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COVER SHEET
for
AUDITED FINANCIAL STATEMENTS

SEC Registration Number

F S 2 0 1 8 1 5 7 1 5

Company Name

INDUSTRIAL COMMERCIAL BANK OF CHINA LIMITED - MANILA BRANCH

Principal Office (No./Street/Barangay/City/Town)Province)

24th Floor, The Curve
32nd Street corner 3rd Avenue
Fort Bonifacio, Taguig City

Form Type	Department requiring the report	Secondary License Type, If Applicable
AAFS	CRMD	

COMPANY INFORMATION

Company's Email Address	Company's Telephone Number/s	Mobile Number
icbcmanilaph@gmail.com	632 8280 3300/ 632 8403 2023	09171739333

No. of Stockholders	Annual Meeting Month/Day	Fiscal Year Month/Day
N/A	N/A	December 31

CONTACT PERSON INFORMATION

The designated contact person ***MUST*** be an Officer of the Corporation

Name of Contact Person	Email Address	Telephone Number/s	Mobile Number
YANMING SUN	yanming.sun@ph.icbc.com.cn	82803308	N/ A

Contact Person's Address

N/A

Note 1: In case of death, resignation or cessation of office of the officer designated as contact person, such incident shall be reported to the Commimission within thirty (30) calendar days from the occurrence thereof with information and complete contact details of the new contact person designated.

2: All Boxes must be properly and completely filled-up. Failure to do so shall cause the delay in updating the corporation's records with the Commission and/or non-receipt of Notice of Deficiencies. Futher, non-receipt of Notice of Defeciencies shall not excuse the corporation from liability for its deficiencies.

INDUSTRIAL AND COMMERCIAL BANK OF CHINA LIMITED MANILA BRANCH

FINANCIAL STATEMENTS
DECEMBER 31, 2021 and 2020

With Independent Auditors' Report

NavarroAmper&Co.

Navarro Amper & Co.
19th Floor Six/NEO Building
5th Avenue corner 26th Street
Bonifacio Global City, 1634 Taguig
Philippines

Tel: +63 2 8581 9000
Fax: +63 2 8869 3676
www.deloitte.com/ph

BOA/PRC Reg. No. 0004
SEC Accreditation No. 0004-SEC

SUPPLEMENTAL WRITTEN STATEMENT OF AUDITOR

The General Manager
Industrial and Commercial Bank of China Limited - Manila Branch
Ground Floor/24th Floor, The Curve, 32nd Street corner 3rd Avenue
Fort Bonifacio, Taguig City, Metro Manila, 1630

We have audited the financial statements of Industrial and Commercial Bank of China Limited - Manila Branch (the "Manila Branch") for the year ended December 31, 2021, on which we have rendered the attached report dated June 20, 2022.

In compliance with the revised Securities Regulation Code Rule 68, we are stating that the said Manila Branch has no shareholders being a branch office of Industrial and Commercial Bank of China Limited.

Navarro Amper & Co.
BOA Registration No. 0004, valid from June 7, 2021 to September 22, 2024
SEC A.N. 0004-SEC, issued on December 7, 2021; Group A, valid to audit 2021 to 2025 financial statements
BSP R. N. 004-BSP, issued on September 21, 2020, effective until September 21, 2024
TIN 005299331

By:

Wilfredo A. Baltazar

Wilfredo A. Baltazar
Partner
CPA License No. 0078498
SEC A.N. 78498-SEC, issued on August 27, 2020, Group A, valid to audit 2019 to 2023 financial statements
BSP R. N. 78498- BSP, issued on August 3, 2020, effective until August 3, 2023
TIN 115858485
BIR A.N. 08-002552-10-2020, issued on June 5, 2020; effective until June 5, 2023
PTR No. A-5378399, issued on January 3, 2022, Taguig City

Taguig City, Philippines
June 20, 2022

BUREAU OF INTERNAL REVENUE
REVENUE REGION NO. 8B - SOUTH NCR
Revenue District Office No. 044
Taguig/Pateros
RECEIVED
INITIAL: DATE: RCO CODE: 184050
RCO's NAME: SARAH JANE L. QUINCE
JUN 22 2022

Deloitte.

NavarroAmper&Co.

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SEC Accreditation No. 0004-SEC

INDEPENDENT AUDITOR'S REPORT

The General Manager
Industrial and Commercial Bank of China Limited - Manila Branch
Ground Floor/24th Floor, The Curve, 32nd Street corner 3rd Avenue
Fort Bonifacio, Taguig City, Metro Manila, 1630

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Industrial and Commercial Bank of China Limited - Manila Branch (the "Manila Branch"), which comprise the statement of financial position as at December 31, 2021, and the statement of comprehensive income, statement of changes in assigned capital funds and statement of cash flows for the year then ended, 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 Manila Branch as at December 31, 2021 and its financial performance and its cash flows for the year then ended, in accordance with Philippine Financial Reporting Standards (PFRS).

Basis for Opinion

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

Other Matter

The financial statements of the Manila Branch as at and for the year ended December 31, 2020 were audited by another auditor whose report, dated April 20, 2021, expressed an unmodified opinion on those statements.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 Manila Branch'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 Manila Branch, or to cease operations, or has no realistic alternative but to do so.

The Management is responsible for overseeing the Manila Branch's financial reporting process.

Auditor's 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 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 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 Manila Branch'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 Manila Branch's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's 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 auditor's report. However, future events or conditions may cause the Manila Branch to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

Report on Other Legal and Regulatory Requirements

Report on the Supplementary Information Required under Bangko Sentral ng Pilipinas (BSP) Circular No. 1074 and Revenue Regulations No. 15-2010

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information required under BSP Circular No. 1074 in Note 30 and Revenue Regulations No. 15-2010 in Note 31 to the financial statements is presented for purposes of filing with the BSP and Bureau of Internal Revenue, respectively, and is not a required part of the basic financial statements. Such supplementary information is the responsibility of Management and has been subjected to the auditing procedures applied in our audits of the basic financial statements. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Navarro Amper & Co.
BOA Registration No. 0004, valid from June 7, 2021 to September 22, 2024
SEC A.N. 0004-SEC, issued on December 7, 2021; Group A, valid to audit 2021 to 2025 financial statements
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Taguig City, Philippines
June 20, 2022

BUREAU OF INTERNAL REVENUE
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INDUSTRIAL AND COMMERCIAL BANK OF CHINA LIMITED - MANILA BRANCH

STATEMENT OF FINANCIAL POSITION
(WITH COMPARATIVE FIGURES AS AT DECEMBER 31, 2020)

		December 31	
	Notes	**2021**	2020
ASSETS			
Due from Bangko Sentral ng Pilipinas (BSP) - net	*6*	**P1,538,696,218**	P 574,224,770
Due from Other Banks - net	*7*	**420,645,845**	177,801,086
Financial Asset at Fair Value through Profit or Loss (FVTPL)	*8*	**16,651,715**	2,594,190
Investment Securities at Amortized Cost - net	*9*	**2,100,677,639**	3,211,603,608
Loans and Receivables - net	*10*	**5,575,786,161**	5,173,055,724
Financial Asset at Fair Value through Other Comprehensive Income (FVTOCI)	*11*	**17,017,893**	20,686,365
Property and Equipment	*13*	**38,525,594**	64,627,154
Right-of-use Assets	*18*	**35,226,772**	54,913,911
Retirement Asset	*19*	**1,247,776**	-
Deferred Tax Assets	*24*	**-**	36,813
Other Assets	*12*	**27,265,265**	19,773,680
		P9,771,740,878	P9,299,317,301
LIABILITIES AND ASSIGNED CAPITAL FUNDS			
LIABILITIES			
Due to Other Banks	*15*	**P 701,562,481**	P 495,347,259
Due to Head Office and Other Branches - net	*14*	**4,444,841,675**	3,397,069,522
Deposit Liabilities	*16*	**907,949,889**	1,649,815,075
Accrued Expenses and Other Payables	*17*	**115,832,086**	64,710,252
Lease Liabilities	*18*	**35,090,773**	55,333,723
Deferred Tax Liability	*24*	**311,944**	-
Financial Liability at FVTPL	*8*	**-**	10,055,316
Retirement Liability	*19*	**-**	122,709
Other Liabilities	*20*	**4,815,264**	2,378,498
		6,210,404,112	5,674,832,354
ASSIGNED CAPITAL FUNDS			
Assigned Capital	*27*	**3,975,770,000**	3,975,770,000
Deficit	*27*	**(434,762,398)**	(364,075,380)
Reserve for General Loan Loss Provision	*27*	**21,896,965**	14,929,115
Employee Benefit Reserve	*19*	**1,107,486**	1,926
Other Reserves	*11*	**(3,668,472)**	-
Cumulative Translation Adjustment		**993,185**	(2,140,714)
		3,561,336,766	3,624,484,947
		P9,771,740,878	P9,299,317,301

See Notes to the Financial Statements.

INDUSTRIAL AND COMMERCIAL BANK OF CHINA LIMITED - MANILA BRANCH

STATEMENT OF COMPREHENSIVE INCOME
(WITH COMPARATIVE FIGURES FOR 2020)

		Year Ended December 31	
	Notes	**2021**	2020
INTEREST INCOME			
Loans and receivables	*10*	**P170,873,659**	P160,795,778
Investment securities at amortized cost	*9*	**120,721,137**	188,343,051
Due from BSP	*6*	**31,585,180**	8,499,318
Due from Head Office and other branches	*14,15*	**893,340**	6,047,245
Due from other banks	*7*	**358,334**	534,115
		324,431,650	364,219,507
INTEREST EXPENSE			
Due to other banks	*15*	**11,982,689**	347,259
Due to Head Office and other branches	*14*	**8,672,572**	32,773,017
Lease liabilities	*18*	**737,012**	822,329
Deposit liabilities	*16*	**313,269**	1,047,422
		21,705,542	34,990,027
NET INTEREST INCOME		**302,726,108**	329,229,480
CREDIT LOSSES	*22*	**41,052,601**	120,885,945
		261,673,507	208,343,535
OTHER INCOME			
Fees and commissions	*20*	**33,302,848**	15,738,153
Fair value gain - net		**4,736,123**	-
		38,038,971	15,738,153
OPERATING EXPENSES			
Salaries, bonuses and allowances	*21*	**203,967,040**	168,712,488
Depreciation and amortization	*13,18*	**49,234,787**	53,094,565
Taxes and licenses		**33,060,404**	31,214,713
Occupancy expenses	*18*	**9,603,329**	9,005,481
Fair value loss - net		**-**	15,748,970
Other operating expenses	*23*	**35,902,980**	37,825,700
		331,768,540	315,601,917
LOSS BEFORE INCOME TAX EXPENSE		**(32,056,062)**	(91,520,229)
INCOME TAX EXPENSE	*24*	**31,663,106**	46,265,697
NET LOSS		**(63,719,168)**	(137,785,926)
OTHER COMPREHENSIVE INCOME (LOSS)			
Item that will not be reclassified subsequently to profit or loss			
Remeasurement gain on retirement liability	*19*	**1,473,896**	2,751
Tax effect		**(368,336)**	(825)
		1,105,560	1,926
Net changes in fair values of FVTOCI equity investments	*11*	**(3,668,472)**	-
Item that may be reclassified to profit or loss			
Cumulative translation adjustment		**3,133,899**	(1,980,381)
TOTAL COMPREHENSIVE LOSS		**(P63,148,481)**	(P139,764,381)

See Notes to the Financial Statements.

