loss allowance at an amount equal to lifetime ECL.

The Bank recognizes an impairment loss in profit or loss for all financial instruments subjected to ECL impairment assessment with a corresponding adjustment to their carrying amount through a loss allowance account. With respect to investments in debt securities that are measured at FVOCI, the related loss allowance account is recognized in other comprehensive income and accumulated in the Revaluation Reserves account, and does not reduce the carrying amount of the financial asset in the statement of financial position. For loan commitments, the loss allowance is recognized as provisions (presented and included as part of the Accrued Expense and Other Liabilities account in the statement of financial position).

Where a financial instrument includes a drawn and undrawn component, and the Bank cannot identify the ECL on the loan commitment component separately from those on the drawn commitment; the Bank presents a combined allowance for ECL for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as provisions.

(d) *Reclassification of Financial Assets*

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

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

(e) Derecognition of Financial Assets

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

(i) Modification of Loans

When the Bank renegotiates or otherwise modifies the contractual cash flows of loans to customers, the Bank assesses whether or not the new terms are substantially different to the original terms. The Bank considers, among others:

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

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

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

As to the impact on ECL measurement, the derecognition of the existing financial asset will result in the expected cash flows arising from the modified financial asset to be included in the calculation of cash shortfalls from the existing financial asset.

(ii) Derecognition of Financial Assets Other than Through Modification

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

2.6 Derivative Financial Instruments

The Bank uses derivative financial instruments, particularly plain vanilla foreign exchange forwards, to manage its risks associated with fluctuations in foreign currency. Such derivative financial instruments are initially recognized at fair value on the date on which the derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive (recognized as part of Investment securities at FVPL under the Trading and Investment Securities account) and as liabilities (recognized under the Accrued Expenses and Other Liabilities account) when the fair value is negative.

The Bank's derivative instruments provide economic hedges under the Bank's policies but are not designated as accounting hedges. Consequently, any gains or losses arising from changes in fair value are taken directly to profit or loss for the period.

2.7 Offsetting Financial Instruments

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

2.8 Financial Liabilities

Financial liabilities include deposit liabilities, bills payable, corporate notes payable and accrued expenses and other liabilities (excluding tax-related payables and post-employment benefit obligation) and are recognized when the Bank becomes a party to the contractual terms of the instrument. All interest-related charges are recognized as Interest Expense in the statement of profit or loss.

Deposit liabilities, bills payable and corporate notes payable are recognized initially at their fair value, which is the issuance proceeds (fair value of consideration received) net of direct issue costs, and are subsequently measured at amortized cost using effective interest method for maturities beyond one year, less settlement payments. Any difference between proceeds net of transaction costs and the redemption value is recognized in the profit or loss over the period of the borrowings.
Accrued expenses and other liabilities are recognized initially at their fair value and subsequently measured at amortized cost, using effective interest method for maturities beyond one year, less settlement payments.

Dividend distributions to shareholders are recognized as financial liabilities upon declaration.

Financial liabilities are derecognized from the statement of financial position only when the obligations are extinguished either through discharge, cancellation or expiration. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or if the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of the new liability, and the difference in the respective carrying amounts is recognized as gain or loss in profit or loss.

2.9 Bank Premises, Furniture, Fixtures and Equipment

Land is stated at cost less impairment losses, if any. Bank premises, furniture, fixtures and equipment are carried at acquisition cost less accumulated depreciation and amortization and any impairment losses.

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

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

Building	50 years
Furniture, fixtures and equipment	5-7 years
Transportation equipment	5 years

Leasehold improvements are amortized using the estimated useful lives of 5 to 20 years or the remaining term of the lease whichever is shorter. Prior to the adoption of PFRS 16, the Bank had been amortizing the leasehold improvements over the term of the lease or its useful life, whichever is shorter.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (see Note 2.19).

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

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

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

2.10 Investment Properties

Investment properties pertain to land, buildings or condominium units acquired by the Bank, in settlement of loans from defaulting borrowers through foreclosure or dacion in payment. These properties are neither held by the Bank for sale in the next 12 months nor used in the rendering of services or for administrative purposes.

Investment properties are stated at cost, less accumulated depreciation and any impairment losses (see Note 2.19). The cost of an investment property comprises its acquisition price and directly attributable costs incurred such as legal fees, transfer taxes and other transaction costs.

Investment properties, except land, are depreciated over a period of five to ten years. Depreciation and impairment loss are recognized in the same manner as in bank premises, furniture, fixtures and equipment.

Transfers from other accounts (such as bank premises, furniture, fixtures and equipment) are made to investment properties when and only when, there is a change in use, evidenced by ending of owner-occupation or holding the property for capital appreciation, while transfers from investment properties are made when, and only when, there is a change in use, evidenced by commencement of owner-occupation.

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

Investment properties, including the related accumulated depreciation and any impairment losses, are derecognized upon disposal and no future economic benefit is expected from its disposal. Any gain or loss on the retirement or disposal of investment properties is recognized in profit or loss under the Gain (or Loss) on sale of properties under Miscellaneous Income (or Expenses) in the statement of profit or loss, in the year of retirement or disposal.

2.11 Intangible Assets

Intangible assets include goodwill, branch licenses, club shares and computer software, which are included as part of Other Resources and are accounted for under the cost model. The cost of the asset is the amount of cash or cash equivalents paid or the fair value of the other considerations given to acquire an asset at the time of its acquisition.

Goodwill represents the excess of the cost of acquisition over the fair value of the net assets and branch licenses acquired at the date of acquisition. Branch licenses represent the rights given by the BSP to the Bank to establish a certain number of branches in various areas in the country.

Goodwill and branch licenses are classified as intangible assets with indefinite useful life, and thus, not subject to amortization but to an annual test for impairment (see Note 2.19). For purposes of impairment testing, goodwill is allocated to cash-generating units and is subsequently carried at cost less any allowance for impairment losses while branch licenses are tested for impairment individually based on recoverable amount.

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and install the specific software. Capitalized costs are amortized on a straight-line basis over the estimated useful lives of 5 years. In addition, intangible assets are subject to impairment testing when indications exist, as described in Note 2.19. Costs associated with maintaining computer software and those costs associated with research activities are recognized as expense in profit or loss as incurred.

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

2.12 Other Resources

Other resources pertain to other assets controlled by the Bank as a result of past events. These are recognized in the financial statements when it is probable that the future economic benefits will flow to the Bank and the asset has a cost or value that can be measured reliably.

Other acquired assets pertain to chattel properties acquired through repossession or dacion en pago from defaulting borrowers. These are stated at cost less accumulated depreciation and any impairment in value. Depreciation of other acquired assets is computed on a straight-line basis over the estimated useful life of three years. The carrying value of other acquired assets is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (see Note 2.19).

2.13 Provisions and Contingencies

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

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

In those cases where the possible outflow of economic resource as a result of present obligations is considered improbable or remote, or the amount to be provided for cannot be measured reliably, no liability is recognized in the financial statements. Similarly, possible inflows of economic benefits to the Bank that do not yet meet the recognition criteria of an asset are considered contingent assets, hence, are not recognized in the financial statements.

On the other hand, any reimbursement that the Bank is virtually certain to collect from a third party with respect to the obligation is recognized as a separate asset not exceeding the amount of the related provision.

2.14 Equity

Capital stock represents the nominal value of the common and preferred shares that have been issued.

Additional paid-in capital includes any premium received on the issuance of capital stock. Any transaction costs associated with the issuance of shares are deducted from additional paid-in capital.

Appropriated surplus consists of:

(a) General loan loss reserve, which pertains to the accumulated amount of appropriation from Surplus made by the Bank arising from the excess of the one-percent general loan loss provisions (GLLP) for outstanding loans as required by the BSP under Circular No. 1011, *Guidelines on the Adoption of PFRS 9* (Circular No. 1011) over the computed allowance for ECL for Stage 1 accounts; and,

(b) Reserve for trust business representing the accumulated amount set aside by the Bank under existing regulations requiring the Bank to appropriate and transfer to surplus 10% of its net profits accruing from their trust business until the surplus shall amount to 20% of the regulatory capital. The reserve shall not be paid out in dividends, but losses

accruing in the course of the trust business may be charged against this account.

Unappropriated surplus includes all current and prior period results of operations as disclosed in the statement of profit or loss, less appropriated surplus and dividends declared.

Revaluation reserves comprise of the remeasurements of post-employment defined benefit plan and unrealized fair value gains or losses on mark-to-market valuation of financial assets at FVOCI, net of amortization of fair value gains or losses on reclassified financial assets.

2.15 Related Party Transactions and Relationships

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

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

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

For purposes of reporting to the SEC in accordance with SEC Memorandum Circular No.10-2019, *Rules on Material Related Party Transactions for Publicly-Listed Companies*, transaction amounting to 10% or more of the total assets that were entered into with related parties are considered material. All individual material related party transactions shall be approved by at least two-thirds vote of the board of directors, with at least a majority of the independent directors voting to approve the material related party transactions. In case that a majority of the independent directors; vote is not secured, the material related party transaction may be ratified by the vote of the stockholders representing at least two-thirds of the outstanding capital stock. For aggregate related party transactions within a 12-month period that breaches the materiality threshold of 10% of the Bank's total assets, the same board approval would be required for the transaction(s) that meets and exceeds the materiality threshold covering the same related party.

2.16 Other Income and Expense Recognition

Other income is recognized only when (or as) the Bank satisfies a performance obligation by transferring control of the promised services to the customer. A contract with a customer that results in a recognized financial instrument in the Bank's financial statements may be partially within the scope of PFRS 9 and partially within the scope of PFRS 15, *Revenue from Contracts from Customers*. In such a case, the Bank applies PFRS 9 first to separate and measure the part of the contract that is covered by PFRS 9, and then applies PFRS 15 to the residual part of the contract. Expenses and costs, if any, are recognized in profit or loss upon utilization of the assets or services or at the date these are incurred. All finance costs are reported in profit or loss on accrual basis.

