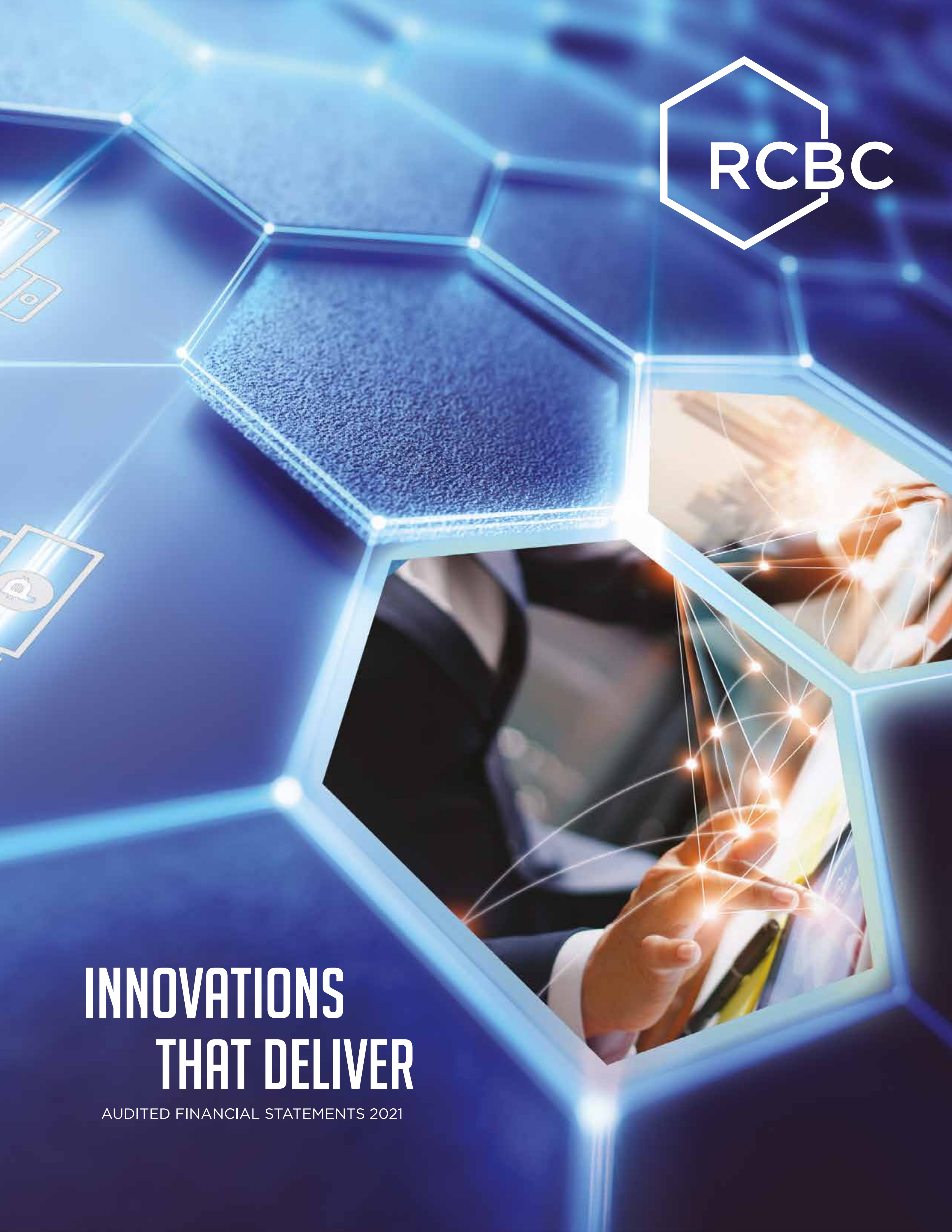

RCBC

INNOVATIONS THAT DELIVER

AUDITED FINANCIAL STATEMENTS 2021

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of Rizal Commercial Banking and Subsidiaries (the Group), is responsible for the preparation and fair presentation of the financial statements, including the schedules attached therein, as of and for the year ended December 31, 2021 (including the comparative financial statements as of December 31, 2020 and for the years ended December 31, 2020 and 2019), in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

The Board of Directors is responsible for overseeing the Group's financial reporting process.

The Board of Directors reviews and approves the financial statements, including the schedules attached therein, and submits the same to the stockholders.

Punongbayan & Araullo, the independent auditors appointed by the stockholders, have audited the financial statements of the Group in accordance with Philippine Standards on Auditing, and in their report to the stockholders, have expressed their opinion on the fairness of presentation upon completion of such audit.

HELEN Y. DEE
Chairperson, Board of Directors

EUGENE S. ACEVEDO
President & Chief Executive Officer

ALBERTO N. PEDROSA
FSVP, Head – Treasury Group

FLORENTINO M. MADONZA
FSVP, Head – Controllership Group

MAR 1 0 2022

SUBSCRIBED AND SWORN TO BEFORE ME, this ___ day of _______ , 2022 at Makati City, Philippines, affiants exhibited to me their valid identifications.

Doc. No. 4;
Page No. 4;
Book No. 09;
Series of 2022

ATTY. CATALINO VICENTE L. ARABIT
NOTARY PUBLIC
Appointment No. M-66 (2021-2022)
PTR No. 8854144; 01/03/22; Makati City
IBP No. 178707; 01/04/22; Makati City
ROLL NO. 40145
21st Floor Yuchengco Tower 2, RCBC Plaza
6819 Ayala Avenue, Makati City

INDEPENDENT AUDITOR'S REPORT

The Board of Directors and the Stockholders
Rizal Commercial Banking Corporation
Yuchengco Tower, RCBC Plaza
6819 Ayala Avenue cor. Sen. Gil Puyat Avenue
Makati City

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Rizal Commercial Banking Corporation and subsidiaries (together hereinafter referred to as the Group) and of Rizal Commercial Banking Corporation (the Parent Company), which comprise the statements of financial position as at December 31, 2021 and 2020, and the statements of profit or loss, statements of comprehensive income, statements of changes in equity and statements of cash flows for each of the three years in the period ended December 31, 2021, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Group and of the Parent Company as at December 31, 2021 and 2020, and their financial performance and their cash flows for each of the three years in the period ended December 31, 2021 in accordance with Philippine Financial Reporting Standards (PFRS).

Basis for Opinion

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

The following are the key audit matters identified in our audit of the financial statements of the Group and of the Parent Company:

(a) Expected Credit Loss (ECL) Model for Loans and Receivables

Description of the Matter

As at December 31, 2021, the Group's and the Parent Company's expected credit loss (ECL) allowance for loans and receivables amounted to P18,264 million and P17,339 million, respectively, while the carrying amount of loans and receivables amounted to P538,302 million and P530,464 million, respectively. We have identified the Group's and the Parent Company's ECL model significant to our audit as this:

- requires significant management judgment on the interpretation and implementation of the requirements of PFRS 9, *Financial Instruments*, in assessing impairment losses based on an ECL model that involves segmenting credit risk exposures, defining when does default occur and what constitutes a significant increase in credit risk (SICR) of different exposures;

- involves high degree of estimation uncertainty related to management's use of various inputs and assumptions applied in the ECL model such as credit risk rating of the counterparty, expected amount and timing of cash flows, including recovery of collaterals for defaulted accounts, and forward-looking macroeconomic information which may be affected by management estimation bias; and,

- requires complex estimation process that entails implementation of internal controls and use of information system in ensuring the completeness and accuracy of data used in the ECL calculation and in the preparation of required disclosures in the financial statements.

These judgments and estimates remained to be significant due to the unprecedented impact of COVID-19 pandemic to the Group's and Parent Company's loans and receivables. Given that changing the existing ECL model will take a significant amount of time to develop and validate, and the data limitation in respect of lagging credit information and granular behavior analysis of customers, the management has still applied post-model adjustments in the existing ECL model in 2021 to reflect the impact of the COVID-19 pandemic and the Group's and Parent Company's financial support program to its customers on a reasonable and supportable basis. The incorporation of post-model adjustments has considered re-segmentation of loan portfolios based on perceived and expected COVID-19 impact to the customers' businesses and industries and additional qualitative factors that would elevate COVID-19 changes to SICR.

The summary of significant accounting policies, the significant judgment, including estimation applied by the management, and those related to the credit risk assessment process of the Group and the Parent Company are disclosed in Notes 2, 3 and 4 to the financial statements, respectively.

How the Matter was Addressed in the Audit

We obtained an understanding of the Group's and the Parent Company's accounting policies and methodologies applied and we evaluated whether those: (a) are established and implemented consistent with the underlying principles of PFRS 9; (b) are appropriate in the context of the Group's lending activities and asset portfolio that takes into consideration the different segments of credit exposures and the relevant regulatory framework; and, (c) are supported by pertinent processes and controls, including documentations of the accounting policies that capture in sufficient detail the judgment, including estimation applied in the development of the ECL model and post-model adjustments.

With respect to the use of significant judgments, including those involving estimation of inputs and assumptions used in the ECL model and post-model adjustments, we performed the following:

- assessed the Group's and the Parent Company's segmentation and re-segmentation of its credit risk exposures based on homogeneity of credit risk characteristics and impact of COVID-19 pandemic and evaluated the appropriateness of the specific model and post-model adjustments applied for each loan portfolio;

- evaluated both the quantitative and qualitative criteria applied in the definition of default against historical analysis for each segment of loan portfolio and in accordance with credit risk management practices, and tested the criteria in the determination of the SICR, including assignment of a loan or group of loans into different stages of impairment;

- further evaluated additional qualitative factors considered that would elevate COVID-19 related changes to SICR;

- tested the Group's and the Parent Company's application of internal credit risk rating system for selected items of loans, and verified the mapping of the ratings to the ECL calculation;

- tested loss given default information across various types of loan by inspecting records of historical recoveries and relevant costs, including valuation and cash flows from collateral, and write-offs;

- reconciled and tested exposure at default for all outstanding loans against the relevant loan databases, including review of the potential exposures from undrawn commitments against historical drawdown and impact of loan modifications;

- assessed the appropriateness of the identification of forward-looking information (overlays) used in the ECL model and validated their reasonableness against publicly available information and our understanding of Group's and Parent Company's loan portfolios and industry where they operate; and,

- tested the effective interest rate used in discounting the ECL.

As part of our audit of the ECL methodology, we tested the completeness and accuracy of the data used in the ECL model through reconciliation of loan data subjected to the ECL calculations, which were prepared by management outside its general ledger system, against the relevant financial reporting applications and other accounting records. Moreover, we tested the stratification of loan data that were disaggregated into various portfolio segments for purposes of ECL calculations. Furthermore, we tested the mathematical formula and the computation logics applied in the calculation of the different inputs in the ECL model and the estimation of the credit losses for all loans and receivables subjected to impairment assessment.

We evaluated the completeness of the disclosures in the financial statements against the requirements of the relevant standards.

(b) Loan Modification

Description of the Matter

The Group and the Parent Company offered a comprehensive financial support program for customers significantly affected by COVID-19 pandemic to allow them to get back in the habit of paying loans and receivables. As at December 31, 2021, the total outstanding balance of loans and receivables modified under the Group's and Parent Company's financial support program amounted to P31,144 million and P27,032 million, respectively.

Management has assessed that these modifications were only to provide temporary relief to customers and the net economic value of the loans and receivables is not significantly affected; therefore, accounted for as non-substantial modification. The assessment to determine whether the modifications are substantial, that would result in the derecognition of the financial asset, or not, is consistent with the Group's and Parent Company's own accounting policies as there is no explicit guidance in PFRS 9 for when a modification should result in derecognition. The disclosures in relation to this matter are included in Notes 2 and 4 to the financial statements. Accordingly, we have assessed the accounting for loan modification as a key audit matter.

How the Matter was Addressed in the Audit

We obtained an understanding of the Group's and Parent Company's accounting policies and procedures for loan modification and we evaluated whether those: (a) are established and implemented consistently; (b) are appropriate in the context of the Group's and Parent Company's comprehensive financial support measures; and, (c) are supported by pertinent processes and controls, including modification documentations that capture correct information of the modification mandated, are introduced and agreed with customers.

We also performed the following audit procedures to address this key audit matter:

- verified the completeness of the loan modification database used by validating and comparing the listing of all modified loans and receivables, which were prepared by management outside its loan management system, against relevant financial reporting applications and other accounting records;
- verified the accuracy of the underlying loan modification database by agreeing a representative sample of modified loans to the related documentation made and agreed with customers or other supporting information, and checked the integrity and mathematical accuracy of the calculations through recalculation of the expected loan modification adjustments;
- assessed whether determination of loan modification as non-substantial is appropriate and verified the amount of any gain or loss from loan modification; and,
- evaluated whether the disclosures within the financial statements are appropriate and complete based on of the requirements of the relevant standards.

(c) Fair Value Measurement of Unquoted Securities Classified at Fair Value Through Other Comprehensive Income

Description of the Matter

The Group and the Parent Company have significant investments in unquoted equity securities measured at fair value through other comprehensive income amounting to P1,815 million and P1,788 million, respectively, as December 31, 2021. The valuation of these financial instruments involves complex valuation techniques (i.e., price-to-book value method and discounted cash flow method) and significant estimation which are highly dependent on underlying assumptions and inputs such as price-to-book ratios of selected comparable listed entities, application of a certain haircut rate, and appropriate discount rate in computing the present value of future cash flows expected from dividend or redemption payments. These inputs are considered Level 3 unobservable inputs in the fair value hierarchy under PFRS 13, *Fair Value Measurement*, as discussed in Notes 3 and 7 to the financial statements. Accordingly, we have assessed the valuation of the unquoted equity securities as a key audit matter.

How the Matter was Addressed in the Audit

We evaluated the appropriateness of management's valuation methodology in accordance with PFRS 13. For equity security valued using the price-to-book value method, we used our own internal valuation expert to assess and challenge the valuation assumptions used, including the identification and selection of comparable listed entities and the related financial information such as net book value per share and quoted prices of those listed entities. In testing the reasonableness of the haircut rate used, we reviewed available non-financial information relevant to the assessment of the potential marketability of the subject security, and the consistency of the application of the haircut rate used in prior period in light of the current industry and economic circumstances. With respect to the equity security measured using the discounted cash flow method, we evaluated the reasonableness of the amount of future cash flows from the dividend or redemption expected to be received from the counterparty, and the appropriate discount rate used. We also tested the mathematical accuracy of the calculation for both valuation techniques used by management.

INDEPENDENT AUDITOR'S REPORT

Other Information

Management is responsible for the other information. The other information comprises the information included in the Group's and the Parent Company's Securities and Exchange Commission (SEC) Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2021, but does not include the financial statements and our auditors' report thereon. The SEC Form 20-IS, SEC Form 17-A and Annual Report for the year ended December 31, 2021 are expected to be made available to us after the date of this auditors' report.

Our opinion on the financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audits of the financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audits, or otherwise appears to be materially misstated.

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

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

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

Those charged with governance are responsible for overseeing the Group's and the Parent Company's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

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

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

INDEPENDENT AUDITOR'S REPORT

Report on Other Legal and Regulatory Requirements

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. As discussed in Note 26 to the financial statements, the Parent Company presented the supplementary information required by the Bureau of Internal Revenue (BIR) under Revenue Regulations (RR) 15-2010 in a supplementary schedule filed separately from the basic financial statements. RR 15-2010 requires the supplementary information to be presented in the notes to financial statements. The supplementary information for the year ended December 31, 2021 and 2020 required by the Bangko Sentral ng Pilipinas (BSP) as disclosed in Note 34 to the financial statements is presented for purposes of additional analysis. Such supplementary information required by the BIR and BSP are the responsibility of management and are not a required part of the basic financial statements prepared in accordance with PFRS; it is neither a required disclosure under the Revised Securities Regulation Code Rule 68 of the SEC. The supplementary information have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The engagement partner on the audits resulting in this independent auditors' report is Anthony L. Ng.

PUNONGBAYAN & ARAULLO

By: Anthony L. Ng
Partner

CPA Reg. No. 0109764
TIN 230-169-270
PTR No. 8852341, January 3, 2022, Makati City
SEC Group A Accreditation
Partner - No. 109764-SEC (until Dec. 31, 2023)
Firm - No. 0002 (until Dec. 31, 2024)
BIR AN 08-002511-038-2019 (until Sept. 4, 2022)
Firm's BOA/PRC Cert. of Reg. No. 0002 (until Aug. 27, 2024)

February 28, 2022

STATEMENTS OF FINANCIAL POSITION

December 31, 2021 and 2020
(Amounts in Millions of Philippine Pesos)

	Notes	GROUP 2021	GROUP 2020	PARENT COMPANY 2021	PARENT COMPANY 2020
RESOURCES					
CASH AND OTHER CASH ITEMS	9	**P 14,691**	P 16,520	**P 14,663**	P 16,464
DUE FROM BANGKO SENTRAL NG PILIPINAS	9	**130,170**	115,467	**128,931**	113,949
DUE FROM OTHER BANKS	9	**12,162**	15,707	**11,860**	15,214
LOANS ARISING FROM REVERSE REPURCHASE AGREEMENTS	9	**11,691**	13,356	**11,656**	13,226
TRADING AND INVESTMENT SECURITIES - Net	10	**219,235**	88,064	**216,177**	85,141
LOANS AND RECEIVABLES - Net	11	**538,302**	491,284	**530,464**	483,814
INVESTMENTS IN SUBSIDIARIES AND ASSOCIATES - Net	12	**344**	339	**7,027**	6,980
BANK PREMISES, FURNITURE, FIXTURES AND EQUIPMENT - Net	13	**12,660**	13,062	**10,571**	10,500
INVESTMENT PROPERTIES - Net	14	**3,572**	3,725	**3,435**	3,580
DEFERRED TAX ASSETS - Net	26	**3,206**	3,044	**3,013**	2,765
OTHER RESOURCES - Net	15	**13,100**	11,538	**12,497**	10,889
TOTAL RESOURCES		**P 959,133**	P 772,106	**P 950,294**	P 762,522

See Notes to Financial Statements.

STATEMENTS OF FINANCIAL POSITION

December 31, 2021 and 2020
(Amounts in Millions of Philippine Pesos)

	Notes	GROUP 2021	GROUP 2020	PARENT COMPANY 2021	PARENT COMPANY 2020
LIABILITIES AND EQUITY					
DEPOSIT LIABILITIES	17	**P 672,459**	P 535,788	**P 674,414**	P 536,748
BILLS PAYABLE	18	**55,904**	13,167	**46,399**	4,200
BONDS PAYABLE	19	**87,215**	90,439	**87,215**	90,439
ACCRUED INTEREST, TAXES AND OTHER EXPENSES	21	**6,097**	5,900	**5,880**	5,685
OTHER LIABILITIES	22	**26,378**	25,434	**25,393**	24,158
Total Liabilities		**848,053**	670,728	**839,301**	661,230
EQUITY	23				
Attributable to:					
Parent Company's Shareholders		**111,062**	101,361	**110,993**	101,292
Non-controlling Interests		**18**	17	**-**	-
		111,080	101,378	**110,993**	101,292
TOTAL LIABILITIES AND EQUITY		**P 959,133**	P 772,106	**P 950,294**	P 762,522

See Notes to Financial Statements.

STATEMENTS OF PROFIT OR LOSS

For the Years Ended December 31, 2021, 2020 and 2019
(Amounts in Millions of Philippine Pesos, Except Per Share Data)

	Notes	GROUP 2021	GROUP 2020	GROUP 2019	PARENT COMPANY 2021	PARENT COMPANY 2020	PARENT COMPANY 2019
INTEREST INCOME							
Loans and receivables	11	**P 31,900**	P 33,909	P 32,646	**P 31,095**	P 33,031	P 31,748
Trading and investment securities	10	**4,448**	2,079	4,498	**4,379**	1,991	4,439
Others	9	**763**	964	434	**755**	945	415
		37,111	36,952	37,578	**36,229**	35,967	36,602
INTEREST EXPENSE							
Bills payable and other borrowings	18, 19, 20, 22, 24	**4,221**	5,383	6,584	**3,837**	4,877	6,121
Deposit liabilities	17	**4,059**	5,288	8,626	**4,056**	5,265	8,598
		8,280	10,671	15,210	**7,893**	10,142	14,719
NET INTEREST INCOME		**28,831**	26,281	22,368	**28,336**	25,825	21,883
IMPAIRMENT LOSSES - Net	16						
Financial assets	11, 10.3	**5,013**	9,108	6,781	**4,912**	8,686	6,576
Non-financial assets	14, 15	**1,035**	267	616	**1,021**	265	616
		6,048	9,375	7,397	**5,933**	8,951	7,192
NET INTEREST INCOME AFTER IMPAIRMENT LOSSES		**22,783**	16,906	14,971	**22,403**	16,874	14,691
OTHER OPERATING INCOME							
Service fees and commissions	2	**4,549**	3,506	3,854	**4,047**	3,320	3,543
Trading and securities gains (losses) - net	10	**863**	6,084	7,492	**856**	6,040	7,432
Trust fees	27	**392**	323	323	**392**	323	323
Foreign exchange gains - net	19	**181**	574	347	**171**	558	378
Share in net earnings (losses) of subsidiaries and associates	12	**12**	(94)	21	**477**	(70)	473
Miscellaneous - net	25	**1,566**	1,239	1,453	**771**	513	618
		7,563	11,632	13,490	**6,714**	10,684	12,767
TOTAL OPERATING INCOME *(Forward)*		**P 30,346**	P 28,538	P 28,461	**P 29,117**	P 27,558	P 27,458

See Notes to Financial Statements.

STATEMENTS OF PROFIT OR LOSS

For the Years Ended December 31, 2021, 2020 and 2019
(Amounts in Millions of Philippine Pesos, Except Per Share Data)

	Notes	GROUP			PARENT COMPANY		
		2021	2020	2019	**2021**	2020	2019
TOTAL OPERATING INCOME		**P 30,346**	P 28,538	P 28,461	**P 29,117**	P 27,558	P 27,458
OTHER OPERATING EXPENSES							
Employee benefits	24	**6,371**	6,626	6,833	**5,686**	5,896	6,109
Taxes and licenses	14	**3,475**	3,184	3,103	**3,341**	3,062	2,966
Depreciation and amortization	13, 14, 15	**3,020**	2,924	2,503	**2,524**	2,491	2,183
Occupancy and equipment-related	28, 29	**2,820**	2,819	2,800	**2,763**	2,777	2,756
Miscellaneous	25	**6,849**	6,492	6,559	**7,196**	6,875	6,912
		22,535	22,045	21,798	**21,510**	21,101	20,926
PROFIT BEFORE TAX		**7,811**	6,493	6,663	**7,607**	6,457	6,532
TAX EXPENSE	26	**728**	1,475	1,275	**525**	1,437	1,145
NET PROFIT		**P 7,083**	P 5,018	P 5,388	**P 7,082**	P 5,020	P 5,387
ATTRIBUTABLE TO:							
PARENT COMPANY'S SHAREHOLDERS		**P 7,082**	P 5,020	P 5,387			
NON-CONTROLLING INTERESTS		**1**	(2)	1			
		P 7,083	P 5,018	P 5,388			
Earnings Per Share							
Basic and diluted	30	**P 3.09**	P 2.43	P 2.78			

See Notes to Financial Statements.

STATEMENTS OF COMPREHENSIVE INCOME

For the Years Ended December 31, 2021, 2020 and 2019
(Amounts in Millions of Philippine Pesos)

	Notes	GROUP			PARENT COMPANY		
		2021	2020	2019	**2021**	2020	2019
NET PROFIT		**P 7,083**	P 5,018	P 5,388	**P 7,082**	P 5,020	P 5,387
OTHER COMPREHENSIVE INCOME (LOSS)							
Items that will not be reclassified subsequently to profit or loss							
Actuarial gains (losses) on defined benefit plan	24	**425**	361	(1,798)	**375**	361	(1,777)
Fair value gains (losses) on equity securities at fair value through other comprehensive income (FVOCI)	10, 23	**548**	(570)	(586)	**490**	(591)	(837)
Share in other comprehensive income (losses) of the subsidiaries and associates:							
Actuarial gains (losses) on defined benefit plan	12	**(3)**	(8)	-	**47**	(8)	(21)
Fair value gains (losses) on equity securities at FVOCI	12, 23	**-**	-	-	**58**	21	251
		970	(217)	(2,384)	**970**	(217)	(2,384)
Items that will be reclassified subsequently to profit or loss							
Fair value gains (losses) on debt securities at FVOCI	10, 23	**(823)**	339	(116)	**(823)**	339	(116)
Translation adjustments on foreign operations	23	**-**	1	-	**-**	1	-
		(823)	340	(116)	**(823)**	340	(116)
Total Other Comprehensive Income (Loss)	23	**147**	123	(2,500)	**147**	123	(2,500)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**P 7,230**	P 5,141	P 2,888	**P 7,229**	P 5,143	P 2,887
ATTRIBUTABLE TO:							
PARENT COMPANY'S SHAREHOLDERS		**P 7,229**	P 5,143	P 2,887			
NON-CONTROLLING INTERESTS		**1**	(2)	1			
		P 7,230	P 5,141	P 2,888			

See Notes to Financial Statements.

STATEMENTS OF CHANGES IN EQUITY

For the Years Ended December 31, 2021, 2020 and 2019

(Amounts in Millions of Philippine Pesos, Except Per Share Data)

GROUP

ATTRIBUTABLE TO PARENT COMPANY'S SHAREHOLDERS

	Notes	COMMON STOCK	PREFERRED STOCK	CAPITAL PAID IN EXCESS OF PAR	HYBRID PERPETUAL SECURITIES	REVALUATION RESERVES	TREASURY SHARES	RESERVE FOR TRUST BUSINESS	OTHER RESERVES	GENERAL LOAN LOSS RESERVE	SURPLUS	TOTAL	NON-CONTROLLING INTERESTS	TOTAL EQUITY
Balance at January 1, 2021		P 22,509	P 3	P 42,568	P 14,463	(P 2,070)	(P 13,719)	P 499	(P 97)	P 3,451	P 33,754	P 101,361	P 17	P 101,378
Transactions with owners:														
Reissuance of treasury shares	23	-	-	(63)	-	-	4,432	-	-	-	-	4,369	-	4,369
Cash dividends	23	-	-	-	-	-	-	-	-	-	(1,897)	(1,897)	-	(1,897)
Total transactions with owners		-	-	(63)	-	-	4,432	-	-	-	(1,897)	2,472	-	2,472
Net profit for the year		-	-	-	-	-	-	-	-	-	7,082	7,082	1	7,083
Other comprehensive income		-	-	-	-	147	-	-	-	-	-	147	-	147
General loan loss appropriation	23	-	-	-	-	-	-	-	-	166	(166)	-	-	-
Transfer from surplus to reserve for trust business	27	-	-	-	-	-	-	9	-	-	(9)	-	-	-
		-	-	-	-	147	-	9	-	166	6,907	7,229	1	7,230
Balance at December 31, 2021		**P 22,509**	**P 3**	**P 42,505**	**P 14,463**	**(P 1,923)**	**(P 9,287)**	**P 508**	**(P 97)**	**P 3,617**	**P 38,764**	**P 111,062**	**P 18**	**P 111,080**
Balance at January 1, 2020		P 22,509	P 3	P 42,568	P -	(P 2,193)	(P 13,719)	P 485	(P 97)	P 3,132	P 30,143	P 82,831	P 19	P 82,850
Transactions with owners -														
Issuance of hybrid perpetual securities	23	-	-	-	14,463	-	-	-	-	-	-	14,463	-	14,463
Cash dividends	23	-	-	-	-	-	-	-	-	-	(1,076)	(1,076)	-	(1,076)
Total transactions with owners		-	-	-	14,463	-	-	-	-	-	(1,076)	13,387	-	13,387
Net profit for the year		-	-	-	-	-	-	-	-	-	5,020	5,020	(2)	5,018
Other comprehensive income		-	-	-	-	123	-	-	-	-	-	123	-	123
General loan loss appropriation	23	-	-	-	-	-	-	-	-	319	(319)	-	-	-
Transfer from surplus to reserve for trust business	27	-	-	-	-	-	-	14	-	-	(14)	-	-	-
		-	-	-	-	123	-	14	-	319	4,687	5,143	(2)	5,141
Balance at December 31, 2020		P 22,509	P 3	P 42,568	P 14,463	(P 2,070)	(P 13,719)	P 499	(P 97)	P 3,451	P 33,754	P 101,361	P 17	P 101,378
Balance at January 1, 2019		P 22,509	P 3	P 42,568	P -	P 266	(P 13,719)	P 454	(P 97)	P 2,594	P 26,230	P 80,808	P 18	P 80,826
Transactions with owners -														
Cash dividends	23	-	-	-	-	-	-	-	-	-	(864)	(864)	-	(864)
Net profit for the year		-	-	-	-	-	-	-	-	-	5,387	5,387	1	5,388
Other comprehensive income		-	-	-	-	(2,500)	-	-	-	-	-	(2,500)	-	(2,500)
General loan loss appropriation	23	-	-	-	-	-	-	-	-	538	(538)	-	-	-
Transfer of fair value loss on financial asset at fair value through other comprehensive income to surplus	10, 23	-	-	-	-	41	-	-	-	-	(41)	-		-
Transfer from surplus to reserve for trust business	27	-	-	-	-	-	-	31	-	-	(31)	-	-	-
		-	-	-	-	(2,459)	-	31	-	538	4,777	2,887	1	2,888
Balance at December 31, 2019		P 22,509	P 3	P 42,568	P -	(P 2,193)	(P 13,719)	P 485	(P 97)	P 3,132	P 30,143	P 82,831	P 19	P 82,850

See Notes to Financial Statements.

PARENT COMPANY

	Notes	COMMON STOCK	PREFERRED STOCK	CAPITAL PAID IN EXCESS OF PAR	HYBRID PERPETUAL SECURITIES	REVALUATION RESERVES	TREASURY SHARES	RESERVE FOR TRUST BUSINESS	GENERAL LOAN LOSS RESERVE	SURPLUS	TOTAL EQUITY
Balance at January 1, 2021		P 22,509	P 3	P 42,568	P 14,463	(P 2,070)	(P 13,719)	P 499	P 3,440	P 33,599	P 101,292
Transactions with owners -											
Reissuance of treasury shares	23	-	-	(63)	-	-	4,432	-	-	-	4,369
Cash dividends	23	-	-	-	-	-	-	-	-	(1,897)	(1,897)
Total transactions with owners		-	-	(63)	-	-	4,432	-	-	(1,897)	2,472
Net profit for the year		-	-	-	-	-	-	-	-	7,082	7,082
Other comprehensive income		-	-	-	-	147	-	-	-	-	147
General loan loss appropriation	23	-	-	-	-	-	-	-	176	(176)	-
Transfer from surplus to reserve for trust business	27	-	-	-	-	-	-	9	-	(9)	-
		-	-	-	-	147	-	9	176	6,897	7,229
Balance at December 31, 2021		**P 22,509**	**P 3**	**P 42,505**	**P 14,463**	**(P 1,923)**	**(P 9,287)**	**P 508**	**P 3,616**	**P 38,599**	**P 110,993**
Balance at January 1, 2020		P 22,509	P 3	P 42,568	P -	(P 2,193)	(P 13,719)	P 485	P 3,130	P 29,979	P 82,762
Transactions with owners -											
Issuance of hybrid perpetual securities	23	-	-	-	14,463	-	-	-	-	-	14,463
Cash dividends	23	-	-	-	-	-	-	-	-	(1,076)	(1,076)
Total transactions with owners		-	-	-	14,463	-	-	-	-	(1,076)	13,387
Net profit for the year		-	-	-	-	-	-	-	-	5,020	5,020
Other comprehensive income		-	-	-	-	123	-	-	-	-	123
General loan loss appropriation	23	-	-	-	-	-	-	-	310	(310)	-
Transfer from surplus to reserve for trust business	27	-	-	-	-	-	-	14	-	(14)	-
		-	-	-	-	123	-	14	310	4,696	5,143
Balance at December 31, 2020		P 22,509	P 3	P 42,568	P 14,463	(P 2,070)	(P 13,719)	P 499	P 3,440	P 33,599	P 101,292
Balance at January 1, 2019		P 22,509	P 3	P 42,568	P -	P 266	(P 13,719)	P 454	P 2,587	P 26,071	P 80,739
Transactions with owners -											
Cash dividends	23	-	-	-	-	-	-	-	-	(864)	(864)
Net profit for the year		-	-	-	-	-	-	-	-	5,387	5,387
Other comprehensive loss	23	-	-	-	-	(2,500)	-	-	-	-	(2,500)
General loan loss appropriation		-	-	-	-	-	-	-	543	(543)	-
Transfer of fair value loss on financial asset at fair value through other comprehensive income to surplus	10, 23	-	-	-	-	41	-	-	-	(41)	-
Transfer from surplus to reserve for trust business		-	-	-	-	-	-	31	-	(31)	-
		-	-	-	-	(2,459)	-	31	543	4,772	2,887
Balance at December 31, 2019		P 22,509	P 3	P 42,568	P -	(P 2,193)	(P 13,719)	P 485	P 3,130	P 29,979	P 82,762

See Notes to Financial Statements.

STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 2021, 2020 and 2019

(Amounts in Millions of Philippine Pesos)

	Notes	GROUP 2021	GROUP 2020	GROUP 2019	PARENT COMPANY 2021	PARENT COMPANY 2020	PARENT COMPANY 2019
CASH FLOWS FROM OPERATING ACTIVITIES							
Profit before tax		**P 7,811**	P 6,493	P 6,663	**P 7,607**	P 6,457	P 6,532
Adjustments for:							
Interest income	9, 10, 11	**(37,111)**	(36,952)	(37,578)	**(36,229)**	(35,967)	(36,602)
Interest received		**35,416**	35,607	41,050	**34,676**	34,780	41,050
Interest expense	17, 18, 19, 20, 22, 24	17, **8,280**	10,671	15,210	**7,893**	10,142	14,719
Interest paid		**(8,244)**	(11,669)	(9,501)	**(7,892)**	(11,142)	(9,501)
Impairment losses - net	16	**6,048**	9,375	7,397	**5,933**	8,951	7,192
Depreciation and amortization	13, 14, 15	**3,020**	2,924	2,503	**2,524**	2,491	2,183
Recoveries from written-off assets	25	**(223)**	(102)	(179)	**(223)**	(99)	(179)
Dividend income	25	**(105)**	(78)	(304)	**(39)**	(16)	(95)
Gains on assets sold - net	25	**(101)**	(37)	(109)	**(65)**	(11)	(20)
Share in net earnings of subsidiaries and associates	12	**(12)**	94	(21)	**(477)**	70	(473)
Gain on sale of financial assets at amortized cost -net	10	**-**	(2,695)	(3,685)	**-**	(2,678)	(3,685)
Operating profit before working capital changes		**14,779**	13,631	21,446	**13,708**	12,978	21,121
Decrease (increase) in financial assets at fair value through profit and loss		**(975)**	660	2,022	**(1,064)**	985	1,893
Increase in loans and receivables		**(62,435)**	(25,935)	(61,164)	**(62,076)**	(25,969)	(51,147)
Decrease (increase) in investment properties		**(359)**	4	(630)	**(363)**	38	(631)
Increase in other resources		**(2,636)**	(3,320)	(3,723)	**(1,937)**	(3,703)	(3,147)
Increase in deposit liabilities		**136,671**	79,207	33,182	**137,666**	80,155	33,064
Increase (decrease) in accrued interest, taxes and other expenses		**130**	326	(4,499)	**194**	394	(4,096)
Increase (decrease) in other liabilities		**(1,628)**	(31)	10,846	**(2,729)**	(454)	3,105
Cash generated from (used in) operations		**83,547**	64,542	(2,520)	**83,399**	64,424	162
Income taxes paid		**(859)**	(2,009)	(1,548)	**(773)**	(1,921)	(1,386)
Net Cash From (Used in) Operating Activities		**82,688**	62,533	(4,068)	**82,626**	62,503	(1,224)
CASH FLOWS FROM INVESTING ACTIVITIES							
Additional investments in securities at amortized cost		**(230,816)**	(174,920)	(128,062)	**(230,816)**	(174,920)	(126,480)
Proceeds from disposal and maturity of securities at amoritzed cost		**110,217**	235,515	123,395	**110,418**	235,304	118,587
Acquistion of securities at at fair value through other comprehensive income (FVOCI)		**(127,044)**	(201,531)	(146,985)	**(126,809)**	(201,351)	(146,196)
Disposal of securities at FVOCI		**117,158**	215,395	111,744	**116,890**	214,711	111,633
Acquisitions of bank premises, furniture, fixtures, and equipment	13	**(1,333)**	(1,764)	(2,245)	**(995)**	(773)	(1,717)
Acquisitions of intangible assets	15	**(494)**	(591)	(233)	**(493)**	(575)	(231)
Cash dividends received	12, 25	**105**	78	304	**663**	659	95
Proceeds from disposals of bank premises, furniture, fixtures and equipment	13	**88**	92	908	**95**	39	831
Net Cash From (Used in) Investing Activities *(Forward)*		**(P 132,119)**	P 72,274	(P 41,174)	**(P 131,047)**	P 73,094	(P 43,478)

See Notes to Financial Statements.

	Notes	GROUP 2021	GROUP 2020	GROUP 2019	PARENT COMPANY 2021	PARENT COMPANY 2020	PARENT COMPANY 2019
CASH FLOWS FROM FINANCING ACTIVITIES							
Proceeds from availments of bills payable	18, 31	**P 148,820**	P 284,718	P 89,737	**P 142,675**	P 276,859	P 89,100
Payments of bills payable	18, 31	**(104,018)**	(371,858)	(44,388)	**(98,411)**	(365,298)	(44,177)
Maturity of bonds payable	19, 31	**(18,810)**	(27,371)	-	**(18,810)**	(27,371)	-
Issuance of bonds payable	19, 31	**17,873**	23,670	45,697	**17,873**	23,670	45,697
Reissuance of treasury shares	23	**4,369**	-	-	**4,369**	-	-
Dividends paid	23	**(1,897)**	(1,076)	(864)	**(1,897)**	(1,076)	(864)
Payment of lease liabilities	22	**(1,360)**	(1,173)	(1,186)	**(1,205)**	(1,113)	(1,086)
Net proceeds from issuance of hybrid perpetual securities	23	**-**	14,463	-	**-**	14,463	-
Redemption of subordinated debt	20	**-**	-	(9,986)	**-**	-	(9,986)
Net Cash From (Used in) Financing Activities		**44,977**	(78,627)	79,010	**44,594**	(79,866)	78,684
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**(4,454)**	56,180	33,768	**(3,827)**	55,731	33,982
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR							
Cash and other cash items	9	**16,520**	16,907	17,392	**16,464**	16,808	17,321
Due from Bangko Sentral ng Pilipinas	9	**115,467**	87,255	56,495	**113,949**	85,453	55,059
Due from other banks	9	**15,707**	18,818	20,342	**15,214**	18,468	19,815
Loans arising from reverse repurchase agreements	9	**13,356**	5,768	10,032	**13,226**	5,629	10,000
Interbank loans receivable	9, 11	**42,681**	18,803	9,522	**42,647**	19,411	9,592
		203,731	147,551	113,783	**201,500**	145,769	111,787
CASH AND CASH EQUIVALENTS AT END OF YEAR							
Cash and other cash items	9	**14,691**	16,520	16,907	**14,663**	16,464	16,808
Due from Bangko Sentral ng Pilipinas	9	**130,170**	115,467	87,255	**128,931**	113,949	85,453
Due from other banks	9	**12,162**	15,707	18,818	**11,860**	15,214	18,468
Loans arising from reverse repurchase agreements	9	**11,691**	13,356	5,768	**11,656**	13,226	5,629
Interbank loans receivable	9, 11	**30,563**	42,681	18,803	**30,563**	42,647	19,411
		P 199,277	P 203,731	P 147,551	**P 197,673**	P 201,500	P 145,769

See Notes to Financial Statements.

NOTES TO FINANCIAL STATEMENTS

1. CORPORATE MATTERS

1.1 Incorporation and Operations

Rizal Commercial Banking Corporation (the Parent Company, the Bank or RCBC), a universal bank engaged in all aspects of banking, was originally incorporated on September 23, 1960. The Bank renewed its corporate existence on December 10, 2009. It provides products and services related to traditional loans and deposits, trade finance, domestic and foreign fund transfers or remittance, cash management, treasury, and trust and custodianship services. Under relevant authority granted by the Bangko Sentral ng Pilipinas (BSP), the Bank is also licensed to deal in different types of derivative products such as, but not limited, to foreign currency forwards, interest rate swaps and cross currency swaps. The Parent Company and its subsidiaries (together hereinafter referred to as the Group) are engaged in all aspects of traditional banking, investment banking, retail financing (credit cards, auto loans, mortgage/housing and microfinance loans), remittance, leasing and stock brokering.

As a banking institution, the Group's operations are regulated and supervised by the BSP. As such, the Group is required to comply with banking rules and regulations such as those relating to maintenance of reserve requirements on deposit liabilities and deposit substitutes and those relating to the adoption and use of safe and sound banking practices, among others, as promulgated by the BSP. The Group's activities are subject to the provisions of Republic Act (RA) No. 8791, the *General Banking Law of 2000*, and other related banking laws.

The Parent Company's common shares are listed in the Philippine Stock Exchange (PSE).

The Group and the Parent Company's banking network within and outside the Philippines as of December 31 follows:

	Group		Parent Company	
	2021	2020	**2021**	2020
Automated teller machines (ATMs)	**1,245**	1,426	**1,245**	1,426
Branches	**428**	440	**412**	424
Extension offices	**6**	7	**4**	5

RCBC is a 39.64%-owned subsidiary of Pan Malayan Management and Investment Corporation (PMMIC or Ultimate Parent), a company incorporated and domiciled in the Philippines. PMMIC is the holding company of the flagship institutions of the Yuchengco Group of Companies (YGC), with registered business address at 48th Floor, Yuchengco Tower, RCBC Plaza, 6819 Ayala Avenue cor. Sen. Gil Puyat Avenue, Makati City. As of December 31, 2021, Cathay Life Insurance Corporation (Cathay) also owns 22.18% interest in RCBC.

The Parent Company's registered address, which is also its principal office, is at Yuchengco Tower, RCBC Plaza, 6819 Ayala Avenue cor. Sen. Gil Puyat Avenue, Makati City.

1.2 Subsidiaries and Associates

The Parent Company holds ownership interests in the following subsidiaries and associates at the end of 2021 and 2020:

Subsidiaries and Associates	Line of Business	Explanatory Notes	Effective Percentage of Ownership
Subsidiaries:			
RCBC Forex Brokers Corporation (RCBC Forex)	Foreign exchange dealing		**100.00**
RCBC Telemoney Europe (RCBC Telemoney)	Remittance		**100.00**
RCBC International Finance Limited (RCBC IFL)	Remittance		**100.00**
RCBC Investment Ltd.	Remittance	(a)	**100.00**
RCBC Capital Corporation (RCBC Capital)	Investment house		**99.96**
RCBC Securities, Inc. (RSI or RCBC Securities)	Securities brokerage and dealing	(b)	**99.96**
RCBC Bankard Services Corporation (RBSC)	Credit card management	(b)	**99.96**
RCBC-JPL Holding Company, Inc. (RCBC JPL)	Property holding		**99.41**
Rizal Microbank, Inc. (Rizal Microbank)	Thrift banking and microfinance		**98.03**
RCBC Leasing and Finance Corporation (RCBC LFC)	Financial leasing		**99.67**
RCBC Rental Corporation (RRC)	Property leasing	(c)	**99.67**
Special Purpose Companies (SPCs):	Real estate buying and selling	(d)	
Cajel Realty Corporation (Cajel)			**100.00**
Niyog Property Holdings, Inc. (NPHI)			**100.00**
Associates:			
YGC Corporate Services, Inc. (YCS)	Support services for YGC		**40.00**
Luisita Industrial Park Co. (LIPC)	Real estate buying, developing, selling and rental		**35.00**
Honda Cars Phils., Inc. (HCPI)	Sale of motor vehicles		**12.88**

Except for RCBC Telemoney (Italy), RCBC IFL (Hongkong) and RCBC Investment Ltd. (Hongkong), all other subsidiaries and associates are incorporated and conducting their businesses in the Philippines. RCBC Telemoney was operational only until March 1, 2016 and is currently in the process of liquidation.

Explanatory Notes:

(a) A wholly-owned subsidiary of RCBC IFL.
(b) Wholly-owned subsidiaries of RCBC Capital.
(c) A wholly-owned subsidiary of RCBC LFC.
(d) In 2019, SPCs other than NPHI and Cajel were liquidated pursuant to BSP recommendation and upon receipt of necessary regulatory clearance (see Note 15.3).

NOTES TO FINANCIAL STATEMENTS

1.3 Approval of Financial Statements

The consolidated financial statements of RCBC and subsidiaries and the separate financial statements of RCBC as of and for the year ended December 31, 2021 (including the comparative financial statements as of December 31, 2020 and for the years ended December 31, 2020 and 2019) were approved and authorized for issue by the Board of Directors (BOD) of the Parent Company on February 28, 2022.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies that have been used in the preparation of these financial statements are summarized below. The accounting policies have been consistently applied to all the years presented, except when otherwise indicated.

2.1 Basis of Preparation of Financial Statements

(a) Statement of Compliance with Philippine Financial Reporting Standards

The consolidated financial statements of the Group and the separate financial statements of the Parent Company 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 (IASB), and approved by Philippine Board of Accountancy.

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

(b) Presentation of Financial Statements

The financial statements are presented in accordance with Philippine Accounting Standards (PAS) 1, *Presentation of Financial Statements.* The Group presents all items of income and expenses in two statements: a "statement of profit or loss" and a "statement of comprehensive income".

The Group presents a third statement of financial position as of the beginning of the preceding period when it applies an accounting policy retrospectively, or makes a retrospective restatement or reclassification of items that have 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 Group's functional and presentation currency (see Note 2.15). All amounts are in millions, except share and per share data or when otherwise indicated.

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

2.2 Adoption of New and Amended PFRS

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

The Group adopted for the first time the following amendments and improvements to PFRS, which are mandatorily effective for annual periods beginning on or after January 1, 2021:

(i) PFRS 9 (Amendments), *Financial Instruments*, PFRS 7 (Amendments), *Financial Instruments Disclosures*, and PFRS 16 (Amendments), *Leases – Interest Rate Benchmark Reform Phase 2*. The amendments address issues that may affect the financial reporting during the interest rate benchmark reform, including the effect of changes to contractual cash flows or hedging relationships resulting from the replacement of the London Interbank Offered Rate (LIBOR) with alternative benchmark rates. The Phase 2 amendments are relevant to the Group because it is exposed to the effects of the LIBOR reform on its financial instruments that will mature post-June 30, 2023 (the date by which the reform is expected to be implemented).

Discussed below are the relevant information arising from the Group's adoption of these amendments.

- When the contractual terms of the Group's borrowings are amended as a direct consequence of the interest rate benchmark reform and the new basis for determining the contractual cash flows is economically equivalent to the basis immediately preceding the change, the Group changes the basis for determining the contractual cash flows prospectively by revising the effective interest rate. If additional changes are made, which are not directly related to the reform, the applicable requirements of PFRS 9 are applied to the other changes.

- When a lease is modified as a direct consequence of the interest rate benchmark reform and the new basis for determining the lease payments is economically equivalent to the previous basis, the Group remeasures the lease liability to reflect the revised lease payments discounted using a revised discount rate that reflects the change in the basis for determining the contractual cash flows.

For the year ended December 31, 2021, the interest rate benchmark reform has no significant impact on the Group's financial assets and liabilities. The changes in the Group's risk management strategy arising from the LIBOR reform and other required disclosures are disclosed in Note 4.7.

(b) Effective Subsequent to 2021 but Not Adopted Early

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

(i) PFRS 16 (Amendments), *Leases – COVID-19-Related Rent Concessions beyond June 30, 2021* (effective from April 1, 2021)

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

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

(iv) PFRS 3 (Amendments), *Business Combination – Reference to the Conceptual Framework* (effective from January 1, 2022).

(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 Group:

- PFRS 9 (Amendments), Financial Instruments – *Fees in the '10 per cent' Test for Derecognition of Liabilities*

- Illustrative Examples Accompanying PFRS 16 – *Lease Incentives*

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

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

(viii) PAS 8 (Amendments), *Income Taxes – Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction* (effective January 1, 2023)

(ix) PFRS 10 (Amendments), *Consolidated Financial Statements*, and PAS 28 (Amendments), *Investments in Associates and Joint Ventures – Sale or Contribution of Assets Between an Investor and its Associates or Joint Venture* (effective date deferred indefinitely)

2.3 Basis of Consolidation and Accounting for Investments in Subsidiaries and Associates in the Separate Financial Statements

The Group's consolidated financial statements comprise the accounts of the Parent Company and its subsidiaries as enumerated in Note 1.2, after the elimination of material intercompany transactions. All intercompany resources and liabilities, equity, income, expenses and cash flows relating to transactions with subsidiaries are eliminated in full. Unrealized profits and losses from intercompany transactions that are recognized in assets are also eliminated in full. Intercompany losses that indicate impairment are recognized in the consolidated financial statements.

The financial statements of the subsidiaries are prepared in the same reporting period as the Parent Company, using consistent accounting policies.

The Parent Company accounts for its investments in subsidiaries, associates, interests in jointly controlled operations and non-controlling interests as follows:

(a) Investments in Subsidiaries

Subsidiaries are entities (including structured entities) over which the Group has control. The Group controls an entity when it has the power over the entity; it is exposed, or has rights to, variable returns from its involvement with the entity; and, it has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date the Group obtains control.

The Parent Company's investments in subsidiaries are initially recognized at cost and subsequently accounted for in its separate financial statements using the equity method. Under the equity method, all subsequent changes to the ownership interest in the equity of the subsidiaries are recognized in the Parent Company's carrying amount of the investments. Changes resulting from the profit or loss generated by the subsidiaries are credited or charged against the Share in Net Earnings (Losses) of Subsidiaries and Associates account in the statement of profit or loss.

These changes include subsequent depreciation, amortization, impairment and fair value adjustments of assets and liabilities. Dividends received are accounted for as reduction in the carrying value of the investment.