BUREAU OF INTERNAL REVENUE
REVENUE REGION NO. 8B - SOUTH NCR
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INDUSTRIAL AND COMMERCIAL BANK OF CHINA LIMITED - MANILA BRANCH

STATEMENT OF CHANGES IN ASSIGNED CAPITAL FUNDS (WITH COMPARATIVE FIGURES FOR 2020)

		Years Ended December 31						
	Note	**Assigned Capital** (Note 27)	**Deficit** (Note 27)	**Reserve for General Loan Loss Provision** (Note 27)	**Employee Benefit Reserve** (Note 19)	**Other Reserves** (Note 11)	**Cumulative Translation Adjustment**	**Total**
Balances at January 1, 2021		**P3,975,770,000**	**(P364,075,380)**	**P14,929,115**	**P 1,926**	**P -**	**(P2,140,714)**	**P3,624,484,947**
Reserve for general loan loss provision	27	-	**(6,967,850)**	**6,967,850**	-	-	-	-
Total comprehensive loss during the year								
Net loss for the year		-	**(63,719,168)**	-	-	-	-	**(63,719,167)**
Other comprehensive income (loss)		-	-	-	**1,105,560**	**(3,668,472)**	**3,133,899**	**4,239,459**
		-	**(63,719,168)**	-	**1,105,560**	**(3,668,472)**	**3,133,899**	**(63,148,181)**
Balance as at December 31, 2021		**P3,975,770,000**	**(P434,762,398)**	**P21,896,965**	**P1,107,486**	**(P3,668,472)**	**P 993,185**	**P3,561,336,766**
Balances at January 1, 2020		P3,975,770,000	(P227,467,264)	P16,106,925	P -	P -	(P160,333)	P3,764,249,328
Reserve for general loan loss provision	27	-	1,177,810	(1,177,810)	-	-	-	-
Total comprehensive loss during the year								
Net loss for the year		-	(137,785,926)	-	-	-	-	(137,785,926)
Other comprehensive income (loss)		-	-	-	1,926	-	(1,980,381)	(1,978,455)
		-	(137,785,926)	-	1,926	-	(1,980,381)	(139,764,381)
Balance as at December 31, 2020		P3,975,770,000	(P364,075,380)	P14,929,115	P 1,926	P -	(P2,140,714)	P3,624,484,947

See Notes to the Financial Statements.

BUREAU OF INTERNAL REVENUE
REVENUE REGION NO. 8B - SOUTH NCR
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INDUSTRIAL AND COMMERCIAL BANK OF CHINA LIMITED - MANILA BRANCH

STATEMENT OF CASH FLOWS
(WITH COMPARATIVE FIGURES FOR 2020)

		Year Ended December 31	
	Notes	**2021**	2020
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before income tax expense		**(P32,056,062)**	(P 91,520,229)
Adjustments for:			
Interest income	*6,7,9,10,14,15*	**(324,431,650)**	(364,219,507)
Credit losses	*22*	**41,052,601**	120,885,945
Depreciation and amortization	*13,18*	**49,234,787**	53,094,565
Interest expense	*14,15,16,18*	**21,705,542**	34,990,027
Unrealized fair value (gain) loss - net	*8*	**(4,736,123)**	15,748,970
Retirement expense	*19*	**1,274,497**	2,236,592
Operating loss before working capital changes		**(247,956,408)**	(228,783,637)
Decrease (increase) in:			
Loans and receivables		**(451,219,657)**	(2,572,806,352)
Financial assets at FVTPL		**(25,591,177)**	-
Deposit liabilities		**(741,805,395)**	1,604,176,173
Due to Head Office and other branches		**1,046,853,568**	625,863,220
Due to other banks		**205,000,000**	495,347,259
Accrued expenses and other payables		**51,110,645**	23,528,446
Other assets		**(8,862,624)**	(2,175,210)
Other liabilities		**2,436,766**	(56,563)
Net cash absorbed by operations		**(170,034,282)**	(54,906,664)
Interest received		**360,850,908**	388,577,943
Income taxes paid		**(30,407,615)**	(50,574,020)
Interest paid on borrowings		**(19,961,319)**	(30,472,522)
Interest paid on leases	*18*	**(737,012)**	(822,329)
Retirement plan contributions paid	*19*	**(1,171,086)**	(2,111,132)
Net cash provided by operating activities		**138,539,594**	249,691,276
CASH FLOWS FROM INVESTING ACTIVITIES			
Maturities of investment securities at amortized cost	*9*	**1,089,235,783**	458,401,559
Acquisition of property and equipment	*13*	**(3,350,119)**	(3,330,153)
Cash provided by investing activities		**1,085,885,664**	455,071,406
CASH FLOWS USED IN FINANCING ACTIVITY			
Principal payment of lease liability	*18*	**(20,242,950)**	(17,991,226)
NET EFFECT OF EXCHANGE RATE DIFFERENCES		**3,133,899**	(1,980,381)

	Notes	Year Ended December 31 2021	2020
NET INCREASE IN CASH AND CASH EQUIVALENTS		**P1,207,316,207**	P684,791,075
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR			
Due from Bangko Sentral ng Pilipinas (BSP)	*6*	**574,224,770**	38,874,580
Due from Other Banks	*7*	**177,801,086**	28,860,201
		752,025,856	67,234,871
CASH AND CASH EQUIVALENTS AT END OF THE YEAR			
Due from Bangko Sentral ng Pilipinas (BSP)	*6*	**1,538,696,218**	574,224,770
Due from Other Banks	*7*	**420,645,845**	177,801,086
		P1,959,342,063	P752,025,856

See Notes to the Financial Statements.

1. CORPORATE INFORMATION

Industrial and Commercial Bank of China Limited - Manila Branch (the "Manila Branch") is the Philippine branch of Industrial and Commercial Bank of China Limited (the "Head Office"), a China-based commercial bank and perpetually existing joint stock limited company, organized under the Company Law of the People's Republic of China. The ultimate parent of the Manila Branch is China Investment Corporation, a state-owned entity which was established in Beijing, China and holds 34.71% ordinary shares of the Head Office.

The Manila Branch acquired its license to transact business issued by the Securities and Exchange Commission (SEC) on August 2, 2018. The Manila Branch was authorized to operate as a foreign branch with commercial banking license and to operate an Expanded Foreign Currency Deposit Unit (EFCDU) in the Philippines by the Bangko Sentral ng Pilipinas (BSP) on November 7, 2018. The Manila Branch started business operations on February 14, 2019. The Manila Branch has no authority to engage in trust operations.

The Manila Branch's principal activities are to provide commercial banking services such as deposit products, loans and trade finance and settlement products.

The Manila Branch's registered address and principal place of business is at Ground Floor/24th Floor, The Curve, 32nd Street corner 3rd Avenue, Fort Bonifacio, Taguig City.

2. FINANCIAL REPORTING FRAMEWORK AND BASIS OF PREPARATION AND PRESENTATION

Statement of Compliance

The financial statements of the Manila Branch have been prepared in accordance with Philippine Financial Reporting Standards (PFRS), which include all applicable PFRS, Philippine Accounting Standards (PAS) and interpretations issued by the IFRS Interpretations Committee (IFRIC), Philippine Interpretations Committee (PIC) and Standing Interpretations Committee (SIC) as approved by the Financial Reporting Standards Council (FRSC) and Board of Accountancy (BOA) and adopted by the SEC.

Basis of Preparation and Presentation

The financial statements have been prepared on the historical cost basis, except for:

- certain financial instruments measured at fair value;
- certain financial instruments that are carried at amortized cost; and
- retirement benefit obligation recognized as the present value of the obligation.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Manila Branch takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these financial statements is determined on such a basis, except for leasing transactions that are within the scope of PFRS 16, *Leases*.

In addition, for financial reporting purposes, fair value measurements are categorized into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

Functional and Presentation Currency

The financial statements are presented in Philippine Peso (PHP), the Manila Branch's presentation currency. The financial statements of the Manila Branch include the accounts maintained in the Regular Banking Unit (RBU) and Foreign Currency Deposit Unit (FCDU). The functional currency of RBU and FCDU is PHP and United States Dollar (USD), respectively. For financial reporting purposes, FCDU accounts and foreign currency-denominated accounts in the RBU are translated into their equivalents in PHP (see accounting policy on Foreign Currency Transactions and Translation). The financial statements of these units are combined after eliminating inter-unit accounts.

All information has been rounded off to the nearest peso, except when otherwise indicated.

3. ADOPTION OF NEW AND REVISED ACCOUNTING STANDARDS

Adoption of New and Revised Accounting Standards Effective in 2021

The Manila Branch adopted all applicable accounting standards and interpretations as at December 31, 2021. The new and revised accounting standards and interpretations that have been published by the International Accounting Standards Board (IASB) and approved by the FRSC in the Philippines, were assessed to be applicable to the Manila Branch's financial statements, are as follows:

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

In March 2021, the Board issued Covid-19-Related Rent Concessions beyond June 30, 2021 (Amendment to PFRS 16) that extends the practical expedient to apply to reduction in lease payments originally due on or before June 30, 2022.

In the current financial year, the Manila Branch has applied the amendment to PFRS 16 (as issued by the Board in May 2021) in advance of its effective date.

The practical expedient permits a lessee to elect not to assess whether a COVID-19-related rent concession is a lease modification. A lessee that makes this election shall account for any change in lease payments resulting from the COVID-19-related rent concession applying PFRS 16 as if the change were not a lease modification.

The practical expedient applies only to rent concessions occurring as a direct consequence of COVID-19 and only if all of the following conditions are met:

a) The change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;

b) Any reduction in lease payments affects only payments originally due on or before June 30, 2022 (a rent concession meets this condition if it results in reduced lease payments on or before June 30, 2022 and increased lease payments that extend beyond June 30, 2022); and

c) There is no substantive change to other terms and conditions of the lease.

The amendment is effective for annual reporting periods beginning on or after April 1, 2021. Earlier application permitted, including in financial statements not yet authorized for issue at the date the amendment is issued.

The amendments did not have significant impact on the Manila Branch's financial statements.

PIC Q&A No. 2020-07, PAS 12 – Accounting for the Proposed Changes in Income Tax Rates under the Corporate Recovery and Tax Incentives for Enterprises Act (CREATE) Bill

The interpretation explained the details of the CREATE bill and its impact on the financial statements once passed.