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

For other income arising from these various banking services which are to be accounted for under PFRS 15, the following provides information about the nature and timing of satisfaction of performance obligations in contracts with customers, including significant payment terms, and the related revenue recognition policies:

a. *Service charges, fees and commissions* – Service charges, fees and commissions are generally recognized when the service has been provided or after fulfilling the corresponding criteria. These include the commissions, deposit-related fees and other credit-related fees.

b. *Asset management services* – The Bank provides asset management services, which include trust and fiduciary activities. Related fees are recognized in profit or loss as follows:

(i) *Asset management and trust fees* – these are service fees calculated based on a fixed percentage of the value of assets managed and deducted from the customer's account balance on the scheduled collection date. Revenue from asset management services is recognized over time as the services are provided.

(ii) *Non-refundable upfront fees* – are charged to customers when opening certain types of trust account with the Bank. These fees give rise to material rights for future services and are recognized as revenue over the period for which a customer is expected to continue receiving asset management services.

Forother income outside the scope of PFRS 15, the following provides information about the nature and the related revenue recognition policies:

a. *Trading and securities gains (losses)* – These are recognized when the ownership of the securities is transferred to the buyer and is computed as the difference between the selling price and the carrying amount of the securities disposed of. These also include trading gains and losses as a result of the mark-to-market valuation of investment securities classified as FVPL.

b. *Gain or loss from assets sold or exchanged* – Income or loss from assets sold or exchanged is recognized when the title to the properties is transferred to the buyer or when the collectability of the entire sales price is reasonably assured. This is included in profit or loss as part of Miscellaneous Income or Miscellaneous Expenses in the statement of profit or loss.

Costs and expenses are recognized in profit or loss upon utilization of the assets and/or services or at the date those are incurred. All finance costs are reported in profit or loss on accrual basis, except capitalized borrowing costs which are included as part of the cost of the related qualifying asset, if any (see Note 2.21).

2.17 Leases – Bank as Lessee

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

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

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

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

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

The Bank amortizes the right-of-use asset on a straight-line basis from the lease commencement date over the useful life of the right-of-use asset or the term of the lease, whichever is shorter. The Bank also assesses the right-of-use asset for impairment when such indicators exist (see Note 2.19).

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

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

Subsequent to initial measurement, the liability will be reduced for payments made and increased for interest. It is remeasured to reflect any reassessment or modification, or if there are changes in in-substance fixed payments.

When the lease liability is remeasured, the corresponding adjustment is reflected in the right-of-use asset, or profit and loss if the right-of-use asset is already reduced to zero.

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

The corresponding right-of-use assets and lease liabilities are presented as part of Bank Premises, Furniture, Fixtures and Equipment, and Accrued Expenses and Other

Liabilities, respectively, in the statement of financial position.

2.18 Foreign Currency Transactions and Translation

The accounting records of the Bank's regular banking unit are maintained in Philippine pesos while the FCDU are maintained in US dollars. Foreign currency transactions during the period are translated into the functional currency at exchange rates which approximate those prevailing on transaction dates.

Foreign exchange gains and losses resulting from the settlement of foreign currency denominated transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in profit or loss. Changes in the fair value of monetary financial assets denominated in foreign currency classified as financial assets at FVOCI are analyzed between translation differences resulting from changes in the amortized cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in amortized cost are recognized in profit or loss, and other changes in the carrying amount are recognized in other comprehensive income.

2.19 Impairment of Non-financial Assets

The Bank's premises, furniture, fixtures and equipment (including right-of-use assets), investment properties, and other resources (including branch licenses goodwill, computer software, other acquired assets) and other non-financial assets are subject to impairment testing. Intangible assets with an indefinite useful life, such as goodwill and branch licenses (see Note 2.11) or those not yet available for use are tested for impairment at least annually.

All other individual assets or cash-generating units are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

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

An impairment loss is recognized for the amount by which the asset or cash-generating unit's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of fair value, reflecting market conditions less costs to sell and value in use, based on an internal discounted cash flow evaluation. In determining value in use, management estimates the expected future cash flows from each cash-generating unit and determines the suitable interest rate in order to calculate the present value of those cash flows. Discount factors are determined individually for each cash-generating unit and reflect management's assessment of respective risk profiles, such as market and asset-specific risk factors. Impairment loss is charged pro rata to the other assets in the cash generating unit.

All assets are subsequently reassessed for indications that an impairment loss previously recognized may no longer exist. An impairment loss is reversed, except goodwill, if the cash generating units' recoverable amount exceeds its carrying amount.

2.20 Employee Benefits

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

(a) Post-employment Defined Benefit Plan

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

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

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

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

(b) Post-employment Defined Contribution Plan

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

(c) Termination Benefits

Termination benefits are payable when employment is terminated by the Bank before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits.

The Bank recognizes termination benefits at the earlier of when it can no longer withdraw the offer of such benefits and when it recognizes costs for a restructuring that is within the scope of PAS 37 and involves the payment of termination benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the end of the reporting period are discounted to their present value.

(d) Bonus Plans

The Bank recognizes a liability and an expense for employee bonuses, based on a formula that is fixed regardless of the Bank's income after certain adjustments and does not take into consideration the profit attributable to the Bank's shareholders. The Bank recognizes a provision where it is contractually obliged to pay the benefits, or where there is a past practice that has created a constructive obligation.

(e) Compensated Absences

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

2.21 Borrowing Costs

Borrowing costs are recognized as expenses in the period in which they are incurred, except to the extent that they are capitalized. Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset (i.e., an asset that takes a substantial period of time to get ready for its intended use or sale) are capitalized as part of cost of such asset. The capitalization of borrowing costs commences when expenditures for the asset and borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalization ceases when substantially all such activities are complete.

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

2.22 Income Taxes

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

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

Deferred tax is accounted for, using the liability method, on temporary differences at the end of each reporting period between the tax base of assets and liabilities and their carrying amounts for financial reporting purposes.

Under the liability method, with certain exceptions, deferred tax liabilities are recognized for all taxable temporary differences and deferred tax assets are recognized for all deductible temporary differences and the carry forward of unused tax losses and unused tax credits to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized. Unrecognized deferred tax assets are reassessed at the end of each reporting period and are recognized to the extent that it has become probable that future taxable profit will be available to allow such deferred tax assets to be recovered.

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

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

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

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

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

2.23 Earnings Per Share

Basic earnings per share (EPS)is determined by dividing net profit attributable to common shares by the weighted average number of common shares subscribed and issued during the period, after retroactive adjustment for any stock dividend declared in the current period, if any.

The diluted EPS is also computed by dividing net profit by the weighted average number of common shares subscribed and issued during the period. However, net profit attributable to common shares and the weighted average number of common shares outstanding are adjusted to reflect the effects of potentially dilutive convertible preferred shares as approved by the SEC.

Convertible preferred shares are deemed to have been converted to common shares at the issuance of preferred shares. As of June 30, 2022 and December 31, 2021, the Bank has no convertible preferred shares (see Note 18.1).

2.24 Trust and Fiduciary Operations

The Bank acts as trustee and in other fiduciary capacity that result in the holding or placing of assets on behalf of individuals, trusts, retirement benefit plans and other institutions. These assets and their income arising thereon are excluded from these financial statements, as these are neither resources nor income of the Bank.

2.25 Events After the End of the Reporting Period

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

3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

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

3.1 Critical Management Judgments in Applying Accounting Policies

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

(a) Application of ECL to Financial Assets at FVOCI and Amortized Cost

The Bank uses external benchmarking and historical loss rates to calculate ECL for all debt instruments carried at FVOCI and amortized cost as well as loan commitments. The allowance for impairment is based on the ECLs associated with the PD of a financial instrument in the next 12 months, unless there has been a significant increase in credit risk since origination of the financial instrument, in such case, a lifetime ECL for the instrument is recognized. This is where significant management judgment is required.

The Bank has established a policy to perform an assessment, at the end of each reporting period, whether a financial instrument's credit risk has significantly increased since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument (see Note 4.3).

(b) *Evaluation of Business Model Applied and Testing the Cash Flow Characteristics of Financial Assets in Managing Financial Instruments*

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

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

In determining the classification of a financial instrument, the Bank evaluates in which business model a financial instrument or a portfolio of financial instruments belong to taking into consideration the objectives of each business model established by the Bank (e.g., held-for-trading, generating accrual income, direct matching to a specific liability) as those relate to the Bank's investment, trading and lending strategies. Furthermore, the Bank assesses whether the contractual terms of the financial assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding, with interest representing time value of money and credit risk associated with the principal amount outstanding.

The assessment as to whether the cash flows meet the test is made in the currency in which the financial asset is denominated. Any other contractual term that changes the timing or amount of cash flows (unless it is a variable interest rate that represents time value of money and credit risk) does not meet the amortized cost criteria. In cases where the relationship between the passage of time and the interest rate of the financial instrument may be imperfect, known as modified time value of money, the Bank assesses the modified time value of money feature to determine whether the financial instrument still meets the SPPI criterion.

The objective of the assessment is to determine how different the undiscounted contractual cash flows could be from the undiscounted cash flows that would arise if the time value of money element was not modified (the benchmark cash flows). If the resulting difference is significant, the SPPI criterion is not met. In view of this, the Bank considers the effect of the modified time value of money element in each reporting period and cumulatively over the life of the financial instrument.