Changes resulting from items of other comprehensive income of the subsidiaries or items that have been directly recognized in the subsidiaries' equity are recognized in other comprehensive income or equity, respectively, of the Parent Company.

However, when the Parent Company's share in losses of subsidiaries equals or exceeds its interest in the subsidiary, including any other unsecured receivables, the Parent Company does not recognize further losses, unless it has incurred obligations or made payments on behalf of the subsidiary. If the subsidiary subsequently reports profits, the Group resumes recognizing its share of those profits only after its share of the profits exceeds the accumulated share of losses that has not been recognized previously.

Unrealized gains on transactions between the Parent Company and its subsidiaries are eliminated to the extent of the Parent Company's interest in the subsidiaries. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the assets that were transferred. Where necessary, accounting policies of subsidiaries are changed to ensure consistency with the policies adopted by the Parent Company.

The Parent Company reassesses whether or not it controls an entity if facts and circumstances indicate that there are changes to one or more of the three elements of controls. Accordingly, entities are deconsolidated from the date that control ceases.

Acquired subsidiaries are subject to either of the following relevant policies:

(i) Purchase method – involves the revaluation at fair value of all identifiable assets and liabilities, including contingent liabilities of a subsidiary, at the acquisition date, regardless of whether or not they were recorded in the financial statements of a subsidiary prior to acquisition. On initial recognition, the assets and liabilities of a subsidiary are included in the consolidated statement of financial position at their revalued amounts, which are also used as the bases for subsequent measurement in accordance with the Group's accounting policies.

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Goodwill represents the excess of acquisition cost over the fair value of the Group's share of the identifiable net assets of the acquired subsidiary at the date of acquisition. On the other hand, negative goodwill represents the excess of the Group's share in the fair value of identifiable net assets of the subsidiary at the date of acquisition over acquisition cost and is recognized directly in profit or loss.

(ii) *Pooling of interest method* – is applicable for business combinations involving entities under common control. On initial recognition, the assets and liabilities of a subsidiary are included in the consolidated statement of financial position at their book values. Adjustments, if any, are recorded to achieve uniform accounting policies. The combining entities' results and financial positions are presented in the consolidated financial statements as if they had always been combined.

No goodwill or negative goodwill is recognized. Any difference between the cost of the investment and the subsidiary's identifiable net assets is recognized on consolidation in Capital Paid in Excess of Par account in equity.

(b) *Investments in Associates*

Associates are those entities over which the Group is able to exert significant influence but which are neither subsidiaries nor interests in joint venture. In the consolidated and separate financial statements, investments in associates are initially recognized at cost and subsequently accounted for using the equity method. Under the equity method, the Group recognizes in profit or loss its share in the net earnings or losses of the associates. The cost of the investment is increased or decreased by the Group's equity in net earnings or losses of the associates since the date of acquisition. Dividends received are accounted for as reduction in the carrying value of the investment.

Acquired investments in associates are subject to purchase method of accounting as described in Note 2.3(a)(i). However, any goodwill that represents the excess of identifiable net assets of the acquiree at the date of acquisition or fair value adjustment attributable to the Group's share in the associate is included in the amount recognized as investments in associates. All subsequent changes to the ownership of interest in the equity of the associate are recognized in the Group's carrying amount of the investment. Changes resulting from the profit or loss generated by the associate are credited against Share in Net Earnings (Losses) of Subsidiaries and Associates account in the statement of profit or loss. These changes include subsequent depreciation, amortization, impairment, and fair value adjustments of assets and liabilities.

Changes resulting from items of other comprehensive income of the associate or items that have been directly recognized in the associate's equity are recognized in other comprehensive income or equity, respectively, of the Group. However, when the Group's share in losses of an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associate. If the associate subsequently reports profits, the Group resumes recognizing its share of those profits only after its share of the profits exceeds the accumulated share of losses that has not been recognized previously.

Unrealized gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the assets that were transferred. Where necessary, accounting policies of associates are changed to ensure consistency with the policies adopted by the Group.

The Group reassesses whether or not an entity qualifies as an associate in the occurrence of changes to facts and circumstances surrounding its ability to exert significant influence.

(c) *Interest in Jointly Controlled Operations*

For interests in jointly controlled operations, the Group recognizes in its financial statements the assets that it controls, the liabilities and the expenses that it incurs and its share in the income from the sale of goods or services by the joint venture. The amounts of these related accounts are presented as part of the regular asset and liability accounts and income and expense accounts of the Group.

No adjustment or other consolidation procedures are required for the assets, liabilities, income and expenses of the joint venture that are recognized in the separate financial statements of the venturers.

(d) *Transactions with Non-controlling Interests*

Non-controlling interests (NCI) represent the portion of the net assets and profit or loss not attributable to the Group. The Group applies a policy of treating transactions with NCI as transactions with parties external to the Group. Disposals to NCI result in gains and losses for the Group that are recorded in profit or loss. Purchases of equity shares from NCI may result in goodwill, being the difference between any consideration paid and the relevant share acquired in the carrying value of the net assets of a subsidiary.

In the consolidated financial statements, the NCI component is shown as part of the Equity account in the consolidated statement of changes in equity.

In the Parent Company's financial statements, impairment loss is provided when there is objective evidence that the investments in subsidiaries and associates will not be recovered (see Note 2.16).

2.4 Segment Reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is a segment engaged in providing products or services within a particular economic environment that is subject to risks and returns that are different from those of segments operating in other economic environments.

The Group's operations are structured according to the nature of the services provided (primary segment) and different geographical markets served (secondary segment). Financial information on business segments is presented in Note 8.

2.5 Financial Instruments

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

At initial recognition, the Group measures a financial asset or financial liability at its fair value plus or minus, in the case of a financial asset or financial liability not at fair value through profit or loss (FVTPL), transaction costs that are incremental or directly attributable to the acquisition or issue of the financial asset or liability, such as fees and commissions. Transactions costs of financial assets or financial liabilities carried at FVTPL are expensed in profit or loss.

(a) Financial Assets

Regular purchases and sales of financial assets are recognized on their trade date (i.e., the date that the Group commits to purchase or sell the asset). Deposits, amounts due to banks and customers, and loans are recognized when cash is received by the Group or advanced to the borrowers.

(i) Classification and Measurement of Financial Assets

The classification and measurement of financial assets is driven by the Group's business models for managing the financial assets and the contractual cash flow characteristics of the financial assets. The Group's classification and measurement of financial assets are described below and in the succeeding pages.

Financial Assets at Amortized Cost

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

- the financial asset is held within the Group'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 financial asset give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding.

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

Where the business model is to hold assets to collect contractual cash flows, the Group assesses whether the financial instruments' cash flows represent SPPI. In making this assessment, the Group considers whether the contractual cash flows are consistent with basic lending arrangements, i.e., interest includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with basic lending arrangements, the related financial asset is classified and measured at FVTPL.

The Group's financial assets measured at amortized cost include those presented in the statements of financial position as Cash and Other Cash Items, Due from BSP, Due from Other Banks, Loans Arising from Reverse Repurchase Agreements, Investment securities at amortized cost under Trading and Investment Securities, Loans and Receivables and certain Other Resources accounts.

For purposes of cash flows reporting and presentation, cash equivalents comprise of accounts with original maturities of three months or less, including non-restricted balances of Due from BSP, Due from Other Banks, Loans Arising from Reverse Repurchase Agreements, and Interbank loans receivables (part of Loans and Receivables). Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value. Cash comprises cash and other cash items and demand deposits.

The Group may irrevocably elect at initial recognition to classify a financial asset that meets the amortized cost criteria as at FVTPL if that designation eliminates or significantly reduces an accounting mismatch had the financial asset been measured at amortized cost. In 2021 and 2020, the Group has not made such designation.

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

Financial asset is classified and measured at FVOCI if both of the following conditions are met:

- the financial asset is held under a business model whose objective is achieved by both collecting contractual cash flows and selling ("hold to collect and sell"); and,
- the contractual terms of the financial asset give rise to cash flows that are SPPI on the principal amount outstanding.

At initial recognition, the Group 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 Group for trading or a contingent consideration recognized arising from a business combination. The Group has made irrevocable designation of equity instruments not held for trading into this category.

Financial assets at FVOCI are initially measured at fair value plus transaction costs. After initial recognition, financial assets at FVOCI are subsequently measured at fair value, with no deduction for any disposal costs. Gains and losses arising from changes in fair value, including the foreign exchange component, are recognized in other comprehensive income, net of any effects arising from income taxes, and are reported as part of Revaluation Reserves account in equity. Upon disposal, the cumulative fair value gains or losses on equity investments previously recognized in the Revaluation Reserves account is not reclassified to profit or loss, but is reclassified directly to Surplus account, while the cumulative fair value gains or losses for debt securities are reclassified to profit or loss.

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

Financial Assets at Fair Value Through Profit or Loss

Debt instruments that do not meet the amortized cost criteria, or that meet the criteria but the Group has chosen to designate as at FVTPL at initial recognition, or those that do not qualify under the FVOCI or "hold to collect and sell" business model, are measured at FVTPL. Equity investments are classified as financial assets at FVTPL, unless the Group designates an equity investment that is not held for trading as at FVOCI at initial recognition. The Group's financial assets at FVTPL include government securities, corporate debt securities, equity securities and derivative instruments, which are held for trading purposes or designated as at FVTPL.

A financial asset is considered as held for trading if:

- it has been acquired principally for the purpose of selling it in the near term;
- on initial recognition, it is part of a portfolio of identified financial instruments that the Group manages together and has evidence of a recent actual pattern of short-term profit-taking; or,
- it is a derivative that is not designated and effective as a hedging instrument or financial guarantee.

Financial assets at FVTPL are initially measured at fair value and transaction costs are expensed in profit or loss. Unrealized gains and losses arising from changes (mark-to-market) in the fair value of the financial assets at FVTPL category and realized gains or losses arising from disposals of these instruments are included in Trading and Securities Gains (Losses) under Other Operating Income account in the statement of profit or loss.

Interest earned on these investments is reported in profit or loss under Interest Income account while dividend income is reported in profit or loss under Miscellaneous included in Other Operating Income account when the right of payment has been established.

(ii) 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 FVTPL, 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 Group 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 Group 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.

(iii) Reclassification of Financial Assets

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

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

(iv) Impairment of Financial Assets

The Group recognizes a loss allowance for ECL on all financial assets that are measured at amortized cost and debt instruments classified as at FVOCI, as well as financial guarantee and loan commitments. Equity securities, either measured as at FVTPL or designated as at FVOCI, are not subject to impairment.

The Group measures the ECL of a financial asset in such manner that reflects: (i) the time value of money; and, (ii) reasonable and supportable information about past events, current conditions and forecasts of future economic conditions that affect the collectability of the future cash flows of the financial assets.

The amount of allowance for ECL is updated at the end of each reporting period to reflect the changes in credit risk of the financial asset since initial recognition. The Group recognizes lifetime ECL when there has been a significant increase in credit risk (SICR) since initial recognition. However, if the credit risk on the financial instrument has not increased significantly since initial recognition, the Group measures the loss allowance for that financial instrument at an amount equal to 12-month ECL. Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a financial instrument. In contrast, 12-month ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the end of the reporting period.

The Group's ECL model follows a three-stage impairment approach, which guide in the determination of the loss allowance to be recognized in the financial statements. The staging of financial assets and definition of default for purposes of determining ECL are further discussed in Note 4.4.

ECL is a function of the probability of default (PD), loss-given default (LGD), and exposure-at-default (EAD), with the timing of the loss also considered, and is estimated by incorporating forward-looking economic information and through the use of experienced credit judgement. These elements are discussed more fully in Note 4.4.

The Group 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 Group applies a simplified ECL approach for its accounts receivables and other risk assets wherein the Group 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 Group's lending activities. For these instruments, the Group measures the loss allowance at an amount equal to lifetime ECL.

The Group 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 Other Liabilities account in the statement of financial position). Where a financial instrument includes a drawn and undrawn component, and the Group cannot identify the ECL on the loan commitment component separately from those on the drawn commitment; the Group 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.

(v) 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 Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognizes its retained interest in the asset and an associated liability for amounts it may have to pay.

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

(i) Modification of Loans

When the Group renegotiates or otherwise modifies the contractual cash flows of loans to customers, the Group assesses whether or not the new terms are substantially different to the original terms of the instrument.

In making such assessment, the Group 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 Group derecognizes the original 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 SICR has occurred.

However, the Group 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 between the old financial asset derecognized and the fair value of the new financial asset 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" financial 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

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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 Group recalculates the gross carrying amount based on the revised cash flows of the financial asset and recognizes the gain or loss arising from the modification 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 Modification

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

(b) Financial Liabilities at Amortized Cost

Financial liabilities including deposit liabilities, bills payable, bonds payable, accrued interest and other expenses, and other liabilities (except derivatives with negative fair value, tax-related payables, post-employment defined benefit obligation and deferred income) are recognized initially at their fair value and subsequently measured at amortized cost using the effective interest method, for those with maturities beyond one year, less settlement payments. All interest-related charges incurred on financial liabilities are recognized as an expense in the statement of profit or loss under the caption Interest Expense.

Deposit liabilities are stated at amounts in which they are to be paid. Interest is accrued periodically and recognized in a separate liability account before recognizing as part of deposit liabilities.

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

Dividend distributions to shareholders are recognized as financial liabilities when the dividends are declared by the Group.

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.

(c) Financial Guarantees and Undrawn Loan Commitments

The Group issues financial guarantees and loan commitments. Financial guarantees are those issued by the Group to creditors as allowed under existing rules and regulations whereby it guarantees third party obligations by signing as guarantor in the contract or agreement. Undrawn loan commitments and letters of credit are commitments under which, over the duration of the commitment, the Group is required to provide a loan with pre-specified terms to the customer. The nominal contractual value of financial guarantees and undrawn loan commitments, where the loan agreed to be provided is on market terms, are not reflected in the statement of financial position. These contracts are in the scope of the ECL requirements where the Group estimates the expected portion of the irrevocable undrawn loan commitments that will be drawn over their expected life based on the Group's historical observations of actual drawdowns and forward-looking forecasts. The ECL related to financial guarantees and loan commitments without outstanding drawn amounts is recognized under Other Liabilities account in the statement of financial position.

(d) Derivative Financial Instruments and Hedge Accounting

The Group is a party to various foreign currency forward contracts, cross currency swaps, futures, interest rate swaps, debt warrants, options and credit default swap. These contracts are entered into as a service to customers and as a means of reducing or managing the Group's foreign exchange and interest rate exposures as well as for trading purposes. Amounts contracted are recorded as contingent accounts and are not included in the statement of financial position.

Derivatives are carried as assets when 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 fair value is negative. Derivatives are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently measured at their fair value. Fair values are obtained from active markets for listed or traded securities or determined using valuation techniques if quoted prices are not available, including discounted cash flow models and option pricing models, as appropriate. The change in fair value of derivative financial instruments is recognized in profit or loss, except when their effects qualify as a hedging instrument.

The best evidence of the fair value of a derivative at initial recognition is the transaction price (i.e., the fair value of the consideration given or received) unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e., without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets. When such evidence exists, the Group recognizes a gain or loss at initial recognition.

(e) Offsetting Financial Instruments

Financial assets and liabilities are offset and the resulting net amount, considered as a single financial asset or financial liability, is reported in the statement of financial position when there is a legally enforceable right to offset 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.

2.6 Bank Premises, Furniture, Fixtures and Equipment

Land is stated at cost less impairment losses, if any. As no finite useful life for land can be determined, the related carrying amounts are not depreciated. All other bank premises, furniture, fixtures and equipment are carried at cost less accumulated depreciation, amortization and any impairment in value.

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

Depreciation is computed using the straight-line method over the estimated useful lives of the depreciable assets as follows:

Buildings	20-50 years
Furniture, fixtures and equipment	3-15 years

Leasehold rights and improvements are amortized over the term of the lease or the estimated useful lives of the improvements, 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 2.16).

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 any impairment losses, 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.

2.7 Investment Properties

Investment properties pertain to land, buildings or condominium units acquired by the Group, in settlement of loans from defaulting borrowers through foreclosure or dacion in payment, which are either held by the Group for sale in the next 12 months or being used in the rendering of services or for administrative purposes. This also includes properties held for rental.

Investment properties are stated at cost, less accumulated depreciation and any impairment losses (see Note 2.16). The cost of an investment property comprises its purchases price and directly attributable costs incurred such as legal fees, transfer taxes and other transaction costs.

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

Depreciation and impairment loss are recognized in the same manner as in bank premises, furniture, fixtures and equipment.

Direct operating expenses related to investment properties, such as repairs and maintenance, and 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 or when permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gain or loss on the retirement or disposal of investment properties is recognized in Miscellaneous income (expenses) under the Other Operating Income (Expenses) account in the statement of profit or loss, in the year of retirement or disposal.

2.8 Assets Held-for-Sale and Disposal Group

Assets held-for-sale and disposal group, which are presented as part of Other Resources account, include shares of stock and real and other properties acquired through repossession, foreclosure, exchange or purchase that the Group intends to sell within one year from the date of classification as held-for-sale and for which the Group is committed to immediately dispose through an active marketing plan. The Group classifies an asset (or disposal group) as held-for-sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use.

In the event that the sale of the asset is extended beyond one year, the extension of the period required to complete the sale does not preclude an asset from being classified as held-for-sale if the delay is caused by events or circumstances beyond the Group's control and there is sufficient evidence that the Group remains committed to its plan to sell the asset.

Assets classified as held-for-sale are measured at the lower of their carrying amounts, immediately prior to their classification as held-for-sale and their fair value less costs to sell. Assets classified as held-for-sale are not subject to depreciation or amortization. Asset that ceases to be classified as held-for-sale is measured at the lower of: (a) its carrying amount before the asset was classified as held-for-sale, adjusted for any depreciation, amortization or revaluations that would have been recognized had the asset not been classified as held-for-sale; and, (b) its recoverable amount at the date of the subsequent decision not to sell. Any adjustment to the carrying amount of an asset that ceases to be classified as held-for-sale resulting in either a gain or loss, is recognized in profit or loss. The

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Group recognizes an impairment loss for any initial or subsequent write-down of the assets held-for-sale to fair value less cost to sell, to the extent that it has not been previously recognized in profit or loss.

On the other hand, any gain from any subsequent increase in fair value less costs to sell of an asset up to the extent of the cumulative impairment loss that has been previously recognized is recognized in profit or loss.

The gains or losses arising from the sale or remeasurement of assets held-for-sale is recognized in Miscellaneous income (expenses) under the Other Operating Income (Expenses) account in the statement of profit or loss.

2.9 Intangible Assets

Intangible assets include goodwill, branch licenses, trading right, and computer software licenses which are accounted for under cost model and are reported under Other Resources account in the statement of financial position. The cost of the asset is the amount of cash and cash equivalents paid or the fair value of the other considerations given to acquire an asset at the time of acquisition.

Goodwill represents the excess of the cost of acquisition over the fair value of the identifiable net assets acquired at the date of acquisition (see Note 2.3).

Branch licenses represent the rights given by the BSP to the Group 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 are tested annually for impairment (see Note 2.16). After initial recognition, goodwill and branch licenses are subsequently carried at cost less accumulated impairment losses. Goodwill is allocated to cash-generating units for the purpose of impairment testing. Each of those generating units is represented by each primary reporting segment.

Trading right, included as part of Miscellaneous under Other Resources account, represents the right given to RSI, a subsidiary engaged in stock brokerage, to preserve its access to the trading facilities and to transact business at the PSE. Trading right is assessed as having an indefinite useful life. It is carried at the amount allocated from the original cost of the exchange membership seat (after a corresponding allocation was made to the value of the PSE shares) less allowance for impairment, if any. The trading right is tested annually for any impairment in value (see Note 2.16).

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortized on a straight line basis over the expected useful lives of the software of three to ten years.

Costs associated with developing or maintaining computer software programs are recognized as expense as incurred. Costs that are directly associated with the production of identifiable and unique software products controlled by the Group, and that will probably generate economic benefits exceeding costs beyond one year, are recognized as intangible assets. Direct costs include employee costs incurred on software development and an appropriate portion of relevant overhead costs.

Computer software development costs recognized as assets are amortized using the straight-line method over their useful lives (not exceeding ten years).

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.

2.10 Other Resources

Other resources (excluding items classified as intangible assets and assets held-for-sale and disposal group) pertain to other assets controlled by the Group 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 Group and the asset has a cost or value that can be measured reliably.

2.11 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 obligation that has resulted from past events (e.g., legal dispute 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 pretax rate that reflects market assessments and the risks specific to the obligation. The increase in 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 Group 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 Group can be virtually certain to collect from a third party with respect to the obligation is recognized as a separate asset not exceeding the amount of the related provision.

2.12 Equity

Preferred and common stock represent the nominal value of shares of stock that have been issued.

Capital paid in excess of par includes any premiums received on the issuance of capital stock. Any transaction costs associated with the issuance of shares of stock are deducted from capital paid in excess of par, net of any related income tax benefits.

Hybrid perpetual securities are non-cumulative, unsecured, subordinated capital securities which qualify as Additional Tier 1 (AT1) capital under Basel III standards. The capital securities are perpetual in respect of which there is no fixed redemption date. The Parent Company may redeem the capital securities only in certain circumstances as described in the conditions of the securities and with prior written consent of BSP. The capital securities confer a right to receive distributions on the principal amount from, and including, the issue date at the applicable distribution rate. Any distribution may only be paid out of distributable reserves. Distributions are non-cumulative and payable semi-annually in arrear at a rate of 6.5%. Certain conditions provide for circumstances under which the Parent Company will not be obliged to pay any distribution on the applicable payment date.

Treasury shares are stated at the cost of reacquiring such shares and are deducted from equity attributable to the Parent Company's equity holders until the shares are cancelled, reissued or disposed of.

Revaluation reserves consist of:

(a) Net unrealized fair value gains or losses arising from remeasurements of financial assets at FVOCI;

(b) Reserves on remeasurements of post-employment defined benefit plan comprising of net accumulated actuarial gains or losses arising from experience adjustments and other changes in actuarial assumptions, and actual return on plan assets (excluding account included in net interest);

(c) Accumulated translation adjustments related to the cumulative gains from the translation of the financial statements of foreign subsidiaries whose functional currency is different from that of the Parent Company; and,

(d) Share in other comprehensive income or loss of subsidiaries and associates.

Reserve for trust business representing the accumulated amount set aside by the Group under existing regulations requiring the Parent Company 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.

General loan loss reserve pertains to the accumulated amount of appropriation from Surplus made by the Group arising from the excess of the one-percent general loan loss provisions 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.

Other reserves refer to the amount attributable to the Parent Company arising from the changes in the ownership of the NCI in the Group.

Surplus represents all current and prior period results of operations as disclosed in the statement of profit or loss, reduced by the amount of dividends declared.

NCI represents the portion of the net assets and profit or loss not attributable to the Group and are presented separately in the consolidated statement of profit or loss and consolidated statement of comprehensive income and within equity in the consolidated statement of financial position and consolidated statement of changes in equity.

2.13 Other Income and Expense Recognition

Revenue is recognized when (or as) the Group 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 Group's financial statements may partially be within the scope of PFRS 9 and partially within the scope of PFRS 15, *Revenue from Contracts from Customers*. In such case, the Group first applies PFRS 9 to separate and measure the part of the contract that is in-scope of PFRS 9, and then applies PFRS 15 to the residual part of the contract. Costs and expenses, if any, 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 2.18).

The Group assesses its revenue arrangements against specific criteria to determine if it is acting as a principal or agent. The Group concluded that it is acting as a principal in all its revenue arrangements except for certain brokerage transactions.

For revenues arising from various 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) *Charges, Fees and Commissions*

The following charges, fees and commissions are recognized as follows:

(i) *Commissions and fees* – these income arising from loans, deposits, and other banking and brokerage transactions are recognized as income based on agreed terms and conditions with customers, which are generally when the services have been performed.

(ii) *Annual membership fees* – pertains to annual fees charged to credit cardholders. Revenues from membership fees are recognized over time from the date of renewal of the credit card until the validity date covered by the said renewal, usually termed as the expiry date of the issued cards. The credit card's validity period is deemed to be the servicing period.

(iii) *Interchange fees, net of interchange costs* – are recognized as income upon presentation by member establishments of charges arising from RBSC and non-RBSC (associated with MasterCard, JCB, VISA and China UnionPay labels) credit card availments passing through the Point of Sale (POS) terminals of the Parent Company. These discounts are computed based on agreed rates and are deducted from the amounts remitted to member establishments. Interchange costs pertain to the other credit card companies' share in RBSC's merchant discounts whenever their issued credit cards transact in the Parent Company's POS terminals.

The Parent Company has a rewards program related to its deposit, loans and credit card operations, which allows its cardholders to accumulate award credits or loyalty points that can be redeemed for free products. The loyalty points give rise to a separate performance obligation as they provide a material right to the cardholder.

Accordingly, the Parent Company allocates a portion of the interchange fee billed to participating merchants to the loyalty points granted to cardholders based on relative stand-alone selling price and recognizes liability equivalent to the estimated loyalty points until these are redeemed. Revenue is recognized upon actual redemption by the cardholder.

(iv) *Loan syndication fees* – are recognized as revenue when the syndication has been completed and the Group retained no part of the loan package for itself or retained a part at the same effective interest rate for the other participants.

(v) *Underwriting and arrangers fees* – are fees arising from negotiating, or participating in the negotiation of a transaction for a third party such as arrangement of the acquisition of shares or other securities or the purchase or sale of businesses, are recognized at the completion of the underlying transaction and where there are no further obligations to perform under the agreement.

(b) *Trust Fees*

These are service fees calculated in reference to the net asset value of the funds managed and deducted from the customer's account balance on a monthly basis which are recognized over time as the asset management services are provided. These are also applicable for wealth management and asset custody services that are continuously provided over an extended period of time.

For other 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 FVTPL.

(b) *Gains on Assets Sold*

Gains on assets sold arise from the disposals of bank premises, furniture, fixtures and equipment, investment properties, real estate properties for sale, and assets held-for-sale. The Group recognizes the gain on sale at the time the control of the assets is transferred to the buyer, when the Group does not retain either continuing managerial involvement to the degree usually associated with ownership, or effective control over the assets sold, and when the collectability of the entire sales price is reasonably assured. Gains on assets sold are included as part of Miscellaneous income under Other Operating Income account in the statement of profit or loss.

(c) *Dividend Income*

Dividend income is recognized when the Group's right to receive payment is established.

(d) *Recoveries from Assets Written Off*

These are income recognized from the increase in carrying amount of assets previously written off. The amount of reversal does not exceed the amount of impairment loss previously recognized for the related asset.

Collections from accounts, which did not qualify for revenue recognition are treated as customers' deposit included as part of Accounts payable under Other Liabilities account in the statement of financial position.

2.14 Leases

The Group accounts for its leases as follows:

(a) *Group as Lessee*

The Group 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 Group 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 Group;
- the Group 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 Group has the right to direct the use of the identified asset throughout the period of use. The Group 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 Group 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, estimates 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).

Subsequently, the Group depreciates the right-of-use asset on a straight-line basis from the lease commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The Group also assesses the right-of-use asset for impairment when such indicators exist (see Note 2.16).

At the commencement date, the Group 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 Group's incremental borrowing rate.

Lease payments include fixed payments (including in-substance fixed) less lease incentives receivable, if any, variable lease payments based on an index or rate, amounts expected to be payable under a residual value guarantee, and payments arising from options (either renewal or termination) 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 to profit and loss if the right-of-use asset is already reduced to zero.

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

On the statement of financial position, Right-of-use assets and Lease liabilities have been included as part of Bank Premises, Furniture, Fixtures and Equipment, and Other Liabilities, respectively in the SOFP.

(b) Group as Lessor

Leases which transfer to the lessee all risks and benefits incidental to ownership of the leased item are classified as finance leases and are presented at an amount equal to the Group's net investment in the lease. Finance income is recognized based on the pattern reflecting a constant periodic rate of return on the Group's net investment outstanding in respect of the finance lease, and is included as part of Interest Income on loans and receivables.

Leases which do not transfer to the lessee substantially all the risks and benefits of ownership of the asset are classified as operating leases. Lease income from operating leases is recognized in profit or loss on a straight-line basis over the lease term. These are recognized as part of Miscellaneous income under Other Operating Income account in the statement of profit or loss.

2.15 Foreign Currency Transactions and Translations

The Group's transactions in foreign currencies are accounted for as follows:

(a) Transactions and Balances

Except for the foreign subsidiaries and accounts of the Group's foreign currency deposit unit (FCDU), the accounting records of the Group are maintained in Philippine pesos. Foreign currency transactions during the period are translated into the functional currency at exchange rates which approximate those prevailing at transaction dates. Resources and liabilities denominated in U.S. dollars are translated to Philippine pesos at the prevailing Philippine Dealing System closing rates (PDSCR) at the end of the reporting period.

Foreign exchange gains and losses resulting from the settlement of foreign currency 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, except when recognized in other comprehensive income and deferred in equity as qualifying cash flow hedges and qualifying net investment hedges. Translation differences on non-monetary items, such as equity securities classified as at FVTPL, are reported as part of fair value gain or loss in profit or loss.

For financial reporting purposes, the accounts of the FCDU are translated into their equivalents in Philippine pesos based on the prevailing PDSCR at the end of each reporting period (for resources and liabilities) and at the weighted average PDSCR for the period (for income and expenses). Any foreign exchange difference is recognized in profit or loss.

Changes in the fair value of monetary financial assets (debt securities) denominated in foreign currency classified as financial assets at FVTPL and 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. Accordingly, translation differences related to changes in amortized cost of investment in debt securities are recognized in profit or loss, and other changes in the carrying amount are recognized as gains and losses in other comprehensive income.

(b) Translation of Financial Statements of Foreign Subsidiaries

The results of operations and financial position of all the Group's foreign subsidiaries (none of which has the currency dependency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) Assets and liabilities at the end of each reporting period as presented in the statement of financial position are translated at the closing rate at the date of that statement of financial position;

(ii) Income and expenses are translated at average exchange rates during the period (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transactions' dates, in which case income and expenses are translated at the dates of the transactions); and,

(iii) All resulting exchange differences are recognized as a component of equity. In consolidation, exchange differences arising from the translation of the net investment in foreign entities are recognized in other comprehensive income which form part of Revaluation Reserves account in equity. When a foreign operation is sold, the accumulated translation and exchange differences are recognized in profit or loss as part of the gain or loss on assets sold.

The translation of the financial statements into Philippine peso should not be construed as a representation that the amounts stated in currencies other than the Philippine peso could be converted in Philippine peso amounts at the translation rates or at any other rates of exchange.

2.16 Impairment of Non-financial Assets

Investments in subsidiaries and associates, bank premises, furniture, fixtures and equipment (including right-of-use asset), investment properties, and other resources (including intangible assets, and assets held for sale and disposal group) and other non-financial assets are subject to impairment testing. Intangible assets (including goodwill, branch licenses and trading right) with an indefinite useful life or those not yet available for use are tested for impairment at least annually.

For purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows [cash-generating units (CGU)]. As a result, some assets are tested for impairment either individually or at the CGU level. Except for intangible assets with an indefinite useful life (i.e., goodwill, branch licenses and trading right) or those not yet available for use, individual assets or CGU are tested for impairment whenever events or changes in circumstances indicate that their carrying amount may not be recoverable.

Goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of the CGU (or group of CGUs) to which the goodwill relates. Where the recoverable amount of the CGU (or group of CGUs) is less than the carrying amount of the CGU (or group of CGUs) to which goodwill has been allocated, an impairment loss is recognized immediately in profit or loss. Impairment losses relating to goodwill cannot be reversed for subsequent increases in its recoverable amount in future periods.

Other intangible assets with indefinite useful lives, branch licenses and exchange trading right, are tested for impairment either individually or at the cash generating unit level, as appropriate when circumstances indicate that the intangible asset may be impaired.

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

All assets, except for intangible assets with indefinite useful life, are subsequently reassessed for indications that an impairment loss previously recognized may no longer exist. An impairment loss is reversed if the asset's or CGU's recoverable amount exceeds its carrying amount.

2.17 Employee Benefits

Entities under the Group provide respective post-employment benefits to employees through a defined benefit plan and defined contribution plan, as well as other benefits, which are recognized and measured 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 Group, 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 Group's post-employment defined benefit plan covers all regular full-time employees. The pension plan is tax-qualified, non-contributory and administered by trustees.

The liability recognized as part of Other Liabilities account in the statement of financial position for defined benefit post-employment plan is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated 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 for expected benefit

payments using a discount rate derived from the interpolated yields of government bonds as calculated by Bloomberg which used Bloomberg Valuation (BVAL) Evaluated Pricing Service to calculate the PHP BVAL Reference Rates. These yields 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.

Remeasurements, comprising of actuarial gains and losses arising from experience adjustments and other changes in actuarial assumptions, effect of the changes to the asset ceiling, if any, and actual 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 (loss) in the period in which they arise. Remeasurements are not reclassified to profit or loss in the subsequent periods.

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 Other Interest Income or Interest Expense from Bills Payable and Other Borrowings accounts 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 Group pays fixed contributions into an independent entity such as the Social Security System. The Group has no legal or constructive obligations to pay further contributions after payment of the fixed contribution. The contributions recognized in respect of defined contribution plans are expensed as they fall due. Liabilities or assets may be recognized if underpayment or prepayment has occurred.

(c) Short-term Benefits

Short-term employee benefits include wages, salaries, bonuses, and non-monetary benefits provided to current employees, which are expected to be settled before twelve months after the end of the reporting period during which an employee services are rendered, but does not include termination benefits. The undiscounted amount of the benefits expected to be paid in respect of services rendered by employees in an accounting period is recognized in profit or loss during that period and any unsettled amount at the end of the reporting period is included as part of Accrued Interest, Taxes and Other Expenses in the statement of financial position.

(d) Termination Benefits

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

The Group recognizes termination benefits at the earlier of: (i) when it can no longer withdraw the offer of such benefits, and, (ii) when it recognizes costs for a restructuring that is within the scope of Philippine Accounting Standard (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.

(e) Bonus Plans

The Group recognizes a liability and an expense for bonuses, based on a fixed formula. The Group 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.

(f) 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 Interest, Taxes and Other Expenses account in the statement of financial position at the undiscounted amount that the Group expects to pay as a result of the unused entitlement.

2.18 Borrowing Costs

Borrowing costs are recognized as expense 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 the 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 completed.

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.

2.19 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, tax authorities relating to the current or prior reporting period, that are unpaid at the end of the reporting period. They are calculated according to the tax rates and tax laws applicable to the 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 the statement of profit or loss.

Deferred tax is provided using the liability method, on temporary differences at the end of the reporting period between the tax bases 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 deferred tax assets can be utilized. Deferred tax assets are reassessed at the end of each reporting period. Previously unrecognized deferred tax assets 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 assets to be utilized.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of the 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 recognized by the entities under the Group are offset if they have 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.

2.20 Related Party Relationships and Transactions

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

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

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

All material related party transactions shall be approved by at least two-thirds vote of the BOD, 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' 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.

Transactions amounting to 10% or more of the consolidated total assets based on the latest audited consolidated financial statements entered into with related parties are considered material.

2.21 Earnings and Dilutive Earning Per Share

Basic earnings per share (EPS) is determined by dividing the adjusted net profit for the year attributable to common shareholders by the weighted average number of common stocks outstanding during the period, after giving retroactive effect to any stock dividends declared in the current period.

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Diluted EPS is also computed by dividing net profit by the weighted average number of common stocks subscribed and issued during the period. However, net profit attributable to common stocks and the weighted average number of common stocks outstanding are adjusted to reflect the effects of potentially dilutive convertible preferred stocks. Convertible preferred stocks are deemed to have been converted into common stocks at the issuance of preferred stocks.

In cases of redemption of preference shares, the net income used in the computation of basic and diluted EPS is decreased by the excess of the fair value of consideration paid to holders of the instruments over the carrying amount of such repurchased instruments.

2.22 Trust and Fiduciary Activities

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

2.23 Events After the End of the Reporting Period

Any post year-end event that provides additional information about the Group'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 Group'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 vary from these estimates.

3.1 Critical Management Judgments in Applying Accounting Policies

In the process of applying the Group'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 Amortized Cost and Financial Assets at FVOCI

The Group uses the general approach to calculate ECL for all debt instruments carried at amortized cost and FVOCI, together with loan commitments and financial guarantee contracts. The allowance for impairment is based on the ECLs associated with the probability of default 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.

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

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

The Group 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 Group's business models reflect how it manages its portfolio of financial instruments. The Group's business models need not be assessed at entity level or as a whole but applied at the level of a portfolio of financial instruments (i.e., group of financial instruments that are managed together by the Group) 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 Group evaluates in which business model a financial instrument or a portfolio of financial instruments belongs to taking into consideration the objectives of each business model established by the Group (e.g., held-for-trading, generating accrual income, direct matching to a specific liability) as those relate to the Group's investment, trading and lending strategies.

If more than an infrequent sale is made out of a portfolio of financial assets carried at amortized cost, an entity should assess whether and how such sales are consistent with the objective of collecting contractual cash flows. In making this judgment, the Group 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 the HTC business model if the Group can explain the reasons for those sales and why those sales do not reflect a change in the Group's objective for the business model.

In 2020, the Parent Company disposed of certain debt securities from its HTC portfolio in accordance with its investment policy and has applied these evaluation process to ensure that the disposal is consistent with the Group's HTC business model (see Note 10.3). There is no similar transaction in 2021.

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

In determining the classification of financial assets, the Group assesses whether the contractual terms of the financial assets give rise on specified dates to cash flows that are SPPI 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 Group 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 Group considers the effect of the modified time value of money element in each reporting period and cumulatively over the life of the financial instrument.

(d) Determination of Timing of Satisfaction of Performance Obligation

The Group determines that its revenue shall be recognized at a point in time for loan syndication and underwriting fees and commission. In making its judgment, the Group considers the timing of receipt and consumption of benefits provided by the Group to the customers. The services provided by the Group would need substantial reperformance from other entities. This demonstrates that the customers do not simultaneously receive and consume the benefits provided by the Group.

For the revenues from services related to credit card membership and account management, the Group determines that its revenues shall be recognized over time. In making its judgment, the Group considers the timing of receipt and consumption of benefits provided to the customers. As the work is performed, the Group becomes entitled to payments. This demonstrates that the customers simultaneously receive and consume the benefits of the Group's rendering of these services as it performs.

(e) Determination of Lease Term of Contracts with Renewal and Termination Options

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

For leases of offices and branches, the factors that are normally the most relevant are (a) if there are significant penalties should the Group pre-terminate the contract, and (b) if any leasehold improvements are expected to have a significant remaining value, the Group is reasonably certain to extend and not to terminate the lease contract.

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

The lease term is reassessed if an option is actually exercised or not exercised or the Group 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 Group.

(f) Distinction Between Investment Properties and Owner-occupied Properties

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

Some properties comprise a portion that is held to earn rental or for capital appreciation and another portion that is held for use for administrative purposes. If these portions can be sold separately (or leased out separately under finance lease) then these portions can be accounted for separately. If the portions cannot be sold separately, the property is accounted for as investment property only if an insignificant portion is held for use in operations or for administrative purposes. Judgment is applied in determining whether ancillary services are so significant that a property does not qualify as investment property.

As of the end of the reporting period, the Group has a certain building which comprise a portion that is held for rental and other portion is used for operations which were classified by the Group as Investment Properties or as part of Bank Premises, Furniture, Fixtures and Equipment according to its current use.

(g) Distinction Between Operating and Finance Leases where the Group is the Lessor

The Group has entered into various lease agreements as a lessor. Judgment was exercised by management to distinguish each lease agreement as either an operating or finance lease by looking at the transfer or retention of significant risk and rewards of ownership of the properties covered by the agreements. Failure to make the right judgment will result in either overstatement or understatement of assets or liabilities.

In determining whether the lease arrangements of the Parent Company and RCBC LFC qualify as a finance lease, the following factors have been considered:

(i) the lease provides the lessee an option to purchase the asset; or,

(ii) the lease transfers ownership of the property at the end of the lease and the related lease terms approximate the estimate useful life of the asset being leased.

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

The Group classifies its acquired properties as Bank Premises, Furniture, Fixtures and Equipment if used in operations, as Assets held-for-sale and disposal group presented under Other Resources account if the Group expects that the assets will be sold within one year from the date of recognition, as Investment Properties if held for rental or for currently undetermined future use and is regarded as held for capital appreciation, or as financial assets. At initial recognition, the Group determines the fair value of acquired properties through internal and external appraisal depending on the Group's threshold policy. The appraised value is determined based on the current economic and market conditions, as well as the physical condition of the property.

The Group's methodology in determining the fair value of Investment Properties are further discussed in Note 7.4.

(i) Assessment of Significant Influence on HCPI in which the Group and the Parent Company Holds Less than 20% Ownership

The management considers that the Group and the Parent Company have significant influence on HCPI even though it holds less than 20% of the ordinary shares in the latter. In making this judgment, management considered the Group's and the Parent Company's rights to commit and undertake to vote, and to regulate the conduct of voting and the relationship between them with respect to their exercise of their voting rights (see Note 12.1).

(j) Recognition of Provisions and Contingencies

Judgment is exercised by management to distinguish between provisions and contingencies. Policies on recognition of provisions and contingencies are discussed in Note 2.11 and relevant disclosures are presented in Note 29. In dealing with the Group's various legal proceedings, the Group's estimate of the probable costs that may arise from claims and contingencies has been developed in consultation and coordination with the Group's internal and outside counsels acting in defense for the Group and the Parent Company's legal cases and are based upon the analysis of probable results.

Although the Group does not believe that its on-going proceedings, as disclosed in Note 29, will have material adverse effect on the Group'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 each 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 Expected Credit Loss on Financial Assets

When measuring allowance for ECL for relevant categories of financial assets, management applies judgment in defining the criteria in assessing whether a financial asset has experienced SICR since initial recognition, and in the estimation of the contractual cash flows due from counterparty and those that the Group would expect to receive, taking into account the cash flows from the realization of collateral and integral credit enhancements. The Group's ECL calculations are outputs of complex models with a number of underlying assumptions about future economic conditions and credit behaviour of counterparties (e.g., the likelihood of counterparties defaulting and the resulting losses). The computation of the ECL also considers the use of reasonable and supportable forward-looking information, which is based on assumptions for the future movement of different economic drivers and how these drivers will affect each other that may result in different levels of loss allowance.

Significant factors affecting the estimates on the ECL model include:

- internal rating matrix which determines the PD to be assigned to a financial asset;
- criteria for assessing if there has been an SICR and when a financial asset will be transferred between the three stages;
- the Group's definition of default for different segments of credit exposures that considers the regulatory requirements;
- establishing groups of similar financial assets (i.e., segmentation) for the purposes of measuring ECL on a collective basis;
- establishment of LGD parameters based on historical recovery rates of claims against defaulted counterparties across different group of financial instruments; and,
- establishing the number and relative weightings of forward-looking scenarios for each type of product/market and the associated ECL.

The explanation of inputs, assumptions and estimation techniques used in measuring ECL (including under COVID-19 situation) and the analysis of the allowance for ECL on various groups of financial instruments is further discussed in Note 4.4.

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

The Group 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 (see Note 7.2).

The amount of changes in fair value would differ if the Group 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 (see Note 7.2).

The carrying values of the Group's and the Parent Company's trading and investment securities and the amounts of fair value changes recognized on those financial assets are disclosed in Note 10.

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

The Group estimates the useful lives of bank premises, furniture, fixtures and equipment, including 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 Group's goodwill, branch licenses and trading right were regarded as having 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 Group. 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.

The carrying amounts of bank premises, furniture, fixtures and equipment, including right-of-use assets, investment properties and computer software are analyzed in Notes 13, 14 and 15, respectively, while the carrying amounts of goodwill, branch licenses and trading right are analyzed in Note 15. Based on management's assessment as of December 31, 2021 and 2020, there are no changes in the useful lives of these assets. 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 Group 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. Significant judgment is applied by management to determine the amount of deferred tax assets that can be recognized based on the likely timing and level of the Group's future taxable income together with its future tax planning strategies. The Group assessed its projected performance in determining the sufficiency of the future taxable income to support the recognition of deferred tax assets.

The carrying values of recognized and unrecognized deferred tax assets as of December 31, 2021 and 2020 are disclosed in Note 26.1.

(e) *Estimation of Impairment Losses of Non-financial Assets*

Except for intangible assets with indefinite useful lives, PFRS requires that an impairment review be performed when certain impairment indications are present. The Group's policy on estimating the impairment of non-financial assets is discussed in detail in Note 2.16.

The Group assesses impairment on these non-financial assets and considers the following important indicators:

- significant changes in asset usage;
- significant decline in assets' market value;
- obsolescence or physical damage of an asset;
- significant underperformance relative to expected historical or projected future operating results;
- significant changes in the manner of usage of the acquired assets or the strategy for the Group's overall business; and,
- significant negative industry or economic trends.

If such indications are present and where the carrying amount of the asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. Though management believes that the assumptions used in the estimation of fair values of non-financial assets 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.

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

The Group's investment properties are composed of parcels of land, buildings and condominium units which are held for capital appreciation or held-for-lease, and are measured using cost model. The estimated fair value of investment properties disclosed in Note 7.4 is determined by either an independent or internal appraiser on the basis of current appraised values of the properties or similar properties in the same location and condition.

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.

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

The Group 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 Group'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.

(h) *Recognition of Reward Points*

The Group has a reward program related to its deposits, loans and credit card operations, which allows its cardholders to accumulate award credits or loyalty points that can be redeemed for free products.

The Group allocated a portion of the interchange fee billed to participating merchants to the loyalty points granted to cardholders based on relative stand-alone selling price and recognizes liability equivalent to the estimated loyalty points until these are redeemed.

(i) *Valuation of Post-employment Defined Benefits*

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

The amounts of post-employment benefit obligation and related income or expense, and an analysis of the movements in the estimated present value of post-employment benefit obligation, as well as the significant assumptions used in estimating such obligation, are presented in Note 24.2.

4. RISK MANAGEMENT POLICIES AND OBJECTIVES

The Group is exposed to risks in relation to its operating, investing, and financing activities, and the business environment in which it operates. The Group's objectives in risk management are to ensure that it identifies, measures, monitors, and controls the various risks that arise from its business activities, and that it adheres strictly to the policies, procedures, and control systems which are established to address these risks.

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A committee system is a fundamental part of the Group's process of managing risk. The following five committees of the Parent Company's BOD are relevant in this context:

- The Executive Committee, which meets weekly, has the power to act and pass upon such matters as the BOD may entrust to it for action in between BOD meetings. It may also consider and approve loans and other credit related matters, investments, purchase of shares of stock, bonds, securities and other commercial papers for the Bank's portfolio. The Executive Committee also has the power to review an asset or loan to ensure timely resolution and recognition of losses of impaired assets.

- The Risk Oversight Committee (ROC), which meets monthly, carries out the BOD's oversight responsibility for Group's capital adequacy and risk management strategy and actions covering credit, market and operational risks under Pillar I of the Basel framework; as well as the management of other material risks determined under Pillar II and the Internal Capital Adequacy Assessment Process (ICAAP) (see Note 5.2). Risk limits are reviewed and approved by the ROC.

- The Audit and Compliance Committee (ACC), which meets monthly, reviews the results of the Internal Audit examinations and recommends remedial actions to the BOD as appropriate. The ACC also performs oversight functions over the Regulatory Affairs Group on matters such as compliance risk assessment, annual testing work plan, compliance breaches, and other regulatory issues.

- The Related Party Transactions (RPT) Committee, which meets monthly and as necessary, reviews proposed RPT within the materiality threshold to determine whether or not the transaction is on terms no less favorable to the Group than terms available to any unconnected third party under the same or similar circumstances. On favorable review, the RPT Committee endorses transactions to the BOD for approval.

- The Anti-Money Laundering (AML) Board Committee, which meets monthly, oversees the implementation of the Bank's Money Laundering and Terrorist Financing Prevention Program (MTPP) and ensures that Money Laundering/Terrorist Financing risks are effectively managed. The AML Board Committee also ensures that infractions are immediately corrected, issues are addressed and AML training of directors, officers, and staff are regularly conducted.

Four senior management committees also provide a regular forum to take up risk issues.

- The Credit and Collection Committee (CRECOL), chaired by the Chief Executive Officer (CEO) and composed of the heads of credit risk-taking business units and the head of credit management group, meets weekly to review and approve credit exposures within its authority. It also reviews plans and progress on the resolution of problem loan accounts.

- The Asset/Liability Committee (ALCO), chaired by the Treasurer of the Parent Company and with the participation of the CEO and key business and support unit heads meets weekly to appraise market trends, and economic and political developments. It provides direction in the management of interest rate risk, liquidity risk, foreign currency risk, and trading and investment portfolio decisions. It sets prices or rates for various asset and liability, and trading products, in light of funding costs and competitive and other market conditions. It receives confirmation that market risk limits (as described in the succeeding pages) are not breached; or if breached, it provides guidance on the handling of the relevant risk exposure in between ROC meetings.

- The Related Party Transactions Management Committee (RPT ManCom), composed of the Group Heads of the business units as specified in the charter or their respective designates. It meets monthly to review and approve proposed RPT within the materiality threshold for the purpose of determining whether or not the transaction is on terms no less favorable to the Bank than terms available to any unconnected third party under the same or similar circumstances unless the transaction requires BOD approval. On favorable review, the RPT ManCom endorses the transaction for BOD confirmation.

- The Anti-Money Laundering Management Committee (AML ManCom), which meets weekly, evaluates the unusual/suspicious transaction reported by the different bank units to determine the filing of Suspicious Transaction Reports (STRs) to the Anti-Money Laundering Council (AMLC).

  The AML ManCom is composed of the Chief Compliance Officer as the Chairperson and Presiding Officer and the Heads of Operations Group, Retail Banking Group, Controllership Group, Legal Affairs Group, Risk Management Group or their duly appointed designates, as members, and AML Monitoring and Reporting Division (AMRD) as the Rapporteur. The AMRD, through the Chief Compliance Officer, reports to the AML Board Committee its monthly activities including the results of the AML ManCom meetings.

The Parent Company established a Risk Management Group (RMG), headed by the Chief Risk Officer, to ensure that consistent implementation of the objectives of risk identification, measurement and/or assessment, mitigation, and monitoring are pursued via practices commensurate with the group-wide risk profile.