Interpretation discussed that impact on the financial statements ended December 31, 2020 are as follows:

- Current and deferred taxes will still be measured using the applicable income tax rate as of December 31, 2020
- If the CREATE bill is enacted before financial statements' issue date, this will be a non-adjusting event but the significant effects of changes in tax rates on current and deferred tax assets and liabilities should be disclosed
- If the CREATE bill is enacted after financial statements' issue date but before filing of the income tax return, this is no longer a subsequent event but companies may consider disclosing the general key feature of the bill and the expected impact on the financial statements

For the financial statements ended December 31, 2021, the impact are as follows:

- Standard provides that component of tax expense(income) may include "any adjustments recognized in the period for current tax of prior periods" and "the amount of deferred tax expense (income) relating to changes in tax rates or the imposition of new taxes"
- An explanation of changes in the applicable income tax rates to the previous accounting period is also required to be disclosed
- The provision for current income tax for the year 2021 will include the difference between income tax per 2020 financial statements and 2020 income tax return
- Deferred tax assets and liabilities as of December 31, 2021, will be remeasured using the new tax rates
- Any movement in deferred taxes arising from the change in tax rates that will form part of the provision for/benefit from deferred taxes will be included as well in the effective tax rate reconciliation

The interpretation is effective on or after January 29, 2021.

The interpretation resulted to Manila Branch's corporate income tax rate to change from 30% to 25% for non-registered taxable activities as disclosed in Note 24. The 10% special income tax rate will be retained for the transition period of 10 years, after which, the Manila Branch shall have the option to reapply and avail of tax incentives for registered enterprises under the CREATE act.

New Accounting Standards Effective after the Reporting Period Ended December 31, 2021

PFRS 17, *Insurance Contracts*

PFRS 17 establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts and supersedes PFRS 4, *Insurance Contracts*.

PFRS 17 outlines a general model, which is modified for insurance contracts with direct participation features, described as the variable fee approach. The general model is simplified if certain criteria are met by measuring the liability for remaining coverage using the premium allocation approach.

The general model uses current assumptions to estimate the amount, timing and uncertainty of future cash flows and it explicitly measures the cost of that uncertainty. It takes into account market interest rates and the impact of policyholders' options and guarantees.

An amendment issued in June 2020 and adopted by FRSC in August 2020 addresses concerns and implementation challenges that were identified after PFRS 17 was published.

PFRS 17 must be applied retrospectively unless impracticable, in which case the modified retrospective approach or the fair value approach is applied.

For the purpose of the transition requirements, the date of initial application is the start if the annual reporting period in which the entity first applies the Standard, and the transition date is the beginning of the period immediately preceding the date of initial application.

The standard (incorporating the amendments) is effective for periods beginning on or after January 1, 2023. Earlier application is permitted.

The Management does not anticipate that the application of the standard in the future will have significant impact on the Manila Branch 's financial statements since the Manila Branch does not issue insurance contracts nor hold reinsurance contracts.

Amendments to PFRS 3, *References to the Conceptual Framework*

The amendments update PFRS 3 so that it refers to the 2018 Conceptual Framework instead of the 1989 Framework. They also add to PFRS 3 a requirement that, for obligations within the scope of PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, an acquirer applies PAS 37 to determine whether at the acquisition date a present obligation exists as a result of past events. For a levy that would be within the scope of IFRIC 21 Levies, the acquirer applies IFRIC 21 to determine whether the obligating event that gives rise to a liability to pay the levy has occurred by the acquisition date.

The amendments also add an explicit statement that an acquirer does not recognize contingent assets acquired in a business combination.

The amendments are effective for business combinations for which the date of acquisition is on or after the beginning of the first annual period beginning on or after January 1, 2022. Early application is permitted if an entity also applies all other updated references (published together with the updated Conceptual Framework) at the same time or earlier.

The Management does not foresee any significant impact on the Manila Branch's financial statements since the Manila Branch is not looking into any possible business combination in the future.

Amendments to PFRS 10 and PAS 28, *Sale or Contribution of Assets between an Investor and Its Associate or Joint Venture*

The amendments to PFRS 10 and PAS 28 deal with situations where there is a sale or contribution of assets between an investor and its associate or joint venture. Specifically, the amendments state that gains or losses resulting from the loss of control of a subsidiary that does not contain a business in a transaction with an associate or a joint venture that is accounted for using the equity method, are recognized in the parent's profit or loss only to the extent of the unrelated investors' interests in that associate or joint venture. Similarly, gains and losses resulting from the remeasurement of investments retained in any former subsidiary (that has become an associate or a joint venture that is accounted for using the equity method) to fair value are recognized in the former parent's profit or loss only to the extent of the unrelated investors' interests in the new associate or joint venture.

The effective date of the amendments has yet to be set by the Board; however, earlier application of the amendments is permitted.

The Management does not anticipate that the amendments to the standards in the future will have significant impact on the Manila Branch's financial statements since the Manila Branch does not expect any similar transaction in the future.

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

The amendments to PAS 1 affect only the presentation of liabilities as current or non-current in the statement of financial position and not the amount or timing of recognition of any asset, liability, income or expenses, or the information disclosed about those items.

The amendments clarify that the classification of liabilities as current or non-current is based on rights that are in existence at the end of the reporting period, specify that classification is unaffected by expectations about whether an entity will exercise its right to defer settlement of a liability, explain that rights are in existence if covenants are complied with at the end of the reporting period, and introduce a definition of 'settlement' to make clear that settlement refers to the transfer to the counterparty of cash, equity instruments, other assets or services.

The amendments are applied retrospectively for annual periods beginning on or after January 1, 2023, with early application permitted.

The Management is still evaluating the impact of the future adoption of the amendments on the Manila Branch's financial statements.

Amendments to PAS 16, *Property, Plant and Equipment – Proceeds before Intended Use*

The amendments prohibit deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced before that asset is available for use, i.e. proceeds while bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Consequently, an entity recognizes such sales proceeds and related costs in profit or loss. The entity measures the cost of those items in accordance with PAS 2, *Inventories*.

The amendments also clarify the meaning of 'testing whether an asset is functioning properly'. PAS 16 now specifies this as assessing whether the technical and physical performance of the asset is such that it is capable of being used in the production or supply of goods or services, for rental to others, or for administrative purposes.

If not presented separately in the statement of comprehensive income, the financial statements shall disclose the amounts of proceeds and cost included in profit or loss that relate to items produced that are not an output of the entity's ordinary activities, and which line item(s) in the statement of comprehensive income include(s) such proceeds and cost.

The amendments are applied retrospectively, but only to items of property, plant and equipment that are brought to the location and condition necessary for them to be capable of operating in the manner intended by management on or after the beginning of the earliest period presented in the financial statements in which the entity first applies the amendments.

The entity shall recognize the cumulative effect of initially applying the amendments as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate) at the beginning of that earliest period presented.

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

The Management does not anticipate that these amendments will have significant impact on the Manila Branch 's financial statements since the Manila Branch does not have this kind of transaction.

Amendments to PAS 37, *Onerous Contracts – Cost of Fulfilling a Contract*

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

The amendments apply to contracts for which the entity has not yet fulfilled all its obligations at the beginning of the annual reporting period in which the entity first applies the amendments. Comparatives are not restated. Instead, the entity shall recognize the cumulative effect of initially applying the amendments as an adjustment to the opening balance of retained earnings or other component of equity, as appropriate, at the date of initial application.

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

The Management does not anticipate that these amendments will have significant impact on the Manila Branch 's financial statements since the Manila Branch does not have any onerous contracts.

Annual Improvements to PFRS Standards 2018-2020 Cycle

Amendments to PFRS 1, *Subsidiary as a first-time adopter*

The amendment provides additional relief to a subsidiary which becomes a first-time adopter later than its parent in respect of accounting for cumulative translation differences. As a result of the amendment, a subsidiary that uses the exemption in PFRS 1:D16 (a) can now also elect to measure cumulative translation differences for all foreign operations at the carrying amount that would be included in the parent's consolidated financial statements, based on the parent's date of transition to PFRS Standards, if no adjustments were made for consolidation procedures and for the effects of the business combination in which the parent acquired the subsidiary. A similar election is available to an associate or joint venture that uses the exemption in PFRS 1:D16 (a).

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

The Management does not anticipate that these amendments will have significant impact on the financial statements since the Manila Branch is not a first-time adopter of PFRS.

Amendments to PFRS 9, *Fees in the '10 per cent' test for derecognition of financial liabilities*

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

The amendment is applied prospectively to modifications and exchanges that occur on or after the date the entity first applies the amendment.

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

The Management of the Manila Branch is still evaluating the impact of the amendments.

Amendments to PFRS 16, *Lease Incentives*

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

As the amendment to PFRS 16 only regards an illustrative example, no effective date is stated.

The Management of the Manila Branch is still evaluating the impact of the amendments.

Amendments to PAS 41, *Taxation in Fair Value Measurements*

The amendment removes the requirement in PAS 41 for entities to exclude cash flows for taxation when measuring fair value. This aligns the fair value measurement in PAS 41 with the requirements of PFRS 13, *Fair Value Measurement* to use internally consistent cash flows and discount rates and enables preparers to determine whether to use pretax or post-tax cash flows and discount rates for the most appropriate fair value measurement.

The amendment is applied prospectively, i.e. for fair value measurements on or after the date an entity initially applies the amendment.

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

The Management of the Manila Branch is still evaluating the impact of the amendments.

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

The amendments are as follows:

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

The amendments are applied prospectively. The amendments to PAS 1 are effective for annual periods beginning on or after January 1, 2023. Earlier application is permitted.

The Management of the Manila Branch is still evaluating the impact of the amendments.

Amendments to PAS 8, *Definition of Accounting Estimates*

With the amendment, accounting estimates are now defined as "monetary amounts in financial statements that are subject to measurement uncertainty."

The amendment clarified that a change in accounting estimate that results from new information or new developments is not the correction of an error. In addition, the effects of a change in an input or a measurement technique used to develop an accounting estimate are changes in accounting estimates if they do not result from the correction of prior period errors.

A change in an accounting estimate may affect only the current period's profit or loss, or the profit or loss of both the current period and future periods. The effect of the change relating to the current period is recognized as income or expense in the current period. The effect, if any, on future periods is recognized as income or expense in those future periods

The amendments are effective for annual periods beginning on or after January 1, 2023 and changes in accounting policies and changes in accounting estimates that occur on or after the start of that period. Earlier application is permitted.

The Management of the Manila Branch is still evaluating the impact of the amendments.

Amendments to PAS 12 Income Taxes, *Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction*

The amendments introduce a further exception from the initial recognition exemption. Under the amendments, an entity does not apply the initial recognition exemption for transactions that give rise to equal taxable and deductible temporary differences.

Depending on the applicable tax law, equal taxable and deductible temporary differences may arise on initial recognition of an asset and liability in a transaction that is not a business combination and affects neither accounting nor taxable profit. For example, this may arise upon recognition of a lease liability and the corresponding right-of-use asset applying PFRS 16 at the commencement date of a lease.

Following the amendments to PAS 12, an entity is required to recognize the related deferred tax asset and liability, with the recognition of any deferred tax asset being subject to the recoverability criteria in PAS 12.

The Board also adds an illustrative example to PAS 12 that explains how the amendments are applied.

The amendments apply to transactions that occur on or after the beginning of the earliest comparative period presented. In addition, at the beginning of the earliest comparative period an entity recognizes:

- A deferred tax asset (to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilized) and a deferred tax liability for all deductible and taxable temporary differences associated with:
  - Right-of-use assets and lease liabilities
  - Decommissioning, restoration and similar liabilities and the corresponding amounts recognized as part of the cost of the related asset
- The cumulative effect of initially applying the amendments as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate) at that date

The amendments are effective for annual reporting periods beginning on or after January 1, 2023, with earlier application permitted.