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

(c) Distinction Between Investment Properties or Other Acquired Assets and Owner-occupied Properties

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

The Bank classifies its acquired properties (foreclosed properties) as Bank Premises, Furniture, Fixtures and Equipment if used in operations, as other acquired assets presented under Other Resources, if the Bank expects that the properties, which are other than land and building, will be recovered through sale rather than use, and as Investment Properties if the Bank intends to hold the properties, which could be land and/or building, to earn rental or for capital appreciation.

Some properties may comprise a portion that is held to earn rental or for capital appreciation and another portion that is held for use in providing services or for administrative purposes. If these portions can be sold separately (or leased out separately under finance lease), the Bank accounts for the portions separately. If these portions cannot be sold separately, the property is accounted for as investment property only if an insignificant portion is held for use in providing services or for administrative purposes.

Judgment is applied in determining whether ancillary services are so significant that a property does not qualify as investment property. The Bank considers each property separately in making its judgment.

(d) Determination of Branch Licenses Having Indefinite Useful Lives

The Bank's branch licenses were regarded as having an indefinite useful lives considering there is no foreseeable limit to the period over which such assets are expected to generate net cash inflows for the Bank. The assessment of having indefinite useful lives is reviewed periodically and is updated whether events and circumstances such as the period of control over these assets and legal or similar limits on the use of these assets continue to support such assessment.

(e) Determination of Lease Term

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated).

The Bank did not include renewal options as part of the lease term of as the terms are renewable upon mutual agreement.

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

(f) *Recognition of Provisions and Contingencies*

Judgment is exercised by management to distinguish the difference between provisions and contingencies. Policies on recognition of provisions and contingencies are discussed in Note 2.13 and relevant disclosures are presented in Note 19.

In dealing with the Bank's various legal proceedings, its estimate of the probable costs that may arise from claims and contingencies has been developed in consultation and coordination with the Bank's internal and outside counsels acting in defense for the Bank's legal cases and are based upon the analysis of probable results.

Although the Bank does not believe that its dealing on these proceedings will have material adverse effect on the Bank's financial position, it is possible that future results of operations could be materially affected by changes in the estimates or in the effectiveness of the strategies conducted relating to those proceedings.

3.2 Key Sources of Estimation Uncertainty

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

(a) *Estimation of Allowance for ECL*

The measurement of the allowance for ECL on debt financial assets at amortized cost is an area that requires the use of significant assumptions about the future economic conditions and credit behaviour (e.g., likelihood of customers defaulting and the resulting losses). Explanation of the inputs, assumptions and estimation used in measuring ECL is further detailed in Note 4.3.

The carrying value of investment debt securities at amortized cost and at FVOCI, and loans and other receivables together with the analysis of the allowance for impairment on such financial assets, are shown in Notes 11 and 12, respectively.

(b) *Fair Value Measurement for Financial Assets at FVPL and at FVOCI*

The Bank carries certain financial assets at fair value which requires judgment and extensive use of accounting estimates. In cases when active market quotes are not available, fair value is determined by reference to the current market value of another financial instrument which is substantially the same or is calculated based on the expected cash flows of the underlying net base of the instrument or other more appropriated valuation techniques.

The amount of changes in fair value would differ if the Bank had utilized different valuation methods and assumptions. Any change in fair value of the financial assets and financial liabilities would affect profit or loss or other comprehensive income.

The fair value of derivative financial instruments that are not quoted in an active market is determined through valuation techniques using the net present value computation.

The carrying values of the Bank's trading and investment securities and the amounts of fair value changes recognized on those financial assets are disclosed in Note 11.

(c) Estimation of Useful Lives of Bank Premises, Furniture, Fixtures and Equipment, Right-of-use Assets, Investment Properties, Computer Software, Goodwill and Branch Licenses

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

The Bank's goodwill and branch licenses are regarded as having an indefinite useful lives considering there is no foreseeable limit to the period over which such assets are expected to generate net cash inflows for the Bank. The assessment of having indefinite useful lives is reviewed periodically and is updated whether events and circumstances such as the period of control over these assets and legal or similar limits on the use of these assets continue to support such assessment.

Actual results, however, may vary due to changes in estimates brought about by changes in factors mentioned above.

(d) Determination of Realizable Amount of Deferred Tax Assets

The Bank reviews its deferred tax assets at the end of each reporting period and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. The carrying value of deferred tax assets was assessed by management as fully recoverable as of June 30, 2022 and December 31, 2021.

(e) Determination of Fair Value of Investment Properties

The Bank's investment properties are composed of parcels of land and buildings and improvements which are held for capital appreciation, and are measured using the cost model. The estimated fair value of investment properties disclosed in Note 7.4 is determined on the basis of the appraisals conducted by professional appraiser applying the relevant valuation methodologies as discussed therein.

At initial recognition, the Bank determines the fair value of the acquired properties based on valuations performed by both internal and external appraisers. The appraised value is determined based on the current economic and market conditions as well as the physical condition of the property. For investment properties with appraisal conducted prior to the end of the current reporting period, management determines whether there are significant circumstances during the intervening period that may require adjustments or changes in the disclosure of fair value of those properties. A significant change in key inputs and sources of information used in the determination of the fair value disclosed for those assets may result in adjustment in the carrying amount of the assets reported in the financial statements if their fair value will indicate evidence of impairment.

The Bank's methodology in determining the fair value of acquired properties are further discussed in Note 7.4

(f) *Determination of Fair Value of Identifiable Assets Acquired and Liabilities Assumed from the Merger and Resulting Gain on Bargain Purchase*

The merger between the Bank and ISBI is considered as an acquisition of a business as defined in PFRS 3, hence, the Bank accounted the merger by applying the acquisition method. The acquisition method requires the recognition of identifiable assets, liabilities, indemnification assets, contingent liabilities and deferred consideration in a business combination, if any, at fair value at the date of acquisition, with the excess of the acquisition price over the identified fair values recognized as goodwill, if positive, otherwise gain on bargain purchase.

The Bank obtained a valuation report for the purchase price allocation from an independent external valuation specialist in order to determine the fair value of assets, liabilities and contingent liabilities acquired, and that formed a basis for any resulting goodwill or a gain on bargain purchase. To calculate the goodwill or gain on bargain purchase in the merger transaction, the Bank, through its independent external valuation specialist, allocated the purchase price to the fair values of identifiable assets acquired and liabilities assumed on the following order: (a) fair value of tangible net assets as at the acquisition date and then (b) fair value of identifiable intangible asset, if any.

Fair value of tangible assets are determined based on the current economic and market conditions as well as the physical condition of the assets (see also Note 7).

(g) *Impairment of Non-financial Assets*

Except for intangible assets with indefinite useful lives (i.e. goodwill and branch licenses), which are annually tested for impairment, PFRS requires that an impairment review be performed when certain impairment indications are present. The Bank's policy on estimating the impairment of non-financial assets is discussed in detail in Note 2.19. Though management believes that the assumptions used in the estimation of fair values reflected in the financial statements are appropriate and reasonable, significant changes in these assumptions may materially affect the assessment of recoverable values and any resulting impairment loss could have a material adverse effect on the results of operations.

There are no impairment losses recognized in goodwill, branch licenses, bank premises, furniture, fixtures and equipment, and right-of-use assets.

(h) Determination of Appropriate Discount Rate in Measuring Lease Liabilities

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

(i) Valuation of Post-employment Benefits

The determination of the Bank's obligation and cost of post-employment benefit plan is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. A significant change in any of these actuarial assumptions may generally affect the recognized expense and the carrying amount of the post-employment benefit obligation in the next reporting period.

4. RISK MANAGEMENT OBJECTIVES AND POLICIES

PBB, as a financial institution, is in the business of risk taking. Its activities expose the Bank to credit, market and liquidity and operational risks. Credit risk emanates from exposures to borrowing customers, counterparty risk in trading activities, and contingent credit risks arising from trade finance exposures. Market risk covers price, liquidity and interest rate risks in the Bank's investment portfolio. Liquidity risk may arise from shortage in funding and/or lack of market for sale of its assets. Operational risk covers potential losses other than market and credit risk arising from failures of people, process, systems and information technology and external events.

The ability to manage risks effectively is vital for the Bank to sustain its growth and continue to create value for its shareholders.

4.1 Risk Management

The Bank continually advances on its risk management techniques and integrate this into the overall strategic business objectives to support the growth objectives of the Bank.

The Bank has automated the front-office, back office, and middle office operations as far as market risk is concerned. This includes the integration of pre-deal limit checking, on-demand position monitoring, automated limit reporting and breach approval, and automated value-at-risk (VaR) calculations. In addition to the automation, the Bank continues to review its limits system to ensure that it only enters into transactions allowed under its existing policies and that adequate capital is available to cover market risk exposures.

On the credit side, the Bank has instituted improvements on its credit policies, which includes review and approval of large exposure and credit concentration within proper authority. The Bank also reviews plans and progress on the resolution of problem loan accounts. Credit process streamlining has also been initiated to ensure that commensurate controls are in place while the Bank continues to device ways to improve on its credit process.

As for operational risk, the Bank has completed the bankwide operational risk and control self-assessment in support of the enterprise risk management framework of the Bank. With this, there is also an enterprise-wide training on risk awareness to ensure appreciation and measurement of key risks of each unique business and support units and how these relate to the over-all objective and strategies of the Bank. In addition, information security policies were further strengthened, implemented, and disseminated across all units of the Bank.

4.2 Enterprise Risk Management Framework

The Bank adopts an Enterprise Risk Management framework as its integrated approach to the identification, measurement, control and disclosure of risks, subject to prudent limits and stringent controls as established in its risk management framework and governance structure. The Bank has an integrated process of planning, organizing, leading, and controlling its activities in order to minimize the effects of risk on its capital and earnings. The Bank's BOD formulates the corporate risk policy, sets risk tolerances and appetite and provide risk oversight function through the Risk Oversight Committee (ROC), which in turn supervises the Chief Risk Officer and Head of the Enterprise Risk Management Group (ERMG) in the development and implementation of risk policies, processes and guidelines. The framework covers operational, market and liquidity, credit and counterparty, and other downside risks within the context of the supervisory risk guidelines of the BSP and aligned best practices on risk management.