In addition to established risk management systems and controls, the Group holds capital commensurate with the levels of risk it undertakes (see Note 5), in accordance with regulatory capital standards and internal benchmarks set by the Parent Company's BOD.

4.1 Group's Strategy in Using Financial Instruments

It is the Group's intent to generate returns mainly from the traditional financial intermediation and service-provision activities, augmented by returns from positions based on views on the financial markets. The main source of risk, therefore, remains to be that arising from credit risk exposures. Nevertheless, within BSP regulatory constraints, and subject to limits and parameters established by the BOD and/or the ROC, the Group is exposed to liquidity risk and interest rate risk inherent in the Group's operations, and other market risks, which include foreign exchange risk.

In the course of performing financial intermediation function, the Group accepts deposits from customers at fixed and floating rates, and for various periods, and seeks to earn interest margins by investing these funds in high-quality assets. The conventional strategy to enhance net interest margin is the investment of short-term funds in longer-term assets, such as fixed-income securities. While, in doing so, the Group maintains liquidity at prudent levels to meet all claims that fall due, the Group fully recognizes the consequent interest rate risk exposure.

The Group's investment portfolio is composed mainly of marketable, sovereign and corporate debt instruments.

The Parent Company was granted by the BSP additional derivatives authorities effective January 2011. Products approved under the Limited Dealer Authority (Type 2) are foreign currency forwards, non-deliverable forwards, interest rate and cross currency swaps while credit-linked notes and bond options were approved under the Limited User Authority (Type 3). In February 2012, bond forwards, non-deliverable swaps and foreign exchange options have been included under the same Type 3 license. In June 2013, the Parent Company was granted a Type 2 license non-deliverable swaps, foreign currency options, bond and interest rate options, and asset swaps. During the same period, additional Type 3 licenses for foreign exchange-option and bond-option linked notes were likewise approved. The Parent Company's derivatives portfolio consists mostly of short-term currency forward contracts and swaps, and interest rate swaps and futures.

4.2 Liquidity Risk

Liquidity risk refers to current and prospective risk to earnings or capital arising from a bank's inability to meet its obligations when they come due without incurring unacceptable losses or costs. Liquidity risk includes the inability to manage unplanned decreases or changes in funding sources. The Group manages liquidity risk by limiting the maturity mismatch between assets and liabilities, and by holding sufficient liquid assets of appropriate quality and marketability.

The Group recognizes the liquidity risk inherent in its activities, and identifies, measures, monitors and controls the liquidity risk inherent to the members of the Group which are financial intermediaries.

The Group's liquidity policy is to manage its operations to ensure that funds available are more than adequate to meet demands of its customers and to enable deposits to be repaid on maturity. The Group's liquidity policies and procedures are set out in its funding and liquidity plan which contains certain funding requirements based on assumptions and uses resources and liability maturity gap analysis.

The Group uses Maximum Cumulative Outflow (MCO) model to measure liquidity risk arising from mismatches of assets and liabilities. MCO is a liquidity gap tool to project cash flow expectations on a status quo condition. The MCO is generated by distributing the cash flows of the Group's assets, liabilities and off-balance sheet items to time buckets based cash flow expectations such as contractual maturity, nature of the account, behavioral patterns, projections on business strategies, and/or optionality of certain products.

The incorporation of behavioral cash flow assumptions and business projections or targets results in a dynamic gap report which realistically captures the behavior of the products and creates a forward-looking cash flow projection.

The Group monitors MCO regularly to ensure that it remains within the set limits. The Parent Company generates and monitors daily its MCO. The subsidiaries generate at least monthly their respective MCO reports. The liquidity profile of the Group is reported monthly to the Parent Company's ROC. To supplement the status quo scenario parameters reflected in the MCO report, the Group also conducts liquidity stress testing to determine the impact of extreme factors, scenarios and events to the Group's liquidity profile.

The gap analyses as of December 31, 2021 and 2020 are presented below.

	Group					
	2021					
	One to Three Months	**Three Months to One Year**	**One to Five Years**	**More than Five Years**	**Non-maturity**	**Total**
Resources:						
Cash and cash equivalents	P 130,264	P 5,523	P 3,048	P 1	P 60,441	P 199,277
Investments - net	7,593	2,901	26,666	176,914	5,161	219,235
Loans and receivables - net	31,319	21,174	40,637	48,351	366,258	507,739
Other resources - net	2,578	3,780	652	169	25,703	32,882
Total resources	171,754	33,378	71,003	225,435	457,563	959,133
Liabilities:						
Deposit liabilities	108,927	34,938	12,391	9	516,194	672,459
Bills payable	23,560	-	32,344	-	-	55,904
Bonds payable	-	31,171	56,044	-	-	87,215
Other liabilities	8,053	5,907	330	-	18,185	32,475
Total liabilities	140,540	72,016	101,109	9	534,379	848,053
Equity	-	-	-	-	111,080	111,080
Total liabilities and equity	140,540	72,016	101,109	9	645,459	959,133
On-book gap	31,214	(38,638)	(30,106)	225,426	(187,896)	-
Cumulative on-book gap	31,214	(7,424)	(37,530)	187,896	-	-
Contingent resources	25,670	-	-	-	-	25,670
Contingent liabilities	35,842	-	-	-	-	35,842
Off-book gap	(10,172)	-	-	-	-	(10,172)
Cumulative off-book gap	(10,172)	(10,172)	(10,172)	(10,172)	(10,172)	-
Periodic gap	**21,042**	**(38,638)**	**(30,106)**	**225,426**	**(187,896)**	**(10,172)**
Cumulative total gap	**P 21,042**	**(P 17,596)**	**(P 47,702)**	**P 177,724**	**(P 10,172)**	**P -**

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	Group 2020					
	One to Three Months	Three Months to One Year	One to Five Years	More than Five Years	Non-maturity	Total
Resources:						
Cash and cash equivalents	P 146,268	P 3,285	P 3,779	P -	P 50,399	P 203,731
Investments - net	25,530	18,975	12,559	26,558	4,442	88,064
Loans and receivables - net	29,916	64,658	123,306	90,347	140,376	448,603
Other resources - net	2,235	3,232	2,114	1,853	22,274	31,708
Total resources	203,949	90,150	141,758	118,758	217,491	772,106
Liabilities:						
Deposit liabilities	87,139	24,516	16,159	1	407,973	535,788
Bills payable	3,349	1,933	7,536	-	349	13,167
Bonds payable	15,482	8,000	66,957	-	-	90,439
Other liabilities	9,968	12,201	100	-	9,065	31,334
Total liabilities	115,938	46,650	90,752	1	417,387	670,728
Equity	-	-	-	-	101,378	101,378
Total liabilities and equity	115,938	46,650	90,752	1	518,765	772,106
On-book gap	88,011	43,500	51,006	118,757	(301,274)	-
Cumulative on-book gap	88,011	131,511	182,517	301,274	-	-
Contingent resources	8,726	-	-	-	-	8,726
Contingent liabilities	5,625	-	-	-	-	5,625
Off-book gap	3,101	-	-	-	-	3,101
Cumulative off-book gap	3,101	3,101	3,101	3,101	3,101	-
Periodic gap	91,112	43,500	51,006	118,757	(301,274)	3,101
Cumulative total gap	P 91,112	P 134,612	P 185,618	P 304,375	P 3,101	P -

	Parent Company 2021					
	One to Three Months	**Three Months to One Year**	**One to Five Years**	**More than Five Years**	**Non-maturity**	**Total**
Resources:						
Cash and cash equivalents	P 140,623	P 4,478	P 1,337	P 1	P 51,234	P 197,673
Investments - net	5,663	2,901	26,666	176,914	4,033	216,177
Loans and receivables - net	30,424	20,624	34,555	48,349	365,949	499,901
Other resources - net	2,468	3,780	652	169	29,474	36,543
Total resources	179,178	31,783	63,210	225,433	450,690	950,294
Liabilities:						
Deposit liabilities	108,526	34,802	12,383	9	518,694	674,414
Bills payable	23,560	-	22,839	-	-	46,399
Bonds payable	-	31,171	56,044	-	-	87,215
Other liabilities	7,289	5,889	330	-	17,765	31,273
Total liabilities	139,375	71,862	91,596	9	536,459	839,301
Equity	-	-	-	-	110,993	110,993
Total liabilities and equity	139,375	71,862	91,596	9	647,452	950,294
On-book gap	39,803	(40,079)	(28,386)	225,424	(196,762)	-
Cumulative on-book gap	39,803	(276)	(28,662)	196,762	-	-
Contingent resources	25,667	-	-	-	-	25,667
Contingent liabilities	22,561	-	-	-	-	22,561
Off-book gap	3,106	-	-	-	-	3,106
Cumulative off-book gap	3,106	3,106	3,106	3,106	3,106	-
Periodic gap	**42,909**	**(40,079)**	**(28,386)**	**225,424**	**(196,762)**	**3,106**
Cumulative total gap	**P 42,909**	**P 2,830**	**(P 25,556)**	**P 199,868**	**P 3,106**	**P -**

	Parent Company 2020					
	One to Three Months	Three Months to One Year	One to Five Years	More than Five Years	Non-maturity	Total
Resources:						
Cash and cash equivalents	P 144,754	P 2,735	P 2,161	P -	P 51,850	P 201,500
Investments - net	23,552	18,975	12,559	26,558	3,497	85,141
Loans and receivables - net	28,960	63,634	117,803	90,346	140,424	441,167
Other resources - net	2,122	3,226	2,103	1,852	25,411	34,714
Total resources	199,388	88,570	134,626	118,756	221,182	762,522
Liabilities:						
Deposit liabilities	86,714	24,307	16,136	1	409,590	536,748
Bills payable	2,743	16	1,441	-	-	4,200
Bonds payable	15,482	8,000	66,957	-	-	90,439
Other liabilities	9,332	12,166	100	-	8,245	29,843
Total liabilities	114,271	44,489	84,634	1	417,835	661,230
Equity	-	-	-	-	101,292	101,292
Total liabilities and equity	114,271	44,489	84,634	1	519,127	762,522
On-book gap	85,117	44,081	49,992	118,755	(297,945)	-
Cumulative on-book gap	85,117	129,198	179,190	297,945	-	-
Contingent resources	8,722	-	-	-	-	8,722
Contingent liabilities	5,625	-	-	-	-	5,625
Off-book gap		-	-	-	-	3,097
Cumulative off-book gap	3,097	3,097	3,097	3,097	3,097	-
Periodic gap	88,214	44,081	49,992	118,755	(297,945)	3,097
Cumulative total gap	P 88,214	P 132,295	P 182,287	P 301,042	P 3,097	P -

Pursuant to applicable BSP regulations, the Group 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 Group's demand deposit accounts with the BSP. The BSP also requires the Parent Company to maintain asset cover of 100% for foreign currency-denominated liabilities of its FCDU.

4.2.1 Foreign Currency Liquidity Management

The liquidity risk management policies and objectives described also apply to the management of any foreign currency to which the Group maintains significant exposure. Specifically, the Group ensures that its measurement, monitoring, and control systems account for these exposures as well. The Group sets and regularly reviews limits on the size of the cash flow mismatches for each significant individual currency and in aggregate over appropriate time horizons. The Group also assesses its access to foreign exchange markets when setting up its risk limits.

Following BSP Circular No. 639 on ICAAP, the Group likewise calculates and maintains a level of capital needed to support unexpected losses attributable to liquidity risk (see Note 5.2).

4.2.2 Liquidity Risk Stress

To augment the effectiveness of the Group's gap analysis, the Group regularly assesses liquidity risk based on behavioral and hypothetical assumptions under stress conditions. Survivability and resilience of the Bank are assessed for a minimum stress period of 30 days for all crisis scenarios enumerated in BSP Circular No. 981: *Guidelines on Liquidity Risk Management*. The results of these liquidity stress simulations are reported monthly to ALCO and ROC.

4.3 Market Risk

The Group's exposure to market risk is the potential diminution of earnings arising from the adverse movement of market interest rates and foreign exchange rates, as well as the potential loss of market value, primarily of its holdings of foreign exchange currencies, debt securities and derivatives.

The market risks of the Group are: (a) foreign exchange risk, (b) interest rate risk and (c) equity price risk. The Group manages these risks via a process of identifying, analyzing, measuring and controlling relevant market risk factors, and establishing appropriate limits for the various exposures. The market risk metrics in use, each of which has a corresponding limit, include the following:

- Nominal Position – an open risk position that is held as of any point in time expressed in terms of the nominal amount of the exposure.

- Dollar Value of 01 (DV01) – an estimate of the price impact due to a one-basis point change in the yield of fixed income securities. It effectively captures both the nominal size of the portfolio as well as its duration. A given DV01 limit accommodates various combinations of portfolio nominal size and duration, thus providing a degree of flexibility to the trading/risk taking function, but at the same time represents a ceiling to the rate sensitivity of the exposure according to the Group's risk appetite.

- Value-at-Risk (VaR) – 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 movements 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 Group uses a 99% confidence level for this measurement. VaR is used as a risk measure for trading positions, which are marked-to-market (as opposed to exposures resulting from banking, or accrual, book resources and liabilities). Foreign Exchange Position VaR uses a one-day holding period, while Fixed Income VaR uses a defeasance period assessed periodically as appropriate to allow an orderly unwinding of the position. VaR models are back-tested to ensure that results remain consistent with the expectations based on the chosen statistical confidence level. The Bank employs appropriate back-testing methodology to perform a "reality check" on the models used. More specifically, the current back-test procedure employs the "hypothetical P&L" method where the daily position from which the VaR was computed is marked-to-market using the closing price of that day and the closing price of the next trading day. Any change in value in excess of the day's VaR is treated as an exception.

The Parent Company uses VaR as an important tool for measuring market risk, they are cognizant of its limitations, notably the following:

– The use of historical data as a basis for determining the possible range of future outcomes may not always cover all possible scenarios, especially those of an exceptional nature.

– VaR is based on historical volatility. Future volatility may be different due to either random, one-time events or structural changes (including changes in correlation). VaR may be unable to capture volatility due to either of these.

– The holding period assumption may not be valid in all cases, such as during periods of extremely stressed market liquidity.

– VaR is, by definition, an estimate at a specified level of confidence. Losses may occur beyond VaR. A 99% VaR implies that losses can exceed VaR 1% of the time.

– In cases where a parametric distribution is assumed to calculate VaR, the assumed distribution may not fit the actual distribution well.

– VaR assumes a static position over the holding period. In reality, trading positions change, even during the trading day.

In addition to the limits corresponding to the above measurements, the following are also in place:

- Loss Limit – represents a ceiling on accumulated month-to-date and year-to-date losses. For trading positions, a Management Action Trigger (MAT) is also usually defined to be at 50% of the Loss Limit. When MAT is breached, the risk-taking unit must consult with ALCO for approval of a course of action moving forward.

- Product Limit – the nominal position exposure for certain specific financial instruments is established.

Stress Testing, which uses more severe rate/price volatility and/or holding period assumptions, (relative to those used for VaR) is applied to marked-to-market positions to arrive at "worst case" loss estimates. This supplements the VaR measure, in recognition of its limitations mentioned above.

A summary of the VaR position of the trading portfolios at December 31 is as follows:

	Group and Parent Company			
	At December 31	Average	Maximum	Minimum
2021:				
Foreign currency risk	P 51	P 56	P 112	P 37
Interest rate risk	501	425	769	183
Overall	**P 552**	**P 481**	**P 881**	**P 220**
2020:				
Foreign currency risk	P 82	P 56	P 89	P 32
Interest rate risk	260	367	984	97
Overall	P 342	P 423	P 1,073	P 129
2019:				
Foreign currency risk	P 72	P 34	P 88	P 10
Interest rate risk	218	653	1,354	131
Overall	P 290	P 687	P 1,442	P 141

4.3.1 Foreign Exchange Risk

Foreign exchange risk is the risk to earnings or capital arising from changes in foreign exchange rates. The net foreign exchange exposure, or the difference between foreign currency denominated assets and foreign currency denominated liabilities, is capped by current BSP regulations. Compliance with this ceiling by the Group and the respective foreign currency positions of its subsidiaries are reported to the BSP on a daily basis as required. Beyond this constraint, the Group manages its foreign exchange exposure by limiting it within the conservative levels justifiable from a return/risk perspective. In addition, the Group regularly calculates VaR for each currency position, which is incorporated in the foregoing market risk management discussion.

The following table sets forth the impact of reasonably possible changes in the USD exchange rate and other currencies per Philippine peso on pre-tax income and equity of the Group and Parent Company:

	Group and Parent Company					
	2021			2020		
	Change in currency rate in %	**Effect on profit before tax**	**Effect on equity**	Change in currency rate in %	Effect on profit before tax	Effect on equity
Currency:						
USD	**+1.00%**	**P 1**	**1**	+1.00%	(P 4)	(P 4)
	-1.00%	**(1)**	**(1)**	-1.00%	4	4
EUR	**+1.00%**	**(2)**	**(2)**	+1.00%	2	2
	-1.00%	**2**	**2**	-1.00%	(2)	(2)
GBP	**+1.00%**	**1**	**1**	+1.00%	-	-
	-1.00%	**(1)**	**(1)**	-1.00%	-	-
Others	**+1.00%**	**(3)**	**(3)**	+1.00%	3	3
	-1.00%	**3**	**3**	-1.00%	(3)	(3)

Closing exchange rates and weighted average rates (WAR) of USD to Philippine peso as of and for each of the year ended December 31 are as follows:

	2021	2020	2019
Closing	**P 50.99**	P 48.04	P 50.74
WAR	**49.26**	49.61	51.79

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The breakdown of the financial resources and financial liabilities as to foreign and Philippine peso-denominated balances, after elimination of intercompany accounts or transactions, as of December 31 follows:

	Group		
	Foreign Currencies	**Philippine Pesos**	**Total**
2021:			
Resources:			
Cash and other cash items	P 718	P 13,973	P 14,691
Due from BSP	-	130,170	130,170
Due from other banks	10,721	1,441	12,162
Loans arising from reverse repurchase agreements	-	11,691	11,691
Financial assets at FVTPL	641	5,222	5,863
Financial assets at FVOCI	18,866	30,895	49,761
Investment securities at amortized cost - net	75,676	87,935	163,611
Loans and receivables - net	84,144	454,158	538,302
Other resources	-	825	825
	P 190,766	**P 736,310**	**P 927,076**
Liabilities:			
Deposit liabilities	P 120,601	P 551,858	P 672,459
Bills payable	46,398	9,506	55,904
Bonds payable	38,249	48,966	87,215
Accrued interest and other expenses	596	4,963	5,559
Other liabilities	1,224	20,426	21,650
	P 207,068	**P 635,719**	**P 842,787**
2020:			
Resources:			
Cash and other cash items	P 1,406	P 15,114	P 16,520
Due from BSP	-	115,467	115,467
Due from other banks	14,433	1,274	15,707
Loans arising from reverse repurchase agreements	-	13,356	13,356
Financial assets at FVTPL	2,653	2,235	4,888
Financial assets at FVOCI	4,090	36,060	40,150
Investment securities at amortized cost - net	22,738	20,288	43,026
Loans and receivables - net	94,505	396,779	491,284
Other resources	56	875	931
	P 139,881	P 601,448	P 741,329

	Group		
	Foreign Currencies	Philippine Pesos	Total
2020:			
Liabilities:			
Deposit liabilities	P 96,280	P 439,508	P 535,788
Bills payable	4,183	8,984	13,167
Bonds payable	51,269	39,170	90,439
Accrued interest and other expenses	541	4,852	5,393
Other liabilities	918	19,574	20,492
	P 153,191	P 512,088	P 665,279

	Parent Company		
	Foreign Currencies	**Philippine Pesos**	**Total**
2021:			
Resources:			
Cash and other cash items	P 716	P 13,947	P 14,663
Due from BSP	-	128,931	128,931
Due from other banks	10,721	1,139	11,860
Loans arising from reverse repurchase agreements	-	11,656	11,656
Financial assets at FVTPL	641	4,238	4,879
Financial assets at FVOCI	18,766	29,633	48,399
Investment securities at amortized cost - net	75,676	87,223	162,899
Loans and receivables - net	84,144	446,320	530,464
Other resources	-	823	823
	P 190,664	**P 723,910**	**P 914,574**
Liabilities:			
Deposit liabilities	P 120,601	P 553,813	P 674,414
Bills payable	46,398	1	46,399
Bonds payable	38,249	48,966	87,215
Accrued interest and other expenses	596	4,795	5,391
Other liabilities	1,224	19,343	20,567
	P 207,068	**P 626,918**	**P 833,986**

	Parent Company		
	Foreign Currencies	Philippine Pesos	Total
2020:			
Resources:			
Cash and other cash items	P 1,404	P 15,060	P 16,464
Due from BSP	-	113,949	113,949
Due from other banks	14,406	808	15,214
Loans arising from reverse repurchase agreements	-	13,226	13,226
Financial assets at FVTPL	2,653	1,162	3,815
Financial assets at FVOCI	4,085	34,728	38,813
Investment securities at amortized cost - net	22,130	20,383	42,513
Loans and receivables - net	94,505	389,309	483,814
Other resources	56	868	924
	P 139,239	P 589,493	P 728,732
Liabilities:			
Deposit liabilities	P 96,280	P 440,468	P 536,748
Bills payable	4,183	17	4,200
Bonds payable	51,269	39,170	90,439
Accrued interest and other expenses	541	4,655	5,196
Other liabilities	918	18,398	19,316
	P 153,191	P 502,708	P 655,899

4.3.2 Interest Rate Risk in the Banking Book (IRRBB)

The interest rate risk inherent in the Group's financial statements arises from re-pricing mismatches between financial assets and financial liabilities. The IRRBB Management Framework details the Group's policy on managing its assets and liabilities to ensure that exposure to fluctuations in interest rates are kept within acceptable limits.

To aid the Group in managing IRRBB, the following measurement techniques are used. These are prepared and reported to ALCO and ROC, on a monthly basis.

Technique	Description
Interest Rate Gap or Re-pricing Gap	*Contractual Gap* Measures the sensitivity of assets, liabilities and off-balance sheet items towards changes in the market interest rates based on the re-pricing frequency of each item. *Behavioral Gap* Behavioral assumption (BeA) is applied to the contractual cash flows to reflect sensitivity to market conditions or behavioral characteristics (i.e., early redemption of deposits, prepayment of loans, etc.).

Technique	Description
Earnings Approach	
Net Interest Income at Risk	Measures the sensitivity of earnings to market interest rates movements over a short- and medium-term horizon. Interest rate volatility is based on the maximum volatility of the 1-mo, 3-mo, 6-mo and 1-yr tenors over a 260-day look back.
Economic Value Approach	
Earnings-at-Risk	Measures the sensitivity of capital to market interest rates given the resulting Net Interest Income (NII)-at-Risk and fair value through profit and loss portfolio value-at-risk (FVTPL VaR).
Capital-at-Risk	Measures the sensitivity of capital to market interest rates given the resulting EaR and fair value through other comprehensive income value-at-risk (FVOCI VaR).
Economic Value of Equity (EVE)	Measures the sensitivity of economic value of all non-trading book assets, liabilities and interest rate sensitive off-balance sheet products to interest rate movements over a longer time horizon.
Stress Test	Assesses the ability to withstand such changes, usually in relation to the capacity of its capital and earnings to absorb potentially significant loses. Stress testing, which includes both scenario and sensitivity analysis, is an integral part of IRR management. Scenario analysis estimates possible outcomes given an event or series of events, while sensitivity analysis estimates the impact of change in one or only a few of model's significant parameters. *Earnings approach*: NII-at-Risk Stress Test assumes gradual increase in Peso and USD interest rates to 400bps and 300bps, respectively. These are based on past local and global market events. *Economic Value approach*: The EVE Stress Test uses Basel's six interest rate scenarios to capture parallel and non-parallel gap risks. The standardized scenarios are as follows: 1) parallel shock up; 2) parallel shock down; 3) steepener shock (short rates down and long rates up); 4) flattener shock (short rates up and long rates down; 5) short rates shock up; and, 6) short rates shock down.

The interest rate gap analyses of financial assets and financial liabilities as of end of the reporting period based on re-pricing maturities are shown in the succeeding pages. It should be noted that such interest rate gap analyses are based on the following key assumptions:

- Loans and time deposits are subject to re-pricing on their contractual maturity dates. Non-performing loans, however, are not re-priced;
- Debt securities at amortized cost are bucketed based on their re-pricing profile;
- Held-for-trading securities and derivatives are considered as non-rate sensitive; and,
- For financial assets and financial liabilities with no definite re-pricing schedule or maturity, slotting is based on the Group's empirical assumptions.

These assumptions are reviewed on a regular basis. Similarly, other assumptions and behavioral models used in the preparation of other IRRBB metrics are also being reviewed, annually, at the minimum.

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	Group 2021					
	One to Three Months	Three Months to One Year	One to Five Years	More than Five Years	Non-rate Sensitive	Total
Resources:						
Cash and cash equivalents	P 149,292	P 6,613	P 14,779	P 13,773	P 14,820	P 199,277
Investments - net	3,694	1,758	26,914	176,739	10,130	219,235
Loans and receivables - net	212,486	88,138	144,070	36,581	26,464	507,739
Other resources - net	2,642	850	533	395	28,462	32,882
Total resources	368,114	97,359	186,296	227,488	79,876	959,133
Liabilities:						
Deposit liabilities	307,238	57,063	160,125	147,743	290	672,459
Bills payable	23,560	-	32,344	-	-	55,904
Bonds payable	-	31,171	56,044	-	-	87,215
Other liabilities	764	238	570	-	30,903	32,475
Total liabilities	331,562	88,472	249,083	147,743	31,193	848,053
Equity	-	-	-	-	111,080	111,080
Total liabilities and equity	331,562	88,472	249,083	147,743	142,273	959,133
On-book gap	36,552	8,887	(62,787)	79,745	(62,397)	-
Cumulative on-book gap	36,552	45,439	(17,348)	62,397	-	-
Contingent resources	25,670	-	-	-	-	25,670
Contingent liabilities	35,983	-	-	-	-	35,983
Off-book gap	(10,313)	-	-	-	-	(10,313)
Cumulative off-book gap	(10,313)	(10,313)	(10,313)	(10,313)	(10,313)	-
Periodic gap	**26,239**	**8,887**	**(62,787)**	**79,745**	**(62,397)**	**(10,313)**
Cumulative total gap	**P 26,239**	**P 35,126**	**(P 27,661)**	**P 52,084**	**(P 10,313)**	**P -**

	Group 2020					
	One to Three Months	Three Months to One Year	One to Five Years	More than Five Years	Non-rate Sensitive	Total
Resources:						
Cash and cash equivalents	P 161,839	P 3,795	P 21,482	P -	P 16,615	P 203,731
Investments - net	23,130	18,353	12,018	25,930	8,633	88,064
Loans and receivables - net	189,831	58,361	106,720	37,455	56,236	448,603
Other resources - net	358	59	123	330	30,838	31,708
Total resources	375,158	80,568	140,343	63,715	112,322	772,106
Liabilities:						
Deposit liabilities	243,782	31,793	258,573	1	1,639	535,788
Bills payable	3,626	1,887	7,654	-	-	13,167
Bonds payable	15,482	8,000	66,957	-	-	90,439
Other liabilities	636	36	-	-	30,662	31,334
Total liabilities	263,526	41,716	333,184	1	32,301	670,728
Equity	-	-	-	-	101,378	101,378
Total liabilities and equity	263,526	41,716	333,184	1	133,679	772,106
On-book gap	111,632	38,852	(192,841)	63,714	(21,357)	-
Cumulative on-book gap	111,632	150,484	(42,357)	21,357	-	-
Contingent resources	8,726	-	-	-	-	8,726
Contingent liabilities	5,625	-	-	-	-	5,625
Off-book gap	3,101	-	-	-	-	3,101
Cumulative off-book gap	3,101	3,101	3,101	3,101	3,101	-
Periodic gap	114,733	38,852	(192,841)	63,714	(21,357)	3,101
Cumulative total gap	P 114,733	P 153,585	(P 39,256)	P 24,458	P 3,101	P -

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	Parent Company 2021					
	One to Three Months	**Three Months to One Year**	**One to Five Years**	**More than Five Years**	**Non-rate Sensitive**	**Total**
Resources:						
Cash and cash equivalents	P 147,996	P 5,567	P 15,674	P 13,773	P 14,663	P 197,673
Investments - net	1,999	1,758	26,914	176,739	8,767	216,177
Loans and receivables - net	211,706	87,588	137,988	36,579	26,040	499,901
Other resources - net	2,532	849	533	395	32,234	36,543
Total resources	364,233	95,762	181,109	227,486	81,704	950,294
Liabilities:						
Deposit liabilities	306,836	56,926	161,487	149,114	51	674,414
Bills payable	23,560	-	22,839	-	-	46,399
Bonds payable	-	31,171	56,044	-	-	87,215
Other liabilities	-	219	571	-	30,483	31,273
Total liabilities	330,396	88,316	240,941	149,114	30,534	839,301
Equity	-	-	-	-	110,993	110,993
Total liabilities and equity	330,396	88,316	240,941	149,114	141,527	950,294
On-book gap	33,837	7,446	(59,832)	78,372	(59,823)	-
Cumulative on-book gap	33,837	41,283	(18,549)	59,823	-	-
Contingent resources	25,667	-	-	-	-	25,667
Contingent liabilities	35,983	-	-	-	-	35,983
Off-book gap	(10,316)	-	-	-	-	(10,316)
Cumulative off-book gap	(10,316)	(10,316)	(10,316)	(10,316)	(10,316)	-
Periodic gap	**23,521**	**7,446**	**(59,832)**	**78,372**	**(59,823)**	**(10,316)**
Cumulative total gap	**P 23,521**	**P 30,967**	**(P 28,865)**	**P 49,507**	**(P 10,316)**	**P -**

	Parent Company 2020					
	One to Three Months	Three Months to One Year	One to Five Years	More than Five Years	Non-rate Sensitive	Total
Resources:						
Cash and cash equivalents	P 160,244	P 3,243	P 21,589	P -	P 16,424	P 201,500
Investments - net	21,613	18,353	12,018	25,930	7,227	85,141
Loans and receivables - net	188,876	57,331	101,207	37,453	56,300	441,167
Other resources - net	245	59	122	329	33,959	34,714
Total resources	370,978	78,986	134,936	63,712	113,910	762,522
Liabilities:						
Deposit liabilities	243,357	31,584	260,311	1	1,495	536,748
Bills payable	2,743	16	1,441	-	-	4,200
Bonds payable	15,482	8,000	66,957	-	-	90,439
Other liabilities	-	-	-	-	29,843	29,843
Total liabilities	261,582	39,600	328,709	1	31,338	661,230
Equity	-	-	-	-	101,292	101,292
Total liabilities and equity	261,582	39,600	328,709	1	132,630	762,522
On-book gap	109,396	39,386	(193,773)	63,711	(18,720)	-
Cumulative on-book gap	109,396	148,782	(44,991)	18,720	-	-
Contingent resources	8,722	-	-	-	-	8,722
Contingent liabilities	5,621	-	-	-	-	5,621
Off-book gap	3,101	-	-	-	-	3,101
Cumulative off-book gap	3,101	3,101	3,101	3,101	3,101	-
Periodic gap	112,497	39,386	(193,773)	63,711	(18,720)	3,101
Cumulative total gap	P 112,497	P 151,883	(P 41,890)	P 21,821	P 3,101	P -

The table below summarizes the potential impact on the Group and the Parent Company's annual interest income of parallel rate shifts using the re-pricing.

	Changes in Interest Rates (in basis points)			
	- 100	**- 200**	**+ 100**	**+ 200**
December 31, 2021				
Group	**(P 405)**	**(P 809)**	**P 405**	**P 809**
Parent Company	**(372)**	**(744)**	**372**	**744**
December 31, 2020				
Group	(P 1,241)	(P 2,481)	P 1,241	P 2,481
Parent Company	(1,220)	(2,441)	1,220	2,441

4.3.3 Equity Price Risk

The Group's exposure to price risk on equity securities held and classified in the statement of financial position as financial assets at FVTPL or financial assets at FVOCI (under Trading and Investment Securities account) as of December 31, 2021 and 2020 is managed through diversification of portfolio and monitoring of changes in market prices. Diversification of the portfolio is done in accordance with the limits set by the Group.

Moreover, RCBC Capital and RSI estimate the potential loss and determine the market and position risk requirement on equity securities at FVTPL in the computation of the market and position risk requirement for all equity positions.

RCBC Capital uses the delta-normal approach as its VaR model to estimate the daily potential loss that can be incurred from equity securities held for trading. VaR is a key measure in the management of market price risk. VaR is defined as a statistical estimate of the maximum possible loss on a given position during a time horizon within a given confidence interval. RCBC Capital uses a 99% confidence level and a minimum 260-day observation period in VaR calculation. In addition, RSI computes its market and position risk for all equity positions, if any, in conjunction with the Risk Based Capital Adequacy ratio required to be maintained. Market and position risk requirement is calculated using position risk factor multiplied by mark-to-market value security.

4.4 Credit Risk

Credit risk is the risk that the counterparty in a transaction may default, and arises from lending, trade finance, treasury, derivatives and other activities undertaken by the Group. The Group manages credit risk through a system of policies and authorities that govern the processes and practices of all credit-originating and borrowing relationship management units.

The Enterprise Risk Division of RMG assists senior management: (a) in establishing risk concentration limits at the portfolio level; and (b) in the continuous monitoring of the actual credit risk portfolio from the perspective of those limits and other risk management objectives. The Credit Management Group (CMG), on the other hand, is responsible for: (a) the development of credit policies relating to account management; (b) the financial evaluation and credit risk rating of borrowers; and, (c) asset quality review.

At the individual borrower level, exposure to credit risk is managed via adherence to a set of policies, the most notable features of which, in this context, are: (a) credit approving authority, except as noted below, is not exercised by a single individual but rather, through a hierarchy of limits that is effectively exercised collectively; (b) business center (BC) managers have limited approval authority only for credit exposure related to deposit-taking operations in the form of bills purchase, acceptance of second endorsed checks and 1:1 loan accommodations; (c) an independent credit risk assessment by the CMG of large corporate and middle-market borrowers, summarized into a borrower risk rating, is provided as input to the credit decision-making process; and, (d) borrower credit analysis is performed at origination and at least annually thereafter or co-terminus with the renewal of the credit line. In addition, adverse economic and market conditions that may impact a certain borrower or a group of borrowers may trigger the Group to conduct a special credit review prior to expiry of credit line.

CMG also identifies homogenous target market and design Credit Programs that will accelerate credit processing of accounts without sacrificing underwriting quality, and, set up enhanced data framework that would deepen the Bank's ability to identify potential problem accounts earlier.

4.4.1 Concentrations of Credit Risk

Credit risk concentration in the context of banking generally denotes the risk arising from an uneven distribution of counterparties in credit or in any other business relationships, or from a concentration in business sectors or geographic regions which is capable of generating losses large enough to jeopardize an institution's solvency. The Group monitors concentrations of credit risk by sector.

An analysis of concentrations of credit risk of the loan portfolio at the end of the reporting period is shown in Note 34.

In the course of the Group's implementation of ICAAP (see Note 5.2), it adopts a quantification of credit risk concentration following frameworks prescribed by some of the more advanced European central banks as well as established concentration metrics. Using sector distribution as a tool, the Group performs a straightforward application of the Herfindahl-Hirshman Index (HHI) to determine the existence of credit risk concentration. The Group supplements this methodology with the use of the Comprehensive Concentration Index (CCI) to monitor and analyze name concentration.

The Group, however, recognizes the inherent limitations of the use of HHI and CCI to assess credit concentration risk. To augment this measure and to appropriately manage said risk, the Group performs an in-depth analysis of its large borrowing groups. To ensure the independence of this process, the review and analysis are done during the ROC meetings.

4.4.2 Credit Risk Assessment

The Group's credit risk assessment is performed based on the different segments of financial asset portfolio such as (a) corporate, which generally include corporate banking group loans, commercial and small-medium size segment loans, lease contract and finance receivables, and unquoted debt securities classified as loan (UDSCL), (b) retail, which include housing, auto, credit cards, and microfinance lending; and, (c) treasury, which covers credit exposures on debt securities under the Group's HTC portfolio and financial assets at FVOCI. The Group also established credit risk assessment procedures for sales contract receivables and other risk assets including accounts receivables.

i. *Corporate Loans*

Loans, regardless if the accounts have been fully paid, extended or renewed in subsequent period, are subjected to evaluation for possible losses. The Group's estimation of credit exposure for risk management purposes is complex and requires the use of models, as the exposure varies with changes in market conditions (or industry performance), expected cash flows, and the passage of time. The assessment of credit risk of a portfolio of assets requires further estimations as to the PDs occurring, of the associated loss ratios, and of default correlations between counterparties; accordingly, such credit risk is measured using PD, LGD, and EAD, for purposes of measuring ECL.

The Group uses its internal credit risk rating system (ICRRS) to determine any evidence of potential deterioration in the quality of an instrument that take into consideration both quantitative and qualitative criteria. The rating system classifies performing accounts from a scale of AAA indicating an extremely strong capacity of the counterparty to meet financial commitments down to ratings lower than CCC demonstrating weakness in the counterparty's economic and financial condition that could lead to payment default on financial commitments. Past due accounts, accounts identified for phase-out and those that exhibit the characteristics of classified loans shall be risk-rated following the guidelines on credit classification per BSP Manual of Regulations for Banks and under the BSP Circular No. 1011, i.e., Especially Mentioned, Substandard, Doubtful or Loss. These guidelines are used by the Group to assign the individually assessed loan or a group of loans within a particular portfolio segment to a specific stage category under the PFRS 9 loan impairment standards (i.e., Stage 1, 2, 3).

In assessing accounts subject to individual assessment, the Group has established a materiality threshold of P15 for all exposures classified under Stage 3. Such threshold shall be regularly reviewed at the end of reporting period to ensure that it appropriately captures what the Parent Company considers as material items of loan for individual assessment. The provision for ECL for individually assessed exposures shall reflect consideration of the facts and circumstances that affect the repayment of each individual loan as of evaluation date.

The ICRRS is established by the Group in congruence with and with reference to the credit risk rating methodology used by Standard & Poor's (S&P) in measuring the creditworthiness of an individual borrower, whether the related borrowing is still performing or current in status. The risk ratings determined by the Group for its portfolio of loans and receivables at a given review date is updated to consider the possible shift in the economy or business environment or circumstances affecting the industry and the entity or borrower, in particular. Accordingly, a periodic assessment of credit quality may improve the borrower's rating or it could lead to one or more rating downgrades over time; hence, could lead to the transfer of credit exposure in different stages of impairment. The credit risk ratings in ICRRS are calibrated such that the risk of default increases exponentially at each higher risk rating (e.g., a difference in the PD between a risk rating of A and A- is lower than the difference in the PD between a B and B- risk rating).

In the process of applying the Group's ICRRS in determining the credit quality of loans and receivables, the Group analyzes the credit quality of the borrowers and counterparties through a set of criteria and rating scale classified into the following:

Rating Scale	Rating Description/Criteria
AAA	Extremely strong capacity to meet financial commitments
AA*	Very strong capacity to meet financial commitments
A*	Strong capacity to meet financial commitments, but somewhat susceptible to adverse economic conditions and changes in circumstances
BBB*	Adequate capacity to meet financial commitments, but more subject to adverse economic conditions
BB*	Less vulnerable in the near-term but faces major ongoing uncertainties to adverse business, financial and economic conditions
B*	More vulnerable to adverse business, financial and economic conditions but currently has the capacity to meet financial commitments
CCC and below*	Not at risk of loss at the moment and the borrower has the financial capacity to meet its obligations but its exposure to adverse business, financial or economic conditions has weakened it and, unless present trends are reversed, could eventually lead to losses.
Especially Mentioned	Has potential weaknesses that deserve management's close attention and if left uncorrected, these weaknesses may affect the repayment of the loan.
Substandard	Have well-defined weakness(es), that may jeopardize repayment/liquidation in full, either in respect of the business, cash flow or financial position, which may include adverse trends or developments that affect willingness or repayment ability of the borrower.
Doubtful	Loans and credit accommodations that exhibit more severe weaknesses than those classified as "Substandard", whose characteristics on the basis of currently known facts, conditions and values make collection or liquidation highly improbable.
Loss	Loans considered absolutely uncollectible or worthless

** Ratings from AA to CCC are modified by a plus (+) or minus (-) sign to show relative standing within the rating categories.*

As part of credit risk assessment documentation and reporting, the Group includes financial instruments rated as AAA to B- under the "Pass" classification, while instruments rated CCC+ and below are grouped under the Watchlisted classification. Generally, "Pass" classification include loans and other credit accommodations that do not have a greater-than-normal credit risk and do not possess the characteristics of classified loans. These are credits that have the apparent ability and willingness to satisfy their obligations in full and therefore, no loss in ultimate collection is anticipated. On the other hand, watchlisted counterparties are characterized by the following:

- those that belong to an unfavorable industry or has company-specific risk factors which represent a concern;
- the operating performance and financial strength may be marginal and it is uncertain if borrower can attract alternative course of finance;
- borrower finds it hard to cope with any significant economic downturn and a default in such a case is more than a possibility; and,
- borrower incurs net losses and has salient financial weaknesses, reflected on their financial statements, specifically in profitability.

Split classification/rating may apply for non-performing secured loans and other credit accommodations, depending on the recoverability and liquidity of the collateral. The secured portion may be classified as "substandard" or "doubtful", as appropriate, while the unsecured portion shall be classified "loss" if there is no other source of payment other than the collateral.

In the case of syndicated loans, the Group shall maintain credit information on the borrower, and grade and make provision for its portion of the syndicated loan in accordance with its policy. The lead financial institution or bank shall provide participating financial institutions with the credit information on the borrower upon request by the participating financial institutions and inform the latter if the loan will be classified so as to achieve uniform classification of the syndicated loan.

(ii) Retail and Other Products

CMG is tasked to measure, control and manage credit risk on the consumer loans business of the Group through the performance of regular monitoring, reporting and recommendation of risk mitigation measures of the actual credit risk portfolio to the CRECOL and ROC, as well as accomplishment of the corresponding review and development of credit policies and guidelines to sustain asset quality.

For consumer loans, risk assessment is performed on an individual borrower through the use of a credit application scorecard for Housing, Auto and Personal Loans while for Corporate Salary Loans, rule-based credit criteria on company accreditation and borrower evaluation has been established. The credit application scorecard makes use of customer, loan and collateral characteristics which have been assigned weights based on their predictive power in determining the propensity of an account to default or maintain a satisfactory credit performance. Credit decisions are based on recommended score cut-offs.

Asset quality of the Group is monitored through a regular portfolio performance review including customer segmentation and loan concentration risk assessment to identify sources of risk and to determine risk mitigation on segments that drive delinquency or manifests triggers for default. Likewise, close monitoring and review of industry performance, economic changes and market conditions that may affect the consumer loans business is also taken into consideration to establish a holistic risk assessment process.

For the credit card portfolio of the Group, credit risk assessment is performed through segmentation process to diversify the portfolio risk into different homogeneous populations or segments. Over-all account distribution is analyzed for three different snapshots with respect to month-on-month days past due (DPD) to see consistency in the portfolio.

For microfinance and small business loans, regardless if the accounts have been fully paid, extended or renewed in subsequent period, are subjected to evaluation for possible losses. Credit risk assessment is performed based on groups of loan portfolio segmented by product type such as (a) credit accommodations to small-medium size borrowers; and, (b) agricultural and microfinance loans.

The Group classifies the consumer, microfinance and small business loans based on days past due following the categories that are consistent with the manner applied under the Group's internal credit risk assessment and regulatory reporting as follows:

Bucket	Classification	Secured	Unsecured
Current	Unclassified	Unclassified	Unclassified
One to 30 days	Especially Mentioned	Unclassified	Especially Mentioned
31 to 60 days	Especially Mentioned	Especially Mentioned	Especially Mentioned
61 to 90 days	Substandard	Especially Mentioned	Substandard
91 to 180 days	Substandard	Substandard	Substandard
181 to 365 days	Doubtful	Doubtful	Doubtful
More than 365 days	Loss	Loss	Loss

The Group assigns consumer, microfinance and small business loans based on classification into stages of impairment as follows:

Classification	Stage
Unclassified	1
Especially Mentioned	2
Defaulted	3

For purposes of the information disclosed for credit risk exposures, 'defaulted' accounts include those which are classified as Substandard, Doubtful, and Loss.

The groupings of financial instruments into a pool of shared credit quality are subject to the regular review by the Group's CMG in order to ensure that credit exposures within a particular group remain appropriately homogenous.

(iii) Debt Securities at Amortized Cost and at FVOCI

For debt securities, the Group adopts similar credit risk ratings published by reputable external rating agency (e.g., S&P). These ratings are continuously monitored and updated. The PD associated with each rating is determined based on realized default rates over the previous 12 months, as published by the rating agency.

4.4.3 Assessment of SICR

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Group assesses the change in the risk of a default occurring over the remaining life of the financial instrument. In making this assessment, the Group assesses on a periodic basis both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information as appropriate. These may include macroeconomic conditions, economic sector and geographical region relevant to the counterparty or borrower and other factors that are counterparty-specific. As the Group holds various arrays of financial instruments, the extent of assessment may depend on the materiality of the financial instrument or the complexity of the portfolio being assessed.

The Group ECL model follows a three-stage impairment approach in determining the loss allowance to be recognized in the financial statements:

(i) Stage 1 – comprises of all credit exposures that are considered 'performing' and with no observed SICR since initial recognition. These include those financial instruments with low credit risk. For these financial instruments, the loss allowance is determined based on a 12-month ECL.

(ii) Stage 2 – comprises of all financial instruments assessed to have SICR since initial recognition based on the Group's quantitative and qualitative criteria, though not yet deemed to be credit-impaired. Using the Group's ICRRS, Stage 2 includes credit exposures that are considered 'under-performing' in which risk ratings were downgraded by at least three notches and/or downgraded to CCC+ to Especially Mentioned. Stage 2 financial instruments may also include those facilities where the credit risk has improved and have been reclassified from Stage 3 subject to the Group's observation period on the creditworthiness of the counterparty. A lifetime ECL is recognized for these financial instruments.

(iii) Stage 3 – comprises credit exposures which are assessed as 'credit-impaired', thus considered by the Group as 'non-performing', which is assessed consistently with the Group's definition of default. Generally, this includes accounts classified as Substandard, Doubtful and Loss. The Group recognizes a lifetime ECL for all credit-impaired financial assets.

The Group considers low credit risk for listed debt security when its credit risk rating is equivalent to a globally understood definition of 'investment grade' (which should be from at least one major rating agency); other debt securities are considered to be low credit risk when they have a low risk of default and the issuer has a strong capacity to meet its contractual cash flow obligations in the near term.

Financial assets that are credit-impaired on initial recognition are classified as purchased or originated credit-impaired assets. ECL is only recognized or released to the extent that there is a subsequent change in the ECLs.

The criteria for determining whether credit risk has increased significantly vary by portfolio and include quantitative changes in probabilities of default and qualitative factors, including a backstop based on delinquency. The credit risk of a particular exposure is deemed to have increased significantly since initial recognition if, based on the Group's internal credit assessment, the borrower or counterparty is determined to have well-defined credit weaknesses. Under the Group's ICRRS, these are exposures rated at least Especially Mentioned. For exposures with no internal credit risk rating performed, if contractual payments are more than a specified days past due threshold, the credit risk is deemed to have increased significantly since initial recognition. Depending on the number of days past due which differ across the various retail products of the Group, a credit exposure may be transferred to Stage 2 or Stage 3. Days past due are determined by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received. In subsequent reporting periods, if the credit risk of the financial instrument improves such that there is no longer a SICR since initial recognition, the Group shall revert to recognizing a 12-month ECL. As a general rule, an upgrade or transfer of credit exposure from Stage 3 to Stage 1 is allowed when there is sufficient evidence to support that full collection of principal and interest is probable, consistent with the Group's definition of curing period.

For portfolios in respect of which the Group has limited historical data, external benchmark information (e.g., Basel LGD) is used to supplement the internally available data. The portfolios for which external benchmark information represents a significant input into measurement of ECL include exposures to foreign borrowers and low default borrower segments.

4.4.4 Definition of Default and Credit-impaired Assets

i. Loans and Receivables

The Group defines a loan instrument as in default, which is aligned with the definition of credit-impaired, when the borrower is more than 90 days past due on its contractual payments, except for the 30 days past due threshold for retail loans of the Group and one day past due for microfinance loan portfolio of Rizal Microbank. As part of a qualitative assessment of whether a customer is in default, the Group also considers a variety of instances and factors that may indicate unlikeliness to pay which may include (a) significant financial difficulty of the issuer or borrower; (b) the restructuring of a loan by the Group, for economic or legal reasons relating to the borrower's financial difficulty, on terms that the Group would not consider otherwise; or (c) it becoming probable that the borrower will enter bankruptcy or other financial reorganization. When such events occur, the Group carefully considers whether the event should result in treating the customer as defaulted.

A loan that has been renegotiated due to a deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment.

An instrument is considered to be no longer in default or have cured when the borrower is able to repay the installments in arrears and the account no longer meets any of the default criteria for a consecutive period of 180 days, observation period, within which the borrower shall make consecutive payments.

The definitions of default and observation period have been aligned with the definition used for regulatory capital purposes. Definitions of default and cure period can be rebutted and the rebuttal will be monitored and reviewed by the CMG on annual basis to ensure definitions remains appropriate.

These criteria are consistent with the definition of default used for internal credit risk management purposes that is aligned with the default criteria used for regulatory capital purposes. Such definition is consistently applied in determining PD, LGD, and EAD for each loan portfolio segment and throughout the ECL calculations of the Group.

ii. Investments in Debt Securities

Investments in debt securities is assessed as credit-impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of an event that occurred after the initial recognition of the security (a "loss event") and that loss event has impact on the estimated future cash flows of the securities. Losses expected as a result of future events, shall also be considered in estimating the ECL.