The Management of the Manila Branch is still evaluating the impact of the amendments.

Amendment to PFRS 17, *Initial Application of PFRS 17 and PFRS 9 – Comparative Information*

The amendment is a transition option relating to comparative information about financial assets presented on initial application of PFRS 17.

The main amendment in Initial Application of PFRS 17 and PFRS 9 — Comparative Information (Amendment to PFRS 17) is a narrow-scope amendment to the transition requirements of PFRS 17 for entities that first apply PFRS 17 and PFRS 9 at the same time. The amendment regards financial assets for which comparative information is presented on initial application of PFRS 17 and PFRS 9, but where this information has not been restated for PFRS 9.

Under the amendment, an entity is permitted to present comparative information about a financial asset as if the classification and measurement requirements of PFRS 9 had been applied to that financial asset before. The option is available on an instrument-by-instrument basis. In applying the classification overlay to a financial asset, an entity is not required to apply the impairment requirements of PFRS 9.

There are no changes to the transition requirements in PFRS 9

The amendment is effective for annual periods beginning on or after January 1, 2025, as amended by the FRSC from January 1, 2023. This is consistent with Circular Letter No. 2020-62 issued by the Insurance Commission which deferred the implementation of PFRS 17 by two (2) years after its effective date as decided by the IASB. Still subject to approval of the Board of Accountancy.

The Management of the Manila Branch is still evaluating the impact of the amendments.

4. SIGNIFICANT ACCOUNTING POLICIES

Foreign Currency Transactions and Translation

Transactions in foreign currencies are initially recorded at the functional rate of exchange at the date of transaction.

The foreign currency-denominated monetary assets and liabilities in the RBU are translated into their equivalents in PHP based on the Bankers Association of the Philippines (BAP) closing rate prevailing at the statement of financial position date and foreign currency-denominated income and expenses at the prevailing exchange rate at the date of transaction.

Foreign exchange differences arising from revaluation and re-translation of foreign currency-denominated monetary assets and liabilities are credited to or charged against operations in the year in which the rates change under "Foreign exchange gain or loss" account in the statement of comprehensive income. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The assets and liabilities of the FCDU are translated into the Manila Branch's presentation currency at BAP closing rate prevailing at the statements of financial position date, and its income and expenses are translated at BAP weighted average rate for the year. Exchange differences arising from translation to the presentation currency are taken directly to other comprehensive income (OCI) in the statement of comprehensive income under "Cumulative translation adjustment". Upon disposal of the FCDU or upon actual remittance of FCDU profits to RBU, the deferred cumulative amount recognized as other comprehensive income is recognized in profit or loss.

Financial Instruments

Financial assets and financial liabilities are recognized in the Manila Branch's financial statements when the Manila Branch becomes a party to the contractual provisions of the instrument.

<u>Initial recognition</u>

Financial assets and financial liabilities are recognized initially at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities, other than financial assets and financial liabilities at fair value through profit or loss (FVTPL), are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognized immediately in profit or loss.

Business model in managing financial assets

Business model reflects the manner by which financial assets will be managed to generate cash flows such as by collecting contractual cash flows or selling of financial assets or by both collecting contractual cash flows and selling the financial assets, among others. The Manila Branch determines the business model for managing the financial assets according to the facts and based on the specific business objective for managing the financial assets determined by the management. Once the business model of financial assets is determined, it cannot be changed randomly.

In this respect, these scenarios do not include "worst case" or "stress case" scenarios.

a) The criteria that are used in determining the business model for managing financial assets are applied to financial assets on a portfolio basis.

b) Business models for managing financial assets are reviewed and approved by the Head Office on an annual basis, or if there is any adjustment, and are adequately documented. The documentation for each business model includes, among others, detailed description of specific business objectives (whether to hold in order to collect contractual cash flows, to sell or both); cases of sales and/ or derecognition of financial assets and conditions for changes in business model; and appropriate level of authority designated to approve determination of business model of specific portfolios of financial assets as well as the sales, derecognition, and changes in business model of financial assets.

c) Changes in business model are expected to be rare and determined as a result of external or internal changes which are significant to the Manila Branch's operations and evident to external parties. Change in intention related to the management of particular financial assets does not constitute a change in business model. The change in business model is approved by the appropriate level of authority based on sound justifications and in accordance with accounting standards. The qualitative and quantitative impacts of the change in business model are adequately documented and appropriately disclosed in the financial statements in line with the disclosure of risk management policies on the relevant risk exposure.

d) All affected financial assets are reclassified when, and only when, the Manila Branch changes its business model for managing financial assets. Financial liabilities are not allowed to be reclassified. If cash flows are realized in a way that is different from the expectations at the date at which the Manila Branch assessed the business model, it does not constitute a change in the classification of the remaining financial assets as long as the Manila Branch considered all relevant and objective information available when it initially made the business model assessment.

Once determined, the business model of each type of credit assets cannot be changed without proper authorization. In cases where the Manila Branch changes a business model, the financial assets within the said model are not reclassified within the reporting period that the change in business model is made. The reclassification in this case only takes effect in the next financial reporting period. In this respect, any previously recognized gains, losses or interest are not restated.

Financial Assets

Classification and subsequent measurement

All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period established by regulation or convention in the marketplace.

All recognized financial assets are subsequently measured in their entirety at either amortized cost or fair value, depending on the classification of the financial assets.

Fair value is determined in the manner described in Notes 2 and 25.

Financial assets are subsequently measured at amortized cost or fair value on the basis of the Manila Branch's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets, as follows:

- financial assets that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest (SPPI), are subsequently measured at amortized cost;
- financial assets that are held within a business model whose objective is both to collect the contractual cash flows and to sell the debt instruments, and that have contractual cash flows that are SPPI, are subsequently measured at fair value through other comprehensive income (FVTOCI); and

- all other financial assets managed on their fair value basis and equity instruments are subsequently measured at FVTPL unless the Manila Branch makes an irrevocable designation to classify the financial assets as at FVTOCI.

Amortized cost and effective interest method

The effective interest method is a method of calculating the amortized cost of a financial asset and of allocating interest income over the relevant period.

For financial instruments other than purchased or originated credit-impaired (POCI) financial assets, the effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) excluding expected credit loss (ECL), through the expected life of the debt instrument, or, where appropriate, a shorter period, to the gross carrying amount of the debt instrument on initial recognition.

For POCI financial assets, a credit-adjusted effective interest rate is calculated by discounting the estimated future cash flows, including ECL, to the amortized cost of the debt instrument on initial recognition.

The amortized cost of a financial asset is the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount, adjusted for any loss allowance. On the other hand, the gross carrying amount of a financial asset is the amortized cost of a financial asset before adjusting for any loss allowance.

Interest income is recognized using the effective interest method for debt instruments measured subsequently at amortized cost and at FVTOCI.

For financial instruments other than POCI financial assets, interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired.

For financial assets that have subsequently become credit-impaired, interest income is recognized by applying the effective interest rate to the amortized cost of the financial asset. If, in subsequent reporting periods, the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognized by applying the effective interest rate to the gross carrying amount of the financial asset.

Debt instruments classified at Amortized Cost

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

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

Debt financial assets meeting these criteria are measured initially at fair value plus transaction costs. These financial assets are subsequently measured at amortized cost using the effective interest method less any impairment allowance, with the interest calculated and recognized in profit or loss.

Equity instruments designated as at FVTOCI

On initial recognition, for an equity investment that is not held for trading, the Manila Branch may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an instrument-by-instrument (i.e., share-by-share) basis.

A financial asset is held for trading if:

- it has been acquired principally for the purpose of selling it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Manila Branch manages together and has evidence of a recent actual pattern of short-term profit-taking; or
- it is a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument).

Investments in equity instruments at FVTOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognized in OCI. The cumulative gain or loss will not be reclassified to profit or loss on disposal of the equity investments, instead, they will be transferred to retained earnings (deficit).

Dividends on these investments in equity instruments are recognized in profit or loss in accordance with PFRS 9, unless the dividends clearly represent a recovery of part of the cost of the investment.

Financial assets at FVTPL

All other financial assets not measured at amortized cost or at FVTOCI are classified as measured at FVTPL, except when the financial asset is part of a hedging relationship.

Financial assets measured at FVTPL consist of: (a) financial assets held for trading (HFT), which include stand-alone and/ or embedded derivatives, except a derivative that is a financial guarantee contract or designated and effective hedging instruments; and (b) other financial assets other than those that are HFT and are designated at FVTPL.

The Manila Branch may, at initial recognition, irrevocably designate financial assets that are debt instruments as measured at FVTPL, provided that the designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognizing the gains or losses on them on different bases.

As at December 31, 2021 and 2020, the Manila Branch's financial assets at FVTPL consists of derivative assets (see Note 8).

The Manila Branch enters into contracts with off-books risks. These contracts are entered into as a service to customers and as a means of reducing and managing the Manila Branch's risk exposures, as well as for trading purposes. These derivative financial instruments are initially recognized at fair value on the date when the derivative contract is entered into and are subsequently remeasured at their fair value. All derivatives are reported as assets when fair value is positive and as liabilities when fair value is negative.

The method of recognizing fair value gains and losses depends on whether derivatives are HFT or are designated as hedging instruments, and if the latter, the nature of the risks being hedged.

In 2021 and 2020, the Manila Branch did not apply hedge accounting treatment for any of its derivative transactions since the derivatives are HFT and not designated as hedging instruments.

Impairment of financial assets

The Manila Branch recognizes an allowance for ECL on all financial assets measured at amortized cost such as cash and cash equivalents, loans and receivables, debt instruments and refundable security deposits. The Manila Branch also provides financial guarantees to customers which are also subject to ECL assessment.

The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

Moreover, the Manila Branch uses reasonable and supportable information that is available without undue cost or effort to determine the credit risk at the date that a financial instrument was initially recognized.

ECL Model

ECL is a probability weighted estimate of credit loss within the expected lifetime of the financial instruments. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the Manila Branch in accordance with the contract and the cash flows that the Manila Branch expects to receive).

The Manila Branch's method of measuring the ECL of the financial instruments reflects the following elements:

a. the unbiased weighted average probability determined by the results of evaluating a range of possible outcome;

b. the time value of money; and

c. the reasonable and evidenced-based information about past events, current conditions and future economic forecasts that are available at no additional cost or effort at the end of the reporting period.

The maximum period considered when estimating ECL is the maximum contractual period (including extension options, if any) over which the Manila Branch is exposed to credit risk.

The Manila Branch classifies financial instruments into three (3) stages and makes provisions for ECL accordingly, depending on whether credit risk on that financial instrument has increased significantly since initial recognition.

- Stage 1 - A financial instrument of which the credit risk has not significantly increased since initial recognition. The amount equal to 12-month ECL is recognized as loss allowance.

- Stage 2 - A financial instrument with a significant increase in credit risk since initial recognition but is not considered to be credit-impaired. The amount equal to lifetime ECL is recognized as loss allowance. Refer to Notes 5 and 26 on credit risk discussion for the description of how the Manila Branch determines when a significant increase in credit risk has occurred.