4.3 Credit Risk

Credit risk pertains to the risk to income or capital due to failure by borrowers or counterparties to pay their obligations, either in full or partially as they fall due, deterioration in the credit quality of a borrower, issuer or counterparty, and the reduced recovery from a credit facility in the event of default. This is inherent in the Bank's lending, investing, and trading and is managed in accordance with the Bank's credit risk framework of risk identification, measurement, control and monitoring.

Credit risk is managed through a continuing review of credit policies, systems, and procedures. It starts with the definition of business goals and setting of risk policies by the BOD. Account officers and credit officers directly handle credit risk as guided by BOD-approved policies and limits. ERMG, as guided by the ROC, performs an independent portfolio oversight of credit risks and reports regularly to the BOD and the ROC.

On the transactional level, exposure to credit risk is managed through a credit review process wherein a regular analysis of the ability of the obligors and potential obligors to meet interest and capital repayment obligations is performed. Exposure to credit risk is also managed in part by obtaining collateral and corporate and personal guarantees. Moreover, in accordance with best practices, the Bank also adopts an internal credit risk rating system (ICRRS) for the purpose of measuring credit risk for every exposure in a consistent manner as accurately as possible and uses this information as a tool for business and financial decision-making.

4.4 Market Risk

The Bank's market risk exposure arises from adverse movements in interest rates and prices of assets that are either carried in the banking book or held as positions in the trading book (financial instruments), mismatches in the contractual maturity of its resources and liabilities, embedded optionality in the loans and deposits due to pre-terminations, and potential cash run offs arising from changes in the overall liquidity and funding conditions in the market.

Market risk related to the Bank's financial instruments includes foreign currency, interest rate and price risks.

(a) Foreign Currency Risk

The Bank manages its exposure to effects of fluctuations in the foreign currency exchange rates by maintaining foreign currency exposure within the existing regulatory guidelines and at a level that it believes to be relatively conservative for a financial institution engaged in that type of business.

The Bank's foreign currency exposure is primarily limited to the foreign currency deposits, which are sourced within the Philippines or generated from remittances by Filipino expatriates and overseas Filipino workers. Also, foreign currency trading with corporate accounts and other financial institutions is a source of foreign currency exposure for the Bank. At the end of each month, the Bank reports to the BSP on its acquisition and disposition of foreign currency resulting from its daily transactions.

(b) Interest Rate Risk

Interest rate risk is the probability of decline in net interest earnings as a result of an adverse movement of interest rates.

In measuring interest rate exposure from an earnings perspective, the Bank calculates the Earnings at Risk (EAR) to determine the impact of interest rate changes on the Bank's accrual portfolio. The EAR is the potential decline in net interest income due to the adverse movement in interest rates. To quantify interest rate exposure, the statement of financial position is first classified into interest rate sensitive and non-interest rate sensitive asset and liability accounts and then divided into pre-defined interest rate sensitivity gap tenor buckets with corresponding amounts slotted therein based on the term to next re-pricing date (the re-pricing maturity for floating rate accounts) and remaining term to maturity (the equivalent re-pricing maturity for fixed rate accounts).

The rate sensitivity gaps are calculated for each time band and on a cumulative basis. The gap amount for each bucket is multiplied by an assumed change in interest rate to determine EAR. A negative interest rate sensitivity gap position implies that EAR increases with a rise in interest rates, while a positive interest rate sensitivity gap results in a potential decline in net interest rate income as interest rates fall. To supplement the EAR, the Bank regularly employs sensitivity analysis on the Bank's interest rate exposure.

To mitigate interest rate risk, the Bank follows a prudent policy on managing resources and liabilities so as to ensure that exposure to interest rate risk are kept within acceptable levels. The BOD has also approved the EAR Limit which is reviewed regularly.

(c) Price Risk

In measuring the magnitude of exposures related to the Bank's trading portfolio arising from holding of government and other debt securities, the Bank employs VaR methodology. VaR is an estimate of the amount of loss that a given risk exposure is unlikely to exceed during a given time period, at a given level of statistical confidence. Analytically, VaR is the product of: (a) the sensitivity of the market value of the position to movement of the relevant market risk factors, and (b) the volatility of the market risk factor for the given time horizon at a specified level of statistical confidence. Typically, the Bank uses a 99% confidence level for this measurement; i.e., losses could exceed the VaR in one out of 100 trading days.

In calculating the severity of the market risk exposure for fixed income securities, the Bank takes into account the cash flow weighted term or modified duration of the securities comprising the portfolio, the yield to maturity, and mark-to-market value of the component securities position in the trading book. As the VaR methodology requires a minimum historical period of reckoning with market movements from a transparent discovery platform, the Bank uses yield and price data from the PDEx and Bloomberg in the calculation of the volatility of rates of return and security prices, consistent with BSP valuation guidelines.

In assessing market risk, the Bank scales the calculated VaR based on assumed defeasance or holding periods that range from one day and ten days consistent with best practices and BSP standards.

As a prudent market risk control and compliance practice, the BOD has approved a market risk limit system which includes: (i) VaR limit on a per instrument and portfolio; (ii) loss limit on per investment portfolio, (iii) off-market rate limits on per instrument type; and, (iv) holding period for investment securities.

In recognition of the limitations of VaR related to the assumptions on which the model is based, the Bank supplements the VaR with a wide range of stress tests to model the financial impact of a variety of exceptional market scenarios on individual trading portfolios and the Bank's overall position.

(d) Liquidity Risk

Liquidity risk is the risk to income and capital as a result of the Bank failing its commitment for funds as they fall due. The Bank manages its liquidity risk through the management's monitoring of various liquidity ratios, Treasury's weekly and regular assessment of liquidity gaps, and the maturity ladder. A maturity ladder relates the inflows to outflows of funds at selected maturity dates and is constructed to measure liquidity exposure. The ladder shows the Bank's statement of financial position distributed into tenor buckets across the term structure on the basis of the term to final maturity or cash flow dates. The amount of net inflows which equals the difference between the amounts of contractually maturing assets (inflows) and liabilities (outflows) is computed per tenor bucket and on a cumulative basis incorporating certain behavioural and hypothetical assumptions regarding the flows from assets and liabilities including contingent commitments over time. The calculated periodic and cumulative gaps constitute the Bank's run off schedule, which indicate the Bank's net funding requirements in local and foreign currency.

To control liquidity gap risks, a quantitative ceiling to the net outflow of funds of the Bank called Maximum Cumulative Outflow (MCO) limit is observed per currency based on the recommendation of management, which model and assumptions are reviewed by the Asset and Liability Committee (ALCO) and the ROC prior to the confirmation by the BOD.

Additional measures to mitigate liquidity risks include reporting of funding concentration, short-term liquidity reporting, available funding sources, and liquid assets analysis.

More frequent analysis of projected funding source and requirements as well as pricing strategies is discussed thoroughly during the weekly ALCO meetings.

Pursuant to applicable BSP regulations, the Bank is required to maintain reserves against deposit liabilities which are based on certain percentages of deposits.. The required reserves against deposit liabilities shall be kept in the form of deposits placed in the Bank's demand deposit accounts with the BSP. The BSP also requires the Bank to maintain asset cover of 100% for foreign currency denominated liabilities of its FCDU.

4.5 Operational Risk

Operational risks are risks arising from the potential inadequate information systems and systems, operations or transactional problems (relating to service or product delivery), breaches in internal controls, fraud, or unforeseen catastrophes that may result in unexpected loss.

Operational risks include the risk of loss arising from various types of human or technical error, settlement or payments failures, business interruption, administrative and legal risks, and the risk arising from systems not performing adequately.

The ROC of the Bank assists management in meeting its responsibility to understand and manage operational risk exposures.

The ROC applies a number of techniques to efficiently manage operational risks. Among these are enumerated below.

- Each major business line has an embedded operational risk management officer who acts as a point person for the implementation of various operational risk tools. The operational risk officers attend annual risk briefings conducted by the ROC to keep them up-to-date with different operational risk issues, challenges and initiatives.

- With ROC's bottom up self-assessment process, which is conducted at least annually, areas with high risk potential are highlighted and reported, and control measures are identified. The results of said self-assessment exercise also serve as one of the inputs in identifying specific key risk indicators (KRIs).

- KRIs are used to monitor the operational risk profile of the Bank and of each business unit, and alert the management of impending problems in a timely fashion.

- Internal loss information is collected, reported and utilized to model operational risk.

- The ROC reviews product and operating manuals, policies, procedures and circulars, thus allowing the embedding of desired operational risk management practices in all business units.

(a) *Reputational Risk*

Reputation risk is the risk to earnings or capital arising from negative public opinion. This affects the Bank's ability to establish new relationships or services, or to continue servicing existing relationships. This risk can expose the Bank to litigation, financial loss, or damage to its reputation. Reputation risk arises whenever technology-based banking products, services, delivery channels or processes may generate adverse public opinion such that it seriously affects the Bank's earnings or impairs its capital. This risk is present in activities such as asset management and regulatory compliance.

The Bank adopted a reputation risk monitoring and reporting framework to manage public perception.

(b) *Legal Risk and Regulatory Risk Management*

Changes in laws and regulations and fiscal policies could adversely affect the Bank's operations and financial reporting. In addition, the Bank faces legal risks in enforcing its rights under its loan agreements, such as foreclosing of collateral. Legal risk is higher in new areas of business where the law remains untested by the courts. The Bank uses a legal review process as the primary control mechanism for legal risk. Such a legal review aims to verify and validate the existence, genuineness and due execution of legal documents, and verify the capacity and authority of counterparties and customers to enter into transactions.