Objective evidence that the security is impaired includes observable data that comes to the attention of the holder of the security about the following loss events:

- significant financial difficulty of the issuer or obligor;
- breach of contract, such as a default or delinquency in interest or principal payments;
- the financial institution, for economic or legal reasons relating to the issuer's financial difficulty, granting to the issuer a concession that the financial institution would not otherwise consider;
- it becoming probable that the issuer will enter bankruptcy or other financial reorganization;
- the disappearance of an active market for that security because of financial difficulties; or,
- observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of securities since the initial recognition of those assets, although the decrease cannot yet be identified with the individual securities in the portfolio, including adverse change in the payment status of issuers in the portfolio; or national or local economic conditions that correlate with defaults on the securities in the portfolio.

The disappearance of an active market because a financial institution's held securities are no longer publicly traded is not evidence of impairment. A downgrade of an issuer's credit rating is not, by itself, evidence of impairment, although it may be evidence of impairment when considered with other available information. A decline in the fair value of a security below its cost or amortized cost is not necessarily evidence of impairment (for example, a decline in fair value of an investment in debt security that results from an increase in the risk-free interest rate).

In making an assessment of whether an investment in sovereign debt is credit-impaired, the Group considers the following factors:

- the market's assessment of creditworthiness as reflected in the bond yields;
- the rating agencies' assessment of creditworthiness;
- the country's ability to access the capital markets for new debt issuance;
- the probability of debt being restructured, resulting in holders suffering losses through voluntary or mandatory debt forgiveness; or,
- the internal support mechanism in place to provide the necessary support as 'lender of last resort' to that country, as well as the intention, reflected in public statements, of governments and agencies to use those mechanisms. This includes an assessment of the depth of those mechanisms and, irrespective of the political intent, whether there is the capacity to fulfill the required criteria.

4.4.5 ECL Measurement Inputs

Integral in the Group's established policies in measuring and calculating ECL on financial instrument is the use of appropriate model for each segment of financial asset that applies relevant inputs and assumptions, including forward-looking information as appropriate.

(a) Key Inputs and Assumptions in the ECL Model

The ECL is determined by projecting the PD, LGD and EAD for each future month and for each individual exposure or collective segment.

(i) PD represents an estimate of likelihood of a borrower defaulting on its financial obligation over a given time horizon, either over the next 12 months (12-month PD) or over the remaining lifetime (lifetime PD) of the obligation. PD is calculated based on statistical rating models, and assessed using rating tools tailored to the various categories of counterparties and exposures which considers both quantitative and qualitative factors. In determining PD, the Group performed segmentation of its credit exposures based on homogenous characteristics [including corporate loan and retail loan (including credit-card and microfinance)] and developed a systematic PD methodology for each portfolio. Generally, if a counterparty or exposure migrates between rating classes, this will lead to a change in the estimate of the associated PD.

(ii) LGD pertains to estimate of loss related to the amount that may not be recovered after the borrower defaults. The Group estimates LGD parameters based on historical recovery rates of claims against defaulted counterparties, which takes into consideration the realization of any collateral that is integral to the financial asset. For secured credit exposure, the determination of LGD is dependent on the Group's collateral data which are available at the origination of the instrument which takes into account the amount and timing of the cash inflows (actual recovery) and outflows (actual expenses) and on the time value of money. Recoveries are calculated on a discounted cash flows basis using the effective interest rate as the discounting factor.

(iii) EAD represents the gross carrying amount of the exposure in the event of default which include the amortized cost amount of an instrument and any accrued interest receivable. For lending commitments, the EAD includes the amount of drawn and undrawn irrevocable loan commitments under the contract, which are estimated based on historical observations and forward-looking forecast. For some financial assets (e.g., credit card lending), EAD is determined by modelling the range of possible exposure outcomes at various points in time using scenario and statistical technique which considers the ability of borrowers to increase its exposure from the time of ECL calculation to the time of default (i.e., credit conversion factor).

These three components are multiplied together and adjusted for the likelihood of survival (i.e., the exposure has not been prepaid or defaulted in an earlier month). This effectively calculates an ECL for each future month, which is then discounted back to and summed at the end of the reporting period. The discount rate used in the ECL calculation is the original effective interest rate or an approximation thereof.

The lifetime PD is developed by applying a maturity profile to the current 12-month PD. The maturity profile looks at how defaults develop on a portfolio from the point of initial recognition throughout the life of the instrument. The maturity profile is based on historical observed data and is assumed to be the same across all assets within a portfolio and credit grade band. Such profile is supported by a historical analysis (i.e., an observation period of five years) which uses, among others the number of rated accounts and ratings of bad accounts at the time of default. Bad accounts are defaulted accounts classified into three classes such as the non-performing loans, accounts classified as Substandard, Doubtful or Loss, and real past due accounts.

In a risk rating model applied by the Group, a better rating or score denotes less probability of default than those of a worse rating. Identifying the counterparty default is done through a computation of the portfolio's observed default frequency (ODF). In cases when ODF method and the data to be used is limited, the Group may also employ the implied probability of default frequency (IPD) and the application of overlay factors in the PD.

Using the historical defaults under the Group's ICRRS based on S&P scale, ODF is calculated per rating class using the cumulative five-year data as the basis for grouping. This represents the actual numbers of bad borrower cases that have occurred during the five-year timeframe. On the other hand, unrated account are distributed to existing S&P rating classes using normal distribution assumption. In cases when there is zero-percent ODF in any of the rating class, these are grouped together with the next rating class with at least one bad borrower using cumulative five-year data. If there is no rating class after certain rating, grouping shall be decided by management.

The 12-month and lifetime EADs are determined based on the expected payment profile, which varies by product type.

For loans with periodic amortization and one-time full payment at end of the term, EAD is based on the contractual repayments owed by the borrower over a 12-month or lifetime basis. This will also be adjusted for any expected overpayments made by a borrower. Early repayment or refinancing assumptions are also incorporated into the calculation.

For revolving products (such as credit cards and credit line facilities), EAD is determined by taking current drawn balance and adding a "credit conversion factor" which allows for the expected drawdown of the remaining limit by the time of default. These assumptions vary by product type and current limit utilization band, based on analysis of the Group's recent default data.

The 12-month and lifetime LGDs are determined based on the factors which impact the recoveries made post default, and may vary by product type. For secured products, this is primarily based on collateral type and projected collateral values, historical discounts to market or book values due to forced sales, time to repossession and recovery costs observed. For unsecured products, LGD is typically set at product level due to the limited differentiation in recoveries achieved across different borrowers. The LGD is influenced by collection strategies.

For cash and cash equivalents and debt securities, the Group applies the low credit risk simplification. The probability of default and loss given defaults are publicly available and are considered to be low credit risk investments. It is the Group's policy to measure ECL on such instruments on a 12-month basis. However, when there has been a SICR since origination, the allowance will be based on the lifetime ECL. The Group uses the ratings from S&P to determine whether the debt instrument has significantly increased in credit risk and to estimate ECL.

The assumptions underlying the ECL calculation are monitored and reviewed on an annual basis. There have been no significant changes in estimation techniques or significant assumptions made during the reporting period.

The determination of the 12-month and lifetime PD, LGD, and EAD includes the overlay of forward-looking economic information discussed below.

(b) Overlay of Forward-looking Information

The Group incorporates forward-looking information (FLI) in its calculation of ECL. The Group has performed historical analysis and has identified the key macroeconomic variables (MEVs) impacting credit risk associated with its borrowers and/or counterparties and the ECL for relevant portfolio of debt instruments.

The MEVs and their associated impact on the PD, LGD and EAD vary by financial instrument. To project the MEVs for the full remaining life of each financial instrument, a mean reversion approach has been used, which means that MEVs tend to either a long run average rate (e.g., for unemployment) or a long run average growth rate [e.g., Gross Domestic Product (GDP)] over a period of two to five years. The impact of these economic variables on the PD, LGD and EAD has been determined by performing statistical regression analysis to understand the impact changes in these variables have had historically on default rates and on the components of LGD and EAD.

The MEVs considered by the Group include economic data and forecasts published by government bodies (e.g., BSP and Philippine Statistics Authority), international organizations (e.g., International Monetary Fund), and certain reputable private and academic organizations involved in forecasting. Accordingly, the Group has identified key drivers for credit risk for its corporate loans portfolio, which include among others, GDP growth rate, inflation rate, unemployment rate, interest rate (i.e., based on 91-day T-bill Yield), and foreign currency exchange rates. On the other hand, the key drivers for the Group's retail and consumer loans portfolio include unemployment rate, GDP growth rate, consumer spending growth rate, and inflation rate. Using an analysis of historical data, the Group has estimated relationships between MEVs and credit risk and credit losses.

As with any economic forecasts, the projections and likelihoods of occurrence are subject to a high degree of inherent uncertainty, and therefore, the actual outcomes may be significantly different to those projections. The Group considers these forecasts to represent its best estimate of the possible outcomes.

Management has also considered other FLI not incorporated within the above economic scenarios, such as any regulatory, legislative, or political changes, but are not deemed to have a significant impact on the calculation of ECL. Management reviews and monitors the appropriateness of FLIs on a regular basis and additional factors may be incorporated from time to time as deemed appropriate.

4.4.6 Impact of COVID-19 on Measurement of ECL

In response to the COVID-19 situation and the Group's expectations of economic impacts, the key conditions and assumptions utilized in the Group's calculation of ECL have been revisited and recalibrated. The economic scenarios and forward-looking macroeconomic assumptions underpinning the ECL calculation are outlined in Note 4.4.2. As of December 31, 2021 and 2020, the expected impacts of COVID-19 have been reasonably captured using the Group's business-as-usual (BAU) ECL methodology (i.e., the ECL methodology consistently used in the prior years) and post-model adjustments (or the "COVID-19 overlay").

The BAU ECL methodology have been constructed and calibrated using historical trends and correlations as well as forward-looking economic scenarios. The severity of the current macroeconomic projections and the added complexity caused by the various support schemes and regulatory guidance could not be reliably modelled for the time being. Therefore, the BAU ECL model may generate results that are either overly conservative or overly optimistic depending on the specific portfolio or segment. As a result, post-model adjustments are needed to reflect the considerable uncertainty in BAU ECL methodology given the unprecedented impacts of COVID-19.

Given BAU ECL model changes take a significant amount of time to develop and validate, and the data limitation in respect of lagging credit information and granular behavior analysis of customers, the Group expects that post-model adjustments will be applied for the foreseeable future. Notwithstanding that the measurement inputs and assumptions, including forward-looking macroeconomic assumptions, were recalibrated in response to the COVID-19 situation, the fundamental ECL mechanics and methodology underpinning the Group's measurement of ECL have remained consistent with the prior periods.

In identifying the impact of COVID-19 pandemic to the Group's customers, the Group re-segmented its loan portfolio based on the perceived and expected COVID-19 impact to the customers' businesses and industries which also considers additional qualitative characteristics that would elevate COVID-19 changes to SICR such as differentiation of temporary liquidity need from permanently impacted or SICR.

Supporting the re-segmentation is the COVID-19 Assistance and Recovery Enhancement (CARE) Program, primarily designed to: (1) extend financial assistance to customers by way of extended repayment plans given cash flow tightness and (2) immediately get the customer back into the habit of paying based on amounts they can afford. In accordance with regulatory guidance, the Group also implemented mandatory payment holidays to all eligible loans (see also Note 4.4.12).

The following are the considerations in measuring ECL under the COVID-19 situation:

(a) SICR

The offer or uptake of COVID-19 related repayment deferrals, whether coming from government reliefs or from the Group's CARE Program, does not itself constitute an SICR event unless the exposure is considered to have experienced an SICR based on other available information. SICR has been reassessed with reference to the Group's CARE Program credit risk rating which considers industry or segment assessment under the COVID-19 situation, financial performance indicators, historical credit information of the borrower and other modifiers. The Group's reassessment is to determine if changes in the customers' circumstances were sufficient to constitute SICR.

(b) COVID-19 Overlay

COVID-19 overlay represents adjustments in relation to data and model limitations as a result of the COVID-19 economic disruption. The adjustments are based on a combination of portfolio level credit risk analysis and an evaluation of ECL coverage at an exposure level. This also includes the effect of government and other support program. Considerations included the potential severity and duration of the economic disruption and the heightened credit risk of specific sectors and loan classes or segments including recoveries arising from loan modifications and collateral foreclosures in case of default.

Under the Bank's CARE Program, identified corporate accounts were categorized into segments which consider the borrower's feedback and the account officer/relationship manager's assessment. Under this overlay, EAD shall be based on the loan exposure that is not covered by the loan-to-value of collaterals. An adjusted PD shall be computed per segment to account for expected worsening per risk classification. LGD, on the other hand, shall be calculated only for the unsecured portion of loans as the Bank's claim on the collaterals may be enforced if necessary. Updated valuations of collateral shall likewise be incorporated.

For consumer loans, the COVID-19 overlay shall be implemented for auto loans given the observed worsening in non-performing loans over the duration of the pandemic. For home, personal and salary loans, the BAU ECL methodology shall be used as delinquency deterioration is not as pronounced for these portfolios and the collateral for home loans appreciates in value thereby improving loan coverage. Under this overlay, LGD for auto loans is adjusted considering available data on disposed assets and using the net present value of recoveries net of related expenses based on aging buckets prior to foreclosure.

The adjustments apply to both clean and secured collaterals but since the exposure at default for secured loans is fully covered by the fair value of the collaterals net of haircuts applied, which implies full recovery in case of default, the COVID-19 overlay was set to zero.

The impact of post-model adjustments made in estimating the reported ECL as at December 31, 2021 and 2020 are disclosed in Note 4.4.9.

4.4.7 Credit Risk Exposures

An analysis of the maximum credit risk exposure relating to receivables from customers is shown below:

	2021			
	Gross Maximum Exposure	**Fair Value of Collaterals**	**Net Exposure**	**Financial Effect of Collaterals**
Group				
Loans and discounts:				
Corporate	P 363,508	P 284,574	P 78,794	P 284,714
Consumer	109,994	163,700	-	109,994
Credit card receivables	35,563	-	35,563	-
Leasing and finance	2,593	5,992	-	2,593
Microfinance and small business	1,073	3,341	-	1,073
	P 512,731	**P 457,747**	**P 114,357**	**P 398,374**
Parent Company				
Loans and discounts:				
Corporate	P 359,376	P 284,574	P 74,802	P 284,574
Consumer	109,994	163,700	-	109,994
Credit card receivables	35,563	-	35,563	-
	P 504,933	**P 448,274**	**P 110,365**	**P 394,568**

NOTES TO FINANCIAL STATEMENTS

	2020			
	Gross Maximum Exposure	Fair Value of Collaterals	Net Exposure	Financial Effect of Collaterals
Group				
Loans and discounts:				
Corporate	P 318,859	P 302,815	P 16,044	P 302,815
Consumer	101,146	174,219	-	101,146
Credit card receivables	31,973	-	31,973	-
Leasing and finance	3,458	5,020	-	3,458
Microfinance and small business	1,129	4,405	-	1,129
	P 456,565	P 486,459	P 48,017	P 408,548
Parent Company				
Loans and discounts:				
Corporate	P 315,544	P 302,815	P 12,729	P 302,815
Consumer	101,146	174,219	-	101,146
Credit card receivables	31,973	-	31,973	-
	P 448,663	P 477,034	P 44,702	P 403,961

The table below sets out the gross carrying amounts of the exposures to credit risk on financial assets with low credit risk measured at amortized cost and debt securities at FVOCI as of December 31.

	Group		Parent Company	
	2021	2020	**2021**	2020
Cash equivalents	**P 184,586**	P 187,211	**P 183,010**	P 185,036
Debt securities:				
At amortized cost	**163,758**	43,168	**162,951**	42,561
At FVOCI	**46,094**	36,720	**45,611**	36,295
	P 394,438	P 267,099	**P 391,572**	P 263,892

Cash equivalents includes loans and advances to banks [i.e., Due from BSP, Due from Other Banks, Loans Arising from Repurchase Agreements, and Interbank Loans Receivables (see Note 9)]. Debt securities includes government and corporate bonds and bills. These are held with central bank, financial institutions and other counterparties that are reputable and with low credit risk; corresponding allowance for ECL is shown in the succeeding pages.

The information about the credit exposures on the above financial assets as well as on loan commitments by stages of impairment as of December 31, 2021 and 2020, shown at their gross carrying amounts with the corresponding allowance for ECL are shown in the succeeding pages. All instruments, which were not assessed by the Group for ECL based on individual credit risk rating were evaluated on a collective basis, applying applicable PD and LGD based on the segment of instrument.

The maximum exposure to credit risks for other financial assets is limited to their carrying values as of December 31, 2021 and 2020.

a) Loans and receivables – Group and Parent Company

	Corporate Loans				
	Stage 1	**Stage 2**	**Stage 3**	**Purchased credit-impaired***	**Total**
2021					
Pass					
AAA to BBB	P 12,771	P -	P -	P -	P 12,771
BBB- to B-	331,812	145	2,458	-	334,415
Watchlisted	4,066	460	54	-	4,580
Especially mentioned	-	45	444	-	489
Defaulted	-	-	7,671	45	7,716
Unrated	3,440	4	93	-	3,537
	352,089	654	10,720	45	363,508
Allowance for ECL	(2,064)	(29)	(5,218)	(40)	(7,351)
Carrying amount	**P 350,025**	**P 625**	**P 5,502**	**P 5**	**P 356,157**
2020					
Pass					
AAA to BBB	P 5,352	P -	P 42	P -	P 5,394
BBB- to B-	284,059	26	1,174	-	285,259
Watchlisted	400	2,584	19	-	3,003
Especially mentioned	1	2,327	465	-	2,793
Defaulted	-	-	8,212	48	8,260
Unrated	14,060	-	90	-	14,150
	303,872	4,937	10,002	48	318,859
Allowance for ECL	(1,813)	(761)	(4,853)	(36)	(7,463)
Carrying amount	P 302,059	P 4,176	P 5,149	P 12	P 311,396

**Purchased credit-impaired financial assets pertain to the non-performing loans of RCBC JPL*

	Retail and Other Products			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
2021				
Consumer loans				
Standard monitoring	P 81,363	P 12,513	P -	P 93,876
Defaulted	-	-	16,118	16,118
	81,363	12,513	16,118	109,994
Allowance for ECL	(363)	(357)	(3,772)	(4,492)
Carrying amount	**81,000**	**12,156**	**12,346**	**105,502**
Credit cards				
Current	P 31,598	P 46	P -	P 31,644
1-29 dpd	637	18	-	655
30-59 dpd	-	351	-	351
60-89 dpd	-	377	-	377
Defaulted	-	-	2,536	2,536
	32,235	792	2,536	35,563
Allowance for ECL	(572)	(325)	(2,150)	(3,047)
Carrying amount	**31,663**	**467**	**386**	**32,516**

	Retail and Other Products			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Leasing and finance receivables*				
AAA+ to B+	P 1,101	P -	P -	P 1,101
B to B-	-	755	-	755
CCC and below	-	-	737	737
	1,101	755	737	2,593
Allowance for ECL	(31)	(35)	(654)	(720)
Carrying amount	**1,070**	**720**	**83**	**1,873**
Micro and small business loans*				
Unclassified	P 684	P -	P -	P 684
Especially mentioned	-	322	-	322
Defaulted	-	-	67	67
	684	322	67	1,073
Allowance for ECL	(49)	(16)	(66)	(131)
Carrying amount	**635**	**306**	**1**	**942**
Total gross amount	115,383	14,382	19,458	149,223
Total allowance for ECL	(1,015)	(733)	(6,642)	(8,390)
Total carrying amount	**P 114,368**	**P 13,649**	**P 12,816**	**P 140,833**

**Leasing and finance receivables are from RCBC LFC*
***Micro and small business loans are from Rizal Microbank*

2020

	Stage 1	Stage 2	Stage 3	Total
Consumer loans				
Standard monitoring	P 78,060	P 11,986	P -	P 90,046
Defaulted	-	-	11,100	11,100
	78,060	11,986	11,100	101,146
Allowance for ECL	(725)	(393)	(3,077)	(4,195)
Carrying amount	77,335	11,593	8,023	96,951
Credit cards				
Current	P 25,500	P 21	P -	P 25,521
1-29 dpd	1,406	8	-	1,414
30-59 dpd	-	1,715	-	1,715
60-89 dpd	-	698	-	698
Defaulted	-	-	2,625	2,625
	26,906	2,442	2,625	31,973
Allowance for ECL	(656)	(1,499)	(2,625)	(4,780)
Carrying amount	26,250	943	-	27,193

	Retail and Other Products			
	Stage 1	Stage 2	Stage 3	Total
*Leasing and finance receivables**				
AAA+ to B+	P 2,153	P -	P -	P 2,153
B to B-	-	680	-	680
CCC and below	-	-	625	625
	2,153	680	625	3,458
Allowance for ECL	(18)	(76)	(204)	(298)
Carrying amount	2,135	604	421	3,160

**Leasing and finance receivables are from RCBC LFC*

	Stage 1	Stage 2	Stage 3	Total
*Micro and small business loans***				
Unclassified	P 1,021	P -	P -	P 1,021
Especially mentioned	-	10	-	10
Defaulted	-	-	98	98
	1,021	10	98	1,129
Allowance for ECL	(40)	(2)	(92)	(134)
Carrying amount	981	8	6	995
Total gross amount	P 108,140	P 15,118	P 14,448	P 137,706
Total allowance for ECL	(1,439)	(1,970)	(5,998)	(9,407)
Total carrying amount	P 106,701	P 13,148	P 8,450	P 128,299

***Micro and small business loans are from Rizal Microbank*

b) *Investments in debt securities at amortized cost and at FVOCI*

	Group		Parent Company	
	HTC	**FVOCI**	**HTC**	**FVOCI**
2021				
Government securities				
AAA to A+	P 12,021	P -	P 12,021	P -
BBB+ to BBB-	120,948	28,682	120,141	28,682
	132,969	**28,682**	**132,162**	**28,682**
Corporate debt securities				
AAA	-	272	-	272
AA+ to A+	764	260	764	260
A to A-	638	-	638	-
BBB+ to BBB-	19,520	13,381	19,520	13,381
BB+ to BB-	9,704	3,499	9,704	3,016
B+ and below	163	-	163	-
	30,789	17,412	30,789	16,929
Allowance for ECL	(147)	(12)	(52)	(12)
	30,642	**17,400**	**30,737**	**16,917**
	P 163,611	**P 46,082**	**P 162,899**	**P 45,599**

b) Investments in debt securities at amortized cost and at FVOCI

	Group		Parent Company	
	HTC	FVOCI	HTC	FVOCI
2020				
Government securities				
AAA to A+	P -	P 13,542	P -	P 13,542
BBB+ to BBB-	37,022	7,021	36,932	7,021
	37,022	20,563	36,932	20,563
Corporate debt securities				
AAA	-	268	-	268
AA+ to A+	-	257	-	257
A to A-	-	-	-	-
BBB+ to BBB-	2,771	12,803	2,771	12,799
BB+ to BB-	3,375	2,829	2,858	2,408
B+ and below	-	-	-	-
	6,146	16,157	5,629	15,732
Allowance for ECL	(142)	(1)	(48)	(1)
	6,004	16,156	5,581	15,731
	P 43,026	P 36,719	P 42,513	P 36,294

Credit exposures for debt securities not held for trading are all classified as Stage 1.

c) Loan Commitments

The credit quality of the Group and Parent Company's irrevocable loan commitments with amounts determined after considering credit conversion factor, as of December 31 follows:

	Group and Parent Company			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
2021				
Corporate loans				
Pass				
AAA to BBB	P 77	P -	P -	P 77
BBB- to B-	3,914	-	-	3,914
Watchlisted	-	4	13	17
Unrated	115	-	-	115
	4,106	4	13	4,123
ECL provisions	(18)	-	(5)	(23)
	4,088	4	8	4,100
Credit cards				
Current	9,607	-		9,607
ECL provisions	(122)	-	-	(122)
	9,485	-	-	9,485
	P 13,573	**P 4**	**P 8**	**P 13,585**

	Group and Parent Company			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
2020				
Corporate loans				
Pass				
AAA to BBB	P 2,153	P -	P -	P 2,153
BBB- to B-	3,284	-	-	3,284
Watchlisted	-	12	13	25
Unrated	99	-	-	99
	5,536	12	13	5,561
ECL provisions	(18)	(1)	(5)	(24)
	5,518	11	8	5,537
Credit cards				
Current	8,501	-	-	8,501
ECL provisions	(115)	-	-	(115)
	8,386	-	-	8,386
	P 13,904	P 11	P 8	P 13,923

4.4.8 Maximum Exposure to Credit Risk of Financial Instruments not Subject to Impairment

The following table contains analysis of the maximum credit risk exposure from financial assets not subject to impairment (i.e., FVTPL).

	Group		Parent Company	
	2021	2020	**2021**	2020
Government securities	**P 4,330**	P 1,876	**P 3,346**	P 1,808
Corporate debt securities	**35**	710	**35**	606
Derivative financial assets	**1,266**	1,129	**1,266**	1,129
	P 5,631	P 3,715	**P 4,647**	P 3,543

4.4.9 Allowance for ECL

The following tables show the reconciliation of the loss allowance for ECL by class of significant financial instruments.

a) Loans and receivables – Group and Parent Company

	Corporate Loans				
	Stage 1	**Stage 2**	**Stage 3**	**Purchased credit-impaired**	**Total**
2021					
Balance at beginning of year	P 1,813	P 761	P 4,853	P 36	P 7,463
Transfers:					
Stage 1 to Stage 2	(2)	2	-	-	-
Stage 1 to Stage 3	(9)	-	9	-	-
Stage 2 to Stage 1	635	(635)	-	-	-
Stage 2 to Stage 3	-	(20)	20	-	-
Stage 3 to Stage 1	75	-	(75)	-	-
Stage 3 to Stage 2	-	3	(3)	-	-
Assets derecognized or repaid	(1,877)	(91)	(63)	-	(2,031)
New assets originated:					
Remained in Stage 1	1,429	-	-	-	1,429
Moved to Stages 2 and 3	-	9	477	4	490
	251	(732)	365	4	(112)
Balance at end of year	**P 2,064**	**P 29**	**P 5,218**	**P 40**	**P 7,351**
2020					
Balance at beginning of year	P 706	P 529	P 4,659	P 36	P 5,930
Transfers:					
Stage 1 to Stage 2	(2)	2	-	-	-
Stage 1 to Stage 3	(13)	-	13	-	-
Stage 2 to Stage 1	65	(65)	-	-	-
Stage 2 to Stage 3	-	(42)	42	-	-
Stage 3 to Stage 1	4	-	(4)	-	-
Assets derecognized or repaid	(1,768)	(232)	(144)	-	(2,143)
New assets originated:					
Remained in Stage 1	2,821	-	-	-	2,821
Moved to Stages 2 and 3	-	568	287	-	855
	1,107	232	194	-	1,533
Balance at end of year	P 1,813	P 761	P 4,853	P 36	P 7,463

	Retail and Other Products			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
2021				
Consumer loans				
Balance at beginning of year	P 725	P 393	P 3,077	P 4,195
Transfers:				
Stage 1 to Stage 2	(37)	37	-	-
Stage 1 to Stage 3	(8)	-	8	-
Stage 2 to Stage 1	318	(318)	-	-
Stage 2 to Stage 3	-	(21)	21	-
Stage 3 to Stage 1	709		(709)	-
Stage 3 to Stage 2	-	569	(569)	-
Assets derecognized or repaid	(1,697)	(412)	(624)	(2,733)
New assets originated:				
Remained in Stage 1	353	-	-	353
Moved to Stages 2 and 3	-	109	2,568	2,677
	(362)	(36)	695	297
Balance at end of year	**363**	**357**	**3,772**	**4,492**
Credit cards				
Balance at beginning of year	P 656	P 1,499	P 2,625	P 4,780
Transfers:				
Stage 1 to Stage 2	(28)	28	-	-
Stage 1 to Stage 3	(90)	-	90	-
Stage 2 to Stage 1	89	(89)	-	-
Stage 2 to Stage 3	-	(140)	140	-
Stage 3 to Stage 1	65	-	(65)	-
Stage 3 to Stage 2	-	37	(37)	-
Assets derecognized or repaid	(608)	(615)	(867)	(2,090)
New assets originated:				
Remained in Stage 1	591	-	-	591
Moved to Stages 2 and 3	-	346	4,577	5,514
Write-offs	(103)	(741)	(4,313)	(5,157)
	(84)	(1,174)	(475)	(1,733)
Balance at end of year	**572**	**325**	**2,150**	**3,047**
Leasing and finance receivables*				
Balance at beginning of year	P 18	P 76	P 204	P 298
Transfers:				
Stage 1 to Stage 2	(13)	13	-	-
Stage 1 to Stage 3	(78)	-	78	-
Stage 2 to Stage 3	-	(149)	149	-
New assets originated:				
Remained in Stage 1	7	-	-	7
Moved to Stages 2 and 3	-	7	15	22
Assets derecognized or repaid	(5)	(20)	(24)	(49)
Others	102	108	232	442
	13	(41)	450	422
Balance at end of year	**31**	**35**	**654**	**720**

	Retail and Other Products			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Micro and small business loans*				
Balance at beginning of year	P 40	P 2	P 92	P 134
Transfers:				
Stage 1 to Stage 2	(2)	2	-	-
Stage 2 to Stage 3	-	(2)	2	-
Stage 3 to Stage 1	2	-	(2)	-
Assets derecognized or repaid	(11)	-	(34)	(45)
New assets originated:				
Remained in Stage 1	20	-	-	20
Moved to Stages 2 and 3	-	14	8	22
	9	14	(26)	(3)
Balance at end of year	**49**	**16**	**66**	**131**
	P 1,541	**P 900**	**P 6,716**	**P 9,157**

**Leasing and finance receivables are from RCBC LFC*
***Micro and small business loans are from Rizal Microbank*

2020

	Stage 1	Stage 2	Stage 3	Total
Consumer loans				
Balance at beginning of year	P 845	P 507	P 1,018	P 2,370
Transfers:				
Stage 1 to Stage 2	(104)	104	-	-
Stage 1 to Stage 3	(50)	-	50	-
Stage 2 to Stage 1	165	(165)	-	-
Stage 2 to Stage 3	-	(74)	74	-
Stage 3 to Stage 2	-	20	(20)	-
Assets derecognized or repaid	(9)	(167)	(19)	(195)
New assets originated:				
Remained in Stage 1	223	-	-	223
Moved to Stages 2 and 3	-	534	1,950	2,484
Write-offs	-	-	(907)	(907)
Others	(345)	(366)	931	(220)
	(120)	(114)	2,059	1,825
Balance at end of year	725	393	3,077	4,195

	Retail and Other Products			
	Stage 1	Stage 2	Stage 3	Total
2020				
Credit cards				
Balance at beginning of year	P 510	P 278	P 1,051	P 1,839
Transfers:				
Stage 1 to Stage 2	(49)	49	-	-
Stage 1 to Stage 3	(74)	-	74	-
Stage 2 to Stage 1	25	(25)	-	-
Stage 2 to Stage 3	-	(69)	69	-
Stage 3 to Stage 1	21	-	(21)	-
Stage 3 to Stage 2	-	17	(17)	-
Assets derecognized or repaid	(663)	(245)	(272)	(1,180)
New assets originated:				
Remained in Stage 1	911	-	-	911
Moved to Stages 2 and 3	-	1,665	2,547	4,212
Write-offs	(25)	(171)	(806)	(1,002)
	146	1,221	1,574	2,941
Balance at end of year	656	1,499	2,625	4,780
*Leasing and finance receivables**				
Balance at beginning of year	P 62	P 275	P 246	P 583
Transfers:				
Stage 1 to Stage 2	(57)	57	-	-
Stage 2 to Stage 3	-	(253)	253	-
Stage 3 to Stage 2	-	226	(226)	-
New assets originated:				
Remained in Stage 1	5	-	-	5
Moved to Stages 2 and 3	-	44	43	87
Write-offs	(27)	(120)	(107)	(254)
Others	35	(153)	(5)	(123)
	(44)	(199)	(42)	(285)
Balance at end of year	18	76	204	298
*Micro and small business loans***				
Balance at beginning of year	P 15	P 11	P 55	P 81
Transfers:				
Stage 1 to Stage 2	(1)	1	-	-
Stage 2 to Stage 3	-	(1)	1	-
Stage 3 to Stage 1	1	-	(1)	-
Assets derecognized or repaid	-	(21)	(25)	(46)
New assets originated:				
Remained in Stage 1	25	-	-	25
Moved to Stages 2 and 3	-	12	62	74
	25	(9)	37	53
Balance at end of year	40	2	92	134
	P 1,439	P 1,970	P 5,998	P 9,407

**Leasing and finance receivables are from RCBC LFC*
***Micro and small business loans are from Rizal Microbank*

Presented below are the composition of allowance for ECL as by loan portfolio (see Note 11):

	Group		Parent Company	
	2021	2020	**2021**	2020
Corporate	**P 7,351**	P 7,463	**P 7,311**	P 7,427
Credit card receivables	**3,047**	4,780	**3,047**	4,780
Consumer	**4,492**	4,195	**4,492**	4,195
Leasing and finance	**720**	298	**-**	-
Microfinance and small business	**131**	134	**-**	-
Other receivables	**2,523**	2,323	**2,489**	1,961
	P 18,264	P 19,193	**P 17,339**	P 18,363

Post-model adjustments made in estimating the reported ECL as at December 31, 2021 and 2020 are set out in the following table:

	Group		
	BAU ECL	COVID-19 Overlay	Total ECL
2021			
Corporate	P 6,724	P 627	P 7,351
Consumer	4,418	74	4,492
Credit card receivables	3,047	-	3,047
Leasing and finance	690	30	720
Microfinance and small business	131	-	131
Other receivables	2,523	-	2,523
	P 17,533	**P 731**	**P 18,264**
2020			
Corporate	P 6,692	P 771	P 7,463
Consumer	3,255	940	4,195
Credit card receivables	3,739	1,041	4,780
Leasing and finance	253	45	298
Microfinance and small business	134	-	134
Other receivables	2,323	-	2,323
	P 16,396	P 2,797	P 19,193

	Parent Company		
	BAU ECL	COVID-19 Overlay	Total ECL
2021			
Corporate	P 6,684	P 627	P 7,311
Consumer	4,418	74	4,492
Credit card receivables	3,047	-	3,047
Other receivables	2,489	-	2,489
	P 16,638	**P 701**	**P 17,339**

	Parent Company		
	BAU ECL	COVID-19 Overlay	Total ECL
2020			
Corporate	P 6,656	P 771	P 7,427
Consumer	3,255	940	4,195
Credit card receivables	3,739	1,041	4,780
Other receivables	1,961	-	1,961
	P 15,611	P 2,752	P 18,363

b) Investments in debt securities at amortized cost and at FVOCI

ECL for investments in debt securities at amortized cost amounted to P14 and P1 in 2021 and 2020, respectively, for the Group while P12 and nil in 2021 and 2020, respectively, for the Parent. The allowance for ECL for investments in debt securities at amortized cost amounted to P147 and P142 for the Group and P52 and P48 for the Parent Company in December 31, 2021 and 2020, respectively. The allowance for ECL recognized for debt securities at FVOCI acquired were P12 and P1 in 2021 and 2020 for both Group and Parent.

c) Loan commitments

Allowance for ECL recognized both by the Group and Parent Company related to undrawn loan commitments as of December 31, 2021 and 2020 amounted to P145 and P139, respectively, presented as ECL provisions on loan commitments under Other Liabilities account (see Note 22). ECL recognized in profit or loss in 2021, 2020 and 2019 amounted to P5, P14 and P23, respectively.

The information on how the significant changes in the gross carrying amount of the financial instruments contributed to the changes in the amount of allowance for ECL are presented in Note 4.4.10.

NOTES TO FINANCIAL STATEMENTS

4.4.10 Significant Changes in Gross Carrying Amount Affecting Allowance for ECL

The tables below and in the succeeding pages provides information how the significant changes in the gross carrying amount of financial instruments in 2021 and 2020 contributed to the changes in the allowance for ECL.

a) Loans and receivables – Group and Parent Company

	Corporate Loans				
	Stage 1	Stage 2	Stage 3	Purchased credit-impaired	Total
2021					
Balance at beginning of year	P 303,872	P 4,937	P 10,002	P 48	P 318,859
Transfers:					
Stage 1 to Stage 2	(121)	121	-	-	-
Stage 1 to Stage 3	(768)	-	768	-	-
Stage 2 to Stage 1	3,412	(3,412)	-	-	-
Stage 2 to Stage 3		(83)	83	-	-
Stage 3 to Stage 1	198	-	(198)	-	-
Stage 3 to Stage 2	-	8	(8)	-	-
Assets derecognized or repaid	(150,404)	(1,164)	(1,004)	(3)	(152,575)
New assets originated:					
Remained in Stage 1	195,900	-	-	-	195,900
Moved to Stages 2 and 3	-	247	1,077	-	1,324
	48,217	(4,283)	718	(3)	44,649
Balance at end of year	**P 352,089**	**P 654**	**P 10,720**	**P 45**	**P 363,508**
2020					
Balance at beginning of year	P 284,284	P 10,726	P 7,278	P 52	P 302,340
Transfers:					
Stage 1 to Stage 2	(213)	213	-	-	-
Stage 1 to Stage 3	(1,174)	-	1,174	-	-
Stage 2 to Stage 1	678	(678)	-	-	
Stage 2 to Stage 3	-	399)	399	-	-
Stage 3 to Stage 1	10	-	(10)	-	-
Assets derecognized or repaid	(151,639)	(8,028)	(1,559)	(4)	(161,230)
New assets originated:					
Remained in Stage 1	171,926	-	-	-	171,926
Moved to Stages 2 and 3	-	3,103	2,720	-	5,823
	19,588	(5,789)	2,724	(4)	16,519
Balance at end of year	P 303,872	P 4,937	P 10,002	P 48	P 318,859

	Retail and Other Products			
	Stage 1	Stage 2	Stage 3	Total
2021				
Consumer loans				
Balance at beginning of year	P 78,060	P 11,986	P 11,100	P 101,146
Transfers:				
Stage 1 to Stage 2	(3,462)	3,462	-	-
Stage 1 to Stage 3	(794)	-	794	-
Stage 2 to Stage 1	7,918	(7,918)	-	-
Stage 2 to Stage 3	-	(534)	534	-
Stage 3 to Stage 1	4,576	-	(4,576)	-
Stage 3 to Stage 2	-	3,740	(3,740)	-
Assets derecognized or repaid	(4,986)	(1,175)	(3,035)	(9,196)
New assets originated:				
Remained in Stage 1	51	-	-	51
Moved to Stages 2 and 3	-	2,952	15,041	17,993
	3,303	527	5,018	8,848
Balance at end of year	**81,363**	**12,513**	**16,118**	**109,994**
Credit cards				
Balance at beginning of year	P 26,906	P 2,442	P 2,625	P 31,973
Transfers:				
Stage 1 to Stage 2	(669)	669	-	-
Stage 1 to Stage 3	(1,519)	-	1,519	-
Stage 2 to Stage 1	230	(230)	-	-
Stage 2 to Stage 3	-	(322)	322	-
Stage 3 to Stage 1	90	-	(90)	-
Stage 3 to Stage 2	-	51	(51)	-
Assets derecognized or repaid	(55,774)	(368)	(413)	(56,555)
New assets originated:				
Remained in Stage 1	64,072	-	-	64,072
Moved to Stages 2 and 3	-	369	860	1,229
Write-offs	(1,101)	(1,819)	(2,236)	(5,156)
	5,329	(1,650)	(89)	3,590
Balance at end of year	**32,235**	**792**	**2,536**	**35,563**
Leasing and finance receivables*				
Balance at beginning of year	P 2,153	P 680	P 625	P 3,458
Transfers:				
Stage 1 to Stage 2	(715)	715	-	-
Stage 1 to Stage 3	(463)	-	463	-
Stage 2 to Stage 3	-	(322)	322	-
Stage 3 to Stage 1	38	-	(38)	-
New assets originated:				
Remained in Stage 1	515	-	-	515
Moved to Stages 2 and 3	-	200	5	205
Assets derecognized or repaid	(348)	(25)	(130)	(503)
Others	(79)	(493)	(510)	(1,082)
	(1,052)	75	112	(865)
Balance at end of year	**1,101**	**755**	**737**	**2,593**

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	Retail and Other Products			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Micro and small business loans*				
Balance at beginning of year	P 1,021	P 10	P 98	P 1,129
Transfers:				
Stage 1 to Stage 2	(42)	42	-	-
Stage 2 to Stage 3	-	(3)	3	-
Stage 3 to Stage 1	1	-	(1)	-
Stage 3 to Stage 2	-	8	(8)	-
Assets derecognized or repaid	(667)	(1)	(35)	(703)
New assets originated:				
Remained in Stage 1	371	-	-	371
Moved to Stages 2 and 3	-	266	10	276
	(337)	312	(31)	(56)
Balance at end of year	**684**	**322**	**67**	**1,073**
	P 115,383	**P 14,382**	**P 19,458**	**P 149,223**

**Leasing and finance receivables are from RCBC LFC*
***Micro and small business loans are from Rizal Microbank*

2020

Consumer loans				
Balance at beginning of year	P 80,056	P 11,129	P 4,792	P 95,977
Transfers:				
Stage 1 to Stage 2	(8,534)	8,534	-	-
Stage 1 to Stage 3	(4,579)	-	4,579	-
Stage 2 to Stage 1	4,155	(4,155)		-
Stage 2 to Stage 3	-	(3,264)	3,264	-
Stage 3 to Stage 2	-	380	(380)	-
Assets derecognized or repaid	(2,264)	(767)	(773)	(3,804)
New assets originated:				
Remained in Stage 1	20,471	-	-	20,471
Moved to Stages 2 and 3	-	1,429	1,274	2,703
Write-offs	-	-	(907)	(907)
Others	(11,245)	(1,300)	(749)	(13,294)
	(1,996)	857	6,308	5,169
Balance at end of year	78,060	11,986	11,100	101,146

	Retail and Other Products			
	Stage 1	Stage 2	Stage 3	Total
Credit cards				
Balance at beginning of year	P 29,110	P 666	P 1,267	P 31,043
Transfers:				
Stage 1 to Stage 2	(1,679)	1,679	-	-
Stage 1 to Stage 3	(1,578)	-	1,578	-
Stage 2 to Stage 1	65	(65)	-	-
Stage 2 to Stage 3	-	(170)	170	-
Stage 3 to Stage 1	28	-	(28)	-
Stage 3 to Stage 2	-	21	(21)	-
Assets derecognized or repaid	(49,736)	(682)	(349)	(50,767)
New assets originated:				
Remained in Stage 1	50,900	-	-	50,900
Moved to Stages 2 and 3	-	1,391	994	2,385
Write-offs	(204)	(398)	(986)	(1,588)
	(2,204)	1,776	1,358	930
Balance at end of year	26,906	2,442	2,625	31,973
*Leasing and finance receivables**				
Balance at beginning of year	P 1,891	P 1,985	P 569	P 4,445
Transfers:				
Stage 1 to Stage 3	(215)	-	215	-
Stage 2 to Stage 3	-	(227)	227	-
Stage 3 to Stage 2	-	65	(65)	-
Assets derecognized or repaid	(815)	(722)	(1,082)	(2,619)
New assets originated:				
Remained in Stage 1	1,676	-	-	1,676
Moved to Stages 2 and 3	-	1,758	504	2,262
Others	(384)	(2,179)	257	(2,306)
	262	(1,305)	56	(987)
Balance at end of year	2,153	680	625	3,458
*Microfinance and small business loans***				
Balance at beginning of year	P 1,142	P 29	P 143	P 1,314
Transfers:				
Stage 1 to Stage 2	(6)	6	-	-
Stage 2 to Stage 3	-	(1)	1	-
Stage 3 to Stage 1	1	-	(1)	-
Assets derecognized or repaid	(320)	(27)	(55)	(402)
New assets originated:				
Remained in Stage 1	204	-	-	204
Moved to Stages 2 and 3	(-	3	10	13
	121)	(19)	(45)	(185)
Balance at end of year	1,021	10	98	1,129
	P 108,140	P 15,118	P 14,448	P 137,706

**Leasing and finance receivables are from RCBC LFC*
***Micro and small business loans are from Rizal Microbank*

The amounts of "Transfers to" include the changes in the ECL on the exposures transferred from one stage to another during the year.

The Group's receivables arising from salary loans are generally fully recoverable as those are collected through salary deductions, except for those receivables from resigned employees which were provided with full ECL allowance. The breakdown of the total ECL allowances as to BAU ECL and COVID-19 overlay is presented in Note 4.4.9.

b) *Investment in debt securities at amortized cost and at FVOCI*

	Group		Parent Company	
	HTC	FVOCI	HTC	FVOCI
2021				
Balance at beginning of year	P 43,168	P 36,720	P 42,561	P 36,295
Assets purchased	230,816	84,009	230,816	84,009
Assets derecognized	(110,226)	(73,812)	(110,426)	(73,870)
Fair value loss	-	(823)	-	(823)
Balance at end of year	**P 163,758**	**P 46,094**	**P 162,951**	**P 45,611**
2020				
Balance at beginning of year	P 101,068	P 50,612	P 100,268	P 49,584
Assets purchased	174,920	200,545	174,920	200,545
Assets derecognized	(232,820)	(214,777)	(232,627)	(214,174)
Fair value gains	-	340	-	340
Balance at end of year	P 43,168	P 36,720	P 42,561	P 36,295

4.4.11 Collateral Held as Security and Other Credit Enhancements

The Group holds collateral against loans and advances to customers in the form of hold-out deposits, real estate mortgage, standby letters of credit or bank guaranty, government guaranty, chattel mortgage, assignment of receivables, pledge of equity securities, personal and corporate guaranty and other forms of security. Estimates of fair value are based on the value of collateral assessed at the time of borrowing and are generally updated annually.

Generally, collateral is not held over loans and advances to other banks, except when securities are held as part of reverse repurchase and securities borrowing arrangements. Collateral is not usually held against trading and investment securities, and no such collateral was held as of December 31, 2021 and 2020.

The estimated fair value of collateral and other security enhancements held against the loan portfolio as of December 31 are presented below.

	Group			
	Stage 1	Stage 2	Stage 3	Total
2021				
Real properties	P 141,510	P 12,997	P 16,335	P 170,842
Chattel	71,445	8,963	14,090	94,498
Hold-out deposits	7,338	100	19	7,457
Equity securities	21,554	30	3,390	24,974
Others	147,719	558	11,699	159,976
	P 389,566	**P 22,648**	**P 45,533**	**P 457,747**
2020				
Real properties	P 122,910	P 14,064	P 114,694	P 251,668
Chattel	75,449	6,363	10,744	92,556
Hold-out deposits	8,419	81	81	8,581
Equity securities	7,505	-	2,243	9,748
Others	121,665	1,075	1,166	123,906
	P 335,948	P 21,583	P 128,928	P 486,459

	Parent Company			
	Stage 1	Stage 2	Stage 3	Total
2021				
Real properties	P 137,586	P 12,187	P 15,745	P 165,518
Chattel	69,144	8,571	13,662	91,377
Hold-out deposits	7,338	100	19	7,457
Equity securities	21,554	30	3,390	24,974
Others	147,069	370	11,509	158,948
	P 382,691	**P 21,258**	**P 44,325**	**P 448,274**
2020				
Real properties	P 118,776	P 14,035	P 114,481	P 247,292
Chattel	73,394	6,285	10,608	90,287
Equity securities	7,505	-	2,243	9,748
Hold-out deposits	8,266	81	81	8,428
Others	119,278	948	1,053	121,279
	P 327,219	P 21,349	P 128,466	P 477,034

The Group and the Parent Company have recognized certain properties arising from foreclosures in settlement of loan account amounting to P908 and P907, respectively, in 2021 and P637 and P612, respectively, in 2020.

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

There were no changes in the Group and the Parent Company's collateral policies in 2021 and 2020.

4.4.12 Modifications of Financial Assets

(a) Financial Reliefs Provided by the Group

In certain cases, the Group modifies the terms of the loans provided to the borrowers due to commercial renegotiations, or for distressed loans, with a view of maximizing recovery of the contractual amount of obligation that the Group is owed to. Restructuring policies and practices are based on indicators or criteria which, in the management's judgment, indicate that payment will most likely continue. Such policies are continuously reviewed and updated as necessary. Restructuring is most commonly applied to term or corporate loans.

On top of the government reliefs, the Group has offered financial relief through its CARE Program, which was approved by the Executive Committee on May 4, 2020, in response to the COVID-19 situation. These relief measures were granted to eligible customers to allow them to get back into the habit of paying loans and included the following:

- payment relief including extension of contractual terms;
- principal and interest relief including lower amortization on extended term with interest payment only on the first year; and,
- extension of balloon repayment terms.

The outstanding balance of loans modified under the CARE Program in 2021 and 2020 amounted to P30,918 and P26,652, respectively, for the Group, and P27,032 and P25,817, respectively for the Parent Company.

(b) Financial Reliefs Mandated by the Government

In compliance with Republic Act No. 11469, *Bayanihan to Heal as One Act*, (BAHO Act), the Group implemented a minimum 30-day grace period on all loans with principal and interests falling due within the period of the Enhanced Community Quarantine (ECQ), which started on March 17, 2020 up to April 30, 2020, which was extended until May 31, 2020. There is no similar government relief in 2021.

In compliance with Republic Act No. 11494, *Bayanihan to Recover as One Act,* (BARO Act), the Group granted one-time 60-day grace period for payments and/or maturity periods of all existing, current and outstanding loans as of September 15, 2020, falling due, or any part thereof, on or before December 31, 2020, subject to compliance with regulatory requirements. There is no similar government relief in 2021.

During the grace period or payment holiday, there were no interests on interests, penalties, or other charges but accrued interests at contractual rate for grace periods were charged based on the outstanding principal balance of loan at the time of application of the grace periods except for microfinance loans.

The total outstanding balance of loans modified under BAHO and BARO Acts amounts to P138,275 and P137,638, respectively, as of December 31, 2020 for the Group and Parent Company.

Financial reliefs provided by the Group and mandated by the government were assessed to be non-substantial modification and has not resulted to material modification loss as the present value of the original cash flows and the present value of the revised cash flows using the original effective interest rate were substantially the same.