- Stage 3 - A financial instrument is considered to be credit-impaired as at the end of the reporting period. The amount equal to lifetime ECL is recognized as loss allowance. Refer to Note 26 on credit risk section for the definition of credit-impaired financial assets, including the quantitative and qualitative information considered by the Manila Branch in the assessment.

Lifetime ECL represents the ECLs 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 reporting date.

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information.

As for the exposure at default, for financial assets, this is represented by the assets' gross carrying amount at the reporting date; for financial guarantee contracts, the exposure includes the amount drawn down as at the reporting date, together with any additional amounts expected to be drawn down in the future by default date determined based on historical trend, the Manila Branch's understanding of the specific future financing needs of the debtors, and other relevant forward-looking information.

The Manila Branch measures ECL on an individual basis, or on a collective basis for portfolios of loans that share similar economic risk characteristics. The measurement of the loss allowance is based on the present value of the asset's expected cash flows using the asset's original effective interest rate method, regardless of whether it is measured on an individual basis or a collective basis.

Significant increase in credit risk (SICR)

The Manila Branch monitors all financial assets, issued loan commitments and financial guarantee contracts that are subject to the impairment requirements to assess whether there has been an SICR since initial recognition. If there has been an SICR, the Manila Branch will measure the loss allowance based on lifetime rather than 12-month ECL.

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Manila Branch compares the risk of a default occurring on the financial instrument at the reporting date based on the remaining maturity of the instrument with the risk of a default occurring that was anticipated for the remaining maturity at the current reporting date when the financial instrument was first recognized. In making this assessment, the Manila Branch considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort, based on the Manila Branch's historical experience and expert credit assessment including forward-looking information. In the process of assessing SICR, the Manila Branch considers various factors as further discussed in Note 26.

The Manila Branch assumes that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date.

A financial instrument is determined to have low credit risk if:

- the financial instrument has a low risk of default;
- the debtor has a strong capacity to meet its contractual cash flow obligations in the near term; and
- adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations.

The Manila Branch considers a financial asset to have low credit risk when the asset has external credit rating of 'investment grade' in accordance with the globally understood definition which is used by the Manila Branch to establish its internal risk rating. Under its risk categorization, the Manila Branch considers low credit risk to refer to counterparties having the highest quality, high quality, and upper medium grade as fully discussed in Note 26. These are customers with great operating and financial strength as well as strong and very stable solvency and have demonstrated that they can withstand and bear major internal and external adverse change, with very reliable and predictable net cash flows.

The Manila Branch regularly monitors the effectiveness of the criteria used to identify whether there has been an SICR and revises them as appropriate to ensure that the criteria are capable of identifying SICR before the amount becomes past due.

Default

Critical to the determination of ECL is the definition of default. The definition of default is used in measuring the amount of ECL and in the determination of whether the loss allowance is based on 12-month or lifetime ECL, as default is a component of the probability of default (PD) which affects both the measurement of ECLs and the identification of an SICR (see Note 26 for definition of default with respect to the Manila Branch financial assets).

Credit-impaired financial assets

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Credit-impaired financial assets are referred to as Stage 3 assets. The Manila Branch uses observable data about various events that may lead to an asset being assessed are credit-impaired. These are fully discussed in Note 26.

It may not be possible to identify a single discrete event—instead, the combined effect of several events may have caused financial assets to become credit-impaired. The Manila Branch assesses whether debt instruments that are financial assets measured at amortized cost or FVTOCI are credit-impaired at each reporting date. To assess if debt instruments are credit impaired, the Manila Branch considers factors such as bond yields, credit ratings and the ability of the borrower to raise funding.

Write-off

The Manila Branch writes off a financial asset when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, when the debtor has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of trade receivables, when the amounts are over two years past due, whichever occurs sooner.

Financial assets written off may still be subject to enforcement activities under the Manila Branch's recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognized in profit or loss.

Recognition and presentation of ECL

The Manila Branch recognizes an impairment gain or loss in profit or loss for all financial instruments.

Allowance for ECL is presented in the statement of financial position as follows:

- for financial assets measured at amortized cost: as a deduction from the gross carrying amount of the assets;
- for debt instruments measured at FVTOCI: no loss allowance is recognized in the statement of financial position as the carrying amount is at fair value. However, any loss allowance is included as part of the revaluation amount in the investments revaluation reserve; and
- for loan commitments and financial guarantee contracts: as a provision.

Derecognition

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

On derecognition of financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognized in OCI and accumulated in equity is recognized in profit or loss.

Financial Liabilities and Equity Instruments

Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Financial liabilities

A financial liability is a contractual obligation to deliver cash or another financial asset or to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the Manila Branch or a contract that will or may be settled in the Manila Branch's own equity instruments and is a non-derivative contract for which the Manila Branch is or may be obliged to deliver a variable number of its own equity instruments, or a derivative contract over own equity that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Manila Branch's own equity instruments.

Financial liabilities are classified as either financial liabilities 'at FVTPL' or 'other financial liabilities'.

Since the Manila Branch does not have financial liabilities classified at FVTPL, all financial liabilities are subsequently measured at amortized cost.

Financial liabilities measured subsequently at amortized cost

Financial liabilities that are not (i) contingent consideration of an acquirer in a business combination, (ii) HFT, or (iii) designated as at FVTPL, are measured subsequently at amortized cost using the effective interest method.

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the amortized cost of a financial liability.

Offsetting financial instruments

Financial assets and liabilities are offset and the net amount 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.

A right to offset must be available today rather than being contingent on a future event and must be exercisable by any of the counterparties, both in the normal course of business and in the event of default, insolvency or bankruptcy.

Derecognition

The Manila Branch derecognizes financial liabilities when, and only when, the Manila Branch's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

When the Manila Branch exchanges with the existing lender one debt instrument into another one with substantially different terms, such exchange is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. Similarly, the Manila Branch accounts for substantial modification of terms of an existing liability or part of it as an extinguishment of the original financial liability and the recognition of a new liability. It is assumed that the terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective rate is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial liability.

If the modification is not substantial, the difference between: (1) the carrying amount of the liability before the modification; and (2) the present value of the cash flows after modification should be recognized in profit or loss.

Assigned capital

Assigned capital represents the capital assigned by the Head Office.

Deficit

Deficit represents unremitted losses incurred by the Manila Branch. This may also include effect of changes in accounting policy as may be required by the standard's transitional provisions.

Reserve for General Loan Loss Provision

Reserve for General Loan Loss Provision pertains to the accumulated amount of appropriation from accumulated profit made by the Manila Branch 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 under PFRS 9.

Cash and Due from Banks

All cash and short-term investments with original maturities of three months or less are considered cash and cash equivalents, since they are readily convertible to cash. These short-term investments are stated at cost, which approximates fair value.

Prepayments and Other assets

Prepayments represent expenses not yet incurred but already paid in cash. Prepayments are initially recorded as assets and measured at the amount of cash paid. Subsequently, these are charged to profit or loss as they are consumed in operations or expire with the passage of time.

Other assets pertain to other assets controlled by the Manila Branch 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 Manila Branch and the asset has a cost or value that can be measured reliably.

Property and Equipment

Manila Branch property and equipment is initially measured at cost. The cost of an item of property and equipment comprises:

- its purchase price, including import duties and non-refundable purchase taxes, after deducting any trade discounts and rebates; and
- any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by Management.

Subsequent expenditures relating to an item of property and equipment that have already been recognized are added to the carrying amount of the asset when it is probable that future economic benefits, in excess of the originally assessed standard of performance of the existing asset, will flow to the Manila Branch. All other subsequent expenditures are recognized as expenses in the period in which those are incurred.

At the end of each reporting period, an item of the Manila Branch's property and equipment is carried at cost less any subsequent accumulated depreciation and any impairment losses.

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

Office furniture and fixtures	5 years
Electronic equipment	3 years
Leasehold improvements	Shorter of the lease term or 5 years

The property and equipment' residual values, depreciation methods and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

Impairment of Non-financial Assets

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

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

If the recoverable amount of an asset or CGU is estimated to be less than its carrying amount, the carrying amount of the asset (or CGU) is reduced to its recoverable amount with impairment loss recognized in profit or loss.

Impairment losses recognized in prior periods are assessed at the end of each reporting period for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

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 Manila Branch 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 Manila Branch 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.

Employee Benefits

Short-term benefits

The Manila Branch recognizes a liability net of amounts already paid and an expense for services rendered by employees during the accounting period. A liability is also recognized for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Manila Branch has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

Post-employment benefits

Defined benefit plan

The Manila Branch classifies its retirement benefit as defined benefit plan. Under the defined benefit plan, the cost of providing benefits is determined using the projected unit credit method, with actuarial valuations being carried out at the end of each annual reporting period. Remeasurement, comprising actuarial gains and losses, the effect of the changes to the asset ceiling (if applicable) and the return on plan assets (excluding interest), is reflected immediately in the statement of financial position with a charge or credit recognized in OCI in the period in which they occur. Remeasurement recognized in OCI is reflected immediately in Reserves and will not be reclassified to profit or loss. Past service cost is recognized in profit or loss in the period of a plan amendment. Net interest is calculated by applying the discount rate at the beginning of the period to the net defined benefit liability or asset.

Defined benefit costs are categorized as follows:

- Service cost (including current service cost, past service cost, as well as gains and losses on curtailments and settlements)
- Net interest expense or income
- Remeasurement

The Manila Branch presents the first two components of defined benefit costs in profit or loss as part of retirement expense under Salaries, bonuses and allowances line item. Curtailment gains and losses are accounted for as past service costs.

The retirement benefit obligation recognized in the statement of financial position represents the actual deficit or surplus in the Manila Branch's defined benefit plan. Any surplus resulting from this calculation is limited to the present value of any economic benefits available in the form of refunds from the plans or reductions in future contributions to the plan.

The Manila Branch does not have an established retirement plan and only conforms to the minimum requirement of Republic Act 7641.

Revenue Recognition

The Manila Branch recognizes revenue from the following major sources:

Fees and Commissions

The Manila Branch earns fees and commission income from a diverse range of services it provides to its customers. The fees and commission income recognized by the Manila Branch reflects the amount of consideration to which the Manila Branch expects to be entitled in exchange of transferring promised services to customers, and income is recognized when its performance obligation in contracts is satisfied.

The table below provides information about the nature and timing of the satisfaction of performance obligations in contracts with customers, including significant payment terms, and the related revenue recognition standards:

Type of income	Nature and timing of satisfaction of performance obligation	Revenue recognition under PFRS 15
Lending fees and commission	Fee for every trade-related transaction. This also includes fees charged for providing customers a distinct good or service that are recognized separately from the underlying lending product.	*Guarantee Fees* Revenue is recognized upon execution of the trade finance products (e.g., letters of credit, letters of guarantees and acceptances, etc.). Revenue is recognized over the term of the service. *Commitment Fees* Revenue is recognized when service (i.e. loan processing and drawdown) is provided. If there are contract milestones, these arrangement fees are recognized upon completion of such milestones.
Non-lending fees and commission	Non-lending fees and commission pertain to outward telegraphic transfer fees, import and export fees and other non-lending services costs. Fees or components of fees that are linked to a certain performance are recognized after fulfilling the corresponding criteria.	*Service Transfer Fees* Revenue is recognized at point in time that the associated service is provided.