In addition, the Bank seeks to minimize its legal risk by using stringent legal documentation, imposing certain requirements designed to ensure that transactions are properly authorized, and consulting internal and external legal advisors.

Regulatory risk refers to the potential for the Bank to suffer financial loss due to changes in the laws or monetary, tax or other governmental regulations of the country. The Bank's Compliance Program, the design and implementation of which is overseen and coordinated by the Compliance Officer, is the primary control process for regulatory risk issues. The Compliance Office is committed to safeguard the integrity of the Bank by maintaining a high level of regulatory compliance.

It is responsible for communicating and disseminating new rules and regulations to all units, assessing and addressing identified compliance issues, performing periodic compliance testing on branches and head office units, and reporting compliance findings to the Audit Committee and the BOD.

4.6 Anti-Money Laundering Controls

The Anti-Money Laundering Act (AMLA) or RA No. 9160 was passed in September 2001 and was amended by RA No. 9194, RA No. 10167, and RA No. 10365 in March 2003, June 2012 and February 2013, respectively. Under the AMLA, as amended, the Bank is required to submit "Covered Transaction Reports" to the Anti-Money Laundering Council (AMLC) involving single transactions in cash or other equivalent monetary instruments in excess of P0.5million within one banking day. The Bank is also required to submit "Suspicious Transaction Reports" to the AMLC in the event that circumstances exist and there are reasonable grounds to believe that the transaction is suspicious. Furthermore, terrorist financing was criminalized in RANo.10168. In addition, the AMLA requires that the Bank safe keeps, as long as the account exists, all the Know Your Customer (KYC) documents involving its clients, including documents that establish and record the true and full identity of its clients. Likewise, transactional documents must be maintained and stored for five years from the date of the transaction. In cases involving closed accounts, the KYC documents must be kept for five years after their closure. Meanwhile, all records of accounts with court cases must be safe kept until there is a final resolution.

On January 27, 2011, BSP Circular No. 706 was implemented superseding all policies on AMLA. The Circular requires the Bank to adopt a comprehensive and risk-based Money Laundering and Terrorist Financing Prevention Program (MLPP) designed according to the covered institution's corporate structure and risk profile.

In an effort to further prevent money laundering activities, the Bank revised its KYC policies and guidelines in order to comply with the aforementioned Circular. Under the guidelines, each business unit is required to validate the true identity of a customer based on official or other reliable identifying documents or records before an account may be opened. Likewise, the Bank is required to risk profile its clients to Low, Normal or High with its corresponding due diligence of Reduced, Average or Enhanced, in compliance with the risk-based approach mandated by the Circular. Decisions to enter into a business relationship with a high risk customer requires senior management approval, and in some cases such as a politically exposed person or a private individual holding a prominent position, Credit and Collection Department Group Head approval is necessary.

The Bank's procedures for compliance with the AMLA are set out in its MLPP. The Bank's Compliance Officer, through the Anti-Money Laundering Department (AMLD), monitors AMLA compliance and conducts regular compliance testing of business units.

The AMLD requires all banking units to submit to the Compliance Office certificates of compliance with the Anti-Money Laundering Rules and Regulations on a quarterly basis.

The Compliance Officer regularly reports to the Audit Committee and to the BOD results of their monitoring of AMLA compliance.

5. CAPITAL MANAGEMENT AND REGULATORY CAPITAL

5.1 *Capital Management and Regulatory Capital*

The Bank's lead regulator, the BSP, sets and monitors capital requirements for the Bank. In implementing current capital requirements, the BSP requires the Bank to maintain a prescribed ratio of qualifying capital to risk-weighted assets. PBB, being a stand-alone thrift bank, is required under BSP regulations to comply with Basel 1.5. Under this regulation, the qualifying capital account of the Bank should not be less than an amount equal to 10% of its risk weighted assets.

The qualifying capital of the Bank for purposes of determining the capital-to-risk assets ratio consists of Tier 1 capital plus Tier 2 capital elements net of the required deductions from capital such as:

(a) unbooked valuation reserves and other capital adjustments as may be required by the BSP;

(b) total outstanding unsecured credit accommodations to directors, officers, stockholders and related interests (DOSRI);
(c) deferred tax asset net of deferred tax liability;
(d) goodwill;
(e) sinking fund for redemption of redeemable preferred shares; and,
(f) other regulatory deductions.

Risk weighted assets is the sum of the Bank's credit risk weighted assets, operational risk weighted assets, and market risk weighted assets. The latter was due to the Bank's authority to engage in derivatives as end-user under a Type 3 Limited End-User Authority. Risk weighted assets are computed using the standardized approach for credit and market risks while basic indicator approach with modification was used for operational risk.

The following are the risk-based capital adequacy of the Bank as of June 30, 2022 December 31, 2021, 2020 (amounts in millions):

		2022		2021		2020
Net Tier 1 Capital	**P**	**13,738**	P	13,254	P	12,939
Tier 2 Capital		**893**		893		858
Total Qualifying Capital	**P**	**14,631**	P	14,147	P	13,797
Risk Weighted Assets						
Credit Risk Weighted Assets	**P**	**98,462**	P	109,690	P	85,745
Operational Risk Weighted Assets		**8,793**		7,927		6,375
Market Risk Weighted Assets		**1,554**		2,055		5,379
Total Risk-Weighted Assets	**P**	**108,809**	P	119,672	P	97,499
Capital ratios:						
Total qualifying capital expressed as percentage of total risk-weighted assets		**13.5%**		11.8%		14.2%
Net Tier 1 capital expressed as percentage of total risk-weighted assets		**12.6%**		11.1%		13.3%

The amount of surplus funds available for dividend declaration is determined also on the basis of regulatory net worth after considering certain adjustments.

The Bank's policy is to maintain a strong capital base in order to maintain investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholder's return is also recognized and the Bank recognizes the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position.

A Bank's regulatory capital is analyzed into two tiers, which are Tier 1 Capital plus Tier 2 Capital less deductions from the total of Tier 1 and Tier 2 capital equivalent to 50% of the following:

(a) Investments in equity of unconsolidated subsidiary banks and other financial allied undertakings, but excluding insurance companies;

(b) Investments in debt capital instruments of unconsolidated subsidiary banks;

(c) Investments in equity of subsidiary insurance companies and non-financial allied undertakings;

(d) Reciprocal investments in equity of other banks/enterprises; and,

(e) Reciprocal investments in unsecured subordinated term debt instruments of other banks/quasi-banks qualifying as Hybrid Tier 1, Upper Tier 2 and Lower Tier 2, in excess of the lower of (i) an aggregate ceiling of 5% of total Tier 1 capital of the bank excluding Hybrid Tier 1; or (ii) 10% of the total outstanding unsecured subordinated term debt issuance of the other bank/quasi-banks.

Provided, that any asset deducted from the qualifying capital in computing the numerator of the risk-based capital ratio shall not be included in the risk-weighted assets in computing the denominator of the ratio.

As of June 30, 2022 and December 31, 2021, the Bank has no exposure in item (a) to item(e) above. There were no material changes in the Bank's management of capital during the current year.

As of June 30, 2022 and December 31, 2021, the Bank has satisfactorily complied with the capital-to-risk assets ratio.

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" (regular net worth) reported to the BSP, determined on the basis of regulatory accounting policies, which differ from PFRS in some aspects (mainly in the recognition of deferred tax assets). Thrift banks with head office in the National Capital Region and have more than 50 branches are required to comply with the minimum capital requirement of P2.0 billion. The Bank has complied with the minimum capital requirement at the end of each reporting period.

5.2 *Minimum Liquidity Ratio*

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

The minimum liquidity ratio (MLR) of 20% shall be complied with on an ongoing basis absent a period of financial stress effective January 1, 2019. However, the Bank was only able to comply with the MLR requirement starting June 2019.

Pursuant to BSP Memorandum No. M-2020-020 dated April 7, 2020, as amended by

Memorandum No. M-2022-004 dated January 13, 2022, MLR ratio was reduced to 16% as a relief measure until December 31, 2022.

The Bank's MLR as of June 30, 2022 and December 31, 2021 are analyzed below (amounts in millions except MLR figure).

	2022	2021
Eligible stock liquid assets	**P 20,765**	P 39,631
Total qualifying liabilities	**110,301**	135,734
MLR	**18.83%**	29.20%

6. CATEGORIES AND OFFSETTING OF FINANCIAL ASSETS AND FINANCIALLIABILITIES

6.1 Carrying Amounts and Fair Values by Category

The following table summarizes the carrying values and fair values of those financial assets and financial liabilities in the statements of financial position:

	Notes	Carrying Values	Fair Values
June 30, 2022:			
Financial Assets			
Loans and receivables:			
Cash and other cash items	**9**	**P 917,407,187**	**P 917,407,187**
Due from BSP	**9**	**2,743,451,202**	**2,743,451,202**
Due from other banks	**10**	**3,897,799,805**	**3,897,799,805**
Investment securities - net	**11**	**1,155,685,521**	**1,155,685,521**
Loans and other receivables	**12**	**97,184,608,391**	**97,184,608,391**
Other resources	**13**	**131,412,555**	**131,412,555**
At fair value:			
FVPL securities	**11**	**2,310,539,509**	**2,310,539,509**
FVOCI securities	**11**	**11,125,534,943**	**11,125,534,943**
		P119,466,439,113	**P119,466,439,113**
Financial Liabilities			
At amortized cost:			
Deposit liabilities	**14**	**P104,869,258,153**	**P104,869,258,153**
Bills payable	**15**	**-**	**-**
Corporate notes payable	**16**	**-**	**-**
Accrued expenses and other liabilities	**17**	**5,391,482,372**	**5,391,482,372**
		P110,260,740,525	**P110,260,740,525**

December 31, 2021:

	Notes	Carrying Values	Fair Values
Financial Assets			
At amortized cost:			
Cash and other cash items	9	P 1,430,787,675	P 1,430,787,675
Due from BSP	9	16,754,028,342	16,754,028,342
Due from other banks	10	3,474,970,323	3,474,970,323
Investment securities - net	11	883,787,046	886,085,840
Loans and other receivables - net	12	91,674,544,156	98,565,014,525
Other resources	15	134,486,746	134,486,746
At fair value:			
FVPL securities	11	2,482,213,020	2,482,213,020
FVOCI securities	11	11,989,395,564	11,989,395,564
		P128,824,212,872	P135,716,982,035

	Notes	Carrying Values	Fair Values
Financial Liabilities			
At amortized cost:			
Deposit liabilities	16	P112,417,711,167	P154,133,982,421
Corporate notes payable	18	2,995,352,640	2,995,352,640
Accrued expenses and other liabilities	19	1,,429,598,435	1,429,598,435
		P116,842,662,242	P158,558,933,496

The Bank considers that the carrying amounts of foregoing other financial assets and financial liabilities which are measured at amortized cost, approximate the fair values either because those instruments are short-term in nature or the effect of discounting for those with maturities of more than one year is not material. The fair value information disclosed for the Bank's debt securities are determined based on the procedures and methodologies discussed in Note 7.2.