The following tables provide a summary of the outstanding balance of modified loans resulting from the financial reliefs provided by the Group and mandated by the government as of December 31:

	Group			
	2021	2020		
	CARE Program	BAHO Act/ BARO Act	CARE Program	Total
Stage 1 (Performing)				
Corporate	**P 23,104**	P 29,614	P 15,111	P 44,725
Consumer	**540**	72,958	66	73,024
Credit card	**-**	5,804	5,176	10,980
Leasing and finance	**1,519**	20	3,335	3,355
Microfinance and small business	**178**	423	4	427
	P 25,341	P 108,819	P 23,692	P 132,511
Stage 2 (Underperforming)				
Corporate	**P 351**	P 1,769	P 1,769	P 3,538
Consumer	**518**	12,278	138	12,416
Credit card	**-**	1,002	162	1,164
Leasing and finance	**518**	177	246	423
Microfinance and small business	**41**	-	5	5
	P 1,428	P 15,226	P 2,320	P 17,546
Stage 3 (Nonperforming)				
Corporate	**P 1,112**	P 505	P 324	P 829
Consumer	**1,900**	11,335	55	11,390
Credit card	**-**	2,373	16	2,389
Leasing and finance	**1,136**	14	237	251
Microfinance and small business	**1**	3	8	11
	P 4,149	P 14,230	P 640	P 14,870

	Parent							
	2021		2020					
	CARE Program		BAHO Act/ BARO Act		CARE Program		Total	
Stage 1 (Performing)								
Corporate	**P**	**23,000**	P	29,614	P	15,111	P	44,725
Consumer		**540**		72,958		66		73,024
Credit card		**-**		5,804		5,176		10,980
	P	**23,540**	P	108,376	P	20,353	P	129,729
Stage 2 (Underperforming)								
Corporate	**P**	**351**	P	1,769	P	1,769	P	3,538
Consumer		**744**		12,278		138		12,416
Credit card		**-**		1,002		162		1,164
	P	**1,095**	P	15,049	P	2,069	P	17,118
Stage 3 (Nonperforming)								
Corporate	**P**	**497**	P	505	P	324	P	829
Consumer		**1,900**		11,335		55		11,390
Credit card		**-**		2,373		16		2,389
	P	**2,397**	P	14,213	P	395	P	14,608

(c) Assessment of SICR

The risk of default of such assets after modification is assessed at the reporting date and compared with the risk under the original terms at initial recognition, when the modification is not substantial and so does not result in derecognition of the original asset. The Group monitors the performance of the financial asset subsequent to its modification.

The Group may determine that the credit risk has significantly improved after restructuring (in accordance with the new terms for six consecutive months or more), so that the assets are moved from Stage 3 or Stage 2.

The Group continues to monitor if there is a subsequent SICR in relation to such modified assets through the use of specific models for modified assets [see also Note 4.4.6(a)].

4.4.13 Write-offs

The Group and the Parent Company write off financial assets, in whole or in part, when it has exhausted all practical recovery efforts and has concluded that there is no reasonable expectation of recovery of the financial asset. Indicators that there is no reasonable expectation of recovery include: cessation of enforcement activity; and, where the Group and Parent Company's recovery method is through foreclosure of collateral and the value of the collateral is less than the outstanding contractual amounts of the financial assets to be written-off.

The Group and Parent Company may write off financial assets that are still subject to enforcement activity. The outstanding amounts of such assets written off in 2021 and 2020 amounted to P5,161 and P3,330, respectively, for the Group, and P5,157 and P3,078, respectively, for the Parent Company. The Group and the Parent Company still seek to recover amounts legally owed in full, but which have been partially written off due to no reasonable expectation of full recovery.

4.4.14 Credit Risk Stress Test

To enhance the assessment of credit risk, the Group adopted a credit risk stress testing framework using break-even sales and cash flow debt service to determine a borrower's vulnerability and ultimately impact to the Group's capital adequacy. The Parent Company adopted a portfolio credit risk testing framework that takes into consideration the causal relationships among industry sectors.

4.4.15 Sensitivity Analysis on ECL Measurement

Set out below are the changes to the Group's ECL as of December 31, 2021 and 2020 that would result from reasonably possible changes in these parameters from the actual assumptions used in the Group's economic variable assumptions:

	Change in MEVs		**Impact on ECL**	
	Upside Scenario	**Downside Scenario**	**Upside Scenario**	**Downside Scenario**
2021				
Credit card receivables			**(P 97)**	**P 4,972**
Unemployment rate	**- 0.70%**	**+ 11.20%**		
Inflation rate	**- 0.10%**	**+ 6.60%**		
Corporate loans			**(87)**	**40**
USD-Php exchange rate	**- P3.00**	**+ P10.50**		
Inflation rate	**- 0.50%**	**+ 5.00%**		
91D TD bill	**- 0.50%**	**+ 5.00%**		
Consumer loans:				
Salary loans			**(12)**	**16**
Unemployment rate	**- 2.00%**	**+ 9.00%**		
USD-Php exchange rate	**- P4.00**	**+ P9.50**		
Inflation rate	**- 1.00%**	**+ 5.00%**		
Bank lending rate	**- 0.50%**	**+ 5.00%**		
Housing loans			**(7)**	**57**
Unemployment rate	**- 2.00%**	**+ 9.00%**		
Inflation rate	**- 1.00%**	**+ 5.00%**		
Bank lending rate	**- 0.50%**	**+ 5.00%**		
Auto loans			**(3)**	**18**
GDP	**+ P24,118**	**- P313,538**		
USD-Php exchange rate	**- P4.00**	**+ P9.50**		
Bank lending rate	**- 0.50%**	**+ 5.00%**		
Personal loans			**(10)**	**44**
GDP	**+ P24,118**	**- P313,538**		
USD-Php exchange rate	**- P4.00**	**+ P9.50**		
Bank lending rate	**- 0.50%**	**+ 5.00%**		

	Change in MEVs		Impact on ECL	
	Upside Scenario	Downside Scenario	Upside Scenario	Downside Scenario
2020				
Credit card receivables			(P 1,178)	P 4,823
Unemployment rate	- 1.00%	+ 12.00%		
Inflation rate	- 0.50%	+ 5.00%		
Corporate loans			(279)	2,100
GDP growth rate	+ 0.70%	- 1.40%		
Inflation rate	- 0.50%	+ 5.00%		
91D TD bill	- 0.50%	+ 5.00%		
Consumer loans:				
Salary loans			(19)	44
Unemployment rate	- 2.00%	+ 9.00%		
USD-Php exchange rate	- P3.00	+ P10.50		
Inflation rate	- 1.70%	+ 3.80%		
Bank lending rate	- 0.50%	+ 5.00%		
Housing loans			(7)	44
Unemployment rate	- 2.00%	+ 9.00%		
Inflation rate	- 1.70%	+ 3.80%		
Bank lending rate	- 0.50%	+ 5.00%		
Auto loans			(1)	8
GDP	+ P26,301	- P341,915		
USD-Php exchange rate	- P3.00	+ P10.50		
Bank lending rate	- 0.50%	+ 5.00%		
Personal loans			(8)	44
GDP	+ P26,301	- P341,915		
USD-Php exchange rate	- P3.00	+ P10.50		
Bank lending rate	- 0.50%	+ 5.00%		

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 Operational Risk Management Division (ORMD) assists management in meeting its responsibility to understand and manage operational risk exposures and to ensure consistent application of operational risk management tools across the Group.

The ORMD applies a number of techniques to efficiently manage operational risks. Among these are as follows:

- Each major business line has an embedded designated operational risk 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 ORMD to keep them up-to-date with different operational risk issues, challenges and initiatives;

- With ORMD'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 result of said self-assessment exercise also serves as one of the inputs in identifying specific key risk indicators (KRIs);

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

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

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

Operational Risk Management, as it relates to capital adequacy, is currently under Basic Indicator Approach (see Note 5.2).

The Group has also developed a Business Continuity Plan (BCP) based on several crisis severity levels which is tested at least annually and updated for any major changes in systems and procedures. Central to the Group's BCP is a disaster recovery plan to address the continued functioning of systems, recovery of critical data, and contingency processing requirements in the event of a disaster.

4.5.1 Reputation Risk

Reputation risk is the risk to earnings or capital arising from negative public opinion. This affects the Group's ability to establish new relationships or services, or to continue servicing existing relationships. This risk can expose the Group 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 Group's earnings or impairs its capital. This risk is present in activities such as asset management and regulatory compliance.

The Group adopted a reputation risk monitoring and reporting framework to manage public perception. Central to the said framework is the creation of the RCBC Marketing Committee chaired by the Parent Company's Chief Marketing Officer.

4.5.2 Legal Risk and Regulatory Risk Management

Changes in laws and regulations and fiscal policies could adversely affect the Group's operations and financial reporting. In addition, the Group 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 Group 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 Group 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 Group to suffer financial loss due to mid-stream changes in regulatory regime affecting current position and/or strategy. Compliance Risk is the risk of loss resulting from failure to comply with laws, regulations, rules, related self-regulatory organization standards, and codes of conduct applicable to its banking activities.

The Group's Compliance Program, the design and implementation of which is overseen and coordinated by the Chief Compliance Officer, is the primary control process for regulatory and compliance risk issues. The Compliance Office is committed to safeguard the integrity of the Group 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 an, and reporting compliance findings to the ACC and the BOD.

4.6 Anti-Money Laundering Controls

The AMLA or RA No. 9160 was passed in September 2001. It was subsequently amended by RA No. 9194, RA No. 10167, and RA No. 10365 in March 2003, June 2012 and February 2013, respectively. Together with the Terrorism Financing Prevention and Suppression Act (TFPSA) which was passed in June 2012 by virtue of RA No. 10168, and Anti-Terrorism Act of 2020 or R.A. 11479 these laws provide the regulatory framework for the Philippine Anti-Money Laundering and Terrorist Financing Prevention regulations. The Anti-Money Laundering Council is the financial intelligence unit tasked to implement AMLA, as amended. It is also the government agency that issues implementing guidelines to the AMLA and the TFPSA.

RCBC, as a BSP-supervised covered person, is subject to the Anti-Money Laundering and Combatting the Financing of Terrorism Regulations under Part Nine of the Manual of Regulations for Banks (MORB). Recent amendments to the said regulations were covered by BSP Circular Nos. 950 and 1022.

RCBC's Money Laundering and Terrorist Financing Prevention Program (MTPP) is aligned with the foregoing laws, rules, and regulations, and follows a risk-based approach in identifying, assessing, and mitigating money laundering, terrorist financing, and proliferation financing risks. It includes the policies, procedures, and controls that are designed to prevent, detect, and deter money laundering and terrorist financing. Some of these controls include the following:

- Delineation of the sales and the service functions of the first line of defense. The Sales function is focused on marketing and sales, relationship management, cross-selling, credit-related matters and documentation, and loan-related referrals and documentation; while the Service function is focused on BC operations such as: (a) customer servicing, which includes know your customer (KYC) and account opening, account maintenance and tellering, cash and vault management and ATM servicing, (b) BC administration, (c) customer experience management such as inquiries, feedback, and problem resolution, and (d) compliance and audit.

- The Bank also created middle offices under the Branch Operations and Control Segment, comprised of Middle Office Support Division (MOSD) and Branch Control Division (BCD), tasked to review and validate KYC documents. The MOSD ensures the uniqueness of Customer Information Files and accuracy of information captured in the Credit Risk Mitigation (CRM). It also reviews the completeness of account opening documents. The BCD, on the other hand, ensures the proper implementation of KYC, the performance of independent enhanced due diligence (EDD) based on customer risk profile, and monitoring adherence of BCs to standard operating procedures. It also acts as the additional control layer to track exceptions and decides on dispositions, recommends sanctions or additional trainings for BCs, and recommends process improvements. The key processes of the BOCD are KYC, exceptions reporting, and quality assurance.

- Use of technology in automating compliance activities such as client risk profiling, watch list and sanctions screening, transaction monitoring, and regulatory reporting. In addition to this, the Bank recently initiated use of proactive compliance analytics and investigation to gain more actionable insights and typologies.

For the controls to remain effective, the RCBC Group assesses its key exposures to ML (money laundering)/TF (terrorist financing)/PF (proliferation financing) risks by performing an Institutional ML/TF/PF Risk Assessment (IRA) focusing on evaluating the inherent ML/TF/PF risks presented by the Bank's business activities and the controls in place to mitigate the inherent ML/TF/PF risks so as to determine the overall residual risks. The institutional risk assessment is conducted at least once every two (2) years, or as often as the Board or senior management may direct, depending on the level of risks identified in the previous risk assessment, or other relevant AML/Countering Financing of Terrorism developments that may have an impact on the covered person's operations.

4.7 Impact of LIBOR Reform

As disclosed in Note 2.2(a), the Group currently has exposure to contracts which reference LIBOR and extend beyond 2021, including swaps which will transition under the International Swaps and Derivatives Association (ISDA) protocols.

In 2021, the Group established working team consisting of key personnel from treasury, finance, risk, IT, legal, compliance and lending groups to oversee the Group's transition plan. This working group put in place a transition project for those contracts which reference USD LIBOR to transition them to Secured Overnight Financing Rate (SOFR), with the aim of minimizing the potential disruption to business and mitigating operational risks and possible financial losses. This transition project is considering changes to systems, processes, risk management and valuation models, as well as managing related tax and accounting implications. Significant risk areas affected by the replacement of LIBOR include:
(i) updating systems and processes which capture USD LIBOR referenced contracts;
(ii) amending affected contracts, or existing fallback/transition clauses not operating as anticipated; and (iii) reviewing mismatches in timing of derivatives and loans transitioning from USD LIBOR and the resulting impact on economic risk management.

As confirmed by the United Kingdom's Financial Conduct Authority that LIBOR setting will either cease to be provided or no longer representative for:

- All Sterling, Euro, Swiss Franc and Japanese Yen settings and the 1-week and 2-month USD settings by December 31, 2021
- Remaining overnight, 1-month, 3-month and 12-month USD settings by June 30, 2023

The Group has decided to continue the use of USD LIBOR for its outstanding contracts until June 30, 2023. On the other hand, beginning January 1, 2022, the Group will use the Chicago Mercantile Exchange (CME) Term SOFR as reference for new loans while new derivative contracts will use SOFR.

As of December 31, 2021, the Group has identified the required changes to systems and processes and will be implemented in 2022. Internal briefings were held across all lending units to disseminate the use of the new benchmark. The Group also sent notice to identified clients advising them of benchmark developments and the Group's adoption of CME Term SOFR for new loans beginning 2022. Loan documentations have also been reviewed for consistency with the new benchmark.

The Group continues to engage with industry participants and the BSP, to ensure an orderly transition to SOFR and to minimize the risks associating from transition, and it will continue to identify and assess risks associated with the USD LIBOR replacement.

The following table contains details of the carrying values of all financial instruments the Group holds as of December 31, 2021 which reference USD LIBOR and have not yet transitioned to SOFR:

	Assets	Liabilities
Non-derivative exposed to USD LIBOR measured at amortized cost :		
Loans and receivables	P 16,717	P -
Bills payable	-	1,531
	16,717	1,531
Derivatives	168	176
Total assets/liabilities exposed to USD LIBOR	P 16,885	P 1,707

(a) Risks Arising from the Interest Rate Benchmark Reform

The following are the key risks for the Group arising from the transition:

- Liquidity Risk: There are fundamental differences between LIBOR and the alternative benchmark rate which the Group will be adopting. LIBOR are forward-looking term rates published for a period (e.g., 3 months) at the beginning of that period and include an inter-bank credit spread, whereas alternative benchmark rates are typically risk-free overnight rates published at the end of the overnight period with no embedded credit spread. These differences will result in additional uncertainty regarding floating rate interest payments which will require additional liquidity management. The Group's liquidity risk management policy has been updated to ensure sufficient liquid resources to accommodate unexpected increases in overnight rates.

- Accounting: If transition to alternative benchmark rates for certain contracts is finalized in a manner that does not permit the application of reliefs, this could lead to volatility in profit or loss if non-derivative financial instruments are modified or derecognized. In particular, the Group is not seeking to novate derivatives or close out derivatives and enter into new on-market derivatives where derivatives have been designated in hedging relationships.

- Operational Risk: The Group's current treasury management system will undergo upgrades to fully manage the transition to alternative benchmark rates and there is a risk that such upgrades are not fully functional in time, resulting in additional manual procedures which give rise to operational risks. The Group is working closely with its system provider to ensure the relevant updates are made in good time and the Group has plans in place for alternative manual procedures with relevant controls to address any potential delay.

- Litigation Risk: If no agreement is reached to implement the interest rate benchmark reform on prospective contracts, there is a risk of prolonged disputes with counterparties which could give rise to additional legal and other costs. The Group is working closely with all counterparties to avoid this from occurring.

5. CAPITAL MANAGEMENT

5.1 Regulatory Capital

The Group's lead regulator, the BSP, sets and monitors the capital requirements of the Group.

In implementing the current capital requirements, the BSP requires the Group to maintain a prescribed ratio of qualifying regulatory capital to total risk-weighted assets including market risk and operational risk computed based on BSP-prescribed formula provided under its circulars.

On January 15, 2013, the BSP issued Circular No. 781, *Basel III Implementing Guidelines on Minimum Capital Requirements*, which provides the implementing guidelines on the revised risk-based capital adequacy framework particularly on the minimum capital and disclosure requirements for universal banks and commercial banks, as well as their subsidiary banks and quasi-banks, in accordance with the Basel III standards. Circular No. 781 is effective on January 1, 2014.

The BSP has adopted the Basel III risk-based capital adequacy framework effective January 1, 2014, which requires the Group to maintain at all times the following:

(a) Common Equity Tier 1 (CET1) of at least 6.0% of risk-weighted assets;
(b) Tier 1 Capital of at least 7.5% of risk-weighted assets;

(c) Qualifying Capital (Tier 1 plus Tier 2 Capital) of at least 10.0% of risk-weighted assets; and,
(d) Capital Conservation Buffer of 2.5% of risk-weighted assets, comprised of CET1 Capital.

Under the relevant provisions of the current BSP regulations, the required minimum capitalization for the Parent Company, Rizal Microbank, RCBC Capital and RCBC LFC is P20,000, P400, P300 and P300, respectively.

In computing for the capital adequacy ratio (CAR), the regulatory qualifying capital is analyzed into two tiers which are: (i) Tier 1 Capital comprised of CET1 and AT1 capital, and, (ii) Tier 2 Capital, defined as follows and are subject to deductions as defined in relevant regulations:

(a) CET1 Capital includes the following:

(i) paid-up common stock;
(ii) common stock dividends distributable;
(iii) additional paid-in capital;
(iv) deposit for common stock subscription;
(v) retained earnings;
(vi) undivided profits;
(vii) other comprehensive income from net unrealized gains or losses on financial assets at FVOCI and cumulative foreign currency translation; and,
(viii) minority interest in subsidiary banks which are less than wholly-owned, subject to regulatory conditions.

(b) AT1 Capital includes:

(i) instruments that do not qualify as CET1, but meet the criteria set out in Annex B of BSP Circular No. 781;
(ii) financial liabilities meeting loss absorbency requirements set out in Annex E of BSP Circular No. 781;
(iii) financial liabilities bearing loss absorbency features at point of non-viability as set out in Annex F of BSP Circular No. 781;
(iv) additional paid-in capital resulting from issuance of AT1 capital;
(v) deposit for subscription to AT1 instruments; and,
(vi) minority interest in subsidiary banks which are less than wholly-owned, subject to regulatory conditions.

(c) Tier 2 Capital includes:

(i) instruments issued that are not qualified as Tier 1 capital but meet the criteria set forth in Annex C of BSP Circular No. 781;
(ii) financial liabilities bearing loss absorbency features at point of non-viability as set out in Annex F of BSP Circular No. 781;
(iii) deposit for subscription of Tier 2 capital;
(iv) appraisal increment reserve on bank premises, as authorized by the Monetary Board (MB) of the BSP;
(v) general loan loss provisions; and,

(vi) minority interest in subsidiary banks that are less than wholly-owned, subject to regulatory conditions.

In the calculation of Risk-based CAR, the total Qualifying Capital is expressed as a percentage of Total Risk-Weighted Assets based on book exposures, where Risk Weighted Assets is composed of Credit Risk, Market Risk and Operational Risk, net of specific provisions and exposures covered by CRM.

Banking book exposures shall be risk-weighted based on third party credit assessment of the individual exposure given by eligible external credit institutions and the corresponding external credit assessment are mapped with the corresponding risk weights following the Standardized Credit Risk Weights table as provided under BSP Circular No. 538, *Revised Risk-Based Capital Adequacy Framework*.

BSP Circular No. 856, *Implementing Guidelines on the Framework for Dealing with Domestic Systemically Important Banks under Basel III,* covers the implementing guidelines on the framework for dealing with domestic systemically important banks (D-SIBs) in accordance with the Basel III standards. Banks identified as D-SIBs shall be required to have higher loss absorbency, on top of the minimum CET1 capital and capital conservation buffer. Compliance with this requirement was phased-in starting January 1, 2017, with full compliance on January 1, 2019.

The Group and Parent Company's regulatory capital position based on the Basel III risk-based capital adequacy framework as reported to the BSP follows:

	Group	Parent Company
2021:		
Tier 1 Capital		
CET 1	**P 79,409**	**P 75,449**
AT1	**14,465**	**14,465**
	93,874	**89,914**
Tier 2 Capital	**5,591**	**5,522**
Total Qualifying Capital	**P 99,465**	**P 95,436**
Total Risk – Weighted Assets	**P 653,108**	**P 638,940**
Capital ratios:		
Total qualifying capital expressed as a percentage of total risk-weighted assets	**15.23%**	**14.94%**
Tier 1 Capital Ratio	**14.37%**	**14.07%**
Total CET 1 Ratio	**12.16%**	**11.81%**

		Group		Parent Company
2020:				
Tier 1 Capital				
CET 1	P	70,326	P	66,421
AT1		14,465		14,465
		84,791		80,886
Tier 2 Capital		5,017		4,895
Total Qualifying Capital	P	89,808	P	85,781
Total Risk – Weighted Assets	P	556,585	P	540,897
Capital ratios:				
Total qualifying capital expressed as a percentage of total risk-weighted assets		16.14%		15.86%
Tier 1 Capital Ratio		15.23%		14.95%
Total CET 1 Ratio		12.64%		12.28%

The foregoing capital ratios comply with the related BSP prescribed ratios.

5.2 Internal Capital Adequacy Assessment and Pillar 2 Risk-Weighted Assets

In January 2009, the BSP issued Circular No. 639 on the ICAAP and Supervisory Review Process covering universal and commercial banks on a group-wide basis. As a supplement to BSP Circular No. 538 on the Risk-Based Capital Adequacy Framework, ICAAP sets out the following principles:

(a) Banks must have a process for assessing capital adequacy relative to their risk profile, operating environment, and strategic/business plans;

(b) The Bank's ICAAP is the responsibility of the BOD, must be properly documented and approved and with policies and methodologies integrated into banking operations;

(c) The Bank's ICAAP should address other material risks – Pillar 2 risks – in addition to those covered by Pillar 1, with risk measurement methodologies linked to the assessment of corresponding capital requirement both on a BAU and stressed scenario;

(d) The minimum CAR prescribed by the BSP after accounting for Pillar 1 and other risks is retained at 10%; and,

(e) The Bank's ICAAP document must be submitted to the BSP every March 31 of each year.

The Group identified the following Pillar 2 risks as material to its operations, and consequently set out methodologies to quantify the level of capital that it must hold.

(a) *Credit Risk Concentration* – The Group has so far limited its analysis to credit risk concentration arising from the uneven sector distribution of the Group's credit exposures. Aside from using a simplified application of the HHI, concentration is estimated using the CCI. The capital charge is estimated by calculating the change in the Economic Capital (EC) requirement of the credit portfolio as an effect of credit deterioration in the largest industry exposure.

(b) *IRRBB* – It is the current and prospective negative impact on earnings and capital arising from interest rate shifts. The Group IRRBB estimates as its NII-at-risk, and accordingly deducts the same from regulatory qualifying capital. Stressed IRRBB is calculated by applying the highest observed market volatilities over a determined timeframe.

(c) *Liquidity Risk* – The Group estimates its liquidity risk under BAU scenario using standard gap analysis. Stressed liquidity risk on the other hand assumes a repeat of a historical liquidity stress, and estimates the impact if the Group were to partially defend its deposits and partially pay-off by drawing from its reserve of liquid assets.

(d) *IT Risk* – It is the current and prospective negative impact to earnings arising from failure of IT systems and realization of cyber security threats. The Group treats this risk as forming part of Operational Risk.

(e) *Compliance Risk* – It is the current and prospective negative impact on earnings and capital arising from violation of laws, regulations, ethical standards, and the like. For BAU scenario, the Group estimates compliance risk charge from historical fines and penalties as the worst-case loss determined via a frequency-severity analysis of each penalty type. The resulting compliance risk charge calculation is likewise directly deducted from earnings.

(f) *Strategic Business Risk* – It is the current and prospective negative impact on earnings and capital arising from adverse business decisions, improper implementation, and failure to respond to industry changes. The Group treats strategic business risk as a catch-all risk, and expresses its estimate as a cap on additional risk-weighted assets given other risks and the desired level of capital adequacy. The Group maintains that the assessment of strategic risk is embedded in the budget of the Group. Its capital impact therefore on a BAU case is already expressed in the amount of risk projected to be taken on in the forecast years. However, the Group does recognize the need to set up processes that would enable to put a number to the risk incurred by going into specific strategies.

(g) *Reputation Risk* – From the adoption of a theoretical measure, the Group amended its approach to reputation risk in 2011 by adopting instead a reputation risk monitoring and reporting process, run primarily by its Marketing Committee. The measurement of reputation risk under stress is folded into the Group's assessment of stressed liquidity risk.

5.3 Basel III Leverage Ratio

BSP issued Circular No. 881, *Implementing Guidelines on the Basel III Leverage Ratio Framework*, which provides the implementing guidelines on the leverage ratio framework designed to act as a supplementary measure to the risk-based capital requirements. It sets out a minimum leverage ratio of 5.00% on a solo and consolidated basis and shall be complied with at all times. The monitoring period has been set every quarter starting December 31, 2014 and extended until June 30, 2018 per BSP Circular No. 990, *Amendments to the Basel III Leverage Ratio Framework,* issued on January 22, 2018. Effective July 1, 2018, the monitoring of the leverage ratio was implemented as a Pillar I minimum requirement.

The Basel III leverage ratio intends to restrict the build-up of leverage to avoid destabilizing deleveraging processes which can damage the broader financial system and the economy. Likewise, it reinforces the risk-based requirements with a simple, non-risk based "backstop" measure. The Basel III leverage ratio is defined as the ratio of capital measure (Tier 1 Capital) and the exposure measure. Exposure measure includes: on-balance sheet exposures, securities financing transactions exposures and off-balance sheet.

The Group and Parent Company's Basel III leverage ratio as reported to the BSP are as follows:

		Group		Parent Company
2021 :				
Tier 1 Capital	**P**	**93,874**	**P**	**89,914**
Exposure measure		**963,320**		**950,191**
		9.74%		**9.46%**
2020 :				
Tier 1 Capital	P	84,791	P	80,886
Exposure measure		769,933		755,631
		11.01%		10.70%

5.4 Liquidity Coverage Ratio and Net Stable Funding Ratio

On March 10, 2016, the BSP issued Circular No. 905, *Implementation of Basel III Framework on Liquidity Standards - Liquidity Coverage Ratio and Disclosure Standards*, which provides the implementing guidelines on liquidity coverage ratio (LCR) and disclosure standards that are consistent with the Basel III framework. The LCR is the ratio of high-quality liquid assets to total net cash outflows, which should not be lower than 100.00%. Compliance with the LCR minimum requirement commenced on January 1, 2018 with the prescribed minimum ratio of 90.00% for 2018 and 100.00% effective January 1, 2019.

To promote the short-term resilience of the liquidity risk profile, the Bank maintains adequate stock of unencumbered high-quality liquid assets (HQLAs) that consists of cash or assets that can be converted into cash at little or no loss of value in private markets, to meet its liquidity needs under stressed conditions. The stock of liquid assets should enable the Bank to withstand significant liquidity shocks for at least 30 calendar days, which would give time for corrective actions to be taken by the Bank management and/or the BSP. Details of the Group's and Parent Company's LCR are summarized below.

	Group				Parent Company			
		Total Unweighted Value		Total Weighted Value		Total Unweighted Value		Total Weighted Value
December 31, 2021								
Total stock of HQLA	P	283,070	P	269,687	P	280,895	P	267,777
Expected Net Cash Outflows*		992,911		175,035		994,823		175,800
Liquidity Coverage Ratio				**154.08%**				**152.32%**
December 31, 2020								
Total stock of HQLA	P	201,781	P	196,234	P	199,145	P	193,866
Expected Net Cash Outflows*		945,349		107,677		847,479		108,563
Liquidity Coverage Ratio				182.24%				178.57%

**Includes Restricted Term Deposits and Deposits pledged as collateral or under hold-out arrangements*

Net Stable Funding Ratio (NSFR), as detailed in BSP Circular No. 1007, *Implementing Guidelines on the adoption of the Basel III Framework on Liquidity Standards - Net Stable Funding Ratio*, measures the availability of medium and long-term stable funding to support illiquid assets and business activities on an on-going basis. It is an assessment of the level of sustainable funding required to reduce funding risk over a one-year time horizon. The NSFR complements the LCR, which promotes short-term resilience of the Bank's liquidity profile.

To promote long-term resilience against liquidity risk, the Group maintains a stable funding profile in relation to the composition of its assets and off-balance sheet activities and seeks to meet this objective by limiting overreliance on short-term wholesale funding and promoting enhanced assessment of funding risk across all on- and off-balance sheet accounts.

Details of the Group's and Parent Company's Basel III NSFR are summarized below.

		Group		Parent Company
December 31, 2021				
Available stable funding	P	599,445	P	593,274
Required stable funding		503,747		504,473
Basel III NSFR		**119.00%**		**117.60%**
December 31, 2020				
Available stable funding	P	508,987	P	503,188
Required stable funding		434,859		430,458
Basel III NSFR		117.05%		116.90%

The Bank has complied with the daily minimum regulatory requirement of 100% for both ratios beginning in 2019. For the Bank's subsidiaries, per BSP Memo dated March 8, 2019, the observation period for LCR and NSFR was extended up to the end of December 2019 to give sufficient time to build up liquidity position given the combined impact of these liquidity measures.

6. CATEGORIES AND OFFSETTING OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

6.1 Carrying Amounts and Fair Values by Category

The following table summarizes the carrying amounts and corresponding fair values of financial assets and financial liabilities presented in the statements of financial position.

	Group			
	2021		2020	
	Carrying Amount	**Fair Value**	Carrying Amount	Fair Value
Financial Assets				
At amortized cost:				
Cash and cash equivalents	**P 199,277**	**P 199,277**	P 203,731	P 203,731
Investment securities - net	**163,611**	**164,277**	43,026	43,416
Loans and receivables - net	**507,739**	**538,971**	448,603	475,331
Other resources	**825**	**825**	931	931
	871,452	**903,350**	696,291	723,409
At fair value:				
Investment securities at FVTPL	**5,863**	**5,863**	4,888	4,888
Investment securities at FVOCI	**49,761**	**49,761**	40,150	40,150
	55,624	**55,624**	45,038	45,038
	P 927,076	**P 958,974**	P 741,329	P 768,447
Financial Liabilities				
At amortized cost:				
Deposit liabilities	**P 672,459**	**P 672,708**	P 535,788	P 536,233
Bills payable	**55,904**	**55,904**	13,167	13,167
Bonds payable	**87,215**	**87,687**	90,439	93,611
Accrued interest and other expenses	**5,559**	**5,559**	5,393	5,393
Other liabilities	**20,724**	**20,724**	19,008	19,008
	841,861	**842,582**	663,795	667,412
At fair value –				
Derivative financial liabilities	**926**	**926**	1,484	1,484
	P 842,787	**P 843,508**	P 665,279	P 668,896

	Parent Company			
	2021		2020	
	Carrying Amount	**Fair Value**	Carrying Amount	Fair Value
Financial Assets				
At amortized cost:				
Cash and cash equivalents	**P 197,673**	**P 197,673**	P 201,500	P 201,500
Investment securities - net	**162,899**	**163,560**	42,513	42,902
Loans and receivables - net	**499,901**	**531,276**	441,167	468,224
Other resources	**823**	**823**	924	924
	861,296	**893,332**	686,104	713,550
At fair value:				
Investment securities at FVTPL	**4,879**	**4,879**	3,815	3,815
Investment securities at FVOCI	**48,399**	**48,399**	38,813	38,813
	53,278	**53,278**	42,628	42,628
	P 914,574	**P 946,610**	P 728,732	P 756,178
Financial Liabilities				
At amortized cost:				
Deposit liabilities	**P 674,414**	**P 674,663**	P 536,748	P 537,193
Bills payable	**46,399**	**46,399**	4,200	4,200
Bonds payable	**87,215**	**87,687**	90,439	93,611
Accrued interest and other expenses	**5,391**	**5,391**	5,196	5,196
Other liabilities	**19,641**	**19,641**	17,832	17,832
	833,060	**833,781**	654,415	658,032
At fair value –				
Derivative financial liabilities	**926**	**926**	1,484	1,484
	P 833,986	**P 834,707**	P 655,899	P 659,516

Except for investment securities at amortized cost, deposit liabilities, loans and receivables, and bonds payable with fair value disclosed different from their carrying amounts, management considers that the carrying amounts of other financial assets and financial liabilities presented above 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 Group and Parent Company's investment securities at amortized cost and other financial assets and liabilities measured at fair value on a recurring basis are determined based on the procedures and methodologies discussed in Note 7.2.

6.2 Offsetting Financial Assets and Financial Liabilities

The following financial assets presented in the statements of financial position at gross amounts are covered by enforceable master netting arrangements and similar arrangements:

	Group				
			Related amounts not set off in the statements of financial position		
	Notes	**Gross amounts recognized in the statements of financial position**	**Financial instruments**	**Collateral received**	**Net amount**
December 31, 2021					
Loans and receivables – Receivable from customers	11	**P 512,731**	**(P 7,464)**	**P -**	**P 505,267**
Trading and investment securities – Investment securities at amortized cost	10	**163,611**	**(45,378)**	**-**	**118,233**
Other resources – Margin deposits	15	**73**	**-**	**(73)**	**-**
December 31, 2020					
Loans and receivables – Receivable from customers	11	P 456,565	(P 8,581)	P -	P 447,984
Trading and investment securities – Investment securities at amortized cost	10	43,026	(4,199)	-	38,827
Other resources – Margin deposits	15	17	-	(17)	-

	Notes	Parent Company Gross amounts recognized in the statements of financial position	Related amounts not set off in the statements of financial position Financial instruments	Collateral received	Net amount
December 31, 2021					
Loans and receivables – Receivable from customers	11	**P 504,933**	**(P 7,457)**	**P -**	**P 497,476**
Trading and investment securities – Investment securities at amortized cost	10	**162,899**	**(45,378)**	**-**	**117,521**
Other resources – Margin deposits	15	**73**	**-**	**(73)**	**-**
December 31, 2020					
Loans and receivables – Receivable from customers	11	P 448,663	(P 8,428)	P -	P 440,235
Trading and investment securities – Investment securities at amortized cost	10	42,513	(4,199)	-	38,314
Other resources – Margin deposits	15	17	-	(17)	-

The following financial liabilities presented in the statements of financial position at gross amounts are covered by enforceable master netting arrangements and similar agreements:

	Notes	Group Gross amounts recognized in the statements of financial position	Related amounts not set off in the statements of financial position Financial instruments	Collateral received	Net amount
December 31, 2021					
Deposit liabilities	17	**P 672,459**	**(P 7,464)**	**P -**	**P 664,995**
Bills payable	18	**55,904**	**(45,378)**	**-**	**10,526**
Other liabilities – Derivative financial liabilities	22	**926**	**-**	**(73)**	**853**
December 31, 2020					
Deposit liabilities	17	P 535,788	(P 8,581)	P -	P 527,207
Bills payable	18	13,167	(4,199)	-	8,968
Other liabilities – Derivative financial liabilities	22	1,484	-	(17)	1,467

	Notes	Parent Company Gross amounts recognized in the statements of financial position	Related amounts not set off in the statements of financial position Financial instruments	Collateral received	Net amount
December 31, 2021					
Deposit liabilities	17	**P 674,414**	**(P 7,457)**	**P -**	**P 666,957**
Bills payable	18	**46,399**	**(45,378)**		**1,021**
Other liabilities – Derivative financial liabilities	22	**926**	**-**	**(73)**	**853**
December 31, 2020					
Deposit liabilities	17	P 536,748	(P 8,428)	P -	P 528,320
Bills payable	18	4,200	(4,199)	-	1
Other liabilities – Derivative financial liabilities	22	1,484	-	(17)	1,467

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

For purposes of presenting the above information, the related amounts not set off in the statements of financial position pertains to: (a) hold-out deposits and equity securities which serve as the Group's collateral enhancement for certain loans and receivables; (b) collaterized bills payable under sale and repurchase agreements; and, (c) margin deposits which serve as security for outstanding financial market transactions and other liabilities. The financial instruments that can be set off are only disclosed to the extent of the amounts of the Group's obligations to counterparties.

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 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 value of another instrument which is substantially the same after taking into account the related credit risk of counterparties, or is calculated based on the expected cash flows of the underlying net asset base of the instrument.

When the Group uses valuation technique, it maximizes the use of observable market data where it is available and rely as little as possible on entity specific estimates. However, areas such as credit risk (both own and counterparty), volatilities and correlations require management to make 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. Changes in assumptions could also affect the reported fair value of the financial instruments. The Group uses judgment to select a variety of valuation techniques and to make assumptions that are mainly based on market conditions existing at the end of each reporting period.

7.2 Financial Instruments Measured at Fair Value

The table below shows the fair value hierarchy of the Group's classes of financial assets and financial liabilities measured at fair value in the statements of financial position on a recurring basis as of December 31, 2021 and 2020.

	Group			
	Level 1	Level 2	Level 3	Total
2021:				
Financial assets at FVTPL:				
Government securities	**P 4,330**	**P -**	**P -**	**P 4,330**
Corporate debt securities	**35**	**-**	**-**	**35**
Equity securities	**232**	**-**	**-**	**232**
Derivative assets	**11**	**1,255**	**-**	**1,266**
	4,608	**1,255**	**-**	**5,863**
Financial assets at FVOCI:				
Equity securities	**1,497**	**355**	**1,815**	**3,667**
Government securities	**28,682**	**-**	**-**	**28,682**
Corporate debt securities	**17,412**	**-**	**-**	**17,412**
	47,591	**355**	**1,815**	**49,761**
Total Resources at Fair Value	**P 52,199**	**P 1,610**	**P 1,815**	**P 55,624**
Derivative liabilities	**P 1**	**P 925**	**P -**	**P 926**
2020:				
Financial assets at FVTPL:				
Government securities	P 1,876	P -	P -	P 1,876
Corporate debt securities	710	-	-	710
Equity securities	1,173	-	-	1,173
Derivative assets	15	1,114	-	1,129
	3,774	1,114	-	4,888
Financial assets at FVOCI:				
Equity securities	1,573	287	1,570	3,430
Government securities	20,563	-	-	20,563
Corporate debt securities	16,157	-	-	16,157
	38,293	287	1,570	40,150
Total Resources at Fair Value	P 42,067	P 1,401	P 1,570	P 45,038
Derivative liabilities	P 2	P 1,482	P -	P 1,484

	Parent Company			
	Level 1	Level 2	Level 3	Total
2021:				
Financial assets at FVTPL:				
Government securities	**P 3,346**	**P -**	**P -**	**P 3,346**
Corporate debt securities	**35**	**-**	**-**	**35**
Equity securities	**232**	**-**	**-**	**232**
Derivative assets	**11**	**1,255**	**-**	**1,266**
	3,624	**1,255**	**-**	**4,879**
Financial assets at FVOCI:				
Equity securities	**645**	**355**	**1,788**	**2,788**
Government securities	**28,682**	**-**	**-**	**28,682**
Corporate debt securities	**16,929**	**-**	**-**	**16,929**
	46,256	**355**	**1,788**	**48,399**
Total Resources at Fair Value	**P 49,880**	**P 1,610**	**P 1,788**	**P 53,278**
Derivative liabilities	**P 1**	**P 925**	**P -**	**P 926**
2020:				
Financial assets at FVTPL:				
Government securities	P 1,808	P -	P -	P 1,808
Corporate debt securities	606	-	-	606
Equity securities	272	-	-	272
Derivative assets	15	1,114	-	1,129
	2,701	1,114	-	3,815
Financial assets at FVOCI:				
Equity securities	689	287	1,542	2,518
Government securities	20,563	-	-	20,563
Corporate debt securities	15,732	-	-	15,732
	36,984	287	1,542	38,813
Total Resources at Fair Value	P 39,685	P 1,401	P 1,542	P 42,628
Derivative liabilities	P 2	P 1,482	P -	P 1,484

Described below and in the succeeding page are the information about how the fair values of the Group's classes of financial assets and financial liabilities were determined.

(a) Government and Corporate Debt Securities

The fair value of the Group's government and corporate debt securities are categorized within Level 1 of the fair value hierarchy.

Fair values of peso-denominated government debt securities issued by the Philippine government, are determined based on the reference price per Bloomberg which used BVAL. These BVAL reference rates are computed based on the weighted price derived using an approach based on a combined sequence of proprietary BVAL algorithms of direct observations or observed comparables.

Fair values of actively traded corporate debt securities are determined based on their market prices quoted in the Philippine Dealing Holdings System or based on the direct reference price per Bloomberg at the end of each reporting period; hence, categorized within Level 1.

(b) *Equity Securities*

The fair values of certain equity securities classified as financial assets at FVTPL and at FVOCI as of December 31, 2021 and 2020 were valued based on their market prices quoted in the PSE at the end of each reporting period; hence, categorized within Level 1.

Level 2 category includes the Group's investments in proprietary club shares as their prices are not derived from a market considered as active due to lack of trading activities among market participants at the end of each reporting period.

For equity securities which are not traded in an active market and with fair value categorized within Level 3, their fair value is determined through valuation techniques such as market-based approach (price-to-book value method) using current market values of comparable listed entities, net asset value method, or dividend discounted model.

The price-to-book value method used to value a certain equity security of the Parent Company uses the price-to-book ratio of comparable listed entities as multiple in determining the fair value adjusted by a certain valuation discount. The price-to-book ratio used in the fair value measurement as of December 31, 2021 and 2020 ranges from 0.84:1 to 1.56:1 and from 0.26:1 to 1.53:1, respectively. Increase or decrease in the price-to-book ratio and net asset value would result in higher or lower fair values, all else equal.

For a certain preferred equity security, the Group has used the discounted cash flow method applying a discount rate of 4.8% and 5.5%, which is based on the latest available weighted cost of capital of the investee company, in 2021 and 2020, respectively, to determine the present value of future cash flows from dividends or redemption expected to be received from the instrument.

A reconciliation of the carrying amounts of Level 3 FVOCI equity securities at the beginning and end of 2021 and 2020 is shown below.

	Group		Parent Company	
	2021	2020	**2021**	2020
Balance at beginning of year	**P 1,570**	P 1,612	**P 1,542**	P 1,581
Fair value gains (losses) - net	**245**	(42)	**246**	(39)
Balance at end of year	**P 1,815**	P 1,570	**P 1,788**	P 1,542

There were neither transfers between the levels of the fair value hierarchy nor gains or losses recognized in the statements of profit or loss for Level 3 financial assets in 2021 and 2020.

(c) *Derivative Assets and Liabilities*

The fair value of the Group's derivative assets categorized within Level 1 is determined be the current mid-price based on the last trading transaction as defined by third-party market makers.

On the other hand, the fair values of certain derivative financial assets and liabilities categorized within Level 2 were determined through valuation techniques using net present value computation which makes use of the streams of cash flows related to the derivative financial instruments such as interest rate swaps and currency swaps.

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

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

	Group			
	Level 1	Level 2	Level 3	Total
2021:				
Financial Assets:				
Cash and other cash items	**P 14,691**	**P -**	**P -**	**P 14,691**
Due from BSP	**130,170**	**-**	**-**	**130,170**
Due from other banks	**12,162**	**-**	**-**	**12,162**
Loans arising from reverse repurchase agreements	**11,691**	**-**	**-**	**11,691**
Interbank loans	**30,563**	**-**	**-**	**30,563**
Investment securities at amortized cost	**163,566**	**-**	**711**	**164,277**
Loans and receivables - net	**-**	**-**	**538,971**	**538,971**
Other resources	**-**	**-**	**825**	**825**
	P 362,843	**P -**	**P 540,507**	**P 903,350**
Financial Liabilities:				
Deposit liabilities	**P -**	**P -**	**P 672,708**	**P 672,708**
Bills payable	**-**	**-**	**55,904**	**55,904**
Bonds payable	**-**	**87,687**	**-**	**87,687**
Accrued interest and other expenses	**-**	**-**	**5,559**	**5,559**
Other liabilities	**-**	**-**	**20,724**	**20,724**
	P -	**P 87,687**	**P 754,895**	**P 842,582**
2020:				
Financial Assets:				
Cash and other cash items	P 16,520	P -	P -	P 16,520
Due from BSP	115,467	-	-	115,467
Due from other banks	15,707	-	-	15,707
Loans arising from reverse repurchase agreements	13,356	-	-	13,356
Interbank loans	42,681	-	-	42,681
Investment securities at amortized cost	42,908	-	508	43,416
Loans and receivables - net	-	-	475,331	475,331
Other resources	-	-	931	931
	P 246,639	P -	P 476,770	P 723,409
Financial Liabilities:				
Deposit liabilities	P -	P -	P 536,233	P 536,233
Bills payable	-	-	13,167	13,167
Bonds payable	-	93,611	-	93,611
Accrued interest and other expenses	-	-	5,393	5,393
Other liabilities	-	-	19,008	19,008
	P -	P 93,611	P 573,801	P 667,412

	Parent Company			
	Level 1	Level 2	Level 3	Total
2021:				
Financial Assets:				
Cash and other cash items	**P 14,663**	**P -**	**P -**	**P 14,663**
Due from BSP	**128,931**	**-**	**-**	**128,931**
Due from other banks	**11,860**	**-**	**-**	**11,860**
Loans arising from reverse repurchase agreements	**11,656**	**-**	**-**	**11,656**
Interbank loans	**30,563**	**-**	**-**	**30,563**
Investment securities at amortized cost	**163,560**	**-**	**-**	**163,560**
Loans and receivables - net	**-**	**-**	**531,276**	**531,276**
Other resources	**-**	**-**	**823**	**823**
	P 361,233	**P -**	**P 532,099**	**P 893,332**
Financial Liabilities:				
Deposit liabilities	**P -**	**P -**	**P 674,663**	**P 674,663**
Bills payable	**-**	**-**	**46,399**	**46,399**
Bonds payable	**-**	**87,687**	**-**	**87,687**
Accrued interest and other expenses	**-**	**-**	**5,391**	**5,391**
Other liabilities	**-**	**-**	**19,641**	**19,641**
	P -	**P 87,687**	**P 746,094**	**P 833,781**
2020:				
Financial Assets:				
Cash and other cash items	P 16,464	P -	P -	P 16,464
Due from BSP	113,949	-	-	113,949
Due from other banks	15,214	-	-	15,214
Loans arising from reverse repurchase agreements	13,226	-	-	13,226
Interbank loans	42,647	-	-	42,647
Investment securities at amortized cost	42,902	-	-	42,902
Loans and receivables - net	-	-	468,224	468,224
Other resources	-	-	924	924
	P 244,402	P -	P 469,148	P 713,550
Financial Liabilities:				
Deposit liabilities	P -	P -	P 537,193	P 537,193
Bills payable	-	-	4,200	4,200
Bonds payable	-	93,611	-	93,611
Accrued interest and other expenses	-	-	5,196	5,196
Other liabilities	-	-	17,832	17,832
	P -	P 93,611	P 564,421	P 658,032

The following are the methods used to determine the fair value of financial assets and financial liabilities not presented in the statements of financial position at their fair values:

(a) *Due from BSP and Other Banks, and Loans and Receivables Arising from Reverse Repurchase Agreements*

Due from BSP pertains to deposits made to the BSP for clearing and reserve requirements, overnight and term deposit facilities, while loans and receivables arising from reverse repurchase agreements pertain to loans and receivables from BSP arising from overnight lending from excess liquidity. Due from other banks includes 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 the discounted cash flows using prevailing money market interest rates for debt with similar credit risk and remaining maturity, which for short-term deposits approximate the nominal value.

(b) *Investment Securities at Amortized Cost*

The fair value of investment securities at amortized cost consisting of government securities and corporate debt securities is determined based on reference prices appearing in Bloomberg.

(c) *Deposits Liabilities and Borrowings*

The estimated fair value of demand 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 Level 2 fair value of bonds payable and subordinated debt is determined based on the average of ask and bid prices as appearing on Bloomberg. For bills 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.

(d) *Other Resources and Other Liabilities*

Due to their short duration, the carrying amounts of other resources and liabilities in the statements of financial position are considered to be reasonable approximation of their fair values.

7.4 Fair Value Disclosures for Investment Properties Carried at Cost

The total estimated fair values of the investment properties amounted to P11,610, P10,772 and P10,045 in the Group's financial statements and P11,181, P10,307 and P9,595 in the Parent Company's financial statements as of December 31, 2021, 2020 and 2019, respectively (see Note 14). The fair value hierarchy of these properties as of December 31, 2021 and 2020 is categorized as Level 3.

The fair values of the Group and Parent Company's investment properties were determined based on the following approaches:

(a) *Fair Value Measurement for Land*

The Level 2 fair value of land was derived using the market comparable approach that reflects the recent transaction prices for similar properties in nearby locations as determined by an independent appraiser. Under this approach, when sales prices and/or actual sales transaction of comparable land in close proximity are used in the valuation of the subject property with no adjustment on the price, fair value is included in Level 2.

On the other hand, if the observable and recent prices of the reference properties were adjusted for differences in key attributes such as property size, location and zoning, and accessibility, or any physical or legal restrictions on the use of the property, the fair value will be categorized as Level 3. The most significant input into this valuation approach is the price per square feet, hence, the higher the price per square feet, the higher the fair value.