Interest income

Interest on financial instruments measured at amortized cost is recognized based on the effective interest rate method.

Other income

Other income is income generated outside the normal course of business and is recognized when it is probable that the economic benefits will flow to the Manila Branch and it can be measured reliably.

Expense Recognition

Expenses are recognized in profit or loss when a decrease in future economic benefit related to a decrease in an asset or an increase in a liability has arisen that can be measured reliably. Expenses are recognized in profit or loss on the basis of a direct association between the costs incurred and the earning of specific items of income; on the basis of systematic and rational allocation procedures when economic benefits are expected to arise over several accounting periods and the association with income can only be broadly or indirectly determined; or immediately when an expenditure produces no future economic benefits or when, and to the extent that, future economic benefits do not qualify or cease to qualify for recognition in the statement of financial position as an asset.

Expenses in the statement of comprehensive income are presented using the function of expense method. Operating expenses are costs attributable to the administrative and other business activities of the Manila Branch.

Leases

<u>The Manila Branch as lessee</u>

The Manila Branch assesses whether a contract is or contains a lease, at inception of the contract. The Manila Branch recognizes a right-of-use (ROU) asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets. For these leases, the Manila Branch recognizes the lease payments as operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the Manila Branch uses the government bonds risk free interest rates adjusted for financing spread factors as its incremental borrowing rate. The rate is defined as the rate of interest that the lessee would have to pay to borrow over a similar term and with a similar security the funds necessary to obtain an asset of a similar value to the ROU asset in a similar economic environment.

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

- fixed lease payments (including in-substance fixed payments), less any lease incentives; and
- Lease payments included in the measurement of the lease liability comprise of fixed lease payments (including in-substance fixed payments), less any lease incentives.

The lease liability is presented as a separate line in the statement of financial position.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

The Manila Branch remeasures the lease liability (and makes a corresponding adjustment to the related ROU asset) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.
- the lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using the initial discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used).
- a lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.

The Manila Branch did not make any such adjustments during the periods presented.

The ROU assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

Whenever the Manila Branch incurs an obligation for costs to dismantle and remove a leased asset, restore the site on which it is located or restore the underlying asset to the condition required by the terms and conditions of the lease, a provision is recognized and measured under PAS 37. The costs are included in the related ROU asset, unless those costs are incurred to produce inventories.

ROU assets are depreciated over the shorter period of lease term and useful life of the underlying asset.

The depreciation starts at the commencement date of the lease.

The ROU assets are presented as a separate line in the statement of financial position. The Manila Branch applies PAS 36 to determine whether an ROU asset is impaired and accounts for any identified impairment loss as described in the 'Impairment of Non-financial assets' policy.

Variable rents that do not depend on an index or rate are not included in the measurement of the lease liability and the ROU asset. The related payments are recognized as expense in the period in which the event or condition that triggers those payments occurs.

Related Party Transactions

A related party transaction is a transfer of resources, services or obligations between the Manila Branch and a related party, 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 include: (a) individuals owning, directly or indirectly through one or more intermediaries, control or are controlled by, or under common control with the Manila Branch; (b) associates; (c) individuals owning, directly or indirectly, an interest in the voting power of the Manila Branch that gives them significant influence over the Manila Branch and close members of the family of any such individual; and, (d) the Manila Branch's retirement plan, if any.

Taxation

Income tax expense represents the sum of the current tax and deferred tax expense.

Current tax

The current tax expense is based on taxable profit for the year. Taxable profit differs from net profit as reported in the statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. Income taxes include corporate income taxes and final taxes.

The Manila Branch's corporate income tax expense for RBU is calculated using 25.00% Regular Corporate Income Tax (RCIT) rate in 2021 and 30.00% in 2020. The Manila Branch's final taxes, and final tax paid at the rate of 20.00% on gross interest income and 7.50% from foreign deposit substitute.

FCDU offshore income (income from non-residents) is tax exempt while gross onshore income (income from residents is generally subject to 10.00% gross income tax. In addition, interest income on deposit placements with other FCDUs and offshore banking units is subject to a 15.00% final tax. RA 9294, *An Act Restoring the Tax Exemption of Offshore Banking Units (OBUs) and FCDUs*, provides that 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 10.00% income tax.

Deferred tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liability is generally recognized for all taxable temporary differences. Deferred tax asset is generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax asset is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

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

Current and deferred taxes for the period

Current and deferred taxes are recognized in profit or loss, except when they relate to items that are recognized in OCI or directly in equity, in which case, the current and deferred taxes are also recognized in OCI or directly in equity, respectively.

Events After the Reporting Period

The Manila Branch identifies events after the end of each reporting period as those events, both favorable and unfavorable, that occur between the end of the reporting period and the date when the financial statements are authorized for issue. The financial statements of the Manila Branch are adjusted to reflect those events that provide evidence of conditions that existed at the end of the reporting period. Non-adjusting events after the end of the reporting period are disclosed in the notes to the financial statements when material.

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Manila Branch's accounting policies, Management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on the historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

Critical Judgments in Applying Accounting Policies

The following are the critical judgments, apart from those involving estimations, that Management has made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognized in the financial statements.

Determination and Assessment Functional currency

PAS 21, *The Effects of Changes in Foreign Exchange Rates*, requires Management to use its judgment to determine the entity's functional currency such that it most faithfully represents the economic effects of the underlying transactions, events and conditions that are relevant to the entity. In making this judgment, the following were considered:

- The currency that mainly influences sales prices for financial instruments and services (this will often be the currency in which sales prices for its financial instruments and services are denominated and settled);
- The currency in which funds from financing activities are generated; and
- The currency in which receipts from operating activities are usually retained.

Based on the economic substance of the underlying circumstances relevant to the Manila Branch, the functional currency of the RBU books and FCDU books have been determined to be the PHP and USD, respectively, as disclosed in Note 2. The PHP is the currency of the primary economic environment in which the Manila Branch operates. It is the currency that mainly influences the Manila Branch in determining the costs and selling price of its services.

Business model assessment

Classification and measurement of financial assets depend on the results of the SPPI and the business model test. The Manila Branch determines the business model at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. This assessment includes judgment reflecting all relevant evidence including how the performance of the assets is evaluated and their performance is measured, the risks that affect the performance of the assets and how these are managed and how the managers of the assets are compensated. The Manila Branch monitors financial assets measured at amortized cost or FVTOCI that are derecognized prior to their maturity to understand the reason for their disposal and whether the reasons are consistent with the objective of the business model for which the asset was held. Monitoring is part of the Manila Branch's continuous assessment of whether the business model for which the remaining financial assets are held continues to be appropriate and if it is not appropriate whether there has been a change in business model and so a prospective change to the classification of those assets.

The Manila Branch determines its business model at an aggregated portfolio and is assessed on an instrument-by-instrument basis.

The business model assessment is based on reasonably expected scenarios without taking "worst case" or "stress case" scenarios into account. If cash flows after initial recognition are realized in a way that is different from the Manila Branch's original expectations, the Manila Branch does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

Significant increase of credit risk

ECL are measured as an allowance equal to 12-month ECL for stage 1 assets, or lifetime ECL assets for stage 2 or stage 3 assets. An asset moves to stage 2 when its credit risk has increased significantly since initial recognition. PFRS 9 does not define what constitutes an SICR. In assessing whether the credit risk of an asset has significantly increased the Manila Branch takes into account qualitative and quantitative reasonable and supportable forward-looking information.

Based on the Manila Branch's evaluation, financial assets measured at amortized cost are classified at stage 1 in which ECL are measured as an allowance equal to 12-month ECL, except for one account under loans and receivables which was assessed under Stage 2 with an allowance equal to lifetime ECL.

The carrying amounts of the Manila Branch's financial assets measured at amortized cost comprising cash and due from other banks, due from BSP, loans and receivables, investment securities at amortized costs, and refundable deposits amounted to P9,642,838,311 and P9,143,887,636 as at December 31, 2021 and 2020, respectively.

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 may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Probability of default (PD)

PD constitutes a key input in measuring ECL. PD is an estimate of the likelihood of default over a given time horizon, the calculation of which includes historical data, assumptions, and expectations of future conditions.

As at December 31, 2021 and 2020, the Manila Branch's Management through the Head Office assessed that the PD for Stage 1 financial assets at amortized cost ranges from 1.47% to 4.05% for bonds rated BBB+/BBB/BBB-. As at December 31, 2021 and 2020, the Head Office assessed that the PD for Stage 1 loans ranges from 0.61% to 3.87% for bonds rated AAA to A-. The Head Office assessed that the PD as at December 31, 2021 and 2020 for Stage 2 loans is 23.35% for rated BBB- and 12.85% for rated at BBB.

All investment securities at amortized cost are assessed under Stage 1 in 2021 and 2020.

Stage 1 comprised all financial instruments which have not experienced SICR since initial recognition or is considered of low credit risk as at reporting date. Stage 2 is where credit risk has increased significantly since initial recognition and resulted to a downgrade on rating from original date of recognition to assessment date.

As at December 31, 2021 and 2020, the Manila Branch's loans receivable are assessed under Stage 1, with one account assessed under Stage 2.

Loss Given Default (LGD)

LGD is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, taking into account cash flows from collateral and integral credit enhancements.

The Manila Branch segmented its LGD based on homogenous risk characteristics and calculated the corresponding segment-level average.

As at December 31, 2021 and 2020, LGD for investment securities at amortized cost assessed by the Head Office is at 59.59% and 56.04%, respectively. LGD for Stage 1 Loan receivables at amortized cost range from 68.10% to 68.38%, while Stage 3 Non-performing loan is at 55.76%.

Determination of the appropriate rate to discount the lease payments

The Manila Branch estimated the incremental borrowing rate (IBR) for existing leases. The Manila Branch uses interest rate that a lessee would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the ROU asset in a similar economic environment as IBR.

To determine the IBR, the Manila Branch made estimates considering the costs of current borrowings, the term of the lease arrangement, the nature and quality of the leased asset, and economic environment and currency at which the lease is entered into among others. These inputs to estimate may change over time and may affect the subsequent estimation of the IBR for new, reassessed or modified leases.

When a reassessment of the discount rate is required following a change in lease term or a lease modification, a lessee will need to periodically reconsider the IBR it uses to calculate new, reassessed, or modified lease liabilities and ROU assets.

Estimating allowance for ECLs

The Manila Branch measures ECLs of a financial instrument in a way that reflects an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes, the time value of money and information about past events, current conditions and forecasts of future economic conditions. When measuring ECL, the Manila Branch uses 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.

Due from BSP and Due from other banks recognized in the Manila Branch's statements of financial position as at December 31, 2021 and 2020 amounted to P1,959,342,063 and P752,025,856, which is net of the related allowance for ECL amounting to P2,082 and P15,703, respectively, as disclosed in Note 22.

As at December 31, 2021 and 2020, the carrying amounts of loans receivable subsequent to initial recognition amounted to P5,575,786,161 and P5,173,055,724, respectively, as disclosed in Note 10, net of allowance for ECL amounting to P185,297,251 and P132,908,274 as at December 31, 2021 and 2020, respectively, as disclosed in Note 10.