6.2 Offsetting of Financial Assets and Financial Liabilities

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

7. FAIR VALUE MEASUREMENT AND DISCLOSURES

7.1 Fair Value Hierarchy

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

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

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

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

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

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

For investments which do not have quoted market price, the fair value is determined by using generally acceptable pricing models and valuation techniques or by reference to the current market of another instrument which is substantially the same after taking into account the related credit risk of counterparties, or is calculated based on the expected cash flows of the underlying net asset base of the instrument.

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

7.2 Financial Instruments Measured at Fair Value

The fair value of the debt securities of the Bank determined as follows:

(a) For peso-denominated government debt securities issued by the Philippine government, fair value is determined to be the reference price per PDEx which is computed based on the weighted average of done or executed deals (Level1), or the simple average of all firm bids per benchmark tenor or interpolated yields (Level 2). This is consistent with BSP Circular No. 813, issued by the BSP pursuant to Monetary Board Resolution No. 1504 dated September 13, 2013.

(b) For other quoted debt securities under Level 1, fair value is determined to be the current mid-price, which is computed as the average of ask and bid prices as appearing on Bloomberg.

There were neither transfers between Levels 1 and 2 nor changes in Level 3 instruments in both years.

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

The fair values of financial assets and financial liabilities not presented at fair value in the statements of financial position are determined as follows:

(a) Cash and Other Cash Items

Cash consists primarily of funds in the form of Philippine currency notes and coins in the Bank's vault and those in the possession of tellers, including automated teller machines (see Note 9). Other cash items include cash items other than currency and coins on hand (see Note 13) such as checks drawn on the other banks or other branches that were received after the Bank's clearing cut-off time until the close of the regular banking hours. Carrying amounts approximate fair values in view of the relatively short-term maturities of these instruments.

(b) Due from BSP and Other Banks and SPURRA

Due from BSP pertains to deposits made by the Bank to BSP for clearing and reserve requirements while SPURRA pertain to loans and receivables from BSP arising from overnight lending from excess liquidity. Due from other banks includes interbank deposits and items in the course of collection. The fair value of floating rate placements and overnight deposits is their carrying amount. The estimated fair value of fixed interest-bearing deposits is based on discounted cash flows using prevailing money-market interest rates for debts with similar credit risk and remaining maturity, which for short-term deposits approximates the nominal value.

(c) Loans and Other Receivables

Loans and other receivables are net of impairment losses. The estimated fair value of loans and other receivables represents the discounted amount of estimated future cash flows expected to be received. Long term interest-bearing loans are periodically repriced at interest rates equivalent to the current market rates, to determine fair value.

(d) Other Financial Assets

Other financial assets pertain to foreign currency notes and coins, security deposits and petty cash fund which are included in the Other Resources account. Due to their short duration, the carrying amounts of these items in the statements of financial position are considered to be reasonable approximation of their fair values.

(e) Deposits Liabilities and Borrowings

The estimated fair value of deposits with no stated maturity, which includes non-interest-bearing deposits, is the amount repayable on demand. The estimated fair value of long-term fixed interest-bearing deposits and other borrowings without quoted market price is based on discounted cash flows using interest rates for new debts with similar remaining maturity. The carrying amount of short term bills payable approximate their fair values. For corporate notes payable categorized within Level 3, fair value is determined based on their discounted amount of estimated future cash flows expected to be received or paid, or based on their cost which management estimates to approximate their fair values.

(f) *Accrued Expenses and Other Liabilities*

Accrued expenses and other liabilities classified as financial liabilities are recognized initially at their fair value and subsequently measured at amounts to which they are to be paid. Due to their short-duration, management ascertained that the fair values of these short-term liabilities approximate their carrying values.

7.4 Fair Value Measurement of Investment Properties Carried at Cost

The fair value of the investment properties of the Bank was determined on the basis of a valuation carried out on the acquisition dates by either an independent or internal appraiser having appropriate qualifications and recent experience in the valuation of properties in the relevant locations. To some extent, the valuation process was conducted by the appraisers in discussion with the management of the Bank with respect to determination of the inputs such as size, age, and condition of the land and buildings and the comparable prices in the corresponding property location. In estimating the fair value of the properties, management takes into account the market participant's ability to generate economic benefits by using the assets in highest and best use. Based on management's assessment, the best use of the investment properties indicated above is their current use which is generate positive future cash flows through sale.

The fair value of these investment properties was determined based on the following approaches:

(a) *Fair Value Measurement for Land*

The Level 3 fair value of land was derived using observable recent prices of the reference properties adjusted for differences in key attributes such as property size, zoning, and accessibility. The most significant input into this valuation approach is the price per square foot; hence, the higher the price per square foot, the higher the fair value. On the other hand, if fair value of the land was derived using the market comparable approach that reflects the recent transaction prices for similar properties in nearby locations, fair value is included in Level 2. Under this approach, when sales prices of comparable land in close proximity are used in the valuation of the subject property, minor adjustments on the price is made to consider peculiarities of the property with that of the benchmark property.

(b) *Fair Value Measure for Building and Improvements*

The Level 3 fair value of the buildings and improvements under Investment Properties account was determined using the replacement cost approach that reflects the cost to a market participant to construct an asset of comparable usage, constructions standards, design and lay-out, adjusted for obsolescence. The more significant inputs used in the valuation include direct and indirect costs of construction such as but not limited to, labor and contractor's profit, materials and equipment, surveying and permit costs, electricity and utility costs, architectural and engineering fees, insurance and legal fees. These inputs were derived from various suppliers and contractor's quotes, price catalogues, and construction price indices. Under this approach, higher estimated costs used in the valuation will result in higher fair value of the properties.

There has been no change to the valuation techniques used by the Bank during the year for its non-financial assets. Also, there were no transfers into or out of Level 3 fair value hierarchy in 2022 and 2021.

8. SEGMENT REPORTING

The Bank's main operating businesses are organized and managed separately according to the nature of services and products provided and the different markets served, with each segment representing a strategic business unit. These are also the basis of the Bank in reporting to its chief operating decision-maker for its strategic decision-making activities.

Management currently identifies the Bank's three service lines as primary operating segments.

(a) *Consumer Banking* – includes auto financing, home financing, and salary or personal loans;

(b) *Corporate Banking* – includes term loans, working capital credit lines, bills purchase and discounting lines; and,

(c) *Treasury Operations* – manages liquidity of the Bank and is a key component in revenue and income generation through its trading and investment activities.

These segments are the basis on which the Bank reports its segment information. Transactions between the segments are on normal commercial terms and conditions.

Segment revenues and expenses that are directly attributable to primary operating segment and the relevant portions of the Bank's revenues and expenses that can be allocated to that operating segment are accordingly reflected as revenues and expenses of that operating segment. Revenue sharing agreements are used to allocate external customer revenues to a segment on a reasonable basis.

9. CASH AND DUE FROM BSP

This account is composed of the following:

	2022	2021
Cash and other cash items	**P 917,407,187**	P 1,430,787,675
Due from BSP		
Mandatory reserves	**343,451,202**	792,326,215
Other than mandatory reserves	**2,400,000,000**	15,961,702,127
	2,743,451,202	16,754,028,342
	P 3,660,858,389	P 18,184,816,017

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

Mandatory reserves represent the balance of the deposit account maintained with the BSP to meet reserve requirements and to serve as clearing account for interbank claims (see Note 15).

Due from BSP other than mandatory reserves bears annual effective interest rates as follows:

2022	2021	2020
1.5% - 2.0%	1.5% -2.0%	1.7% -3.8%

The total interest income earned for six-month period ending June 30, 2022, 2021 and 2020 amounted to P121.3 million, P89.3 million and P45.1 million respectively, and are included as part of Interest Income on Due from BSP and Other Banks in the statements of profit or loss.

10. DUE FROM OTHER BANKS

The balance of this account represents deposits with the following:

	2022	2021
Local banks	**P 3,592,194,244**	P 2,323,873,120
Foreign banks	**305,605,561**	1,151,097,203
	P 3,897,799,805	P 3,474,970,323

Interest rates on these deposits range from 0.13% to 1.50% per annum in 2022 and 0.13% to 1.50% per annum in 2021. The total interest income earned for six-month period ending June 30, 2022, 2021 and 2020 amounted to P2.6 million, P1.5 million and P5.3 million respectively, and are included as part of Interest Income on Due from BSP and Other Banks in the statements of profit or loss.