(b) *Fair Value Measurement for Buildings and Improvements*

The Level 3 fair value of the buildings was determined using the cost approach that reflects the cost to a market participant to construct an asset of comparable usage, construction standards, design and layout, 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 in the valuation techniques for investment properties in both years.

8. SEGMENT INFORMATION

8.1 Business Segments

The Group's operating businesses are managed separately according to the nature of services provided (primary segments) and the different geographical markets served (secondary segments) with a segment representing a strategic business unit. The Group's business segments follow:

(a) *Retail* – principally handles the BCs offering a wide range of consumer banking products and services. Products offered include individual customer's deposits, credit cards, home and mortgage loans, auto, personal and microfinance loans, overdraft facilities, payment remittances and foreign exchange transactions. It also upsells bank products [unit investment trust funds (UITFs), etc.] and cross-sells bancassurance products. The segment includes the net assets of the servicing entity, RBSC, and portfolios of Rizal Microbank.

(b) *Corporate* – principally handles distinct customer segments: (i) conglomerates; (ii) large corporations; (iii) emerging corporates, which focus on large middle accounts often referred to as the "Next 500 Corporations"; (iv) Japanese multinationals with a strong presence in the country; (v) Filipino-Chinese businesses; and, (vi) Korean businesses. This segment includes portfolio of RCBC LFC.

(c) *Small and Medium Enterprises (SME)* – principally handles the financial needs of the country's small businesses or the SMEs and the Commercial Middle Market segments. The SME Banking Group provides a holistic approach serving both the financial (e.g., loans, deposits, investments, insurance, etc.) and non-financial needs (e.g., networking, financial literacy trainings, etc.) of client to help them grow their business. Clients are the entrepreneurs located in different parts of the country and spread in various industry sectors such as manufacturing, wholesale and retail trade, construction, hotels, agriculture, and healthcare, among others.

(d) *Treasury* – principally provides money market, trading and treasury services, as well as the management of the Group's funding operations by use of treasury bills, government securities and placements and acceptances with other banks, through treasury and wholesale banking.

(e) *Others* – consists of other subsidiaries except for RBSC and Rizal Microbank, which is presented as part of Retail, and RCBC LFC which is presented under Corporate.

These segments are the basis on which the Group reports its primary segment information. Other operations of the Group comprise the operations and financial control groups. Transactions between segments are conducted at estimated market rates on an arm's length basis.

Segment revenues and expenses that are directly attributable to primary business segment and the relevant portions of the Group's revenues and expenses that can be allocated to that business segment are accordingly reflected as revenues and expenses of that business segment.

For secondary segments, revenues and expenses are attributed to geographic areas based on the location of the resources producing the revenues, and in which location the expenses are incurred.

There were no changes in the Group's operating segments in 2021 and 2020.

8.2 Analysis of Primary Segment Information

Primary segment information (by business segment) on a consolidated basis as of and for the years ended December 31, 2021, 2020 and 2019 follow:

	Retail	Corporate	SME	Treasury	Others	Total
2021:						
Revenues						
From external customers						
Interest income	P 22,901	P 21,285	P 5,164	P 5,613	P 91	P 55,054
Interest expense	(7,648)	(10,564)	(2,273)	(2,193)	(10)	(22,688)
Net interest income	15,253	10,721	2,891	3,420	81	32,366
Non-interest income	6,188	2,257	162	1,524	1,163	11,294
	21,441	12,978	3,053	4,944	1,244	43,660
Intersegment revenues						
Interest income	-	8	1,271	-	11	1,290
Non-interest income	564	-	-	-	-	564
	564	8	1,271	-	11	1,854
Total net revenues	22,005	12,986	4,324	4,944	1,255	45,514
Expenses						
Operating expenses excluding depreciation and amortization	19,122	3,240	608	791	710	24,471
Depreciation and amortization	1,200	694	27	51	24	1,996
	20,322	3,934	635	842	734	26,467
Segment operating income	P 1,683	P 9,052	P 3,689	P 4,102	P 521	P 19,047
Total resources	P 155,373	P 295,922	P 76,409	P 236,958	P 4,944	P 769,606
Total liabilities	P 450,053	P 352,807	P 88,464	P 23,076	P 1,395	P 915,795

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	Retail	Corporate	SME	Treasury	Others	Total
2020:						
Revenues						
From external customers						
Interest income	P 28,426	P 18,995	P 4,976	P 3,891	P 125	P 56,413
Interest expense	(10,719)	(11,742)	(2,920)	(2,814)	19	(28,176)
Net interest income	17,707	7,253	2,056	1,077	144	28,237
Non-interest income	4,742	1,905	142	7,022	(9)	13,802
	22,449	9,158	2,198	8,099	135	42,039
Intersegment revenues						
Interest income	-	3,539	1,913	-	11	5,463
Non-interest income	617	-	-	-	-	617
	617	3,539	1,913	-	11	6,080
Total net revenues	23,066	12,697	4,111	8,099	146	48,119
Expenses						
Operating expenses excluding depreciation and amortization	19,791	1,824	1,970	1,006	220	24,811
Depreciation and amortization	945	521	16	42	14	1,538
	20,736	2,345	1,986	1,048	234	26,349
Segment operating income	P 2,330	P 10,352	P 2,125	P 7,052	(P 88)	P 21,771
Total resources	P 153,127	P 267,468	P 66,421	P 184,695	P 4,994	P 676,705
Total liabilities	P 393,074	P 267,700	P 67,247	P 27,640	P 1,296	P 756,957
2019:						
Revenues						
From external customers						
Interest income	P 37,465	P 20,012	P 4,608	P 6,978	P 103	P 69,166
Interest expense	(17,303)	(13,879)	(3,648)	(6,164)	(42)	(41,036)
Net interest income	20,162	6,133	960	814	61	28,130
Non-interest income	4,928	2,266	171	8,207	1,163	16,735
	25,090	8,399	1,131	9,021	1,224	44,865
Intersegment revenues						
Interest income	-	3,463	1,940	-	8	5,411
Non-interest income	591	-	-	-	-	591
	591	3,463	1,940	-	8	6,002
Total net revenues	25,681	11,862	3,071	9,021	1,232	50,867
Expenses						
Operating expenses excluding depreciation and amortization	15,910	5,412	1,129	1,109	285	23,845
Depreciation and amortization	418	381	7	14	14	834
	16,328	5,793	1,136	1,123	299	24,679
Segment operating income	P 9,353	P 6,069	P 1,935	P 7,898	P 933	P 26,188
Total resources	P 150,515	P 228,346	P 52,419	P 109,199	P 5,467	P 545,946
Total liabilities	P 423,075	P 80,654	P 43,722	P 14,703	P 1,287	P 563,441

8.3 Reconciliation

Presented below is a reconciliation of the Group's segment information to the key financial information presented in its consolidated financial statements.

	2021	2020	2019
Revenue			
Total segment revenues	**P 45,514**	P 48,119	P 50,866
Elimination of intersegment revenues	**(9,120)**	(10,206)	(15,008)
Net revenues as reported in profit or loss	**P 36,394**	P 37,913	P 35,858
Profit or loss			
Total segment operating income	**P 19,047**	P 21,771	P 26,188
Elimination of intersegment profit	**(11,964)**	(16,753)	(20,800)
Group net profit as reported in profit or loss	**P 7,083**	P 5,018	P 5,388

	2021	2020	2019
Resources			
Total segment resources	**P 769,606**	P 676,705	P 545,946
Unallocated assets	**189,527**	95,401	221,133
Total resources	**P 959,133**	P 772,106	P 767,079
Liabilities			
Total segment liabilities	**P 915,795**	P 756,957	P 563,441
Unallocated liabilities (elimination of intersegment liabilities)	**(67,742)**	(86,229)	120,788
Total liabilities	**P 848,053**	P 670,728	P 684,229

8.4 Analysis of Secondary Segment Information

Secondary information (by geographical locations) as of and for the years ended December 31, 2021, 2020 and 2019 follow:

	Philippines	**Asia and Europe**	**Total**
2021:			
Statement of profit or loss			
Total income	P 44,660	P 14	P 44,674
Total expenses	35,569	22	37,591
Net profit (loss)	**P 7,091**	**(P 8)**	**P 7,083**
Statement of financial position			
Total resources	**P 959,022**	**P 111**	**P 959,133**
Total liabilities	**P 848,048**	**P 5**	**P 848,053**
Other segment information			
Depreciation and amortization	**P 3,020**	**P -**	**P 3,020**
2020:			
Statement of profit or loss			
Total income	P 48,572	P 12	P 48,584
Total expenses	43,545	21	43,566
Net profit (loss)	P 5,027	(P 9)	P 5,018
Statement of financial position			
Total resources	P 771,994	P 112	P 772,106
Total liabilities	P 670,722	P 6	P 670,728
Other segment information			
Depreciation and amortization	P 2,924	P -	P 2,924

	Philippines	Asia and Europe	Total
2019:			
Statement of profit or loss			
Total income	P 51,067	P -	P 51,067
Total expenses	45,666	14	45,680
Net profit (loss)	P 5,401	(P 14)	P 5,387
Statement of financial position			
Total resources	P 767,050	P 29	P 767,079
Total liabilities	P 684,155	P 74	P 684,229
Other segment information			
Depreciation and amortization	P 2,503	P -	P 2,503

9. CASH AND CASH EQUIVALENTS

The components of Cash and Cash Equivalents follow:

	Group		Parent Company	
	2021	2020	**2021**	2020
Cash and other cash items	**P 14,691**	P 16,520	**P 14,663**	P 16,464
Due from BSP	**130,170**	115,467	**128,931**	113,949
Due from other banks	**12,162**	15,707	**11,860**	15,214
Loans arising from reverse repurchase agreements	**11,691**	13,356	**11,656**	13,226
Interbank loans receivables (see Note 11)	**30,563**	42,681	**30,563**	42,647
	P 199,277	P 203,731	**P 197,673**	P 201,500

Cash consists primarily of funds in the form of Philippine currency notes and coins, and includes foreign currencies acceptable to form part of the international reserves in the Group's vault and those in the possession of tellers, including ATMs. Other cash items include cash items other than currency and coins on hand, such as checks drawn on other banks or other branches after the clearing cut-off time until the close of the regular banking hours.

Due from BSP represents the aggregate balance of deposit accounts maintained with the BSP primarily to meet reserve requirements (see Note 17), to serve as clearing account for interbank claims and to comply with existing trust regulations.

Loans arising from repurchase agreements, which normally mature within 30 days, represents overnight placements with private entities where the underlying securities cannot be sold or repledged to parties other than the contracting party.

Due from BSP includes:

	Group		Parent Company	
	2021	2020	**2021**	2020
Demand deposit and secured settlement accounts	**P 65,074**	P 49,539	**P 63,931**	P 48,119
Term deposit	**45,086**	28,000	**45,000**	28,000
Overnight deposit	**20,010**	37,928	**20,000**	37,830
	P 130,170	P 115,467	**P 128,931**	P 113,949

The balance of Due from other banks account represents regular deposits with the following:

	Group		Parent Company	
	2021	2020	**2021**	2020
Foreign banks	**P 10,386**	P 14,422	**P 10,371**	P 14,406
Local banks	**1,776**	1,285	**1,489**	808
	P 12,162	P 15,707	**P 11,860**	P 15,214

Interest on placements with BSP and other banks, which is presented as part of Interest Income on Others in the statements of profit or loss, consist of:

	Group		
	2021	2020	2019
BSP	**P 755**	P 929	P 269
Other banks	**8**	35	165
	P 763	P 964	P 434

	Parent Company		
	2021	2020	2019
BSP	**P 752**	P 917	P 262
Other banks	**3**	28	153
	P 755	P 945	P 415

Interests on loans arising from reverse repurchase agreements and interbank loan receivables are presented as part of Interest on loans and receivables (see Note 11).

The Group's deposits in other banks and in BSP arising from overnight lending from excess liquidity earn annual interest as follows:

	2021	2020	2019
BSP	**1.50% - 2.50%**	1.50% - 2.50 %	3.50% - 4.50%
Other banks	**0.00% - 2.00%**	0.00% - 2.00 %	0.00% - 2.50%

10. TRADING AND INVESTMENT SECURITIES

This account is comprised of:

	Group		Parent Company	
	2021	2020	**2021**	2020
Financial assets at FVTPL	**P 5,863**	P 4,888	**P 4,879**	P 3,815
Financial assets at FVOCI	**49,761**	40,150	**48,399**	38,813
Investment securities at amortized cost	**163,611**	43,026	**162,899**	42,513
	P 219,235	P 88,064	**P 216,177**	P 85,141

10.1 Financial Assets at Fair Value Through Profit or Loss

Financial assets at FVTPL is composed of the following:

	Group		Parent Company	
	2021	2020	**2021**	2020
Government securities	**P 4,330**	P 1,876	**P 3,346**	P 1,808
Corporate debt securities	**35**	710	**35**	606
Equity securities	**232**	1,173	**232**	272
Derivative financial assets	**1,266**	1,129	**1,266**	1,129
	P 5,863	P 4,888	**P 4,879**	P 3,815

The carrying amounts of financial assets at FVTPL are classified as follows:

	Group		Parent Company	
	2021	2020	**2021**	2020
Held-for-trading	**P 4,365**	P 2,586	**P 3,381**	P 2,414
Designated as at FVTPL	**232**	1,173	**232**	272
Derivative financial assets	**1,266**	1,129	**1,266**	1,129
	P 5,863	P 4,888	**P 4,879**	P 3,815

Equity securities are composed of listed shares of stock traded at the PSE and shares of stock designated as at FVTPL. Dividend income earned by the Group on these equity securities amounted to P22, P20 and P10 in 2021, 2020 and 2019, respectively, and P22, P9 and nil for the Parent Company in 2021, 2020 and 2019, respectively, which are included as part of Miscellaneous income under the Other Operating Income account in the statements of profit or loss (see Note 25.1)

Treasury bills and other debt securities issued by the government and other private corporations earn annual interest as follows:

	2021	2020	2019
Peso denominated	**1.37% - 8.12%**	2.38% - 15.00%	3.25% - 15.00%
Foreign currency denominated	**1.37% - 10.62%**	2.46% - 10.63%	2.05% - 10.63%

Derivative instruments used by the Group include foreign currency short-term forwards, cross-currency swaps, debt warrants and options. Foreign currency forwards represent commitments to purchase/sell on a future date at a specific exchange rate. Foreign currency short-term swaps are simultaneous foreign currency spot and forward deals with tenor of one year.

Debt warrants attached to the bonds and other debt securities allows the Group to purchase additional debt securities from the same contracting issuer at the same price and yield as the initial purchased security. Option is a derivative financial instrument that specifies a contract between two parties for a future transaction on an asset at a reference price.

The aggregate contractual or notional amount of derivative financial instruments and the aggregative fair values of derivative financial assets and financial liabilities as of December 31 both in the Group and Parent Company's financial statements are shown below.

	Notional Amount	Fair Values	
		Assets	Liabilities
2021:			
Currency swaps and forwards	**P 85,909**	**P 985**	**P 745**
Interest rate swaps and futures	**18,854**	**272**	**177**
Debt warrants	**5,364**	**8**	**-**
Credit default swap	**11,216**	**1**	**4**
	P 121,343	**P 1,266**	**P 926**
2020:			
Currency swaps and forwards	P 38,432	P 681	P 1,111
Interest rate swaps and futures	21,440	435	370
Debt warrants	5,051	10	-
Credit default swap	192	3	3
	P 65,115	P 1,129	P 1,484

Derivative liabilities are shown as Derivative financial liabilities as part of Other Liabilities account in the statements of financial position (see Note 22). The significant portion of such derivative liabilities have maturity periods of less than a year.

Other information about the fair value measurement of the Group and Parent Company's financial assets at FVTPL are presented in Note 7.2.

10.2 Financial Assets at Fair Value Through Other Comprehensive Income

Financial assets at FVOCI as of December 31 consist of:

	Group		Parent Company	
	2021	2020	**2021**	2020
Quoted equity securities	**P 1,852**	P 1,860	**P 1,000**	P 976
Unquoted equity securities	**1,815**	1,570	**1,788**	1,542
Government debt securities	**28,682**	20,563	**28,682**	20,563
Corporate debt securities	**17,412**	16,157	**16,929**	15,732
	P 49,761	P 40,150	**P 48,399**	P 38,813

The Group made an irrevocable designation for the above local equity securities as at FVOCI because they are held for long-term investments and are neither held-for-trading nor designated as at FVTPL. Unquoted equity securities include investments in non-marketable equity securities of private companies.

Included in the carrying amount of the Group's financial assets at FVOCI as of December 31, 2021 and 2020 are unquoted equity securities with fair value of P1,815 and P1,570, respectively, determined using the net asset value method, dividend discounted model, or a market-based approach (price-to-book value method), hence, categorized under Level 3 of the fair value hierarchy (see Note 7.2).

As a result of the Group's disposal of certain equity securities classified as at FVOCI in 2019, the related fair value loss recognized in other comprehensive income under Revaluation Reserves account amounting to P41, were transferred to Surplus account (see Note 23.6). There were no disposal of equity securities classified as at FVOCI in 2021 and 2020.

In 2021, 2020 and 2019, dividends on these equity securities were recognized amounting to P83, P58 and P294 by the Group and, P17, P7 and P95 by the Parent Company, respectively, which are included as part of Miscellaneous income under the Other Operating Income account in the statements of profit or loss (see Note 25.1).

10.3 Investment Securities at Amortized Cost

Investment securities at amortized cost as of December 31 consist of:

	Group		Parent Company	
	2021	2020	**2021**	2020
Government securities	**P 132,969**	P 37,022	**P 132,162**	P 36,932
Corporate debt securities	**30,789**	6,146	**30,789**	5,629
	163,758	43,168	**162,951**	42,561
Allowance for impairment	**(147)**	(142)	**(52)**	(48)
	P 163,611	P 43,026	**P 162,899**	P 42,513

Interest rates per annum on government securities and corporate debt securities range from the following:

	2021	2020	2019
Peso denominated securities	**2.63% - 8.13%**	3.38% - 8.60%	3.63% - 8.60%
Foreign currency-denominated securities	**0.18% - 10.63%**	0.18% - 10.63%	1.63% - 10.63%

In 2020, the Group and Parent Company disposed of certain local and foreign sovereign bonds, and corporate bonds denominated in Philippine peso, US dollar, and euro under its HTC portfolio with aggregate carrying amount of P62,960, resulting in net gains amounting to P2,678. The disposal was made in order to address the capital adequacy ratio requirements after complying with the real estate stress test. There is no similar transaction in 2021.

Management had assessed that the disposals of the investment securities under the HTC portfolio in 2020 are consistent with the Group's HTC business model with the objective of collecting contractual cash flows and have qualified under the permitted sale events set forth in the Group's business model in managing financial assets manual and the requirements of PFRS 9.

The above disposals of investment securities were approved by the Executive Committee of the Parent Company in compliance with the documentation requirements of the BSP.

The Group recognized ECL on investment securities at amortized cost amounting to P14 in 2021, P1 in 2020, and P12 in 2019 (see Note 16). The Parent Company recognized ECL in investment at amortized cost amounting to P12 in 2021 and nil for 2020 and 2019 (see Note 16).

Certain government securities are deposited with the BSP as security for the Group's faithful compliance with its fiduciary obligations in connection with its trust operations (see Note 27).

As of December 31, 2021 and 2020, certain investment securities of both the Group and Parent Company were pledged as collateral for bills payable under repurchase agreements (see Note 18).

10.4 Interest Income from Trading and Investment Securities

Interest income from trading and investment securities recognized by the Group and Parent Company in 2021, 2020 and 2019 are shown below.

	Group		
	2021	2020	2019
Financial assets at FVTPL	**P 96**	P 223	P 368
Debt securities at FVOCI	**1,343**	848	1,418
Investment securities at amortized cost	**3,009**	1,008	2,712
	P 4,448	P 2,079	P 4,498

	Parent		
	2021	2020	2019
Financial assets at FVTPL	**P 92**	P 213	P 358
Debt securities at FVOCI	**1,320**	804	1,397
Investment securities at amortized cost	**2,967**	974	2,684
	P 4,379	P 1,991	P 4,439

10.5 Trading and Securities Gains (Losses)

The Group and the Parent Company recognized trading and securities gains (losses) in its trading or disposals of investment securities, including their fair value changes, in 2021, 2020, and 2019 are as follows:

	Group		
	2021	2020	2019
Profit or loss:			
Financial assets at FVTPL	**P 309**	P 286	P 611
Debt securities at FVOCI	**554**	3,103	3,196
Investment securities at amortized cost	**-**	2,695	3,685
	P 863	P 6,084	P 7,492
Other comprehensive income (loss):			
Equity securities at FVOCI	**P 548**	(P 570)	(P 586)
Debt securities at FVOCI	**(823)**	339	(116)
	(P 275)	(P 231)	(P 702)

	Parent		
	2021	2020	2019
Profit or loss:			
Financial assets at FVTPL	**P 314**	P 264	P 581
Debt securities at FVOCI	**542**	3,098	3,166
Investment securities at amortized cost	**-**	2,678	3,685
	P 856	P 6,040	P 7,432
Other comprehensive income (loss):			
Equity securities at FVOCI	**P 490**	(P 591)	(P 837)
Debt securities at FVOCI	**(823)**	339	(116)
	(P 333)	(P 252)	(P 953)

11. LOANS AND RECEIVABLES

This account consists of the following (see also Note 28.1)

	Group		Parent Company	
	2021	2020	**2021**	2020
Receivables from customers:				
Loans and discounts	**P 452,495**	P 400,846	**P 446,954**	P 395,850
Credit card receivables	**35,563**	31,973	**35,563**	31,973
Customers' liabilities on acceptances, import bills and trust receipts	**20,662**	18,868	**20,662**	18,868
Lease contract receivables	**2,296**	3,115	**-**	-
Bills purchased	**2,033**	2,109	**2,033**	2,109
Receivables financed	**297**	343	**-**	-
	513,346	457,254	**505,212**	448,800
Unearned discount	**(615)**	(689)	**(279)**	(137)
	512,731	456,565	**504,933**	448,663
Other receivables:				
Interbank loans receivables (see Note 9)	**30,563**	42,681	**30,563**	42,647
Accrued interest receivables	**7,372**	5,677	**7,058**	5,505
Accounts receivables [see Note 28.5(a)]	**4,114**	3,661	**3,603**	3,631
UDSCL	**989**	965	**989**	965
Sales contract receivables	**797**	928	**657**	766
	43,835	53,912	**42,870**	53,514
	556,566	510,477	**547,803**	502,177
Allowance for impairment (see Notes 4.4.9 and 16)	**(18,264)**	(19,193)	**(17,339)**	(18,363)
	P 538,302	P 491,284	**P 530,464**	P 483,814

Receivables from customers' portfolio earn average annual interest or range of interest as follows:

	2021	2020	2019
Loans and discounts:			
Philippine peso	**7.37%**	8.58%	8.69%
Foreign currencies	**4.37%**	4.62%	4.96%
Credit card receivables	**14.23% - 18.87%**	16.52% - 29.87%	23.58% - 24.86%
Lease contract receivables	**8% - 26.00%**	9.50% - 26.00%	8.00% - 18.00%
Receivables financed	**11% - 22.00%**	10.00% - 24.00%	8.00% - 14.00%

Effective November 3, 2020, interest rates and cash advance fees charged by the Parent Company to its credit card holders were updated to comply with BSP Circular No. 1098, *Ceiling on Interest of Finance Charges of Credit Card Receivables*. Under the new circular, interest or finance charges on all credit card transactions are not to exceed an annual interest rate of 24%, except credit card installment loans which shall be subject to monthly add-on rate not exceeding 1%. In addition, the maximum amount that can be charged for Cash Advances is capped at P200 (absolute amount) per transaction.

Included in UDSCL is a 10-year note with carrying amount of P742 and P264 as of December 31, 2021 and 2020, respectively, and bears 6.44% interest per annum. This pertains to the agreement entered into in June 2017 with a third party for the sale of various foreclosed real properties with book value of P1,127, for a total consideration of P1,385; of which P396 and P989 (with present value of P742 on date of sale) were in the form of cash and note receivable, respectively.

Also included in the Parent Company's accounts receivables is the amount due from RCBC JPL which was acquired from Rizal Microbank in 2015 amounting to P222. As of December 31, 2021 and 2020, the outstanding balance amounted to P127 and P147, respectively. The receivable amount is unsecured, noninterest-bearing and payable in cash on demand (see Note 28). The receivable has been appropriately provided with allowance for ECL.

Interest income earned by the Bank from its loans and other receivables is broken down as follows:

	Group		
	2021	2020	2019
Loans and discounts	**P 26,090**	P 25,965	P 25,529
Credit card receivables	**4,890**	6,759	5,939
Others	**920**	1,185	1,178
	P 31,900	P 33,909	P 32,646

	Parent Company		
	2021	2020	2019
Loans and discounts	**P 25,924**	P 25,770	P 24,644
Credit card receivables	**4,890**	6,759	5,939
Others	**281**	502	1,165
	P 31,095	P 33,031	P 31,748

The breakdown of the receivables from customers' portfolio as to secured and unsecured follows:

	Group 2021	Group 2020	Parent Company 2021	Parent Company 2020
Secured:				
Real estate mortgage	**P 132,782**	P 135,421	**P 132,094**	P 134,077
Chattel mortgage	**66,351**	53,456	**66,254**	50,990
Hold-out deposits	**7,464**	8,581	**7,457**	8,428
Other securities	**14,280**	17,181	**14,248**	13,585
	220,877	214,639	**220,053**	207,080
Unsecured	**291,854**	241,926	**284,880**	241,583
	P 512,731	P 456,565	**P 504,933**	P 448,663

A reconciliation of the allowance for impairment on loans and receivables at the beginning and end of 2021 and 2020 is shown below (see Note 16).

	Group 2021	Group 2020	Parent Company 2021	Parent Company 2020
Balance at beginning of year	**P 19,193**	P 13,430	**P 18,363**	P 12,726
Impairment losses during the year	**4,994**	9,093	**4,895**	8,672
Accounts written off and others	**(5,923)**	(3,330)	**(5,919)**	(3,035)
Balance at end of year	**P 18,264**	P 19,193	**P 17,339**	P 18,363

12. INVESTMENTS IN SUBSIDIARIES AND ASSOCIATES

The components of the carrying values of investments in and advances to subsidiaries and associates are as follows (refer to Note 1.2 for the effective percentage of ownership, line of business, and country of incorporation of subsidiaries and associates):

	Group and Parent Company 2021	Group and Parent Company 2020
Acquisition costs of associates:		
HCPI	**P 91**	P 91
LIPC	**57**	57
YCS	**4**	4
	152	152
Accumulated equity in net earnings:		
Balance at beginning of year	**187**	292
Share in net earnings (losses) for the year	**12**	(94)
Share in actuarial losses on defined benefit plan	**(3)**	(8)
Others	**(4)**	(3)
Balance at end of year	**192**	187
	P 344	P 339

	Note	Parent Company 2021	Parent Company 2020
Acquisition costs of subsidiaries:			
RCBC Capital		**P 2,231**	P 2,231
Rizal Microbank		**1,242**	1,242
RCBC LFC		**1,987**	1,987
NPHI		**609**	609
RCBC JPL		**403**	403
RCBC Forex		**150**	150
RCBC Telemoney		**72**	72
RCBC IFL		**58**	58
Cajel		**51**	51
Total acquisition costs		**6,803**	6,803
Accumulated equity in net earnings:			
Balance at beginning of year		**(162)**	477
Share in net earnings for the year		**465**	24
Share in actuarial gains on defined benefit plan		**50**	-
Share in fair value gains on financial assets at FVOCI		**58**	21
Cash dividends	28	**(524)**	(1,243)
Others		**(7)**	559
Balance at end of year		**(120)**	(162)
Investments in subsidiaries		**6,683**	6,641
Investments in associates		**344**	339
		P 7,027	P 6,980

At the end of each reporting period, the Group has no material interest in unconsolidated structured entities.

Also, the Parent Company and its subsidiaries did not enter in any contractual arrangements to provide financial support to any entities under the Group.

The Parent Company earned dividends from its subsidiaries and associates amounted to P524 and nil, respectively, in 2021, P1,243 and nil, respectively, in 2020, and P536 and nil, respectively, in 2019 (see Note 28). Dividends receivable as of December 31, 2021 and 2020 amounted to P500 and P600, respectively.

12.1 Information About Investments in Associates

The Parent Company, under a shareholder's agreement, agreed with another stockholder of HCPI to commit and undertake to vote, as a unit, the shares of stock thereof, which they proportionately own and hold, and to regulate the conduct of the voting and the relationship between them with respect to their exercise of their voting rights. As a result of this agreement, the Parent Company is able to exercise significant influence over the operating and financial policies of HCPI. Thus, HCPI has been considered by the Parent Company as an associate despite holding only 12.88% ownership interest.

The investments in LIPC and YCS have an aggregate carrying value of P11 and nil as of December 31, 2021 and 2020, respectively, which are insignificant to the Group.

The investments in LIPC and YCS have an aggregate carrying value of P11 and nil as of December 31, 2021 and 2020, respectively, which are insignificant to the Group.

The table below presents the summary of the unaudited financial information of HCPI as of and for the years ended December 31, 2021 and 2020. HCPI uses a fiscal year ending March 31 as its reporting period.

	2021	2020
Financial position:		
Current assets	**P 3,835**	P 5,384
Noncurrent assets	**1,063**	1,297
Current liabilities	**1,758**	3,496
Noncurrent liabilities	**420**	549
Financial performance:		
Revenues	**11,113**	2,851
Gross income	**1,070**	937
Operating income (loss)	**255**	(916)
Net income (loss)	**221**	(620)
Other comprehensive loss	**(25)**	(62)
Total comprehensive income (loss)	**196**	(682)
Cash flows:		
Net cash from (used in):		
Operating activities	**(930)**	1,148
Investing activities	**(31)**	90
Cash at the beginning	**1,640**	402
Cash at the end	**679**	1,640

On February 22, 2020, HCPI announced its plan to cease its production facility in Laguna in consideration of efficient allocation and distribution of its resources in Asia and Oceania. Automobile sales and after-sales services will continue through its regional network.

13. BANK PREMISES, FURNITURE, FIXTURES AND EQUIPMENT

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

	Group					
	Land	Buildings	Furniture, Fixtures and Equipment	Leasehold Rights and Improvements	Right-of-use Asset	Total
December 31, 2021						
Cost	P 1,267	P 3,822	P 11,470	P 914	P 3,626	P 21,099
Accumulated depreciation and amortization	-	(1,742)	(6,697)	-	-	(8,439)
Net carrying amount	**P 1,267**	**P 2,080**	**P 4,773**	**P 914**	**P 3,626**	**P 12,660**
December 31, 2020						
Cost	P 1,286	P 3,780	P 12,914	P 1,306	P 6,113	P 25,399
Accumulated depreciation and amortization	-	(1,661)	(8,281)	(339)	(2,056)	(12,337)
Net carrying amount	P 1,286	P 2,119	P 4,633	P 967	P 4,057	P 13,062
January 1, 2020						
Cost	P 1,270	P 3,673	P 10,161	P 1,094	P 3,283	P 19,481
Accumulated depreciation and amortization	-	(1,563)	(6,041)	-	(818)	(8,422)
Net carrying amount	P 1,270	P 2,110	P 4,120	P 1,094	P 2,465	P 11,059

	Parent Company					
	Land	Buildings	Furniture, Fixtures and Equipment	Leasehold Rights and Improvements	Right-of-use Asset	Total
December 31, 2021						
Cost	P 1,222	P 3,788	P 8,828	P 880	P 4,150	P 18,868
Accumulated depreciation and amortization	-	(1,720)	(6,577)	-	-	(8,297)
Net carrying amount	**P 1,222**	**P 2,068**	**P 2,251**	**P 880**	**P 4,150**	**P 10,571**
December 31, 2020						
Cost	P 1,249	P 3,733	P 8,603	P 1,214	P 5,954	P 20,753
Accumulated depreciation and amortization	-	(1,630)	(6,387)	(284)	(1,952)	(10,253)
Net carrying amount	P 1,249	P 2,103	P 2,216	P 930	P 4,002	P 10,500
January 1, 2020						
Cost	P 1,249	P 3,625	P 8,193	P 1,056	P 3,208	P 17,331
Accumulated depreciation and amortization	-	(1,534)	(5,919)	-	(807)	(8,260)
Net carrying amount	P 1,249	P 2,091	P 2,274	P 1,056	P 2,401	P 9,071

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

	Group					
	Land	Buildings	Furniture, Fixtures and Equipment	Leasehold Rights and Improvements	Right-of-Use Asset	Total
Balance at January 1, 2021, net of accumulated depreciation and amortization	P 1,286	P 2,119	P 4,633	P 967	P 4,057	P 13,062
Additions	-	93	1,020	220	855	2,188
Reclassifications	4	3	(1)	-	-	6
Disposals	(23)	(11)	(36)	(17)	(1)	(88)
Depreciation and amortization charges for the period	-	(124)	(843)	(256)	(1,285)	(2,508)
Balance at December 31, 2021, net of accumulated depreciation and amortization	**P 1,267**	**P 2,080**	**P 4,773**	**P 914**	**P 3,626**	**P 12,660**
Balance at January 1, 2020, net of accumulated depreciation and amortization	P 1,270	P 2,110	P 4,120	P 1,094	P 2,465	P 11,059
Additions	17	118	1,462	167	2,789	4,553
Reclassifications	-	19	2	9	1	31
Disposals	(1)	(2)	(80)	(7)	(2)	(92)
Depreciation and amortization charges for the period	-	(126)	(871)	(296)	(1,196)	(2,489)
Balance at December 31, 2020, net of accumulated depreciation and amortization	P 1,286	P 2,119	P 4,633	P 967	P 4,057	P 13,062

	Parent Company					
	Land	Buildings	Furniture, Fixtures and Equipment	Leasehold Rights and Improvements	Right-of-use Asset	Total
Balance at January 1, 2021, net of accumulated depreciation and amortization	P 1,249	P 2,103	P 2,216	P 930	P 4,002	P 10,500
Additions	-	93	688	214	1,180	2,175
Reclassifications	4	3	-	-	-	7
Disposals	(31)	(9)	(38)	(17)	-	(95)
Depreciation and amortization charges for the period	-	(122)	(615)	(247)	(1,032)	(2,016)
Balance at December 31, 2021, net of accumulated depreciation and amortization	**P 1,222**	**P 2,068**	**P 2,251**	**P 880**	**P 4,150**	**P 10,571**
Balance at January 1, 2020 net of accumulated depreciation and amortization	P 1,249	P 2,091	P 2,274	P 1,056	P 2,401	P 9,071
Additions	-	117	497	159	2,746	3,519
Disposals	-	(2)	(36)	(1)	-	(39)
Depreciation and amortization charges for the period	-	(122)	(519)	(284)	(1,145)	(2,070)
Reclassification	-	19	-	-	-	19
Balance at December 31, 2020, net of accumulated depreciation and amortization	P 1,249	P 2,103	P 2,216	P 930	P 4,002	P 10,500

Under BSP rules, investments in bank premises, furniture, fixtures and equipment should not exceed 50% of the respective unimpaired capital of the Parent Company and its bank subsidiaries. As of December 31, 2021 and 2020, the Parent Company and its bank subsidiary have satisfactorily complied with this BSP requirement.

The cost of the Group and the Parent Company's fully depreciated bank premises, furniture, fixtures and equipment that are still in use in operations is P6,974 and P6,334, respectively, as of December 31, 2021, and P6,812 and P6,178, respectively, as of December 31, 2020.

The Group has leases for certain offices and branches. With the exception of short-term leases and leases of low-value underlying assets, each lease is reflected as a right-of-use asset and a Lease liability as part of Bank Premises, Furniture, Fixtures and Equipment and Other Liabilities (see Note 22), respectively. Variable lease payments which do not depend on an index or a rate are excluded from the initial measurement of the Lease liability and Right-of-use asset.

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

The use of extension and termination options gives the Group added flexibility in the event it has identified more suitable premises in terms of cost and/or location or determined that it is advantageous to remain in a location beyond the original lease term. An option is only exercised when consistent with the Group's regional markets strategy and the economic benefits of exercising the option exceeds the expected overall cost.

14. INVESTMENT PROPERTIES

Investment properties pertain to land, buildings or condominium units acquired by the Group, in settlement of loans from defaulting borrowers through foreclosure or dacion in payment and properties which are held for rental.

The gross carrying amounts and accumulated depreciation and impairment losses of investment properties at the beginning and end of 2021 and 2020 are shown below.

	Group			Parent Company		
	Land	Buildings	Total	Land	Buildings	Total
December 31, 2021						
Cost	P 1,658	P 3,096	P 4,754	P 1,518	P 3,070	P 4,588
Accumulated depreciation	-	(905)	(905)	-	(892)	(892)
Accumulated impairment (see Note 16)	(17)	(260)	(277)	(1)	(260)	(261)
Net carrying amount	**P 1,641**	**P 1,931**	**P 3,572**	**P 1,517**	**P 1,918**	**P 3,435**
December 31, 2020						
Cost	P 1,783	P 3,044	P 4,827	P 1,634	P 3,021	P 4,655
Accumulated depreciation	-	(791)	(791)	-	(777)	(777)
Accumulated impairment (see Note 16)	(40)	(271)	(311)	(27)	(271)	(298)
Net carrying amount	P 1,743	P 1,982	P 3,725	P 1,607	P 1,973	P 3,580
January 1, 2020						
Cost	P 1,797	P 3,035	P 4,832	P 1,649	P 3,016	P 4,665
Accumulated depreciation	-	(638)	(638)	-	(625)	(625)
Accumulated impairment (see Note 16)	(18)	(34)	(52)	(18)	(5)	(23)
Net carrying amount	P 1,779	P 2,363	P 4,142	P 1,631	P 2,386	P 4,017

The reconciliations of the carrying amounts of investment properties at the beginning and end of 2021 and 2020 follow:

	Group		Parent Company	
	2021	2020	**2021**	2020
Balance at January 1, net of accumulated depreciation and impairment	**P 3,725**	P 4,142	**P 3,580**	P 4,017
Additions	**437**	64	**436**	39
Disposals	**(71)**	(147)	**(66)**	(144)
Reclassification	**(7)**	(20)	**(7)**	(20)
Depreciation charges for the year	**(172)**	(126)	**(172)**	(126)
Impairment losses	**(340)**	(188)	**(336)**	(186)
Balance at December 31, net of accumulated depreciation and impairment	**P 3,572**	P 3,725	**P 3,435**	P 3,580

As of December 31, 2021 and 2020, there is no restriction on the realizability of investment properties or the remittance of income and proceeds of disposal therefrom.

14.1 Additions and Disposals of Investment Properties

The Group and the Parent Company foreclosed real and other properties totaling P437 and P436, respectively, in 2021, and P64 and P39, respectively, in 2020, in settlement of certain loan accounts.

As of December 31, 2021, and 2020, foreclosed investment properties still subject to redemption period by the borrowers amounted to P638 and P409, respectively, for the Group and P633 and P407, respectively, for the Parent Company.

The total gain recognized by the Group and the Parent Company from disposals of investment properties amounted to P30 and P18, respectively, in 2021, and P23 and P20, respectively, in 2020, which is presented as part of Gains on assets sold under Miscellaneous Income account in the statements of profit or loss (see Note 25.1).

14.2 Income and Expenses from Investment Properties Held for Rental

The Group and Parent Company earned rental income from investment properties amounting to P229 in 2021, P215 in 2020 and P275 in 2019, and are presented as part of Rentals under Miscellaneous Income account in the statements of profit or loss [see Notes 25.1 and 28.5(a)]. Expenses incurred by the Group and Parent Company in relation to the investment properties include taxes and licenses amounting to P16 and P13, respectively, in 2021, P6 and P5, respectively, in 2020 and P20 and P17, respectively, in 2019.

15. OTHER RESOURCES

Other resources consist of the following:

	Notes	Group 2021	Group 2020	Parent Company 2021	Parent Company 2020
Assets held-for-sale and disposal group	15.3	P 5,295	P 4,182	P 4,745	P 3,648
Creditable withholding taxes		2,412	2,154	2,398	2,148
Prepaid expenses	15.4	1,651	1,003	1,449	856
Software – net	15.2	1,338	1,184	1,332	1,175
Branch licenses	15.1	1,000	1,000	1,000	1,000
Refundable and other deposits		528	720	526	713
Goodwill	15.5	426	426	269	269
Unused stationery and supplies		419	311	412	300
Deferred charges		390	176	369	153
Returned checks and other cash items		196	155	196	155
Margin deposits	15.6	73	17	73	17
Miscellaneous	15.7	640	1,012	863	1,125
		14,368	12,340	13,632	11,559
Allowance for impairment	15.3, 15.5	(1,268)	(802)	(1,135)	(670)
		P 13,100	P 11,538	P 12,497	P 10,889

15.1 Branch Licenses

Branch licenses represent the rights granted by the BSP to the Parent Company in 2015 to establish a certain number of branches in the restricted areas in the country. Branch licenses are annually tested for impairment either individually or at the cash generating unit level, as appropriate when circumstances indicate that the intangible asset may be impaired. As of December 31, 2021 and 2020, the Group has assessed that the recoverable amount of these branch licenses, which is based on the last transacted price, is higher than the carrying value; hence, no impairment loss is required to be recognized in the statements of profit or loss.

15.2 Software

A reconciliation of the carrying amounts of software at the beginning and end of 2021 and 2020 is shown below.

	Group 2021	Group 2020	Parent Company 2021	Parent Company 2020
Balance at beginning of year	P 1,184	P 902	P 1,175	P 895
Additions	494	591	493	575
Amortization	(340)	(309)	(336)	(295)
	P 1,338	P 1,184	P 1,332	P 1,175

Amortization charges for software are included as part of Depreciation and Amortization account in the statements of profit or loss.

15.3 Assets Held-for-Sale and Disposal Group

	Group 2021	Group 2020	Parent Company 2021	Parent Company 2020
Equity securities	P 1,842	P 1,931	P 1,842	P 1,931
Foreclosed automobiles	2,812	1,599	2,673	1,488
Foreclosed real properties	641	652	230	229
	5,295	4,182	4,745	3,648
Allowance for impairment	(1,118)	(652)	(1,118)	(652)
Balance at end of year	P 4,177	P 3,530	P 3,627	P 2,996

Assets held-for-sale represents assets that are approved by management to be immediately sold in its present condition and management believes that the sale is highly probable at the time of reclassification. These mainly include real properties, automobiles, equipment and other assets foreclosed by the Parent Company and RCBC LFC in settlement of loans and real properties held for sale by NHPI and Cajel.

15.3.1 HHIC Equity Securities

In May 2019, RCBC, together with other local banks, entered into a Detailed Implementing Agreement with Hanjin Heavy Industries and Construction Philippines, Inc. (HHIC-Phil), a subsidiary of Hanjin Heavy Industry Co., Ltd. (HHIC), a Korean shipbuilding company, to convert a part of the former's debt into a 20% stake in HHIC (see Note 29.7). Accordingly, in June 2019, the Bank received 7,100,129 common shares representing 8.53% ownership in HHIC in settlement of HHIC-Phil's gross outstanding loan amounting to USD63.5 million or P3,286.

As of December 31, 2021, the Bank estimates that it will need two more years to complete the sale of the shares under its current disposal plan. This is covered by the exception in PFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*, which states that an extension of the period required to complete a sale does not preclude an asset (or disposal group) from being classified as held for sale if the delay is caused by events or circumstances beyond the entity's control and there is sufficient evidence that the entity remains committed to its plan to sell the asset. As a result, the carrying amount of the investment is measured at the lower of their carrying amount, immediately prior to its classification as held-for-sale and its fair value less costs to sell.

15.3.2 Other Foreclosed Assets

In 2009, in accordance with the letter received by RCBC Savings Bank, Inc. (RSB), which was merged with RCBC on July 22, 2019, from BSP dated March 26, 2009, RSB reclassified certain investment properties to equity investments as its investment in subsidiaries in its separate financial statements which resulted in the inclusion of the assets, liabilities, income and expenses of the SPCs of RSB in the Group's consolidated financial statements.

The approval of the BSP through the MB is subject to the following conditions: (i) RSB should immediately dissolve the SPCs once the underlying dacioned real property assets were sold or disposed of; and, (ii) the equity investments in the SPCs shall be disposed of within a reasonable period of time.

In partial compliance with the requirements of the BSP, the management of RSB resolved that certain SPCs be disposed of through the conversion of the SPCs' existing common shares into redeemable preferred shares which shall be subsequently redeemed. Accordingly, at their special meeting held on September 30, 2013, the respective BOD and the stockholders of the SPCs approved that a portion of the common shares of the SPCs owned by RSB shall be converted to redeemable preferred shares and that for such purpose, the Articles of Incorporation of the SPCs below have been amended. The amendment was approved by the SEC on November 28, 2013. The involved SPCs are as follows:

(a) Goldpath Properties Development Corporation
(b) Eight Hills Property and Development Corporation
(c) Crescent Park Property and Development Corporation
(d) Niceview Property and Development Corporation
(e) Lifeway Property and Development Corporation
(f) Gold Place Properties Development Corporation
(g) Princeway Properties Development Corporation
(h) Greatwings Properties Development Corporation
(i) Top Place Properties Development Corporation
(j) Crestview Properties Development Corporation
(k) Best Value Property and Development Corporation

On December 23, 2013, the BOD of RSB approved the foregoing SPCs' redemption of the SPCs' respective preferred shares for a total consideration of P1,555. This transaction resulted in the recognition of a redemption loss by RSB amounting to P185 which is reported in the 2013 consolidated financial statements of the Group as part of Other Reserves account pending the eventual retirement of these redeemable preferred shares. On May 30, 2014 and on October 16, 2014, the retirement of the preferred shares was approved by the BOD and SEC, respectively; hence, the retirement of shares was executed by RSB. Consequently, the amount of the redemption loss was transferred directly to Surplus account from Other Reserves account as the redemption of shares of these SPCs is considered transaction between owners within the Group (see Note 23.8).

In relation to the SPCs disposal plan and to fully comply with the requirements of the BSP, the BOD of RSB has approved in its meeting held on May 30, 2014 the shortening of the corporate life of these SPCs until December 31, 2015 which was approved by the SEC in various dates during the last quarter of 2014. In 2019, the Group has completed the liquidation of the operations of SPCs. NPHI and Cajel are retained by the Parent Company and are presented under Investment in Subsidiaries and Associates account (see Note 12).

15.4 Prepaid Expenses

Prepaid expenses include prepayments for insurance, taxes and licenses, and software maintenance.

15.5 Goodwill

The Parent Company recognized goodwill amounting to P269 which arose from its acquisition of the net assets of another bank in 1998 from which it had expected future economic benefits and synergies that will result from combining the operations of the acquired bank.

Goodwill is subject to annual impairment testing and whenever there is an indication of impairment. In 2021 and 2020, the Parent Company engaged a third party consultant 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 Parent Company's senior management covering a five-year period. The Group also considered key assumptions in determining cash flow projections which includes discount rates and growth rates. 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 rate applied to cash flow projections is 10.55% and 8.28% respectively, while the growth rate used to extrapolate cash flows beyond five-year period is 6.46% and 6.47% for 2021 and 2020, respectively. On the basis of the report of the third-party consultant dated Januar 26, 2022 and January 21, 2021 with valuation date as of the end of 2021 and 2020 respectively, the Group has assessed that the recoverable amount of the goodwill is higher than its carrying value. Accordingly, no impairment loss is required to be recognized in the statements of profit or loss in both years.

In addition, the goodwill pertaining to the acquisition of Rizal Microbank amounting to P157 million was fully provided with impairment in 2011.

15.6 Margin Deposits

Margin deposits serve as security for outstanding financial market transactions and other liabilities. These are designed to provide additional credit risk protection for counterparty exposures.

15.7 Miscellaneous

Miscellaneous account includes various deposits, advance rentals, service provider fund, trading right and other assets.

NOTES TO FINANCIAL STATEMENTS

16. ALLOWANCE FOR EXPECTED CREDIT LOSS AND IMPAIRMENT

Changes in the amounts of allowance for impairment are summarized below.

	Notes	Group 2021	Group 2020	Parent Company 2021	Parent Company 2020
Balance at beginning of year					
Loans and receivables	11	**P 19,193**	P 13,430	**P 18,363**	P 12,726
Investment securities at amortized cost	10.3	**142**	142	**48**	49
Investment properties	14	**311**	52	**298**	23
Other resources	15	**802**	723	**670**	591
		20,448	14,347	**19,379**	13,389
Impairment losses – net:					
Loans and receivables	11	**4,994**	9,093	**4,895**	8,672
Investment securities at amortized cost	10.3	**14**	1	**12**	-
Loan commitments		**5**	14	**5**	14
Investment properties	14	**340**	188	**336**	186
Other resources	15	**695**	79	**685**	79
		6,048	9,375	**5,933**	8,951
Charge-offs and other adjustments during the year		**(6,540)**	(3,274)	**(6,525)**	(2,961)
Balance at end of year					
Loans and receivables	11	**18,264**	19,193	**17,339**	18,363
Investment securities at amortized cost	10.3	**147**	142	**52**	48
Investment properties	14	**277**	311	**261**	298
Other resources	15	**1,268**	802	**1,135**	670
		P 19,956	P 20,448	**P 18,787**	P 19,379

17. DEPOSIT LIABILITIES

The following is the breakdown of deposit liabilities (see also Note 28.2):

	Group 2021	Group 2020	Parent Company 2021	Parent Company 2020
Demand	**P 144,810**	P 107,172	**P 146,793**	P 108,445
Savings	**228,470**	195,164	**228,944**	195,394
Time	**293,097**	227,370	**292,595**	226,827
Long-term Negotiable Certificate of Deposits (LTNCD)	**6,082**	6,082	**6,082**	6,082
	P 672,459	P 535,788	**P 674,414**	P 536,748

The Parent Company's LTNCD as of December 31, 2021 and 2020 are as follows:

Issuance Date	Maturity Date	Coupon Interest	Outstanding Balance
September 28, 2018	March 28, 2024	5.50%	**P 3,580**
August 11, 2017	February 11, 2023	3.75%	**2,502**
			P 6,082

The Parent Company's LTNCD were used in the expansion of its term deposit base to support long-term asset growth and for other general funding purposes.