The Management believes that its refundable deposits are certain. Accordingly, no allowance for ECL was recognized in 2021 and 2020. As at December 31, 2021 and 2020, the outstanding balance of refundable deposits amounted to P7,032,448 and P7,202,448, respectively, as disclosed in Note 12.

Asset impairment

The Manila Branch performs an impairment review when certain impairment indicators are present. The factors that the Manila Branch considers important which could trigger an impairment review include significant underperformance relative to expected historical or projected future operating results, significant changes in the manner of use of the acquired assets or the strategy for overall business, and significant negative industry or economic trends. When indicators of impairment exist, an impairment loss is recognized whenever the carrying amount of an asset exceeds its recoverable amount.

As at December 31, 2021 and 2020, the Management has not identified any events or changes in circumstances indicating that the carrying amount of the Manila Branch's non-financial assets above exceeds their recoverable amount.

Determining the fair value of financial instruments

The Manila Branch carries some of its financial assets and liabilities at fair value, which requires extensive use of accounting estimates and judgment. In addition, certain liabilities acquired through restructuring are required to be carried at fair value at the time of the restructuring.

While significant components of fair value measurement were determined using verifiable objective evidence, i.e., foreign exchange rates, interest rates, volatility rates, the amount of changes in fair value would differ if the Manila Branch utilized different valuation methodology. Any change in fair value of these financial assets and liabilities would affect profit or loss and equity.

As at December 31, 2021 and 2020, the carrying amounts of financial assets carried at FVTPL subsequent to initial recognition amounted to P16,651,715 and P2,594,190, respectively, as disclosed in Note 8.

Investment securities at amortized cost amounted to P2,100,677,639 and P3,211,603,608 as at December 31, 2021 and 2020, respectively, as disclosed in Note 9.

The Manila Branch's financial assets carried at FVTOCI amounted to P17,017,893 and P20,686,365 as at December 31, 2021 and 2020 respectively, as disclosed in Note 11.

Post-employment benefits

The determination of the retirement benefit cost is dependent on the selection of certain assumptions used by the actuary in calculating such amounts. Those assumptions include among others, discount rates, mortality and salary increase rates. While the Manila Branch believes that the assumptions are reasonable and appropriate, significant differences in the actual experiences or significant changes in the assumptions may materially affect the amount of retirement benefit obligation recognized.

The total retirement expense recognized in 2021 and 2020 amounted to P1,274,497 and P2,236,592, respectively, while the present value of defined benefit obligation as at those dates amounted to P1,961,672 and P2,232,592, respectively, as disclosed in Note 19. Fair value of plan assets totaled P3,296,973 and P2,113,883 as at December 31, 2021 and 2020, respectively, as also disclosed in Note 19.

Deferred tax assets

The Manila Branch reviews the carrying amount of deferred tax asset at the end of the reporting period and reduces it to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. When, there is no absolute assurance that the Manila Branch will generate sufficient taxable profit to allow all or part of its deferred tax assets to be utilized, deferred tax assets are not recognized, as disclosed in Note 24.

6. DUE FROM BANKO SENTRAL NG PILIPINAS - net

Due from Bangko Sentral ng Pilipinas consists of:

	Note	2021	2020
Term Deposit Facility account (TDF)		**P 650,334,028**	P -
Overnight Deposit Facility account (ODF)		**640,026,667**	390,048,750
Overnight Reverse Repurchase (RRP)		**222,770,946**	148,881,578
Demand Deposit account (DDA)		**25,566,635**	35,295,210
		1,538,698,276	574,225,538
Allowance for expected credit losses	22	**(2,058)**	(768)
		P1,538,696,218	P574,224,770

ODF and TDF represent short-term interest-earning balances for funds placed with the BSP which earned interest rate ranging from 1.50% to 1.95% per annum in 2021 and 1.50% to 3.50% in 2020.

RRP pertains to overnight lending transactions with interest rate of 2.00% per annum in 2021 and interest ranging from 2.00% to 4.00% per annum in 2020.

DDA represents non-interest earning deposit maintained by the Manila Branch with BSP.

Interest income on Due from BSP amounted to P31,585,180 in 2021 and P8,499,318 in 2020.

A summary of the allowance for expected credit losses is as follows:

	Note	2021	2020
Beginning		**P 768**	P -
Provision	22	**1,290**	768
Ending		**P2,058**	P768

The Management believes that there is no further allowance for credit losses required in excess of the amount recognized.

7. DUE FROM OTHER BANKS - net

This account consists of the following:

	Note	2021	2020
Due from other banks		**P420,645,869**	P177,816,021
Allowance for expected credit losses	22	**(24)**	(14,935)
		P420,645,845	P177,801,086

Due from other banks represent deposit accounts with domestic and foreign banks which earn interest at the prevailing rate of 0.10% to 0.125% per annum in both 2021 and 2020 for Philippine peso denominated transactions, 0.125% per annum in 2021 and .05% to 1% per annum in 2020 for foreign currency-denominated transactions.

Interest income earned from these savings account amounted to P358,334 and P534,115 in 2021 and 2020, respectively, presented under "Interest income" account in the statement of comprehensive income.

Out of the total deposits with other banks, the Manila Branch's foreign currency deposit under FCDU as at December 31, 2021 and 2020 amounted to P389,255,565 and P168,756,491, respectively.

A summary of the allowance for credit losses is as follows:

	Note	2021	2020
Beginning		**P14,935**	P -
(Reversal) / Provision	22	**(16,445)**	14,935
Effect of foreign exchange rate difference		**1,534**	-
Ending		**P 24**	P14,935

The Management believes that there is no further allowance for credit loss is required in excess of the amount recognized.

8. FINANCIAL ASSET AND LIABILITY AT FAIR VALUE THROUGH PROFIT OR LOSS

This account consists of:

	2021	2020
Financial Asset		
Interest rate swap (IRS)	**P10,518,167**	P -
Currency swap	**6,133,548**	2,594,190
	P16,651,715	P 2,594,190
Financial Liability		
Currency swap	**P -**	P 9,415,779
Interest rate swap	**-**	639,537
	P -	P10,055,316

Derivative financial instruments are presented as financial asset at FVTPL when fair value is positive and financial liability at FVTPL when the fair value is negative in the statement of financial position.

The fair value gain or loss on financial assets and liabilities at FVTPL is presented in the statement of comprehensive income. The fair value gain or loss for the currency swaps and the fair value gains in the IRS are presented under the fair value gain/loss – net account in the statement of comprehensive income.

Terms of the notional amounts of the positive and negative fair values of the currency swap which is USD10,000,000 and nil, respectively, in 2021 and USD10,000,000 and USD5,000,000, respectively, in 2020, with a term between 30 to 180 days. The notional amount is the amount of a derivative's underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured.

On the other hand, the IRS has a notional amount of USD 7,000,000 with a payment fixed rate of 0.49% quarterly and receiving rate of USD Libor 3months + 0 basis point quarterly. Term of the IRS is five (5) years.

As at December 31, 2021 and 2020, there were no financial assets at FVTPL pledged as collateral for liabilities.

9. INVESTMENT SECURITIES AT AMORTIZED COST - net

This account consists of:

	Note	2021	2020
Treasury bonds		**P2,100,000,000**	P3,214,000,000
Accrued interest receivable		**13,203,056**	26,832,377
Unamortized discount		**(11,152,009)**	(24,764,215)
		2,102,051,047	3,216,068,162
Allowance for expected credit losses	22	**(1,373,408)**	(4,464,554)
		P2,100,677,639	P3,211,603,608

Treasury bills are short-term secured investments while treasury bonds are medium to long-term securities issued by the Philippine government.

The annual nominal interest rates on government debt securities range from 3.50% to 6.25% per annum in 2021 and 2020. Interest income on these government securities amounted to P120,721,137 and P188,343,051 in 2021 and 2020, respectively, and is presented under "Interest income" in the statement of comprehensive income.

Accrued interest income, shown as part of Accrued interest receivable under Loans and receivables account amounted to P13,203,056 and P26,832,377 as at December 31, 2021 and 2020, respectively.

None of these investments were disposed of or pledged as collateral for liabilities as at December 31, 2021 and 2020.

A summary of the allowance for expected credit losses on financial assets at amortized cost is as follows:

	Note	2021	2020
Beginning		**P4,464,554**	P5,101,180
Reversal	**22**	**(3,091,146)**	(636,626)
Ending		**P1,373,408**	P4,464,554

The Management believes that there is no further allowance for ECL required in excess of the amount recognized.

10. LOANS AND RECEIVABLES - net

This account consists of:

	Notes	2021	2020
Loans to customers at amortized cost			
Syndicated loans		**P4,978,533,400**	P4,775,184,920
Corporate loans		**754,995,000**	500,000,000
Accrued interest receivable	**9**	**27,555,012**	30,779,078
		5,761,083,412	5,305,963,998
Allowance for expected credit losses	**22**	**(185,297,251)**	(132,908,274)
		P5,575,786,161	P5,173,055,724

Interest income earned from loans and receivables amounted to P170,873,659 and P160,795,778 in 2021 and 2020, respectively.

a. Allowance for ECL are as follows:

In 2021, the Manila Branch assessed that the appropriate ECL, upon considering all available forward-looking information, is 18.3% for loan classified as Stage 2. In 2020, all of the Manila Branch's loans receivables are assessed under Stage 1 which were provided one percent (1%) general provision of ECL.

A summary of the allowance for expected credit losses is as follows:

	Note	2021	2020
Beginning		**P132,908,274**	P 11,400,839
Provision	**22**	**44,147,713**	121,507,435
Effect of foreign exchange rate difference		**8,241,264**	-
Ending		**P185,297,251**	P132,908,274

The Management believes that there is no further allowance for ECL required in excess of the amount recognized.

b. Loan concentration

The following table shows the breakdown of loans and advances to customers at amortized cost, excluding allowance for expected credit losses and accrued interest receivable, as to secured and unsecured and the breakdown of secured loans as to type of security as at December 31, 2021 and 2020:

	2021		2020	
	Amounts	**%**	Amounts	%
Secured loans:				
Financial instruments	**P1,095,203,525**	**19.1%**	P1,299,302,567	24.6%
Chattel mortgages	**841,483,500**	**14.7%**	792,379,500	15.0%
Unsecured loans	**3,796,841,375**	**66.2%**	3,183,502,853	60.3%
	P5,733,528,400	**100.0%**	P5,275,184,920	100.0%

As at December 31, 2021 and 2020, there were no loans pledged as collateral for liabilities.

As at December 31, 2021 and 2020, information on the concentration of credit as to industry follows (amounts in thousands, except percentages):

	2021		2020	
	Amounts	**%**	Amounts	%
Real estate, renting and business activities	**P1,295,584**	**22.6%**	P1,220,345	23.1%
Electricity, energy, power	**866,558**	**15.1%**	977,268	18.5%
Transportation and storage	**841,484**	**14.7%**	792,380	15.0%
Manufacturing	**764,985**	**13.3%**	944,209	17.9%
Financial institutions	**-**	**0.00%**	250,000	4.7%
Others	**1,964,917**	**34.3%**	1,090,983	20.7%
	P5,733,528	**100.0%**	P5,275,185	100.0%

Others include business sectors in Information and Communication and Water Supply, Sewerage, Waste Management and Remediation Activities.