11. TRADING AND INVESTMENT SECURITIES

The components of this account are presented below.

	2022	2021
Financial assets at FVPL	**P 2,310,539,509**	P 2,482,213,020
Financial assets at FVOCI	**11,125,534,943**	11,989,395,564
Investment Securities at amortized Cost-net	**1,155,685,521**	883,787,046
	P 14,591,759,973	P15,355,395,630

11.1 Investment Securities at FPVL

This account is composed of the following:

	2022	2021
Corporate bonds	**P 1,943,728,717**	P 2,094,229,968
Government debt securities	**366,810,792**	387,983,052
	P 2,310,539,509	P 2,482,213,020

Effective interest rates of investment securities at FPVL range from:

	2022	2021	2020
Government debt securities	**2.8% – 4.7%**	1.6% – 4.7%	2.5% – 4.3%
Corporate bonds	**3.7% –7.3%**	3.0% –7.3%	3.0% – 4.7%

11.2 Investment Securities at FVOCI

This account is composed of the following:

	2022	2021
Government debt securities	**P 10,267,295,752**	P11,179,968,102
Corporate bonds – quoted	**862,468,648**	809,427,462
	P 11,129,764,400	P 11,989,395,564

Effective interest rates of investment securities at FVOCI range from:

	2022	2021	2020
Government debt securities	**2.4% – 6.9%**	2.9% – 6.9%	3.5% – 6.9%
Corporate bonds	**3.3% –4.9%**	4.1% – 5.7%	4.7% – 5.7%

In 2018, provision for probable loss and accumulated impairment losses on these securities amounted to P4.2 million and is presented as part of Impairment Losses and Unrealized Fair Value Losses on Investment Securities at FVOCI in the 2018 statement of profit or loss and statement of changes in equity, respectively.

There were no additional provision for probable loss made in 2021, 2020 and 2019.

11.3 Investment Securities at Amortized Cost

This account is composed of the following:

		2022	2021
Government debt securities	**P**	**586,913,810**	P 631,915,575
Corporate bonds – quoted		**570,389,651**	253,489,411
		1,157,303,461	885,404,986
Allowance for impairment		**(1,617,940)**	(1,617,940)
	P	**1,155,685,521**	P 883,787,046

Effective interest rates of investment securities at amortized cost range from:

	2022	2021	2020
Government debt securities	**3.3%-8.1%**	3.3%-8.1%	3.5%-8.1%
Corporate bonds	**4.0%**	4.0%	4.0% – 6.2%

12. LOANS AND OTHER RECEIVABLES

This account consists of the following:

	2022	2021
Receivables from customers:		
Loans and discounts	**P 98,353,155,122**	91,995,855,801
Unearned discount	**(158,634,901)**	(143,364,376)
	98,194,520,221	91,852,491,425
Customers' liabilities on acceptances, letters of credit and trust receipts	**162,734,260**	5,182,455
	98,357,254,481	91,857,673,880
Other receivables:		
Accrued interest receivable	**1,647,880,651**	1,031,264,167
Accounts receivable	**154,308,970**	360,123,269
Deficiency claims receivable	**58,661,450**	59,116,639
Sales contracts receivable	**23,244,344**	42,335,023
SPURRA	**1,478,758,464**	2,538,411,628
	3,362,853,879	4,031,250,726
	101,720,108,360	95,888,924,606
Allowance for impairment	**(4,535,499,970)**	(4,214,380,450)
	P 97,184,608,390	P91,674,544,156

SPURRA are secured by certain treasury bills of the BSP SPURRA represent loans and receivables from BSP as of June 30, 2022 and December 31, 2021 arise from overnight lending from excess liquidity.

	2022	2021	2020
Loans and discounts	**0.7% – 189.7%**	0.7% – 189.7%	0.8% – 141.6%
Other receivables	**2.0% – 12.0%**	2.0% – 12.0%	4.0% – 12.0%

The total interest income earned for six-month period ended June 30, 2022, 2021 and 2020 amounted to:

	2022	2021	2020
Loans and discounts	**P 2,316,684,136**	P 1,422,255,210	P1,702,037,211
Other receivables	**15,626,908**	12,498,911	33,567,234
	P 2,332,311,044	P 2,865,609,787	P3,391,011,269

Certain qualified micro, small and medium enterprises (MSME) loans with outstanding balance of P7,879.2 million and P8,356.6 million (gross of allowance for impairment) as of June 30, 2022 and December 31, 2021, respectively, were used as alternative compliance with the BSP reserve requirement (see Note 14).

13. OTHER RESOURCES

This account consists of the following as of June 30, 2022 and December 31, 2021:

	2022	2021
Branch licenses	**P 250,800,000**	P 250,800,000
Goodwill	**121,890,408**	121,890,408
Computer software – net	**105,551,156**	117,577,998
Prepaid expenses	**97,989,071**	55,422,792
Foreign currency notes and coins on hand	**87,840,629**	91,409,702
Security deposits	**43,077,044**	43,077,044
Club shares	**38,000,000**	38,000,000
Sundry debits		
Stationery and supplies	**25,224,557**	28,192,348
Other acquired assets-net	**75,953,692**	75,061,542
Miscellaneous	**966,383,834**	99,008,084
	1,812,710,391	920,439,918
Allowance for impairment	**(1,654,737)**	(1,654,737)
	P 1,811,055,654	P 918,785,181

13.1. Branch Licenses

In 2019 and 2016, the Bank have opened branches in Metro Manila, Southern Luzon, Vis-Min, CAMANAVA, and Central Luzon. The total cost of branch licenses amounted to P0.3 million in 2019 and P1.8 million in 2016.

On February 27, 2014, the Bank received the approval from the BSP of its application for new licenses. This is in line with the Bank's branch expansion program for which it has allocated a portion of its IPO proceeds to cover the cost of new licenses in the following areas plus processing fees which amounted to P2.2 million: CAMANAVA, Vis-Min Area, Central Luzon and Southern Luzon. In November 2011, the Monetary Board of BSP approved the request of the Bank to establish 15 branches in selected restricted cities in Metro Manila for a total consideration of P226.5 million which was paid by the Bank to the BSP in January 2012.

In December 2011, the Bank acquired four licenses from Prime Savings Bank, Inc. for a total consideration of P20.0 million.

As indicated in Notes 2.11, 2.19 and 3.2(g), branch licenses are tested for impairment annually. The recoverable amount has been based on fair value reflecting market conditions less costs to sell. The Bank used the prevailing price of the special licensing fees as required by the BSP before acceptance of branch application. As of June 30, 2022 and December 31, 2021, the Bank has assessed that the recoverable amount of these branch licenses is the same as the carrying value; hence, no impairment loss is required to be recognized in the statements of profit or loss.

13.2. Goodwill

Goodwill arose from the following acquisitions:

Rural Bank of Kawit (RBK)	P	59,513,648
Kabalikat Rural Bank, Inc. (KRBI)		49,878,393
Bataan Savings and Loan Bank, Inc. (BLSB)		12,498,367
	P	**121,890,408**

In September 2014, as part of the Bank's expansion strategy, the BOD approved the acquisition of all the assets and assumption of all the obligation of RBK in exchange for P15.0 million. Upon approval by the BSP on February 1, 2016, the Bank recognized the assets and liabilities of RBK at their fair values, resulting in the recognition of P59.5 million goodwill.

KRBI, which is located in Sta. Maria Bulacan, Philippines, was acquired in 2010, which also resulted in the recognition of goodwill amounting to P49.9 million.

In July 2015, the Bank entered into a Sale and Purchase Agreement with BLSB, whereby the Bank shall acquire all the assets of BLSB and assume the payment of all its obligation. The agreed purchase price was P68.8 million which has been fully paid by the Bank in 2015. On July 12, 2017, the BSP approved the acquisition; hence, the Bank recognized the assets and liabilities of BLSB at their approximate fair values resulting in the recognition of P12.5 million goodwill.

The Bank acquired the foregoing smaller banks with the objective of availing the branch incentives under the Strengthening Program for Rural Bank Plus; and, its expected future economic benefits and synergies that will result from incorporating the operations of these acquired rural banks with that of the Bank which expands its presence in the small and medium enterprise market. Accordingly, the Bank acquired them at a premium resulting in the recognition of goodwill.

As indicated in Notes 2.19 and 3.2(g), goodwill is tested for impairment annually. The Bank engaged a third-party specialist to perform an independent impairment testing of goodwill. The recoverable amount of the CGU has been based on Value-in-Use (VIU) calculation using the cash flow projections from financial budgets approved by the Bank's senior management covering a five-year period. Key assumptions in VIU calculation of CGUs are most sensitive to discount rates and growth rates used to project cash flows. Future cash flows and growth rates were based on experience, strategies developed, and prospects. The discount rate used for the computation of the net present value is the cost of equity and was determined by reference to comparable entities within the industry.

In 2021 and 2020, the discount rates applied to cash flow projections are 10.0% and 6.8%, respectively, while the growth rates used to extrapolate cash flows for the five-year period are 6.5% both for 2021 and 2020, respectively. The growth rates are consistent with forecasts included in industry reports specific to the industry in which each CGU operates.

As of June 30, 2022 and December 31, 2021, the Bank has assessed that the carrying amount of the goodwill is fully recoverable, Accordingly, no impairment loss is required to be recognized in the statements of profit or loss as June 30, 2022 and December 31, 2021.