The Group's deposit liabilities bear annual interest as follows:

	2021	2020	2019
Demand, Savings and Time deposits	**0.10% - 6.00%**	0.10% - 5.00%	0.10% - 4.50%

The total interest expense incurred by the Group and the Parent Company on deposit liabilities are as follows:

	Group 2021	Group 2020	Group 2019
Demand	**P 524**	P 327	P 217
Savings	**597**	503	449
Time	**2,639**	4,118	7,149
LTNCD	**299**	340	811
	P 4,059	P 5,288	P 8,626

	Parent Company 2021	Parent Company 2020	Parent Company 2019
Demand	**P 528**	P 335	P 220
Savings	**597**	504	451
Time	**2,632**	4,086	7,116
LTNCD	**299**	340	811
	P 4,056	P 5,265	P 8,598

Under existing BSP regulations, non-FCDU deposit liabilities, including tax exempt LTNCDs, of the Parent Company and Rizal Microbank is subject to reserve requirement of 14% and 4%, respectively, at the end of 2019 until April 2, 2020. In 2020, BSP reduced the reserve requirements for both the Parent Company and Rizal Microbank effective April 3 and July 31 by 200 basis points and 100 basis points, respectively. As of December 31, 2021 and 2020, reserve requirement ratio for the Parent Company and Rizal Microbank is at 12% and 3%, respectively.

Peso-denominated LTNCDs of the Parent Company are subject to reserve requirement equivalent of 4% in 2021 and 2020. As of December 31, 2021 and 2020, the Group is in compliance with such regulatory reserve requirements.

Under BSP Circular No. 1063, *Reduction in Reserve Requirements*, cash in vault and regular reserve deposit accounts with BSP are excluded as eligible forms of compliance for the reserve requirements. The required reserve shall only be kept in the form of demand deposit accounts with the BSP. Available reserves consist of Due from BSP amounting to P65,074, P49,539 and P53,094 for the Group and P63,931, P48,119 and P52,353 for the Parent Company as of December 31, 2021, 2020 and 2019, respectively (see Note 9).

18. BILLS PAYABLE

This account consists of borrowings from:

	Group		Parent Company	
	2021	2020	**2021**	2020
Foreign banks	**P 46,398**	P 4,183	**P 46,398**	P 4,183
Local banks	**9,505**	8,983	**-**	16
Others	**1**	1	**1**	1
	P 55,904	P 13,167	**P 46,399**	P 4,200

Borrowings from foreign and local banks are subject to annual fixed interest rates as follows:

	2021	2020	2019
Group			
Peso denominated	**4.15 - 7.50%**	4.66% - 4.96%	2.00% - 7.35%
Foreign currency denominated	**0.0001% - 0.725%**	0.22% - 0.54%	0.04% - 2.68%
Parent Company			
Peso denominated	**-**	4.66% - 4.96%	-
Foreign currency denominated	**0.0001% - 0.725%**	0.22% - 0.54%	0.04% - 2.68%

The total interest expense incurred by the Group on the bills payable amounted to P420 in 2021, P933 in 2020, and P2,069 in 2019. The total interest expense incurred by the Parent Company on the bills payable amounted to P22 in 2021, P434 in 2020, and P1,606 in 2019.

As of December 31, 2021 and 2020, bills payable availed under repurchase agreements amounting to P45,378 and P4,199 are secured by the Group and Parent Company's investment securities.

19. BONDS PAYABLE

The composition of this account for the Group and the Parent Company follows:

Issuance Date	Maturity Date	Coupon Interest	Face Value (in millions)	Outstanding Balance 2021	Outstanding Balance 2020
March 31, 2021	June 30, 2026	4.18%	P 4,130	**P 4,130**	P -
March 31, 2021	June 30, 2026	3.20%	P 13,743	**13,743**	-
July 27, 2020	July 27, 2022	3.25%	P 16,616	**16,616**	16,616
April 7, 2020	April 7, 2022	4.85%	P 7,054	**7,054**	7,054
November 13, 2019	November 13, 2022	4.43%	P 7,500	**7,500**	7,500
September 11, 2019	September 11, 2024	3.00%	$ 300	**15,264**	14,362
June 4, 2019	June 4, 2021	6.15%	P 8,000	**-**	8,000
March 15, 2018	March 16, 2023	4.13%	$ 450	**22,908**	21,540
November 2, 2015	February 2, 2021	3.45%	$ 320	**-**	15,367
				P 87,215	P 90,439

On March 31, 2021, the Parent Company issued unsecured Peso-denominated Senior Notes with principal amount and outstanding balance as of December 31, 2021 of P4,130 and P13,743 bearing an interest of 4.18% and 3.20% per annum, respectively, payable quarterly in arrears on March 31, June 30, September 30 and December 31 of each year. The senior notes will mature on June 30, 2026.

On July 27, 2020, the Parent Company issued unsecured Peso-denominated Senior Notes with principal amount and outstanding balance as of December 31, 2021 of P16,616 bearing an interest of 3.25% per annum, payable in arrears on January 27, April 27, July 27 and October 27. The senior notes will mature on July 27, 2022.

On April 7, 2020, the Parent Company issued unsecured Peso-denominated Senior Notes with principal amount and outstanding balance as of December 31, 2021 of P7,054 bearing an interest of 4.85% per annum, payable quarterly in arrears on January 7, April 7, July 7 and October 7. The senior notes will mature on April 7, 2022.

In November 2019, the Parent Company issued unsecured Peso-denominated Senior Notes with principal amount and outstanding balance as of December 31, 2021 and 2020, of P7,500 bearing an interest of 4.43% per annum, payable quarterly in arrears on February 13, May 13, August 13 and November 13. The senior notes will mature on November 13, 2022.

In September 2019, the Parent Company issued unsecured US$-denominated Senior Notes with principal amount of US$300 bearing an interest of 3.00% per annum, payable semi-annually in arrears every March 11 and September 1 of each year. The senior notes, unless redeemed, will mature on September 11, 2024. As of December 31, 2021 and 2020, the peso equivalent of this outstanding bond issue amounted to P15,624 and P14,362, respectively.

In June 2019, the Parent Company issued unsecured Peso-denominated Senior Notes with principal amount and outstanding balance as of December 31, 2020 and 2019 of P8,000 bearing an interest of 6.15% per annum, payable quarterly in arrears every March 4, June 4, September 4 and December 4 of each year. The senior notes matured on June 4, 2021.

In March 2018, the Parent Company issued unsecured US$-denominated Senior Notes with principal amount of US$450 bearing an interest of 4.13% per annum, payable semi-annually in arrears every March 16 and September 16 of each year. The senior notes, unless redeemed, will mature on March 16, 2023. As of December 31, 2021, and 2020, the peso equivalent of this outstanding bond issue amounted to P22,906 and P21,540, respectively.

In November 2015, the Parent Company issued unsecured US$-denominated Senior Notes with principal amount of US$320 bearing an interest of 3.45% per annum, payable semi-annually in arrears every May 2 and November 2 of each year. The senior notes matured on February 2, 2021

Unamortized bond premium/discount amounted to P77, P116, and P170 as of December 31, 2021, 2020 and 2019, respectively. The related amortization of unamortized bond premium/discounts is recorded as part of Interest Expense in the statements of profit or loss.

The interest expense incurred on these bonds payable amounted to P3,503 in 2021, P4,023 in 2020, and P3,550 in 2019. The Group and Parent Company recognized foreign currency exchange gains related to these bonds payable amounting to P2,287, P2,712 and P2,031 in 2021, 2020 and 2019, respectively. Foreign currency exchange losses are netted against Foreign exchange gains presented under Other Operating Income account in the statements of profit or loss.

20. SUBORDINATED DEBT

On June 27, 2014, the Parent Company issued P7 billion Basel III-compliant Tier 2 Capital Notes (the "Tier 2 Notes") which shall be part of the Group's regulatory capital compliance in accordance with Basel III capital guidelines of the BSP. The Parent Company re-opened the Tier 2 Notes and issued an additional P3 billion of the Notes on September 5, 2014, which constituted a further issuance of, and formed a single series with the existing P7,000 Tier 2 Notes.

The significant terms and conditions of the Tier 2 Notes with an aggregate issue amount of P10,000, are as follows:

- The Tier 2 Notes shall mature on September 27, 2024, provided that they are not redeemed at an earlier date.

- Subject to satisfaction of certain regulatory approval requirements, the Parent Company may, on September 26, 2019, and on any Interest Payment Date thereafter, redeem all of the outstanding Tier 2 Notes at redemption price equal to 100% of its face value together with accrued and unpaid interest thereon. The terms and conditions of the Tier 2 Notes also allow for early redemption upon the occurrence of a Tax Redemption Event or a Regulatory Redemption Event.

- The Tier 2 Notes shall initially bear interest at the rate of 5.375% per annum from and including June 27, 2014 to but excluding September 27, 2019 and shall be payable quarterly in arrears at the end of each interest period on March 27, June 27, September 27 and December 27 of each year.

- Unless the Tier 2 Notes are previously redeemed, the initial interest rate will be reset on September 26, 2019 at the equivalent of the five-year PDST-R2 or the relevant five-year benchmark plus the initial spread of 1.93% per annum. Such reset interest shall be payable quarterly in arrears commencing on September 27, 2019 up to and including September 27, 2024, if not otherwise redeemed earlier.

- The Tier 2 Notes have a loss absorption feature which means the notes are subject to a Non-Viability Write-Down in case of the occurrence of a Non-Viability Event, subject to certain conditions as set out in the terms and conditions of the notes, when the Issuer is considered non-viable as determined by the BSP. Non-Viability is defined as a deviation from a certain level of CET1 ratio or the inability of the Issuer to continue business (closure) or any other event as determined by the BSP, whichever comes earlier. Upon the occurrence of a Non-Viability Event, the Issuer shall write-down the principal amount of the notes to the extent required by the BSP, which could go as low as zero. A Non-Viability Write-Down shall have the following effects:

  (i) it shall reduce the claim on the notes in liquidation;
  (ii) reduce the amount re-paid when a call or redemption is properly exercised; and,
  (iii) partially or fully reduce the interest payments on the notes.

On May 27, 2019, the RCBC BOD approved to exercise its call option and redeem its P10,000 5.375% Tier 2 Notes. The request was subsequently approved by the MB on July 25, 2019, subject to compliance with BSP conditions. On September 26, 2019, the Bank exercised the call option and fully redeemed the notes.

The total interest expense incurred by the Group and Parent Company on the notes amounted to P471 in 2019.

21. ACCRUED INTEREST, TAXES AND OTHER EXPENSES

The composition of this account follows:

	Group		Parent Company	
	2021	2020	**2021**	2020
Accrued expenses	**P 4,236**	P 4,106	**P 4,113**	P 3,919
Accrued interest	**1,323**	1,287	**1,278**	1,277
Taxes payable	**538**	507	**489**	489
	P 6,097	P 5,900	**P 5,880**	P 5,685

Accrued expenses represent mainly the accruals for utilities, employee benefits and other operating expenses. Accrued interest primarily includes unpaid interest on deposit liabilities, bills payable and bonds payable at the end of each reporting period.

22. OTHER LIABILITIES

Other liabilities consist of the following:

		Group		Parent Company	
	Notes	2021	2020	2021	2020
Accounts payable	28.5(b)	**P 7,963**	P 8,811	**P 7,155**	P 8,231
Outstanding acceptances payable		**4,634**	2,417	**4,634**	2,417
Lease liabilities		**4,050**	4,385	**4,479**	4,319
Post-employment defined benefit obligation	24.2	**2,501**	2,993	**2,487**	2,953
Manager's checks		**1,150**	1,150	**1,150**	1,150
Bills purchased – contra		**1,018**	915	**1,018**	915
Derivative financial liabilities	10.1	**926**	1,484	**926**	1,484
Deposit on lease contracts		**799**	621	**92**	91
Unearned income		**585**	152	**558**	135
Withholding taxes payable		**449**	220	**448**	212
Other credits		**440**	446	**440**	446
Guaranty deposits		**363**	20	**363**	20
Sundry credits		**341**	478	**341**	478
Payment orders payable		**263**	194	**263**	194
ECL provisions on loan commitments	4.4.9(c)	**145**	139	**145**	139
Advance rentals		**72**	74	**72**	74
Due to BSP		**44**	49	**44**	49
Miscellaneous		**635**	886	**778**	851
		P 26,378	P 25,434	**P 25,393**	P 24,158

Accounts payable is mainly composed of prepaid card balances of customers, settlement billing from credit card operations and the Group's expenditure purchases which are to be settled within the next reporting period.

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

The lease liabilities are secured by the related underlying assets. The undiscounted maturity analysis of lease liabilities at December 31, 2021 and 2020 are as follows:

	Within 1 Year	Two to Five Years	More than Five Years	Total
2021:				
Group				
Lease payments	P 1,053	P 3,340	P 393	P 4,786
Finance charges	(165)	(514)	(58)	(737)
Net present value	**P 888**	**P 2,826**	**P 335**	**P 4,049**
Parent Company				
Lease payments	P 1,163	P 3,461	P 415	P 5,039
Finance charges	(181)	(336)	(43)	(560)
Net present value	**P 982**	**P 3,125**	**P 372**	**P 4,479**
2020:				
Group				
Lease payments	P 1,058	P 2,674	P 898	P 4,630
Finance charges	(101)	(103)	(41)	(245)
Net present value	P 957	P 2,571	P 857	P 4,385
Parent Company				
Lease payments	P 1,012	P 2,554	P 976	P 4,542
Finance charges	(91)	(89)	(43)	(223)
Net present value	P 921	P 2,465	P 933	P 4,319

On January 1, 2021, the Parent Company and RCBC Realty Corporation renewed the terms for the lease of RCBC Plaza's several floors. The amendments in the terms include a new rental rate and extended term of five years.

Total cash outflow in respect of leases in 2021, 2020 and 2019 amounted to P1,360, P1,173 and P1,186, respectively, for the Group, and P1,205, P1,113 and P1,086, respectively, for the Parent Company. Interest expense in relation to lease liabilities in 2021, 2020 and 2019 amounted to P170, P165 and P221, respectively, for the Group, and P185, P162 and P222, respectively, for the Parent Company and is presented as part of Interest expense in the statements of profit or loss.

Miscellaneous liabilities include unclaimed balances for deposits and other miscellaneous liabilities.

Interest expense incurred on other liabilities for 2021, 2020 and 2019 amounted to P15, P83 and P203 for the Group, and P15, P81 and P187 for the Parent Company, respectively.

NOTES TO FINANCIAL STATEMENTS

23. EQUITY

23.1 Capital Stock

The movements in the outstanding capital stock of the Parent Company are as follows:

	Number of Shares		
	2021	2020	2019
Preferred stock – voting, non-cumulative non-redeemable, participating, convertible into common stock – P10 par value			
Authorized – 200,000,000 shares			
Issued and outstanding			
Balance at beginning of year	**267,410**	267,410	267,887
Conversion of shares during the year	**-**	-	(477)
Balance at end of year	**267,410**	267,410	267,410
Common stock – P10 par value			
Authorized:			
Balance at beginning and end of year	**2,600,000,000**	2,600,000,000	2,600,000,000
Issued and outstanding:			
Balance at beginning of year	**1,935,628,896**	1,935,628,896	1,935,628,775
Reissuance of shares during the year	**101,850,000**	-	-
Conversion of shares during the year	**-**	-	121
Balance at end of year	**2,037,478,896**	1,935,628,896	1,935,628,896

As of December 31, 2021, and 2020, there are 748 holders of the Parent Company's listed shares holding an equivalent of 100.00% of the Parent Company's total issued and outstanding shares. Such listed shares closed at P20.00 per share and P18.88 per share as of December 31, 2021 and 2020, respectively.

In 1986, the Parent Company listed its common shares with the PSE. The historical information on the Parent Company's issuance of common shares arising from the initial and subsequent public offerings, including private placements is presented below.

Issuance	Subscriber	Issuance Date	Number of Shares Issued
Initial public offering	Various	November 1986	1,410,579
Stock rights offering	Various	April 1997	44,492,908
Stock rights offering	Various	July 1997	5,308,721
Stock rights offering	Various	August 1997	830,345
Stock rights offering	Various	January 2002	167,035,982
Stock rights offering	Various	June 2002	32,964,018
Follow-on offering	Various	March 2007	210,000,000
Private placement	International Finance Corporation (IFC)	March 2011	73,448,275
Private placement	Hexagon Investments B.V.	September 2011	126,551,725
Private placement	PMMIC	March 2013	63,650,000
Private placement	IFC Capitalization Fund	April 2013	71,151,505
Private placement	Cathay	April 2015	124,242,272
Stock rights offering	Various	July 2018	535,710,378
Private placement	Sumitomo Mitsui Banking Corporation (SMBC)	July 2021	101,850,000

On May 29, 2006, the Parent Company's stockholders approved the issuance of up to 200,000,000 convertible preferred shares with a par value of P10 per share, subject to the approval, among others, by the PSE. The purpose of the issuance of the convertible preferred shares is to raise the Tier 1 capital pursuant to BSP regulations, thereby strengthening the capital base of the Parent Company and allowing it to expand its operations. On February 13, 2007, the PSE approved the listing application of the underlying common shares for the 105,000 convertible preferred shares, subject to the compliance of certain conditions of the PSE.

Preferred shares have the following features:

(a) Entitled to dividends at floating rate equivalent to the three-month London Interbank Offered Rate plus a spread of 2.0% per annum, calculated quarterly;

(b) Convertible to common shares at any time after the issue date at the option of the Parent Company at a conversion price using the adjusted net book value per share of the Parent Company based on the latest available financial statements prepared in accordance with PFRS, adjusted by local regulations;

(c) Non-redeemable; and,

(d) Participating as to dividends on a pro rata basis with the common stockholders in the surplus of the Parent Company after dividend payments had been made to the preferred shareholders.

On June 28, 2010, the Parent Company's stockholders owning or representing more than two-thirds of the outstanding capital stock confirmed and ratified the approval by the majority of the BOD on their Executive Session held on May 21, 2010, the proposed increase in Parent Company's authorized capital stock and removal of pre-emptive rights from holders of capital stock, whether common or preferred, to subscribe for or to purchase any shares of stock of any class, by amending the Parent Company's Articles of Incorporation.

The proposed P16,000 authorized capital stock is divided into the following classes of stocks:

(a) 1,400,000,000 common shares with a par value of ten pesos (P10.00) per share.

(b) 200,000,000 preferred shares with a par value of ten pesos (P10.00) per share.

The removal of pre-emptive rights was approved by the BSP and SEC on October 20, 2010 and November 4, 2010, respectively. On the other hand, the increase in authorized capital stock of the Parent Company was approved by the BSP and SEC on August 24, 2011 and September 16, 2011, respectively.

Common shares may be transferred to local and foreign nationals and shall, at all times, not be less than 60% and not more than 40% of the voting stock, be beneficially owned by local nationals and by foreign nationals, respectively.

23.2 Issuance of Common Shares

On July 22, 2019, the effective date of merger, the Parent Company issued 315,287,248 common shares in exchange of the transfer of net assets of RSB at carrying value. The Parent Company recognized P10,507 as additional paid-in capital, which pertains to the difference between the par value of the shares issued and the carrying value of the net assets of RSB.

On November 27, 2017, the BOD of the Parent Company approved the increase in the Parent Company's authorized capital through the increase in the authorized common stock from 1,400,000,000 shares to 2,600,000,000 shares at P10 par value per share or for a total capital stock of P14,000 to P26,000. The BOD also approved the amendment of the Parent Company's Articles of Incorporation for the principal purpose of reflecting the said increase in authorized capital. These resolutions were approved by the Parent Company's stockholders representing at least two-thirds of its outstanding capital stock in a special meeting held on January 29, 2018. In the same meeting, the Parent Company's BOD approved the stock rights offering (Rights Offer) to be subscribed out of the increase in the authorized capital. The increase in authorized capital stock and the Rights Offer were approved by the BSP and SEC on June 29, 2018 and July 4, 2018, respectively. The offering of the stock rights representing 535,710,378 common shares (with equivalent amount of P5,357) occurred from June 25 to June 29, 2018 and the shares were listed at the PSE on July 16, 2018. The Rights Offer and issuance generated P15,000 proceeds, reduced by P217 issue costs; hence, resulting in P9,426 excess of consideration received over par value recognized in Capital Paid in Excess of Par account.

In 2015, the Parent Company issued common shares to Cathay at P64 per share for a total issue price of P7,951. This issuance resulted in the recognition of Capital Paid in Excess of Par amounting to P6,709 reduced by the total issuance cost of P222. The acquisition involves Cathay: (i) acquiring from Hexagon Investments B.V., an entity controlled by funds managed by CVC Asia Pacific Limited, 118,935,590 secondary shares at P64 per share, pursuant to a Sale and Purchase Agreement; (ii) acquiring 36,724,138 secondary common shares from IFC Capitalization Fund also at P64 per share, pursuant to a Sale and Purchase Agreement; and, (iii) entering into a shareholders agreement with PMMIC and the Parent Company.

In 2013, the Parent Company issued common shares to PMMIC and IFC Capitalization Fund at P64 and P58 per share for a total issue price of P4,074 and P4,127, respectively. These issuances resulted in the recognition of Capital Paid in Excess of Par amounting to P3,437 and P3,415, respectively, reduced by total issuance costs of P101.

23.3 Treasury Shares

In 2019, subsequent to the effective date of the merger, the Parent Company acquired the 315,287,248 common shares issued in exchange of the net assets of RSB equal to the Parent Company's investment in RSB as at December 31, 2018.

On September 23, 2011, the Parent Company issued 5,821,548 common shares (equivalent of 18,082,311 preferred shares and with total par value of P58) from the treasury account reissuance (with total cost of P182) and an additional 120,730,177 common stock (with total par value of P1,207) from unissued portion of the increase in authorized capital stock on September 23, 2011 to Hexagon Investments B.V. that is equivalent to approximately 15.00% of the outstanding common shares. The issuance resulted in the recognition of additional Capital Paid in Excess of Par amounting to P2,264.

On March 17, 2011, the Parent Company issued 73,448,275 common shares, comprising of 50,427,931 treasury shares reissuance (with total cost of P771) and 23,020,344 unissued stock (with total par value of P230), to IFC Capitalization Fund for a total consideration of P2,130 representing 7.20% ownership interest. The issuance resulted in the recognition of additional Capital Paid in Excess of Par amounting to P1,078.

On July 23, 2021, the Parent Company sold 101,850,000 shares to SMBC at P44.00 per share. This came from the treasury shares resulting from the merger of Parent Company and RSB. The sale of shares held by the Parent Company in treasury is equivalent to 4.999% of the total outstanding Common Stock. The issuance resulted in a recognition of additional Capital Paid in Excess of Par amounting to P50. The Parent Company incurred expenses related to the issuance amounting to P113 which was charged to equity resulting in a P63 net decrease in the Capital Paid in Excess of Par.

23.4 Hybrid Perpetual Securities

In August 27, 2020, the Parent Company issued US$300 non-cumulative, unsecured, subordinated capital securities which qualify as AT1 capital under Basel III standards. As of December 31, 2021 and 2020, the hybrid perpetual securities amounted to P14,463, net of issuance costs.

The capital securities are perpetual in respect of which there is no fixed redemption date. The Parent Company may redeem the capital securities only in certain circumstances as described in the conditions of the securities and with prior written consent of BSP. Distributions are non-cumulative and payable semi-annually in arrear at a rate of 6.5%. Certain conditions provide for circumstances under which the Parent Company will not be obliged to pay any distribution on the applicable payment date.

The proceeds of the hybrid perpetual securities are used to support and finance medium-term to long-term asset growth, loans to customers, other general corporate purposes and to maintain sufficient buffers above the minimum capital thresholds required by BSP.

23.5 Surplus and Dividend Declarations

The details of the cash dividend distributions follow:

Date Declared	Dividend Per Share	Dividend Total Amount	Record Date	Date Approved by BOD*	Date Paid/Payable
February 26, 2019	0.1205	0.03	March 21, 2019	February 26, 2019	March 25, 2019
April 29, 2019	0.4460	863.29	May 15, 2019	April 29, 2019	May 29, 2019
April 29, 2019	0.4460	0.12	May 15, 2019	April 29, 2019	May 29, 2019
May 27, 2019	0.1166	0.03	June 21, 2019	May 27, 2019	June 26, 2019
August 27, 2019	0.1121	0.03	September 21, 2019	August 27, 2019	September 24, 2019
November 25, 2019	0.1051	0.03	December 21, 2019	November 25, 2019	December 26, 2019
February 24, 2020	0.0993	0.03	March 21, 2020	February 24, 2020	April 1, 2020
May 26, 2020	0.0808	0.02	June 21, 2020	May 26, 2020	June 24, 2020
May 26, 2020	0.5560	1,076.21	June 9, 2020	May 26, 2020	June 24, 2020
May 26, 2020	0.5560	0.15	June 9, 2020	May 26, 2020	June 24, 2020
September 1, 2020	0.0589	0.02	September 21, 2020	September 1, 2020	September 24, 2020
December 1, 2020	0.0563	0.02	December 21, 2020	December 1, 2020	January 7, 2021
February 22, 2021	0.0560	0.01	March 21, 2021	February 22, 2021	March 31, 2021
February 22, 2021	-	472.40	February 26, 2021	February 22, 2021	February 26, 2021
April 26, 2021	0.4850	938.78	May 10, 2021	April 26, 2021	May 25, 2021
April 26, 2021	0.4850	0.13	May 10, 2021	April 26, 2021	May 25, 2021
May 31, 2021	0.0559	0.01	June 21, 2021	May 31, 2021	June 25, 2021
July 26, 2021	-	486.04	August 26, 2021	July 26, 2021	August 26, 2021
August 31, 2021	0.0545	0.01	September 21, 2021	August 31, 2021	September 24, 2021
November 29, 2021	0.0537	0.01	December 21, 2021	November 29, 2021	December 24, 2021

** BSP approval is no longer required*

In 2015, the BSP, through the MB, approved the liberalized rules for banks and quasi-banks on dividend declaration. The policy requires that dividend declaration be immediately recognized as a liability upon the approval of the BOD and that it be disclosed in the statement of changes in equity.

A portion of the Parent Company's surplus corresponding to the equity in net earnings of certain subsidiaries and associates totaling P11,749 and P11,286 as of December 31, 2021 and 2020, respectively, and treasury shares of the Parent Company amounting to P9,287 and P13,719 as of December 31, 2021 and 2020, respectively, are not currently available for distribution as dividends.

23.6 Revaluation Reserves

The components and reconciliation of items of other comprehensive income presented in the statements of changes in equity of the Group and Parent Company at their aggregate amount under Revaluation Reserves account are shown below.

	Revaluation of Financial Assets at FVOCI	Accumulated Translation Adjustments on Foreign Operations	Actuarial Gains (Losses) on Defined Benefit Plan	Total
Balance as of January 1, 2021	P 664	P 54	(P 2,788)	(P 2,070)
Actuarial gains on defined benefit plan	-	-	422	422
Fair value loss on financial assets at FVOCI	(275)	-	-	(275)
Other comprehensive income (loss)	(275)	-	422	147
Balance as of December 31, 2021	**P 389**	**P 54**	**(P 2,366)**	**(P 1,923)**
Balance as of January 1, 2020	P 895	P 53	(P 3,141)	(P 2,193)
Actuarial gains on defined benefit plan	-	-	353	353
Fair value loss on financial assets at FVOCI	(231)	-	-	(231)
Translation adjustments on foreign operations	-	1	-	1
Other comprehensive income (loss)	(231)	1	353	123
Balance as of December 31, 2020	P 664	P 54	(P 2,788)	(P 2,070)
Balance as of January 1, 2019	P 1,556	P 53	(P 1,343)	P 266
Actuarial losses on defined benefit plan	-	-	(1,798)	(1,798)
Fair value loss on financial assets at FVOCI	(702)	-	-	(702)
Other comprehensive loss	(702)	-	(1,798)	(2,500)
Transfer from fair value loss on financial asset at FVOCI to Surplus	41	-	-	41
Balance as of December 31, 2019	P 895	P 53	(P 3,141)	(P 2,193)

23.7 Appropriation for General Loan Loss Reserves

Pursuant to the requirements of the BSP under Circular No. 1011, the Group shall recognize general loan loss provisions equivalent to one percent of all outstanding loans as of the end of the reporting period, except for accounts considered as credit risk-free under the existing BSP regulations. In cases when the computed allowance for ECL on those exposures is less than one percent of the general loan loss provisions required, the deficiency is recognized through appropriation from the Group's available Surplus. Such appropriation is considered as Tier 2 capital subject to the limit provided under the CAR framework. The outstanding balance of appropriation for General Loan Loss Reserves as of December 31, 2021 and 2020 amounted to P3,617 and P3,451 for the Group, and P3,616 and P3,440 for the Parent Company, respectively. The additional appropriation made in 2021 amounted to P166 and P176, for the Group and Parent Company, respectively.

23.8 Other Reserves

As of December 31, 2021 and 2020, this account consists of reserves arising from the acquisitions of RCBC LFC and Rizal Microbank for a total of P97.

24. EMPLOYEE BENEFITS

24.1 Salaries and Employee Benefits Expense

Expenses recognized for salaries and other employee benefits are shown below.

	Group		
	2021	2020	2019
Short-term employee benefits	**P 5,888**	P 6,167	P 6,470
Post-employment defined benefits	**483**	459	363
	P 6,371	P 6,626	P 6,833

	Parent Company		
	2021	2020	2019
Short-term employee benefits	**P 5,247**	P 5,468	P 5,782
Post-employment defined benefits	**439**	428	327
	P 5,686	P 5,896	P 6,109

24.2 Post-employment Defined Benefit Plan

(a) Characteristics of the Defined Benefit Plan

The Parent Company and certain subsidiaries maintain a funded, tax-qualified, non-contributory post-employment benefit plan that is being administered by the Parent Company's Trust and Investment Group (TIG), covering all regular full-time employees. The Parent Company's TIG manages the fund in coordination with the Parent Company's Retirement Plan Committee (RPC), Trust Committee and the respective committees of the subsidiaries which act in the best interest of the plan assets and are responsible for setting the investment policies.

The normal retirement age of the Group's employees ranges between 55 to 60 but the plan also provides for an early retirement at age 50 to 55 with a minimum of 10 to 20 years of credited service. The maximum retirement benefit is the lump sum equivalent to two months pay per year of continuous employment based on the employees' salary at retirement. Any fraction of a year shall be computed proportionately.

(b) Explanation of Amounts Presented in the Financial Statements

Actuarial valuations are made annually to update the post-employment benefit costs and the amount of contributions. All amounts presented below are based on the actuarial valuation reports obtained from independent actuaries in 2021 and 2020.

The amounts of post-employment benefit obligation recognized in the financial statements are determined as follows:

	Group		Parent Company	
	2021	2020	**2021**	2020
Present value of the obligation	**P 5,604**	P 5,650	**P 5,309**	P 5,342
Fair value of plan assets	**(3,104)**	(2,657)	**(2,822)**	(2,389)
Effect of asset ceiling test	**1**	-	**-**	-
Deficiency of plan assets	**P 2,501**	P 2,993	**P 2,487**	P 2,953

The Group and Parent Company's post-employment defined benefit obligation as of December 31, 2021 and 2020 are included as part of Other Liabilities account in the statements of financial position (see Note 22).

The movements in the present value of the defined benefit obligation follow:

	Group		Parent Company	
	2021	2020	**2021**	2020
Balance at beginning of year	**P 5,650**	P 6,282	**P 5,342**	P 6,029
Current and past service cost	**483**	459	**439**	428
Interest expense	**223**	327	**212**	314
Remeasurements – actuarial losses (gains) arising from changes in:				
– experience adjustments	**(254)**	(179)	**(248)**	(172)
– financial assumptions	**(80)**	(422)	**(28)**	(443)
– demographic assumptions	**(1)**	(1)	**(1)**	-
Benefits paid by the plan	**(417)**	(816)	**(407)**	(814)
Balance at end of year	**P 5,604**	P 5,650	**P 5,309**	P 5,342

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

	Group		Parent Company	
	2021	2020	**2021**	2020
Balance at beginning of year	**P 2,657**	P 3,022	**P 2,389**	P 2,786
Interest income	**110**	148	**99**	137
Gains (losses) on plan assets (excluding amounts included in net interest)	**91**	(241)	**98**	(254)
Contributions paid into the plan	**663**	544	**643**	534
Benefits paid by the plan	**(417)**	(816)	**(407)**	(814)
Balance at end of year	**P 3,104**	P 2,657	**P 2,822**	P 2,389

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

	Group		Parent Company	
	2021	2020	**2021**	2020
Cash and cash equivalents	**P 551**	P 152	**P 450**	P 23
Debt securities:				
Corporate debt securities	**385**	509	**378**	498
Government bonds	**90**	57	**1**	-
Equity securities:				
Financial intermediaries	**1,077**	1,010	**1,066**	1,008
Transportation and communication	**254**	205	**254**	205
Electricity, gas and water	**113**	118	**112**	118
Diversified holding companies	**31**	119	**24**	94
Others	**180**	69	**114**	26
Unquoted long-term equity investments	**140**	129	**140**	129
UITF	**273**	272	**273**	272
Investment properties	**5**	4	**5**	4
Loans and receivables	**5**	6	**5**	5
Others	**-**	7	**-**	7
	P 3,104	P 2,657	**P 2,822**	P 2,389

The fair values of the above debt securities and quoted equity securities are determined based on market prices in active markets. Long-term equity investments represent investment in corporations not listed in active and organized markets. Fair values are determined based on the book value per share based on latest audited financial statements of the investee company. The fair value of the UITF is determined based on the net asset value per unit of investment held in the fund.

The fair value of the plan assets is at Level 1 in the fair value hierarchy except for unquoted long-term equity investments, loans and receivables, investment properties and other investments which are at Level 3.

The net gains (losses) on plan assets are as follows:

	Group		Parent Company	
	2021	2020	**2021**	2020
Fair value gains (losses)	**P 91**	(P 241)	**P 98**	(P 254)
Interest income	**110**	148	**99**	137
Actual gains (losses)	**P 201**	(P 93)	**P 197**	(P 117)

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

	Group		
	2021	2020	2019
Reported in profit or loss:			
Current and past service cost	**P 483**	P 459	P 363
Net interest expense	**113**	179	70
	P 596	P 638	P 433

	Group					
		2021		2020		2019
Reported in other comprehensive income:						
Actuarial gains (losses) arising from changes in:						
– Experience adjustments		**254**		179		85
– Financial assumptions	**P**	**80**	P	422	(P	1,418)
– Demographic assumptions		**1**		1		6
Effect of asset ceiling test	**(**	**1)**		-		-
Gains (Losses) on plan assets (excluding amounts included in net interest)		**91**	(	241)	(	471)
	P	**425**	P	361	(P	1,798)

	Parent Company					
		2021		2020		2019
Reported in profit or loss:						
Current service costs	**P**	**439**	P	428	P	327
Net interest expense		**112**		177		85
	P	**551**	P	605	P	412
Reported in other comprehensive income:						
Actuarial gains (losses) arising from changes in:						
– Experience adjustments	**P**	**248**	P	172	P	71
– Financial assumptions		**28**		443	(	1,483)
– Demographic assumptions		**1**		-		-
Transfer from RSB		**-**		-		10
Gains (Losses) on plan assets (excluding amounts included in net interest)		**98**	(	254)	(	375)
	P	**375**	P	361	(P	1,777)

Current service costs, including the effect of curtailment and past service cost, form part of Employee Benefits under the Other Operating Expenses account, while net interest expense or income is presented as part of Interest Expense – Bills Payable and Other Borrowings in the statements of profit or loss.

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

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

	2021	2020	2019
Group			
Discount rates	**4.98%-5.09%**	3.67% - 4.08%	4.95% - 5.23%
Expected rate of salary increases	**3.50%-8.00%**	2.70% - 8.00%	3.40% - 8.00%
Parent Company			
Discount rates	**5.01%**	3.95%	5.23%
Expected rate of salary increases	**4.00%**	3.00%	5.00%

Assumptions regarding future mortality are based on published statistics and mortality tables. The average life expectancy of an individual retiring at the Group's normal retiring age of 60 is based on the 2017 Philippine Intercompany Mortality table. These assumptions were developed by management with the assistance of an independent actuary. Discount factors are determined close to the end of each reporting period by reference to the interest rates of zero coupon government bonds with terms to maturity approximating to the terms of the post-employment obligation. Other assumptions are based on current actuarial benchmarks and management's historical experience.

(c) Risks Associated with the Retirement Plan

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

(i) Investment and Interest Rate Risks

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

Currently, the plan assets of the Group are significantly invested in equity and debt securities, while the Group also invests in cash and cash equivalents and other investments. Due to the long-term nature of the plan obligation, a level of continuing equity investments is an appropriate element of the Group's long-term strategy to manage the plan efficiently.

(ii) Longevity and Salary Risks

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

(d) Other Information

The information on the sensitivity analysis for certain significant actuarial assumptions, the Group's asset-liability matching strategy, and the timing and uncertainty of future cash flows related to the post-employment plan are described in the succeeding pages.

(i) Sensitivity Analysis

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

	Group Impact on Post-employment Defined Benefit Obligation		
	Change in Assumption	Increase in Assumption	Decrease in Assumption
2021:			
Discount rate	**+/-1 %**	**(P 551)**	**P 638**
Salary growth rate	**+/-1 %**	**641**	**(558)**
2020:			
Discount rate	+/-1 %	(P 569)	P 663
Salary growth rate	+/-1 %	666	(574)

	Parent Company Impact on Post-employment Defined Benefit Obligation		
	Change in Assumption	Increase in Assumption	Decrease in Assumption
2021:			
Discount rate	**+/- 1%**	**(P 512)**	**P 600**
Salary growth rate	**+/- 1%**	**600**	**(520)**
2020:			
Discount rate	+/- 1%	(P 533)	P 627
Salary growth rate	+/- 1%	626	(542)

The sensitivity analysis is based on a change in an assumption while holding all other assumptions constant. This analysis may not be representative of the actual change in the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated. Furthermore, in presenting the sensitivity analysis, the present value of the defined benefit obligation at the end of each reporting period has been calculated using the projected unit credit method, which is the same as that applied in calculating the defined benefit obligation recognized in the statements of financial position.

(ii) Asset-liability Matching Strategies

To efficiently manage the retirement plan, the Parent Company through its RPC in coordination with the Parent Company's Trust Investment Group, ensures that the investment positions are managed considering the computed retirement obligations under the retirement plan. This strategy aims to match the plan assets to the retirement obligations due by investing in assets that are easy to liquidate (i.e., government securities, corporate bonds, equities with high value turnover).

As the Group's retirement obligations are in Philippine peso, all assets are invested in the same currency. The Group actively monitors how the duration and the expected yield of the investments are matching the expected cash outflows arising from the retirement obligations. In view of this, various investments are made in a portfolio that may be liquidated within a reasonable period of time.

A large portion of the plan assets as of December 31, 2021 and 2020 consists of equity securities with the balance invested in fixed income securities and cash and cash equivalents. The Group believes that equity securities offer the best returns over the long term with an acceptable level of risk.

(iii) Funding Arrangements and Expected Contributions

The plan is currently underfunded by P2,501 and P2,487 for the Group and Parent Company, respectively, based on the latest funding actuarial valuations in 2021.

The maturity profile of undiscounted expected benefit payments from the plan within 15 years from the end of each reporting period follows:

	Group		Parent Company	
	2021	2020	**2021**	2020
Less than one year	**P 194**	P 267	**P 186**	P 264
More than one year to five years	**1,592**	1,256	**1,472**	1,157
More than five years to ten years	**3,646**	3,275	**3,477**	3,111
More than ten to fifteen years	**19**	-	**-**	-
More than fifteen years	**26**	-	**-**	-
	P 5,477	P 4,798	**P 5,135**	P 4,532

The Group and Parent Company expect to contribute P587 and P572, respectively, to the plan in 2022.

25. MISCELLANEOUS INCOME AND EXPENSES

These accounts consist of the following:

25.1 Miscellaneous Income

		Group		
	Notes	**2021**	2020	2019
Rentals	14.2	**P 926**	P 883	P 811
Recoveries from written off assets		**223**	102	179
Dividend income	10.1,10.2	**105**	78	304
Gains on assets sold – net	14.1	**101**	37	109
Others		**211**	139	50
		P 1,566	P 1,239	P 1,453

	Notes	Parent Company 2021	2020	2019
Rentals	14.2, 28.5(a)	P 287	P 266	P 321
Recoveries from written off assets		223	99	179
Gains on assets sold – net	14.1	65	11	20
Dividend income	10.1,10.2	39	16	95
Others		157	121	3
		P 771	P 513	P 618

Miscellaneous income classified as Others includes rebates, penalty charges and other income items that cannot be appropriately classified under any of the foregoing income accounts.

25.2 Miscellaneous Expenses

	Group 2021	2020	2019
Insurance	P 1,215	P 1,017	P 1,014
Credit card-related expenses	1,114	1,023	1,248
Litigation/assets acquired expenses	739	434	353
Communication and information services	604	639	596
Service and processing fees	540	420	348
Management and other professional fees	514	413	490
Advertising and publicity	324	288	278
Banking fees	319	271	257
Other outside services	135	137	152
Transportation and travel	133	166	264
Stationery and office supplies	118	233	223
Donation and charitable contribution	79	93	68
Membership fees	17	22	26
Representation and entertainment	15	29	64
Others	983	1,307	1,178
	P 6,849	P 6,492	P 6,559

	Parent Company 2021	2020	2019
Credit card-related expenses	P 1,655	P 1,631	P 1,826
Insurance	1,213	1,015	996
Litigation/assets acquired expense	729	427	343
Communication and information services	572	606	569
Service and processing fees	540	419	348
Management and other professional fees	438	334	463
Advertising and publicity	321	286	274
Banking fees	316	267	251
Other outside services	135	135	149
Transportation and travel	126	155	250
Stationery and office supplies	115	228	218
Donations and charitable contributions	79	93	68
Membership fees	16	16	25
Representation and entertainment	11	24	54
Others	930	1,239	1,078
	P 7,196	P 6,875	P 6,912

The Group's other expenses are composed of freight, various processing fees, fines and penalties, and seasonal giveaways. The Group and Parent Company's other expenses also include fees for records, facilities and management services to a related party under common control amounting to P270 and P268, P267 and P263, and P152 and P225, in 2021, 2020 and 2019, respectively (see Note 28).

26. INCOME AND OTHER TAXES

Under Philippine tax laws, the regular banking unit (RBU) of the Parent Company and its domestic subsidiaries are subject to percentage and other taxes (presented as Taxes and Licenses in the statements of profit or loss), as well as income taxes. Percentage and other taxes paid consist principally of the gross receipts tax (GRT) and documentary stamp tax (DST).

RA No. 9238, which was enacted on February 10, 2004, provides for the reimposition of GRT on banks and non-bank financial intermediaries performing quasi-banking functions and other non-bank financial intermediaries beginning January 1, 2004.

The recognition of liability of the Parent Company and certain subsidiaries for GRT is based on the related regulations issued by the tax authorities.

Income taxes include the regular corporate income tax (RCIT) of 25% or 30%, and final tax paid at the rate of 20%, which represents the final withholding tax on gross interest income from government securities and other deposit substitutes.

Interest allowed as a deductible expense is reduced by an amount equivalent to certain percentage of interest income subjected to final tax. Minimum corporate income tax (MCIT) of 1% or 2% on modified gross income is computed and compared with the RCIT. Any excess of the MCIT over the RCIT is deferred and can be used as a tax credit against regular income tax liability in the next three consecutive years. In addition, ordinarily, the Group's net operating loss carry over (NOLCO) is allowed as a deduction from taxable income in the next three consecutive years.

However, pursuant to Section 4 (bbb) of BARO Act and as implemented under Revenue Regulation 25-2020, the net operating losses of a business or enterprise incurred for taxable years 2020 and 2021 can be carried over as a deduction from gross income for the next five consecutive taxable years following the year of such loss.

Effective May 2004, RA No. 9294 restored the tax exemption of FCDUs and offshore banking units (OBUs). Under such law, the income derived by the FCDU from foreign currency transactions with non-residents, OBUs, local commercial banks including branches of foreign banks is tax-exempt while interest income on foreign currency loans from residents other than OBUs or other depository banks under the expanded system is subject to 10% gross income tax.

Interest income on deposits with other FCDUs and offshore banking units is subject to 15.0% final tax effective January 1, 2018.

In 2021, 2020 and 2019, the Group opted to continue claiming itemized deductions for income tax purposes.

The Parent Company's foreign subsidiaries are subject to income and other taxes based on the enacted tax laws of the countries and/or jurisdictions where they operate.

26.1 Current and Deferred Taxes

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

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

As a result of the application of the lower RCIT rate of 25% starting July 1, 2020, the current income tax expense and income tax payable, as presented in the 2020 annual income tax return of the Parent Company, would be lower by P165 and P151, respectively, than the amount presented in the 2020 financial statements and such amount was charged to 2021 profit or loss.

In 2021, the recognized net deferred tax assets as of December 31, 2020 was remeasured using the 25% tax rate. This resulted in a decline in the recognized deferred tax asset as of December 31, 2020 by P508 and P460 for the Group and Parent, respectively, and such was recognized in the 2021 profit or loss.

The tax expense as reported in the statements of profit or loss consists of:

	Group		
	2021	2020	2019
Current tax expense:			
Final tax	**P 635**	P 1,278	P 717
RCIT at 25% in 2021 and 30% in 2020 and 2019	**192**	1,091	611
Adjustment in 2020 income taxes due to change in income tax rate	**(165)**	-	-
Excess MCIT over RCIT	**228**	10	4
	890	2,379	1,332
Deferred tax income arising from:			
Origination and reversal of temporary differences	**(670)**	(904)	(57)
Effect of change in income tax rate	**508**	-	-
	(162)	(904)	(57)
	P 728	P 1,475	P 1,275

	Parent Company		
	2021	2020	2019
Current tax expense:			
Final tax	**P 618**	P 1,033	P 698
RCIT at 25% in 2021 and 30% in 2020 and 2019	**80**	1,281	498
Adjustment in 2020 income taxes due to change in income tax rate	**(151)**	-	-
Excess MCIT over RCIT	**226**	-	-
	773	2,314	1,196
Deferred tax income arising from:			
Origination and reversal of temporary differences	**(708)**	(877)	(51)
Effect of change in income tax rate	**460**	-	-
	(248)	(877)	(51)
	P 525	P 1,437	P 1,145

A reconciliation of tax on pretax profit computed at the applicable statutory rates to tax expense reported in profit or loss is as follows:

	Group		
	2021	2020	2019
Tax on pretax profit at at 25% in 2021 and 30% in 2020 and 2019	**P 1,952**	P 1,948	P 1,999
Adjustments for income subjected to lower income tax rates	**(108)**	(348)	(403)
Adjustment in 2020 income taxes due to change in income tax rate	**343**	-	-
Tax effects of:			
Non-taxable income	**(680)**	(1,672)	(1,391)
Recognition of previously unrecognized deferred tax asset	**(614)**	-	38
Non-deductible expenses	**406**	2,146	1,110
FCDU income	**(402)**	(755)	(635)
Unrecognized temporary differences	**(396)**	157	551
Excess MCIT over RCIT	**228**	-	-
Utilization of NOLCO	**(8)**	(1)	(1)
Others	**7**	-	7
	P 728	P 1,475	P 1,275

	Parent Company		
	2021	2020	2019
Tax on pretax profit at at 25% in 2021 and 30% in 2020 and 2019	**P 1,902**	P 1,937	P 1,956
Adjustments for income subjected to lower income tax rates	**(104)**	(337)	(395)
Adjustment in 2020 income taxes due to change in income tax rate	**309**	-	-
Tax effects of:			
Non-taxable income	**(627)**	(1,656)	(1,465)
Recognition of previously unrecognized deferred tax asset	**(614)**	-	38
Unrecognized temporary differences	**(404)**	124	550
FCDU income	**(402)**	(755)	(635)
Non-deductible expenses	**239**	2,124	1,096
Excess MCIT over RCIT	**226**	-	-
	P 525	P 1,437	P 1,145

NOTES TO FINANCIAL STATEMENTS

The deferred tax assets of the Group recognized in the consolidated statements of financial position as of December 31, 2021 and 2020 relate to the operations of the Parent Company and certain subsidiaries as shown below.

	Statements of Financial Position		Statements of Profit or Loss		
	2021	2020	**2021**	2020	2019
Allowance for impairment	**P 2,785**	P 2,834	**(P 49)**	P 1,109	P 79
Post-employment benefit obligation	**102**	138	**(36)**	52	(50)
NOLCO	**33**	67	**(34)**	67	(3)
Excess MCIT over RCIT	**286**	5	**281**	(199)	99
Provision for credit card reward payments	**-**	-	**-**	(117)	(39)
Others	**-**	-	**-**	(8)	(29)
Deferred tax assets – net	**P 3,206**	P 3,044			
Deferred tax income – net			**P 162**	P 904	P 57

The deferred tax assets of the Parent Company recognized in its statements of financial position as of December 31, 2021 and 2020 is shown below.

	Statement of Financial Position		Statements of Profit of Loss		
	2021	2020	**2021**	2020	2019
Allowance for impairment	**P 2,648**	P 2,681	**(P 33)**	P 1,131	P 54
Excess MCIT over RCIT	**226**	-	**226**	(124)	19
Post-employment benefit obligation	**106**	84	**22**	7	12
NOLCO	**33**	-	**33**	-	-
Provision for credit card reward payments	**-**	-	**-**	(117)	(39)
Others	**-**	-	**-**	(20)	5
Deferred tax assets	**P 3,013**	P 2,765			
Deferred tax income – net			**P 248**	P 877	P 51

The Parent Company and certain subsidiaries have not recognized deferred tax assets on certain temporary differences since management believes that the Parent Company and certain subsidiaries may not be able to generate sufficient taxable profit in the future against which the tax benefits arising from those deductible temporary differences, NOLCO and other tax credits can be utilized.