14. DEPOSIT LIABILITIES

The classification of the Bank's deposit liabilities as to currency follows:

	2022	2021
Philippine peso	**P 97,569,624,264**	P105,400,631,735
Foreign currencies	**7,299,633,889**	7,017,079,432
	P 104,869,258,153	P 112,417,711,167

Annual interest rates on deposit liabilities range from:

	2022	2021	2020
Philippine peso	**0.1% – 1.4%**	0.1% – 1.4%	0.1% – 1.6%
Foreign currencies	**0.1% – 0.6%**	0.1% – 0.6%	0.1% – 0.5%

Total interest expense for six-month period ending June 30, 2022, 2021 and 2020 amounted to:

	2022	2021	2020
Time	**P 302,243,328**	P 316,474,656	P 798,370,967
Savings	**13,371,842**	30,333,453	32,583,907
Demand	**-**	-	-
	P 315,615,170	P 346,808,109	P 830,954,874

Under existing BSP regulations, the Bank is subject to reserve requirement equivalent to 3.0% of non-FCDU deposit liabilities. On April 6, 2012, the BSP issued an amendment to the existing provisions as to the eligibility of cash and deposit accounts with BSP as forms of reserve requirements. As indicated in the amendment, cash and other cash items are no longer considered as eligible reserves.

Pursuant to BSP Circular 1087, *Alternative Compliance with the Reserve Requirements of Banks and Non-bank Financial Institutions with Quasi-banking Functions,* the Bank used qualified MSME loans as allowable alternative compliance with the reserve requirement in 2020.

The Bank's available reserves as of June 30 2022 and December 31, 2021 amounts to P8,222.6 million and P9,148.9 million, respectively, and is compliant with these BSP regulations (see Notes 9).

15. BILLS PAYABLE

Outstanding bills payables of the Bank amounting to P612.5 million as of December 31, 2019 are financed by local banks. It has no outstanding bills payable as of December 31, 2020. The outstanding balance as of December 31, 2019, including the additional availment during the year of P2.0 billion, were fully settled in 2020.

Annual interest rates on bills payable range from:

	2022	2021	2020
Local banks	**-**	-	3.9% – 6.6%
BSP	**-**	-	4.6% – 5.4%

The total interest expense for six-month period ending June 30, 2022, 2021 and 2020 amounted to:

	2022	2021	2020
Local banks	**P -**	P -	P 16,446,187
BSP	**-**	-	6,186,543
	P -	P -	P 22,632,730

Bills payable are nil in 2022, 2021 and 2020.

16. CORPORATE NOTES PAYABLE

On March 2019, the BOD approved the authorization of the Bank to arrange a debt program of up to 10,000.00 million to finance the Bank's growing funding requirements. In July 2019, the Bank issued unsecured corporate notes with principal amount of P3,000.0 million with maturity date of July 31, 2022

The corporate notes was fully paid in January 17, 2022. Total interest expense incurred for six-month period ending June 30, 2022, 2021and 2020 amounts to P6.4 million, P84.6 million and P81.8 million, respectively.

17. ACCRUED EXPENSES AND OTHER LIABILITIES

The breakdown of this account follows:

	2022	2021
Accrued expenses	**P 946,522,274**	P 739,160,760
Accounts payable	**1,548,402,914**	435,428,790
Income tax payable	**113,572,303**	139,397,340
Lease liability	**249,826,430**	249,826,430
Manager's checks	**1,545,812,809**	328,280,215
Withholding taxes payable	**58,751,279**	39,937,869
Post-employment defined Benefit obligation	**75,815,072**	75,815,072
Outstanding acceptances	**15,373,747**	5,182,455
Due to BSP	**31,884,545**	51,055,370
Payment orders payable	**134,640,991**	958,503
Others	**919,018,663**	91,087,284
	P 5,639,621,026	P 2,156,130,088

Accrued expenses include primarily accruals on employee benefits, utilities, janitorial and security services fees.

Outstanding acceptances pertain to obligations recognized by the Bank in its undertaking arising from letters of credit extended to its borrowers.

18. EQUITY

18.1 Capital Stock

Capital stock consists of:

	Number of Shares		Amount	
	2022	2021	**2022**	2021
Preferred shares – P10 par value				
Authorized – 130,000,000 shares				
Issued and outstanding	**62,000,000**	62,000,000	**P 620,000,000**	P 620,000,000
Common shares – P10 par value				
Authorized – 870,000,000 shares				
Issued and outstanding	**643,750,094**	643,750,094	**P6,437,500,940**	P6,437,500,940

The Bank's preferred shares are nonvoting, nonconvertible, and are redeemable at the option of the Bank. These shares are entitled to non-cumulative dividend of 8.0% per annum.

On February 17, 2016, the BOD approved the redemption of all the issued and outstanding preferred shares of the Bank at par value of P620.0 million through staggered redemption. However, as of June 30, 2022 and December 31, 2021, none of the preferred shares have been redeemed yet and the Bank is now considering conversion of the preferred shares to common shares instead. Both options require regulatory approvals which remains pending as at June 30, 2022.

On January 9, 2013, the PSE approved the Bank's application for the listing of its common shares. The approval covered the IPO of 101,333,400 unissued common shares of the Bank at P31.50 per share and the listing of those shares in the PSE's main board on February 19, 2013, its day of listing. The Bank offered its 101,333,400 unissued common to the public at the approved P31.50 per share resulting in the recognition of additional paid-in capital of P1,998.4 million, net of transactions costs (see Note 18.4).

As of June 30, 2022 and December 31, 2021, the Bank has 72, and 72 holders, respectively, of its listed common stock. The Bank has 643,750,094 common shares traded in the PSE as of June 30, 2022 and December 31, 2021 and its share price closed at P7.0 and P10.0, respectively.

18.2 Dividends

On May 22, 2019, the Bank's BOD approved the declaration of cash dividends on preferred shares amounting to P198.0 million, which was fully paid in July 12, 2019. The dividend was based on the cumulative balance of the outstanding preferred shares for the years 2014 to 2018.

On April 20, 2022, the Bank's BOD approved the declaration of cash dividends on preferred shares amounting to P118.8 million, which was fully paid in May 4, 2022. The dividend was based on the cumulative balance of the outstanding preferred shares for the years 2019 to 2021.

18.3 Appropriated Surplus

In 2021, 2020 and 2019, additional appropriations of surplus amounting toP4.3 million, P2.6 million and P1.6 million, respectively, representing portion of the Bank's income from trust operations were made in compliance with BSP regulations.

On August 16, 2003, the BOD approved the establishment of a sinking fund for the exclusive purpose of the redemption of redeemable preferred shares should the Bank opt to redeem the shares. As of June 30, 2022 and December 31, 2021, the sinking fund for the redemption of redeemable preferred shares is yet to be established.

18.4 Paid-in Capital from IPO

The Bank's common shares were listed at the PSE in February 2013. The total proceeds received from the IPO amounted to P3,191.9million which exceeded par value by P1,998.4million, net of share issuance cost of P180.2 million. The excess over par value is presented as Additional Paid-in Capital in the statements of financial position.

19. COMMITMENTS AND CONTINGENT LIABILITIES

The following are the other commitment contingent liabilities of the Bank:

(a) In the normal course of the Bank's operations, the Bank has various outstanding commitments and contingent liabilities such as guarantees, commitments to extend credit, and others, which are not reflected in the financial statements.

(b) There are other commitments, guarantees and contingent liabilities that arise in the normal course of the Bank's operations that are not reflected in the financial statements. The Bank recognizes in its books any losses and liabilities incurred in the course of its operations as soon as these become determinable and quantifiable.

As of June 30, 2022 and December 31, 2021, management is of the opinion that losses, if any, from the foregoing items will not have a material effect on the Bank's financial statements.

20. EARNINGS PER SHARE

Basic and diluted earnings per share are computed as follows:

	2022	2021
Net profit	**P 620,284,008**	P 524,035,028
Dividend on preferred shares	**118,800,000**	-
Net profit attributable to common shareholders	**501,484,000**	524,035,028
Divided by the weighted average Number of outstanding common shares	**643,750,094**	643,750,094
Basic earnings per share	**P 0.78**	P 0.81

As of June 30, 2022 and December 31, 2021, the Bank has no outstanding potentially dilutive securities; hence, basic earnings per share is equal to diluted earnings per share.

SCHEDULE OF AGING OF LOANS RECEIVABLES
(PSE Requirement per Circular No. 2164-99)
As of June 30, 2022

Current Accounts (by maturity)	
Up to 12 months	47,149,088,666
Over 1 year to 3 years	10,249,714,219
Over 3 years to 5 years	14,771,808,577
Over 5 years	22,623,073,388
Past due and items in litigations	7,085,058,411
Loans Receivables (gross)	101,878,743,261
Less:	
Unearned and other deferred income	158,634,901
Allowance for credit losses	4,535,499,970
Loans Receivables (Net)	97,184,608,390

FINANCIAL SOUNDNESS INDICATORS
(As Required by SRC Rule)

	June 30, 2022	December 31, 2021
Current Ratio (1)	**1.91**	0.59
Solvency Ratio (2)	**1.12**	1.12
Debt-to-equity (3)	**8.14**	8.13
Asset-to-equity (4)	**9.14**	9.13
Interest rate coverage ratio (5)	**3.65**	3.14
Return on Equity (6)	**8.85%**	8.24%
Return on Assets (7)	**0.97%**	0.93%
Net Interest Margin (8)	**4.06%**	4.54%
Cost-to-Income Ratio (9)	**60.24%**	56.27%

Notes:

1. Current assets divided by current liabilities
2. Total assets divided by total liabilities
3. Total liabilities divided by total equity
4. Total assets divided by total equity
5. Income before interest and taxes divided by interest expense
6. Net income divided by average total equity for the periods indicated (annualized)
7. Net income divided by average total assets for the periods indicated (annualized)
8. Net interest income divided by average interest-earning assets (incl. interbank loans, trading and investment securities and loans)
9. Other expenses (excl. provision for impairment and credit losses) divided by the sum of interest and other income for the periods indicated