The unrecognized deferred tax assets relate to the following:

	Group		Parent Company	
	2021	2020	**2021**	2020
Allowance for impairment	**P 2,204**	P 3,300	**P 2,049**	P 3,133
Post-employment benefit obligation	**523**	760	**516**	802
NOLCO	**226**	202	**-**	-
Excess MCIT over RCIT	**33**	86	**-**	-
Others	**-**	8	**-**	-
	P 2,986	P 4,356	**P 2,565**	P 3,935

Consequently, deferred tax liabilities were also not recognized on certain taxable temporary differences as the settlement of those can be offset by the available deductible temporary differences in the future.

In addition, deferred tax liabilities on accumulated translation adjustments, relating to its foreign subsidiaries were not recognized since their reversal can be controlled, and it is probable that the temporary difference will not reverse in the foreseeable future.

NOLCO can be claimed as deduction from future taxable income within three and five years from the year the taxable loss was incurred. In accordance with BARO Act, NOLCO incurred in 2020 and 2021 can be claimed as a deduction from the gross income until 2025. The details of the Group's NOLCO are shown below.

Inception Year	Amount	Utilized	Expired	Balance	Expiry Year
2021	P 140	P -	P -	P 140	2026
2020	873	-	-	873	2025
2019	23	-	-	23	2022
2018	37	27	10	-	2021
	P 1,073	**P 27**	**P 10**	**P 1,036**	

In 2021, the Parent Company reported NOLCO amounting to P132 which can be claimed as deduction from the gross income until 2025.

The breakdown of the Group's excess MCIT over RCIT with the corresponding validity periods follows:

Inception Year	Amount	Utilized	Expired	Balance	Expiry Year
2021	P 228	P -	P -	P 228	2024
2020	10	-	-	10	2023
2019	80	-	-	80	2022
2018	54	53	1	-	2021
	P 372	**P 53**	**P 1**	**P 318**	

The breakdown of the Parent Company's excess MCIT over RCIT with the corresponding validity periods follows:

Inception Year	Amount	Utilized	Expired	Balance	Expiry Year
2021	P 226	P -	P -	P 226	2024
2019	19	19	-	-	2022
2018	53	53	-	-	2021
	P 298	**P 72**	**P -**	**P 226**	

26.2 Supplementary Information Required Under Revenue Regulation No. 15-2010

The Bureau of Internal Revenue (BIR) issued RR 15-2010 on November 25, 2010 which require certain tax information to be disclosed as part of the notes to financial statements. Such supplementary information is, however, not a required part of the basic financial statements prepared in accordance with PFRS; it is neither a required disclosure under the SEC rules and regulations covering form and content of financial statements under the Revised Securities Regulation Code Rule 68.

The Parent Company presented this tax information required by the BIR as a supplemental schedule filed separately from the basic financial statements.

27. TRUST OPERATIONS

Securities and properties (other than deposits) held by the Parent Company in fiduciary or agency capacity for its customers are not included in the financial statements, since these are not resources of the Parent Company. The Group and Parent Company's total trust resources amounted to P146,769 and P116,652 as of December 31, 2021 and 2020, respectively, (see Note 34).

Investment in government securities which are shown as part of Investment securities at amortized cost (see Note 10.3) with a total face value of P1,638 and P1,187 as of December 31, 2021 and 2020, respectively, for both the Group and the Parent Company are deposited with the BSP as security for faithful compliance with fiduciary obligations.

Income from trust operations, shown as Trust fees under Other Operating Income account, amounted to P392, P323 and P323 in 2021, 2020 and 2019, respectively, in the Group and Parent Company's statements of income.

28. RELATED PARTY TRANSACTIONS

The Group and Parent Company's related parties include its ultimate parent company, subsidiaries, associates, entities under common ownership, key management personnel and others.

The RPT Committee, which meet monthly and as necessary, review proposed RPT within the materiality threshold to determine whether or not the transaction is on terms no less favorable to the Group than terms available to any unconnected third party under the same or similar circumstances. On favorable review, the RPT Committee endorse transactions to the BOD for approval.

A summary of the Group and Parent Company's transactions and outstanding balances of such transactions with related parties as of and for the years ended December 31, 2021, 2020 and 2019 is presented below.

		Group					
		2021		2020		2019	
	Notes	**Amount of Transaction**	**Outstanding Balance**	Amount of Transaction	Outstanding Balance	Amount of Transaction	Outstanding Balance
Stockholders							
Loans and receivables	28.1	**(P 55)**	**P 96**	(P 55)	P 151	(P 55)	P 206
Deposit liabilities	28.2	**(864)**	**391**	454	1,255	744	801
Interest expense on deposits	28.2	**24**	**-**	17	-	15	-
Cash received from issuance of shares of stock	23.3	**4,369**	**-**	-	-	-	-
Interest income from loans and receivables	28.1	**9**	**-**	14	-	19	-
Associates							
Loans and receivables	28.1	**(203)**	**-**	203	203	-	-
Deposit liabilities	28.2	**(1,002)**	**83**	769	1,085	181	316
Interest expense on deposits	28.2	**1**	**-**	3	-	2	-
Related Parties Under Common Ownership							
Loans and receivables	28.1	**(2,818)**	**815**	3,436	3,633	(161)	197
Deposit liabilities	28.2	**(1,500)**	**3,016**	628	4,516	181	3,888
Interest expense on deposits	28.2	**61**	**-**	67	-	61	-
Occupancy and equipment related expenses	28.5(a)	**967**	**5**	777	-	955	-
Miscellaneous expenses – others	25.2	**270**	**-**	267	-	152	-
Interest income from loans and receivables	28.1	**37**	**-**	183	-	192	-

		Group					
		2021		2020		2019	
	Note	**Amount of Transaction**	**Outstanding Balance**	Amount of Transaction	Outstanding Balance	Amount of Transaction	Outstanding Balance
Key Management Personnel							
Loans and receivables	28.1	**(P 8)**	**P 6**	P 1	P 14	P -	P 13
Deposit liabilities	28.2	**75**	**319**	42	244	108	202
Interest income from loans and receivables	28.1	**-**	**-**	-	-	1	-
Interest expense on deposits	28.2	**2**	**-**	4	-	6	-
Salaries and employee benefits	28.5(c)	**585**	**-**	629	-	556	-
Other Related Interests							
Loans and receivables	28.1	**9,979**	**18,530**	5,863	8,551	(426)	2,688
Deposit liabilities	28.2	**914**	**5,434**	1,202	4,520	1,906	2,968
Interest income from loans and receivables	28.1	**716**	**-**	370	-	158	-
Interest expense on deposits	28.2	**776**	**-**	48	-	96	-

		Parent Company					
		2021		2020		2019	
	Note	**Amount of Transaction**	**Outstanding Balance**	Amount of Transaction	Outstanding Balance	Amount of Transaction	Outstanding Balance
Stockholders							
Loans and receivables	28.1	**(P 55)**	**P 96**	(P 55)	P 151	(P 55)	P 206
Deposit liabilities	28.2	**(864)**	**391**	296	1,255	744	959
Interest expense on deposits	28.2	**24**	**-**	17	-	15	-
Cash received from reissuance of treasury shares	23.3	**4,369**	**-**	-	-	-	-
Interest income from loans and receivables	28.1	**9**	**-**	14	-	19	-

		Parent Company					
		2021		2020		2019	
	Notes	**Amount of Transaction**	**Outstanding Balance**	Amount of Transaction	Outstanding Balance	Amount of Transaction	Outstanding Balance
Subsidiaries							
Loans and receivable	28.1	**P -**	**P -**	(P 13)	P -	(P 987)	P 13
Deposit liabilities	28.2	**341**	**782**	(1)	441	40	442
Interest expense on deposits	28.2	**5**	**-**	1	-	1	-
Dividend	12	**524**	**500**	1,243	600	576	-
Rental income	28.5(a)	**60**	**-**	50	-	40	-
Occupancy and equipment-related expenses	28.5(a)	**420**	**-**	368	-	365	-
Service and processing fees	28.5(b)	**564**	**-**	617	-	591	-
Sale of investment securities	28.3	**76**	**-**	30	-	126	-
Purchase of investment securities	28.3	**2,550**	**-**	1,202	-	3	-
Assignment of receivables	11	**(20)**	**127**	(25)	147	(10)	172
Associates							
Loans and receivables	28.1	**(203)**	**-**	203	203	-	-
Deposit liabilities	28.2	**(1,002)**	**83**	1,009	1,085	53	76
Interest expense on deposits	28.2	**1**	**-**	3	-	2	-
Related Parties Under Common Ownership							
Loans and receivables	28.1	**(2,818)**	**815**	212	3,633	293	3,421
Deposit liabilities	28.2	**(3,380)**	**3,016**	1,632	6,396	2,166	4,764
Interest income from loans and receivables	28.1	**37**	**-**	176	-	192	-
Interest expense on deposits	28.2	**61**	**-**	55	-	56	-
Occupancy and equipment-related expenses	28.5(a)	**961**	**-**	775	-	946	-
Miscellaneous expenses – others	25.2	**268**	**-**	263	-	225	-

NOTES TO FINANCIAL STATEMENTS

		Parent Company					
		2021		2020		2019	
	Note	Amount of Transaction	Outstanding Balance	Amount of Transaction	Outstanding Balance	Amount of Transaction	Outstanding Balance
Key Management Personnel							
Loans and receivables	28.1	**P -**	**P 1**	P 1	P 1	P -	P -
Deposit liabilities	28.2	**62**	**306**	42	244	108	202
Interest expense on deposits	28.2	**2**	**-**	4	-	6	-
Salaries and employee benefits	28.5(c)	**335**	**-**	391	-	329	-
Other Related Interests							
Loans and receivables	28.1	**9,984**	**18,530**	6,171	8,546	(739)	2,375
Deposit liabilities	28.2	**914**	**5,434**	1,202	4,520	2,622	3,318
Interest income from loans and receivables	28.1	**716**	**-**	370	-	158	-
Interest expense on deposits	28.2	**776**	**-**	48	-	96	-

28.1 Loans and Receivables

The summary of the Group and Parent Company's significant transactions and the related outstanding balances for loans and receivables with its related parties as of and for the years ended December 31, 2021, 2020 and 2019 are as follows:

	Group			
Related Party Category	Issuances	Repayments	Interest Income	Loans Outstanding
2021:				
Stockholders	P -	P 55	P 9	P 96
Associate	-	203	-	-
Related parties under common ownership	360	3,178	37	815
Key management personnel	2	10	-	6
Other related interests	12,345	2,366	716	18,530
	P 12,707	**P 5,812**	**P 762**	**P 19,447**
2020:				
Stockholders	P -	P 55	P 14	P 151
Associate	203	-	-	203
Related parties under common ownership	4,133	697	183	3,633
Key management personnel	1	-	-	14
Other related interests	7,257	1,394	370	8,551
	P 11,594	P 2,146	P 567	P 12,552
2019:				
Stockholders	P -	P 55	P 19	P 206
Related parties under common ownership	102	263	192	197
Key management personnel	-	-	1	13
Other related interests	687	1,113	158	2,688
	P 789	P 1,431	P 370	P 3,104

	Parent Company			
Related Party Category	Issuances	Repayments	Interest Income	Loans Outstanding
2021:				
Stockholders	P -	P 55	P 9	P 96
Associate	-	203	-	-
Related parties under common ownership	360	3,178	37	815
Key management personnel	1	1	-	1
Other related interests	12,345	2,361	716	18,530
	P 12,706	**P 5,798**	**P 762**	**P 19,442**

Related Party Category	Parent Company Issuances	Repayments	Interest Income	Loans Outstanding
2020:				
Stockholders	P -	P 55	P 14	P 151
Subsidiaries	-	13	-	-
Associate	203	-	-	203
Related parties under common ownership	2,229	2,017	176	3,633
Key management personnel	1	-	-	1
Other related interests	7,242	1,071	370	8,546
	P 9,675	P 3,156	P 560	P 12,534
2019:				
Stockholders	P -	P 55	P 19	P 206
Subsidiaries	-	987	-	13
Related parties under common ownership	390	97	192	3,421
Other related interests	328	1,067	158	2,375
	P 718	P 2,206	P 369	P 6,015

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

As of December 31, 2021, 2020 and 2019, the Group and Parent Company is in compliance with these regulatory requirements.

As of December 31, 2021, 2020 and 2019, the Group has not recognized impairment loss on loans and receivables from DOSRI.

28.2 Deposit Liabilities

The summary of the Group and Parent Company's significant transactions and the related outstanding balances for deposit liabilities with its related parties as of and for the years ended December 31, 2021, 2020 and 2019 are as follows (see Note 17):

Related Party Category	Group Deposits	Withdrawals	Interest Expense	Outstanding Balance
2021:				
Stockholders	P 11,048	P 11,912	P 24	P 391
Associate	50,457	51,459	1	83
Related parties under common ownership	199,399	200,899	61	3,016
Key management personnel	840	765	2	319
Other related interests	186,805	185,891	776	5,434
	P 448,549	**P 450,926**	**P 864**	**P 9,243**

Related Party Category	Group Deposits	Withdrawals	Interest Expense	Outstanding Balance
2020:				
Stockholders	P 10,149	P 9,853	P 17	P 1,255
Associates	49,173	48,404	3	1,085
Related parties under common ownership	196,041	195,413	67	4,516
Key management personnel	815	773	4	244
Other related interests	186,607	185,405	48	4,520
	P 442,785	P 439,848	P 139	P 11,620
2019:				
Stockholders	P 4,465	P 3,721	P 15	P 801
Associates	20,445	20,264	2	316
Related parties under common ownership	140,566	140,385	61	3,888
Key management personnel	943	835	6	202
Other related interests	120,371	118,465	96	2,968
	P 286,790	P 283,670	P 180	P 8,175

Related Party Category	Parent Company Deposits	Withdrawals	Interest Expense	Outstanding Balance
2021:				
Stockholders	P 11,048	P 11,912	P 24	P 391
Subsidiaries	142,414	142,073	5	782
Associate	50,457	51,459	1	83
Related parties under common ownership	199,399	202,779	61	3,016
Key management personnel	825	763	2	306
Other related interests	186,805	185,891	776	5,434
	P 590,948	**P 594,877**	**P 869**	**P 10,012**
2020:				
Stockholders	P 10,149	P 9,853	P 17	P 1,255
Subsidiaries	142,175	142,176	1	441
Associates	49,173	48,164	3	1,085
Related parties under common ownership	197,006	195,374	55	6,396
Key management personnel	815	773	4	244
Other related interests	186,607	185,405	48	4,520
	P 585,925	P 581,745	P 128	P 13,941
2019:				
Stockholders	P 4,465	P 3,721	P 15	P 959
Subsidiaries	124,353	124,313	1	442
Associates	20,277	20,224	2	76
Related parties under common ownership	142,381	140,215	56	4,764
Key management personnel	943	835	6	202
Other related interests	121,087	118,465	96	3,318
	P 413,506	P 407,773	P 176	P 9,761

Deposit liabilities transactions with related parties have similar terms with other counterparties.

28.3 Sale and Purchase of Securities

The Parent Company and certain subsidiaries engage in the trading of investment securities as counterparties to the transaction. These transactions are priced similar to transactions with other counterparties outside the Group and there are no unsettled transactions as of the end of each reporting period.

28.4 Retirement Fund

The Parent Company and certain subsidiaries' retirement funds covered under their defined benefit post-employment plan maintained for qualified employees are administered and managed by the Parent Company's TIG in accordance with the respective trust agreements covering the plan.

The retirement funds have transactions with the Group and Parent Company as of December 31, 2021, 2020 and 2019 as follows:

	Group		Parent Company	
Nature of Transactions	Net Amount of Transaction	Outstanding Balance	Net Amount of Transaction	Outstanding Balance
2021:				
Investment in common shares of Parent Company	**P 23**	**P 1,040**	**P 58**	**P 1,035**
Investments in corporate debt securities of Parent Company	**(558)**	**4**	**(498)**	**-**
Deposits with the Parent Company	**46**	**83**	**30**	**53**
Fair value losses	**58**	**-**	**58**	**-**
2020:				
Investment in common shares of Parent Company	(P 176)	P 1,017	(P 213)	P 977
Investments in corporate debt securities of Parent Company	238	562	187	498
Deposits with the Parent Company	(27)	37	(17)	23
Fair value losses	(190)	-	(195)	-
Interest income	19	-	18	-
2019:				
Investment in common shares of Parent Company	(P 674)	P 1,193	(P 673)	P 1,190
Investments in corporate debt securities	273	324	209	311
Deposits with the Parent Company	(41)	64	(65)	40
Fair value losses	(369)	-	(375)	-
Interest income	23	-	18	-

The carrying amount and the composition of the plan assets as of December 31, 2021, 2020 and 2019 are disclosed in Note 24.2. Investments in corporate debt securities include long-term negotiable certificates of deposit issued by the Parent Company.

The information on the Group and Parent Company's contributions to the retirement fund and benefit payments through the fund are disclosed in Note 24.2.

The retirement fund neither provides any guarantee or surety for any obligation of the Group nor its investments in its own shares of stock covered by any restriction and liens.

28.5 Other Related Party Transactions

(a) Lease Contracts with RRC and Sublease Agreement with Subsidiaries

The Parent Company and certain subsidiaries occupy several floors of RCBC Plaza as leaseholders of RRC [see Note 29.4(b)]. Amortization of right-of-use of asset amounted to P241 million for the years ended December 31, 2021 and 2020, and are presented as part of Depreciation and Amortization expenses account in the statement of profit or loss. The Parent Company's lease contract with RRC is effective until December 31, 2025.

The Parent Company entered into sublease agreements with certain subsidiaries which occupy several floors of RCBC Plaza. Rental income by Parent Company related to these sublease arrangements is included as part of Rentals under the Miscellaneous income account in the statements of profit or loss (see Notes 14.2). The outstanding receivable on the lease contracts, if any, is presented as part of Accounts receivable under Loans and Receivables account in the statements of financial position (see Note 11). The related outstanding receivable is unsecured, noninterest-bearing and payable in cash on demand. Management believes that the receivables on the sublease agreements are fully recoverable.

(b) Service Agreement with RBSC

The Parent Company has Service Agreement (the Agreement) with RBSC, wherein RBSC shall provide the Parent Company with marketing, distribution, technical, collection and selling assistance and processing services in connection with the operation of the Parent Company's credit card business. The total service processing fees incurred by the Parent Company is recognized as part of the Service and processing fees under the Miscellaneous Expenses account in the statements of profit or loss (see Note 25.2). The outstanding payable related to the service agreement is presented as part of Accounts payable under Other Liabilities account in the statements of financial position (see Note 22). The related outstanding payable is unsecured, noninterest-bearing and payable in cash on demand.

(c) Key Management Personnel Compensation

The breakdown of key management personnel compensation follows:

	Group		
	2021	2020	2019
Short-term employee benefits	**P 546**	P 601	P 525
Post-employment defined benefits	**39**	28	31
	P 585	P 629	P 556

	Parent Company		
	2021	2020	2019
Short-term employee benefits	**P 335**	P 391	P 329

29. COMMITMENTS AND CONTINGENCIES

In the normal course of operations of the Group, there are various outstanding commitments and contingent liabilities such as guarantees, commitments to extend credit, tax assessments, claims from customers and third parties, etc., with amounts not reflected in the financial statements. Management does not anticipate losses from these transactions that will adversely affect the Group's operations.

In the opinion of management, the suits and claims arising from the normal course of operations of the Group that remain unsettled, if decided adversely, will not involve sums that would have material effect on the Group's financial position or operating results.

29.1 Applicability of RR 4-2011

In March 2011, the BIR issued RR 4-2011, prescribing a new way of reporting income solely for banks/other financial institutions, and issued assessment notices to banks/other financial institutions for deficiency income tax.

In its Order dated May 25, 2018, the Regional Trial Court of Makati (a) granted the Petition of the Bank/other Bankers Association of the Philippines ("BAP") member banks praying for the nullification of RR 4-2011; and (b) permanently enjoined the enforcement of the same.

The Department of Finance/BIR filed a Petition for Review with the Supreme Court
(a) claiming that jurisdiction over the matter lies with the Court of Tax Appeals;
(b) challenging the propriety of the declaratory relief action filed by the Bank/other BAP member banks in view of the prior issuance of Preliminary Assessment Notices; and
(c) arguing that public hearings are not required in all instances involving regulatory issuances.
The matter remains pending to date.

29.2 Alleged Unauthorized Transfer of Funds – Bank of Bangladesh

In February 2016, four allegedly unauthorized fund transfers were made into four (4) accounts with the Bank from Bangladesh Bank's account with the Federal Reserve Bank of New York, before being further dispersed to other banks and casinos. In August 2016, the Monetary Board imposed a P1 Billion fine upon the Bank, which it paid in full, without any effect on its ability to perform its existing obligations or its operations.

29.2.1 U.S. Litigation relating to the Bangladesh Bank Incident

Failing to prosecute the Bank under the Federal Racketeer Influence and Corrupt Organizations Act, Bangladesh Bank initiated a second complaint before the New York State Court, on May 27, 2020. The Bank has since sought the dismissal of this second case, citing (a) New York's lack of personal jurisdiction over it; (b) the impropriety of New York as a forum, given the ongoing related proceedings in the Philippines and the location of material witnesses/evidence; and (c) the untenable nature of the fraud charge against the Bank due to the lack of any fiduciary duty to Bangladesh Bank. The Bank's Motion to Dismiss was heard on October 14, 2021. The matter remains pending to date.

29.2.2 Philippine Litigation relating to the Bangladesh Bank Incident

On March 6, 2019, the Bank/its former National Sales Director filed a complaint for Injunction and Damages against Bangladesh Bank with the Regional Trial Court of Makati City ("Makati Trial Court"). Despite being properly served with the summons/Complaint, and even after the denial of its claim of immunity from suit, Bangladesh Bank refuses to submit to the jurisdiction of the Makati Trial Court. Bangladesh Bank's Motion to Dismiss and the Bank's Motion to declare Bangladesh Bank in default have been submitted for resolution.

29.3 HHIC-Phil Rehabilitation Proceedings

On January 9, 2019, HHIC-Phil, Inc. ("HHIC-Phil") filed a Petition for corporate rehabilitation under R.A. No. 10142, *the Financial Rehabilitation and Insolvency Act of 2010*, which was given due course by the Regional Trial Court, Branch 72, Olongapo City (the "Rehabilitation Court").

After negotiating with HHIC-Phil/HHIC-Korea, which resulted in the creditors/Rehabilitation Court-approved Modified Rehabilitation Plan with Clarifications ("MRP-C"), the Bank and four (4) other creditor banks successfully negotiated the sale of the Subic Shipyard/certain other assets to third-party buyers, as called for by the MRP-C. In the Order dated December 6, 2021, the Rehabilitation Court approved the Asset Purchase Agreement ("APA") dated October 5, 2021.

As of December 31, 2021, the outstanding loan obligation of HHIC-Phil to the Bank remains at USD82, exclusive of accrued and compounded interest, as well as penalty on interest and principal. This is expected to be settled with the approval of the APA.

Except for the above-mentioned proceedings, the Bank is not aware of any suits and claims by or against it or its subsidiaries, which if decided adversely, would have a material effect on its financial position or operating results.

29.4 Lease Commitments

(a) Parent Company as a Lessor

The Parent Company has entered into various lease contracts related to ATY Center, an investment property held for rental, with lease terms ranging from one to five years and with monthly rent depending on market price with 6% escalation rate every year. Total rent income earned from these leases amounted to P180, P174, and P235 in 2021, 2020, and 2019, respectively, which are presented as part of Rental under the Miscellaneous Income account in the statements of profit or loss (see Note 25.1).

The Parent Company's future minimum rental receivables under this non-cancellable operating lease arrangement are as follows:

	Parent Company		
	2021	2020	2019
Within one year	**P 498**	P 470	P 444
After one year but not more than five years	**957**	903	852
	P 1,455	P 1,373	P 1,296

(b) Group as Lessee

The Parent Company and certain subsidiaries lease some of the premises occupied by their respective head offices [see Note 28.5(a)] and branches/BCs for lease periods from one to 25 years. The Group's rental expense related to these leases (included as part of Occupancy and Equipment-related expenses account in the 2019 statement of profit or loss) amounted to P1,187. Most of the lease contracts contain renewal options, which give the Group the right to extend the lease on terms mutually agreed upon by the parties.

30. EARNINGS PER SHARE

The following shows the Group's profit and per share data used in the basic and diluted EPS computations for the three years presented:

	2021	2020	2019
Net profit attributable to Parent Company's shareholders	**P 7,082**	P 5,020	P 5,387
Dividends paid to preferred shareholders and distributions allocated to holders of hybrid perpetual securities	**(964)**	(320)	-
	6,118	4,700	5,387
Weighted average number of outstanding common shares of stock	**1,979**	1,936	1,936
Basic and diluted EPS	**P 3.09**	P 2.43	P 2.78

The convertible preferred shares did not have a significant impact on the EPS for each of the periods presented. The Group and the Parent Company has no potential dilutive shares as of the end of each reporting period.

31. SUPPLEMENTARY INFORMATION TO STATEMENTS OF CASH FLOWS

Significant non-cash transaction of the Group and the Parent Company includes additional leases under PFRS 16 as discussed in Notes 13 and 22; additions of real properties, chattel properties and other assets through foreclosures, dacion in payment and repossessions as discussed in Notes 14.1 and 15.3.2; and, partial settlement of certain loan in exchange of equity securities as discussed in Note 15.3.1

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

	Group				
	Bills Payable (see Note 18)	**Bonds Payable (see Note 19)**	**Lease Liabilities (see Note 22)**	**Hybrid Perpetual Securities (see Note 23)**	**Total Financing Activities**
Balance at January 1, 2021	P 13,167	P 90,439	P 4,385	P 14,463	P 122,454
Cash flow from financing activities:					
Availments/proceeds from issuance	148,820	17,873	-	-	166,693
Payments/redemption	(104,018)	(18,810)	(1,360)	-	(124,188)
Non-cash financing activities:					
Additional lease liabilities	-	-	855	-	855
Foreign exchange gains	(2,065)	(2,312)	-	-	(4,377)
Amortization of Discount and interest	-	25	170	-	195
Balance at December 31, 2021	**P 55,904**	**P 87,215**	**P 4,050**	**P 14,463**	**P 161,632**
Balance at January 1, 2020	P 101,606	P 96,814	P 2,877	P -	P 201,297
Cash flow from financing activities:					
Availments/proceeds from issuance	284,718	23,670	-	14,463	322,851
Payments/redemption	(371,858)	(27,371)	(1,173)	-	(400,402)
Non-cash financing activities:					
Additional lease liabilities	-	-	2,516	-	2,516
Foreign exchange gains	(1,299)	(2,712)	-	-	(4,011)
Amortization of discount and interest	-	38	165	-	203
Balance at December 31, 2020	P 13,167	P 90,439	P 4,385	P 14,463	P 122,454
Balance at January 1, 2019	P 56,001	P 53,090	P 3,571	P -	P 112,662
Cash flow from financing activities:					
Availments/proceeds from issuance	89,737	45,697	-	-	135,434
Payments/redemption	(44,388)	-	(1,186)	-	(45,574)
Non-cash financing activities:					
Additional lease liabilities	-	-	271	-	271
Foreign exchange losses (gains)	256	(2,031)	-	-	(1,775)
Amortization of discount and interest	-	58	221	-	279
Balance at December 31, 2019	P 101,606	P 96,814	P 2,877	P -	P 201,297

	Parent Company				
	Bills Payable (see Note 18)	**Bonds Payable (see Note 19)**	**Lease Liabilities (see Note 22)**	**Hybrid Perpetual Securities (see Note 23)**	**Total Financing Activities**
Balance at January 1, 2021	P 4,200	P 90,439	P 4,319	P 14,463	P 113,421
Cash flow from financing activities:					
Availments/proceeds from issuance	142,675	17,873	-	-	160,548
Payments/redemption	(98,411)	(18,810)	(1,205)	-	(118,426)
Non-cash financing activities:					
Additional lease liabilities	-	-	1,180	-	1,180
Foreign exchange gains	(2,065)	(2,312)	-	-	(4,377)
Amortization of discount and interest	-	25	185	-	210
Balance at December 31, 2021	**P 46,399**	**P 87,215**	**P 4,479**	**P 14,463**	**P 152,556**

NOTES TO FINANCIAL STATEMENTS

	Parent Company				
	Bills Payable (see Note 18)	Bonds Payable (see Note 19)	Lease Liabilities (see Note 22)	Hybrid Perpetual Securities (see Note 23)	Total Financing Activities
Balance at January 1, 2020	P 93,938	P 96,814	P 2,797	P -	P 193,549
Cash flow from financing activities:					
Availments/proceeds from issuance	276,859	23,670	-	14,463	314,992
Payments/redemption	(365,298)	(27,371)	(1,113)	-	(393,782)
Non-cash financing activities:					
Additional lease liabilities	-	-	2,473	-	2,473
Foreign exchange gains	(1,299)	(2,712)	-	-	(4,011)
Amortization of discount and interest	-	38	162	-	200
Balance at December 31, 2020	P 4,200	P 90,439	P 4,319	P 14,463	P 113,421
Balance at January 1, 2019	P 48,759	P 53,090	P 3,382	P -	P 105,231
Cash flow from financing activities:					
Availments/proceeds from issuance	89,100	45,697	-	-	134,797
Payments/redemption	(44,177)	-	(1,086)	-	(45,263)
Non-cash financing activities:					
Additional lease liabilities	-	-	279	-	279
Foreign exchange losses (gains)	256	(2,031)	-	-	(1,775)
Amortization of discount and interest	-	58	222	-	280
Balance at December 31, 2019	P 93,938	P 96,814	P 2,797	P -	P 193,549

In 2019, the Group exercised its call option and fully redeemed its Tier 2 Notes amounting to P9,986 (see Note 20).

32. MATURITY ANALYSIS OF ASSETS AND LIABILITIES

The table below shows an analysis of assets and liabilities analyzed according to when they are expected to be recovered or settled:

	2021					
	Group			Parent Company		
	Within One Year	Beyond One Year	Total	Within One Year	Beyond One Year	Total
Financial Assets						
Cash and other cash items	P 14,691	P -	P 14,691	P 14,663	P -	P 14,663
Due from BSP	130,170	-	130,170	128,931	-	128,931
Due from other banks	12,162	-	12,162	11,860	-	11,860
Loans and receivables arising from reverse repurchase agreements	11,691	-	11,691	11,656	-	11,656
Interbank loans receivables	30,563	-	30,563	30,563	-	30,563
Financial assets at FVTPL	5,863	-	5,863	4,879	-	4,879
Financial assets at FVOCI - net	7,107	42,654	49,761	5,745	42,654	48,399
Investments at amortized cost - net	81,599	82,012	163,611	81,599	81,300	162,899
Loans and other receivables - net	54,493	453,246	507,739	51,048	448,853	499,901
Other resources - net	825	-	825	823	-	823
	349,164	577,912	927,076	341,767	572,807	914,574
Non Financial Assets						
Investment in subsidiaries and associates - net	-	344	344	-	7,027	7,027
Bank premises, furnitures, fixtures and equipment - net	-	12,660	12,660	-	10,571	10,571
Investment properties - net	-	3,572	3,572	-	3,435	3,435
Deferred tax asset-net	-	3,206	3,206	-	3,013	3,013
Intangible and other resources - net	6,358	5,917	12,275	6,248	5,426	11,674
	6,358	25,699	32,057	6,248	29,472	35,720
	P 355,522	**P 603,611**	**P 959,133**	**P 348,015**	**P 602,279**	**P 950,294**

	2021					
	Group			Parent Company		
	Within One Year	Beyond One Year	Total	Within One Year	Beyond One Year	Total
Financial Liabilities						
Deposit liabilities	P 143,865	P 528,594	P 672,459	P 143,328	P 531,086	P 674,414
Bills payable	23,560	32,344	55,904	23,560	22,839	46,399
Bonds payable	31,171	56,044	87,215	31,171	56,044	87,215
Accrued interest and other expenses	1,323	4,236	5,559	1,278	4,113	5,391
Other liabilities	12,188	9,815	22,003	10,963	8,678	19,641
	212,107	631,033	843,140	210,300	622,760	833,060
Non Financial Liabilities						
Accrued interest and other expenses	538	-	538	489	-	489
Other liabilities	449	3,926	4,375	448	5,304	5,752
	987	3,926	4,913	937	5,304	6,241
	P 213,094	**P 634,959**	**P 848,053**	**P 211,237**	**P 628,064**	**P 839,301**

	2020					
	Group			Parent Company		
	Within One Year	Beyond One Year	Total	Within One Year	Beyond One Year	Total
Financial Assets						
Cash and other cash items	P 16,520	P -	P 16,520	P 16,464	P -	P 16,464
Due from BSP	115,467	-	115,467	113,949	-	113,949
Due from other banks	15,707	-	15,707	15,214	-	15,214
Loans and receivables arising from reverse repurchase agreements	13,356	-	13,356	13,226	-	13,226
Interbank loans receivables	42,681	-	42,681	42,647	-	42,647
Financial assets at FVTPL	4,888	-	4,888	3,815	-	3,815
Financial assets at FVOCI - net	39,617	533	40,150	38,712	101	38,813
Investments at amortized cost - net	-	43,026	43,026	-	42,513	42,513
Loans and other receivables - net	94,574	354,029	448,603	92,594	348,573	441,167
Other resources - net	931	-	931	924	-	924
	343,741	397,588	741,329	337,545	391,187	728,732
Non Financial Assets						
Investment in subsidiaries and associates - net	-	339	339	-	6,980	6,980
Bank premises, furnitures, fixtures and equipment - net	-	13,062	13,062	-	10,500	10,500
Investment properties - net	-	3,725	3,725	-	3,580	3,580
Deferred tax asset-net	-	3,044	3,044	-	2,765	2,765
Intangible and other resources - net	5,467	5,140	10,607	5,348	4,617	9,965
	5,467	25,310	30,777	5,348	28,442	33,790
	P 349,208	P 422,898	P 772,106	P 342,893	P 419,629	P 762,522
Financial Liabilities						
Deposit liabilities	P 111,655	P 424,133	P 535,788	P 111,021	P 425,727	P 536,748
Bills payable	5,282	7,885	13,167	2,759	1,441	4,200
Bonds payable	23,482	66,957	90,439	23,482	66,957	90,439
Accrued interest and other expenses	1,287	4,106	5,393	1,277	3,919	5,196
Other liabilities	18,430	2,062	20,492	17,842	1,474	19,316
	160,136	505,143	665,279	156,381	499,518	655,899
Non Financial Liabilities						
Accrued interest and other expenses	507	-	507	489	-	489
Other liabilities	1,946	2,996	4,942	1,890	2,952	4,842
	2,453	2,996	5,449	2,379	2,952	5,331
	P 162,589	P 508,139	P 670,728	P 158,760	P 502,470	P 661,230

33. OTHER MATTERS

33.1 Continuing Impact of COVID-19

In December 2019, COVID-19 was reported to have surfaced in China. The World Health Organization has declared the outbreak as a 'public health emergency of international concern'. COVID-19 started to become widespread in the Philippines in early March 2020 causing the government to declare the country in a state of public health emergency followed by implementation of ECQ and social distancing measures and restrictions within the Luzon area with other cities and provinces in the country enacting similar measures thereafter. This resulted in a wide-ranging business suspension – disrupting the supply chains, affecting production and sales across a range of industries, and weakening the stock market.

On March 23, 2020, BAHO Act was signed into law declaring a national health emergency throughout the Philippines as a result of the COVID-19 crisis. The implementation of Section 4(aa) of said law has directed banks and other private and government financial institutions to implement a minimum thirty (30)-day grace period on all loans with principal and interests falling due within the period of the Enhanced Community Quarantine (ECQ), which started on March 17, 2020 up to April 30, 2020, which was extended until May 31, 2020, without incurring interest, penalties, fees or other charges. On September 11, 2020, BARO Act was signed into law which directed banks and other private and government financial institutions particularly under Section 4 (uu) the grant of one-time sixty (60)-day grace period for payments and/or maturity periods of all existing, current and outstanding loans as of September 15, 2020, falling due, or any part thereof, on or before December 31, 2020, without incurring interest on interests, penalties, fees or other charges, thereby extending the maturity of the said loans, subject to compliance with regulatory requirements.

The Group has been able to keep approximately 50-60% of its branches open during the early part of the community quarantine in mid-March 2020, and around 40-50% in April and May, with a skeletal workforce and corresponding adjustments in banking hours and cut-off times similar to adjustments instituted by the BSP and Bankers Association of the Philippines. By end-September 2020, the Group has kept about 98% of its branches open. Among the steps taken to address its customers' needs during the COVID-19 outbreak, the Group has (i) ensured cash availability at its ATMs and branches and (ii) extended loan payments for corporate and consumer loans for 60 days and waived fees on electronic and similar forms of payments for its clients. The Group has also encouraged its customers to use its online and mobile banking services to pay bills, send money, as well as use ATMs and cash acceptance machines as an alternative to branch banking. The Group also did not experience massive withdrawals from its depositors as the deposit liabilities still increased during the ECQ period.

Further, the Group focused on supporting customers who are experiencing and about to experience financial difficulties as a result of the COVID-19 global pandemic and has offered a range of financial assistance measures including temporary loan repayment deferrals (principal and/or interest) through its COVID-19 Assistance and Recovery Enhancement (CARE) Program. The Group's CARE Program is primarily designed to provide financial assistance to customers by way of extended repayment plans. The assistance would help get the customer back into the habit of paying based on amounts they can afford. Albeit using tighter credit underwriting parameters, the Group continued its lending activities including on-boarding of new customer for both wholesale and consumer lending. Despite these challenges, cash flow remained stable given the growth in deposits and with some clients still opting to continue their amortization payments despite the loan payment moratorium provided for under the BAHO Act and BARO Act.

As of December 31, 2021, an increase in volume of transactions is evident to the Group which was mainly due to customer acquisition driven by data science and digital marketing. The Group expects the general business environment to improve as quarantine restrictions ease and vaccination uptake increases in the last quarter of 2021. While economic recovery is expected, the Group will stay focused on keeping efficient operations as it embarks on transformation projects such as: (i) fully automated KYC process and (ii) enhanced credit and control systems. These activities include various business process reengineering exercises such as process reviews and digital enhancements that support efficiency, lower cost of transaction and reduced costs in product delivery.

34. SUPPLEMENTARY INFORMATION REQUIRED BY THE BSP

Presented below are the supplementary information required by the BSP under Section 174 (Appendix 55) of the BSP Manual of Regulations for Banks (MORB) to be disclosed as part of the notes to financial statements based on BSP Circular No. 1074, *Amendments to Regulations on Financial Audit of Banks*.

(a) Selected Financial Performance Indicators

The following basic ratios measure the financial performance of the Group and the Parent Company:

	Group		
	2021	2020	2019
Return on average equity			
Net profit / Average total equity	**6.71%**	5.54%	6.47%
Return on average resources			
Net profit / Average total resources	**0.84%**	0.68%	0.80%
Net interest margin			
Net interest income / Average interest earning resources	**4.07%**	4.31%	4.03%
	Parent Company		
	2021	2020	2019
Return on average equity			
Net profit / Average total equity	**6.72%**	5.55%	6.48%
Return on average resources			
Net profit / Average total resources	**0.85%**	0.69%	0.81%
Net interest margin			
Net interest income / Average interest earning resources	**4.06%**	4.31%	4.02%

(b) Capital Instruments Issued

(i) Common stock

As of December 31, 2021 and 2020, the Parent Company's common stock amounted to P22,509 representing 2,250,916,144 issued common shares.

In July 22, 2019, the effective date of merger, the Parent Company issued 315,287,248 common shares in exchange of the transfer of net assets of RSB at carrying value. Additional paid-in capital of P10,507 was recognized pertaining to the difference between the par value of the shares issued and carrying value of net assets of RSB. Subsequently the issuance, the Parent Company acquired the same number of issued common shares as a result of the merger and recognized treasury shares amounting to P13,719. The transactions did not affect the total number of issued and outstanding common shares in 2019.

On July 23, 2021, the Parent Company sold 101,850,000 shares to Sumitomo Mitsui Banking Corporation (SMBC) at P44.00 per share. This came from the treasury shares resulting from the merger of Parent Company and RSB.

(ii) Preferred stock

As of December 31, 2021 and 2020, the Parent Company's issued and outstanding preferred stock amounted to P3 representing 267,410 preferred shares. These preferred shares are voting, non-cumulative, non-redeemable, participating and convertible into common stock. In 2019, 477 preferred shares were converted to 121 common shares. No similar transaction occurred in 2021 and 2020.

(iii) Hybrid Perpetual Securities

In August 27, 2020, the Parent Company issued US$300 non-cumulative, unsecured, subordinated AT1 capital securities. The capital securities are perpetual in respect of which there is no fixed redemption date. The Parent Company may redeem the capital securities only in certain circumstances as described in the conditions of the securities and with prior written consent of BSP. Distributions are non-cumulative and payable semi-annually in arrear at a rate of 6.5%. Certain conditions provide for circumstances under which the Parent Company will not be obliged to pay any distribution on the applicable payment date.

(c) Significant Credit Exposures for Loans

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

	Group			
	2021		2020	
	Amount	**Share**	Amount	Share
Consumer	**P 145,560**	**28%**	P 139,232	31%
Real estate, renting and other related activities	**89,891**	**18%**	67,578	15%
Electricity, gas and water	**69,258**	**14%**	67,530	15%
Wholesale and retail trade	**57,829**	**11%**	51,537	11%
Manufacturing (various industries)	**55,618**	**11%**	50,020	11%
Transportation and communication	**41,080**	**8%**	25,494	6%
Financial intermediaries	**33,794**	**7%**	34,034	7%
Agriculture, fishing, and forestry	**4,414**	**1%**	4,967	1%
Hotels and restaurants	**4,207**	**1%**	4,132	1%
Other community, social and personal activities	**2,439**	**-**	5,289	1%
Mining and quarrying	**1,022**	**-**	1,010	-
Others	**7,619**	**1%**	5,742	1%
	P 512,731	**100%**	P 456,565	100%

	Parent Company			
	2021		2020	
	Amount	**Share**	Amount	Share
Consumer	**P 145,557**	**29%**	P 139,128	31%
Real estate, renting and other related activities	**83,231**	**16%**	60,878	14%
Electricity, gas and water	**69,258**	**14%**	67,530	15%
Wholesale and retail trade	**56,866**	**11%**	51,086	11%
Manufacturing (various industries)	**55,618**	**11%**	50,020	11%
Transportation and communication	**41,080**	**8%**	25,494	6%
Financial intermediaries	**33,772**	**7%**	34,008	8%
Agriculture, fishing, and forestry	**4,309**	**1%**	4,427	1%
Hotels and restaurants	**4,207**	**1%**	4,132	1%
Other community, social and personal activities	**2,439**	**-**	5,289	1%
Mining and quarrying	**1,022**	**-**	1,010	-
Others	**7,574**	**2%**	5,661	1%
	P 504,933	**100%**	P 448,663	100%

The BSP considers that loan concentration exists when the total loan exposure to a particular industry exceeds 30% of the total loan portfolio plus the outstanding interbank loans receivable.

(d) *Credit Status of Loans*

The breakdown of receivable from customers as to status is shown below.

Group

	2021 Performing	2021 Non-performing	2021 Total Loan Portfolio
Gross carrying amount:			
Corporate	P 354,599	P 11,502	P 366,101
Consumer	127,909	18,721	146,630
	482,508	30,223	512,731
Allowance for ECL	(3,841)	(11,900)	(15,741)
Net carrying amount	**P 478,667**	**P 18,323**	**P 496,990**

	2020 Performing	2020 Non-performing	2020 Total Loan Portfolio
Gross carrying amount:			
Corporate	P 311,642	P 10,675	P 322,317
Consumer	120,425	13,823	134,248
	432,067	24,498	456,565
Allowance for ECL	(5,983)	(10,887)	(16,870)
Net carrying amount	P 426,084	P 13,611	P 439,695

Parent Company

	2021 Performing	2021 Non-performing	2021 Total Loan Portfolio
Gross carrying amount:			
Corporate	P 348,656	P 10,720	P 359,376
Consumer	126,903	18,654	145,557
	475,559	29,374	504,933
Allowance for ECL	(3,710)	(11,140)	(14,850)
Net carrying amount	**P 471,849**	**P 18,234**	**P 490,083**

	2020 Performing	2020 Non-performing	2020 Total Loan Portfolio
Gross carrying amount:			
Corporate	P 305,542	P 10,002	P 315,544
Consumer	119,394	13,725	133,119
	424,936	23,727	448,663
Allowance for ECL	(5,847)	(10,555)	(16,402)
Net carrying amount	P 419,089	P 13,172	P 432,261

NPLs included in the total loan portfolio of the Group and the Parent Company as of December 31 as reported to the BSP are presented below.

	Group 2021	Group 2020	Parent Company 2021	Parent Company 2020
Gross NPLs	**P 30,223**	P 24,498	**P 29,374**	P 23,727
Allowance for impairment	**(11,900)**	(10,887)	**(11,140)**	(10,555)
	P 18,323	P 13,611	**P 18,234**	P 13,172

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

Restructured loans shall be considered non-performing. However, if prior to restructuring, the loans were categorized as performing, such classification shall be retained. Moreover, NPLs shall remain classified as such until (a) there is sufficient evidence to support that full collection of principal and interests is probable and payments of interest and/or principal are received for at least 6 months; or (b) written-off. Microfinance and other small loans with similar credit characteristics shall be considered non-performing after contractual due date or after they have become past due.

As of December 31, 2021, gross and net NPL ratios of the Group and the Parent Company as reported to BSP were 5.45% and 3.30%, and 5.28% and 3.24%, respectively. As of December 31, 2020, gross and net NPL ratios of the Group and the Parent Company as reported to BSP were 5.00% and 2.94%, and 4.81% and 2.83%, respectively. Most of the NPLs are secured by real estate or chattel mortgages.

The breakdown of restructured receivables from customers follows:

	Group 2021	Group 2020	Parent Company 2021	Parent Company 2020
Loans and discounts	**P 433**	P 257	**P 433**	P 257
Credit card receivables	**-**	3	**-**	3
	P 433	P 260	**P 433**	P 260

Interest income from restructured receivables from customers amounted P10, P1, and P5 in 2021, 2020, 2019, respectively, for both the Group and the Parent Company.

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

The breakdown of the receivables from customers' portfolio as to secured and unsecured follows:

	Group 2021		Group 2020		Parent Company 2021		Parent Company 2020
Secured:							
Real estate mortgage	**P**	**132,782**	P 135,421	**P**	**132,094**	P	134,077
Chattel mortgage		**66,351**	53,456		**66,254**		50,990
Hold-out deposits		**7,464**	8,581		**7,457**		8,428
Other securities		**14,280**	17,181		**14,248**		13,585
		220,877	214,639		**220,053**		207,080
Unsecured		**291,854**	241,926		**284,880**		241,583
	P	**512,731**	P 456,565	**P**	**504,933**	P	448,663

(f) Information on Related Party Loans

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

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

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

	Group 2021	Group 2020	Parent Company 2021	Parent Company 2020
Total outstanding DOSRI loans	**P 325**	P 946	**P 304**	P 920
Unsecured DOSRI	**98**	657	**90**	649
Past due DOSRI	**1**	5	**-**	5
Non-accruing DOSRI	**1**	5	**1**	5
Percent of DOSRI loans to total loan portfolio	**0.06%**	0.19%	**0.06%**	0.19%
Percent of unsecured DOSRI loans to total DOSRI loans	**30.15%**	69.45%	**29.61%**	70.54%
Percent of past due DOSRI Loans to total DOSRI	**0.31%**	0.53%	**0.00%**	0.54%
Percent of non-accruing DOSRI loans to total DOSRI loans	**0.31%**	0.53%	**0.33%**	0.54%

The following table shows the other information relating to the loans, other credit accommodations and guarantees granted to related parties (inclusive of DOSRI) as of December 31 as reported to the BSP:

	Group 2021	Group 2020	Parent Company 2021	Parent Company 2020
Total outstanding Related Party loans	**P 19,447**	P 12,552	**P 19,442**	P 12,534
Unsecured Related Party	**16,165**	10,564	**16,162**	8,010
Past due Related Party	**1**	5	**1**	1
Non-accruing Related Party	**-**	5	**-**	-
Percent of Related Party loans to total loan portfolio	**3.61%**	4.31%	**3.66%**	2.59%
Percent of unsecured Related Party loans to total Related Party loans	**83.12%**	84.16%	**83.13%**	63.91%
Percent of past due Related Party loans to total Related Party loans	**0.00%**	0.00%	**0.00%**	0.01%
Percent of non-accruing Related Party loans to total Related Party loans	**0.00%**	0.00%	**0.00%**	0.00%

In accordance with existing BSP regulations, the reported DOSRI performing loans exclude loans extended to certain borrowers before these borrowers became DOSRI. Under BSP regulations, total outstanding exposures to each of the Parent Company's subsidiaries and affiliates shall not exceed 10.0% of the Group's net worth, the unsecured portion of which shall not exceed 5.0% of such net worth. Further, the total outstanding exposures to subsidiaries and affiliates shall not exceed 20.0% of the net worth of the Parent Company.

As of December 31, 2021, 2020 and 2019, the Group and Parent Company is in compliance with these regulatory requirements.

As of December 31, 2021, 2020 and 2019, the Group has not recognized impairment loss on loans and receivables from DOSRI.

(g) Secured Liabilities and Assets Pledged as Security

Assets pledged as security for liabilities of the Group and Parent Company are shown below.

	2021	2020
Aggregate amount of secured liabilities	**P 45,378**	P 4,199
Aggregate amount of resources pledged as security	**P 54,145**	P 8,245

NOTES TO FINANCIAL STATEMENTS

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

The following is a summary of contingencies and commitments arising from transactions not given recognition in the statement of financial position, expressed at their equivalent peso contractual amounts as of December 31, 2021 and 2020:

	2021	2020
Trust Investment Group accounts	**P 146,769**	P 116,652
Outstanding guarantees issued	**79,927**	67,297
Derivative assets	**71,092**	36,980
Derivative liabilities	**50,251**	28,135
Unused commercial letters of credit	**12,412**	20,495
Spot exchange bought	**6,170**	8,681
Spot exchange sold	**6,165**	8,674
Inward bills for collection	**4,003**	1,694
Late deposits/payments received	**377**	644
Outward bills for collection	**78**	94
Others	**58**	17

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