BSP considers that concentration of credit risk exists when the total loan exposure to a particular industry or economic sector exceeds 30.0% of the total loan portfolio. As at December 31, 2021 and 2020, the Manila Branch has no loan exposures in a specific economic sector that exceeds 30%.

As at December 31, 2021 and 2020, other than the above mentioned, the Manila Branch has no credit concentration risk to any particular industry exceeding 10% of Tier 1 capital.

Under Section 304 of the Manual of Regulations for Banks (MORB), loans shall be considered non-performing, even without any missed contractual payments, when it is considered impaired under existing accounting standards, classified as doubtful or loss, in litigation, and/ or there is evidence that full repayment of principal and interest is unlikely without foreclosure of collateral, if any. All other loans, even if not considered impaired, shall be considered non-performing if any principal and/or interest are unpaid for more than ninety (90) days from contractual due date, or accrued interests for more than ninety (90) days have been capitalized, refinanced, or delayed by agreement.

Non-performing loans (NPL), investments, receivables, or any financial asset (and/ or any replacement loan) 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 six (6) months; or (b) written-off.

As at December 31, 2021 and 2020, the Manila Branch has no NPLs, as defined under Section 304 of MORB.

Effective January 24, 2013, BSP Circular No. 779 amended the regulations on Single Borrower's Limit. Per amendment, the total amount of loans, credit accommodations and guarantees may be increased by an additional twenty-five percent (25%) of the Manila Branch's net worth provided those are granted for the purpose of undertaking infrastructure and/or development projects under the Public-Private Partnership Program of the government duly certified by the Secretary of Socio-Economic Planning; Provided, further that the total exposures of the Manila Branch to any borrower pertaining to the above-mentioned projects shall not exceed 25% of the Manila Branch's net worth and that it shall only be allowed for a period of six (6) years from December 28, 2010.

Effective December 6, 2014, BSP Circular No. 858 amended the regulations on Single Borrower's Limit. Per amendment, loans and credit commitments of foreign bank branches as of effectivity of R.A. No. 10641 may be maintained, but once repaid or expired, shall no longer be increased in excess of the ceiling allowed under this Circular. Further, existing foreign bank branches shall be given until December 31, 2019 to use twice the level of capital as defined in this Subsection as net worth, as reference point for purposes of determining the appropriate single borrower's limit.

During 2021 and 2020, the Manila Branch has been in compliance with the regulations on Single Borrower's Limit of the BSP. As at December 31, 2021 and 2020, there were no loans pledged as collateral for liabilities.

11. FINANCIAL ASSET AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

This account consists of unquoted investments in equity securities maintained by the Manila Branch as part of the membership requirements with Philippine Clearing House Corporation. Movement of the account is as follows:

	2021	2020
Balance, January 1	**P20,686,365**	P20,686,365
Fair Value loss	**(3,668,472)**	-
Balance, December 31	**P17,017,893**	P20,686,365

As at December 31, 2021 and 2020, there were no financial assets at FVTOCI pledged as collateral for liabilities.

12. OTHER ASSETS

Other assets include the following:

	Notes	**2021**	2020
Creditable withholding tax		**P14,429,596**	P4,027,417
Security deposits	18	**7,032,448**	7,202,448
Prepaid rent	18	**4,777,642**	5,616,342
Other prepayments		**873,004**	2,827,731
IRS interest receivable		**76,545**	99,742
Advances to suppliers		**76,030**	-
		P27,265,265	P19,773,680

Security deposits refer to the sum of money initially paid for contract agreements, such as leases of office premises and residential property for the Manila Branch's expatriate employee. Security deposits are refundable at the end of the lease term.

Long-term prepayments presented under prepaid rent pertains to the advance rental for leased office premises equivalent to three (3) monthly rent payments, which will be applied on the last three (3) months of the lease term.

Other prepayments pertain to advance payments on telecommunication and insurance expenses.

IRS receivable pertains to the interest receivable that Manila Branch has from the interest rate swap agreement with ICBC Head Office (See Note 14).

Advances to suppliers represent advance payments made for the purchase of computer software.

As at December 31, 2021 and 2020, there were no item of other assets pledged as collateral for liabilities.

13. PROPERTY AND EQUIPMENT

The composition of and movements in this account are as follows:

	Office Furniture and Fixtures	Electronic Equipment	Leasehold Improvements	Total
Cost				
January 1, 2020	P43,160,859	P43,880,352	P42,935,409	P129,976,620
Additions	963,780	2,366,373	-	3,330,153
December 31, 2020	44,124,639	46,246,725	42,935,409	133,306,773
Additions	272,656	37,998	3,039,465	3,350,119
December 31, 2021	**44,397,295**	**46,284,723**	**45,974,874**	**136,656,892**
Accumulated Depreciation and Amortization				
January 1, 2020	9,083,272	15,627,383	9,200,445	33,911,100
Depreciation and amortization	9,246,631	16,321,443	9,200,445	34,768,519
December 31, 2020	18,329,903	31,948,826	18,400,890	68,679,619
Depreciation and amortization	8,847,796	11,878,644	8,725,239	29,451,679
December 31, 2021	**27,177,699**	**43,827,470**	**27,126,129**	**98,131,298**
Net Book Value				
December 31, 2021	**P17,219,596**	**P2,457,253**	**P18,848,745**	**P38,525,594**
December 31, 2020	P25,794,736	P14,297,899	P24,534,519	P64,627,154

As at December 31, 2021 and 2020, there are no fully depreciated property and equipment still in use.

There is neither restriction on the title of the Manila Branch's property and equipment nor was any of it pledged as collateral for liability. The Manila Branch has no contractual commitment for the acquisition of property and equipment.

14. RELATED PARTY TRANSACTIONS

The Manila Branch's related parties include its Head Office, other branches, key management personnel and retirement plan. The Manila Branch's related party transactions are collected (for financial assets) or settled (for financial liabilities) in cash.

The following table shows related party transactions included in the financial statements as at December 31, 2021 and 2020 in (thousands):

	Transactions During the Period		Outstanding Receivable (Payable)		Terms	Condition	Notes
Nature of Transactions	**2021**	2020	**2021**	2020			
Head Office							
Due from head office	**P650,051**	P 777,901	**P 138,399**	P 788,450	Average of 2.65% per annum, to be settled in cash, 30-day term	Unsecured, unguaranteed, unimpaired	*a*
Due to head office	**775,540**	1,567,000	**(2,366,266)**	(3,141,806)			
Interest income	**-**	534	**-**	-			*a*
Interest payable	**9,796**	12,494	**(936)**	(352)			
Fellow Subsidiary							
Due from other branches	**238,117**	261,670	**P 23,553**	P 261,670	Fixed rate per annum, to be settled in cash, 30-day term	Unsecured, unguaranteed, unimpaired	*b*
Due to other branches	**935,126**	123,270	**(2,239,508)**	(1,304,382)			
Interest income	**893**	5,513	**-**	167			
Interest payable	**(1,123)**	20,279	**(84)**	(817)			
Due to Head Office and Other Branches - net			**(P4,444,842)**	(P3,397,070)			

a. Deposits pertain to demand deposit accounts used for inter-branch transactions with Head Office and other branches. Placements are short term unsecured lending to Head Office and other branches.

   Interest income earned on demand deposit accounts for the period ended December 31, 2021 and 2020 amounted to P0.53 million and P0.34 million, respectively.

   As at December 31, 2021 and 2020 accrued, interest from placements with interest rates ranging from 1.30% to 4.00% per annum booked under FCDU amounted to nil and P0.17 million, interest income earned amounted to P0.89 million and P5.51 million, respectively.

b. These represent short-term loan borrowings and payable from the Head Office and other branches. The short-term loan borrowings have variable interest rates benchmarked to the London Interbank Offer Rate (LIBOR). In 2021, interest rates booked under RBU range from 0.01% to 0.39% per annum, while interest rates booked under FCDU range from -0.28% to 0.88% per annum.

   Interest accrued on these short-term loan borrowings for the period ended December 31, 2021 and 2020 amounted to P1.02 million and P1.17 million, respectively while, interest expense amounted to P8.67 million and P32.77 million, respectively. The negative interest expense transaction under due to other branches is a result of the negative interest rates for the EUR payables to fellow ICBC subsidiaries.

   Moreover, the Manila Branch has an outstanding payable amounting to P20.3 million to Head Office which pertains to the amount paid by the Head Office on behalf of the Manila Branch to the Philippine Clearing House Corporation (PCHC).

Financial instruments at FVTPL

The Manila Branch entered into an IRS contract with the Head Office. The IRS has a notional amount of USD 7,000,000 with a payment fixed rate of 0.49% quarterly and receiving rate of USD Libor 3months + 0 basis point quarterly. Term of the IRS is five (5) years (see Note 8).

The IRS receivable, IRS liability, financial asset at FVTPL, and fair value loss recognized by the Manila Branch as at and for the year ended December 31, 2021 amounted to P76,545, P237,672, P10,518,167 and P9,793,986, respectively. As at and for the year ended December 31, 2020, the IRS receivable, IRS liability, financial asset at FVTPL, and fair value loss for the same financial instrument amounted to P99,472, P223,803, P639,537, and P764,980, respectively.

DOSRI Loans

Existing banking regulations limit the amount of individual loans to directors, officers, stockholders and related interests (DOSRI), 70.0% of which must be secured, to the total of their respective deposits and book value of their respective investments in the Manila Branch. In the aggregate, loans to DOSRI generally should not exceed the respective total regulatory capital or 15.0% of total loan portfolio, whichever is lower.

On March 15, 2004, the BSP issued Circular 423, *Amendments to Section X326 to X338 of the MORB including their Subsections to implement Section 36 of Republic Act 8791 or the Banking Law of 2000* which provides for the amended definition of DOSRI accounts. It clarifies that loans granted to officers and employees under an approved fringe benefit program is excluded from the individual ceiling but is subject to 5.0% aggregate ceiling.

As at December 31, 2021 and 2020, the Manila Branch has no loan transactions, other credit accommodations and guarantees with DOSRI as defined under BSP Circular No. 423.

Remuneration of Key Management Personnel

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Manila Branch, directly or indirectly. The Manila Branch considers officer positions, starting from department heads and up, to constitute key management personnel for purposes of PAS 24, *Related Party Disclosures*.

The Manila Branch's compensation to key management personnel shown as part of "Salaries, bonus and allowances" account in the statement of comprehensive income for the year December 31, 2021 and 2020 amounted to P112.97 million and P101.32 million, respectively.

Transactions with Retirement Plan

Under PAS 24, certain post-employment benefit plans are considered as related parties. The Manila Branch's retirement plan is in the form of a trust administered by a trustee bank. The Manila Branch maintains a payroll account with the trustee bank (Note 19).

The Manila Branch's contribution to its defined benefits retirement plan amounted to P1,171,086 million and P2,111,132 in 2021 and 2020, respectively.

15. DUE TO OTHER BANKS

This account consists of the following:

	2021	2020
Due to other banks	**P700,000,000**	P495,000,000
Accrued interest payable	**1,562,481**	347,259
	P701,562,481	P495,347,259

Due to other banks represents interbank loan payable to Metropolitan Bank and Trust Company which accrues interest at the prevailing rate of 2.82% and 3.14% per annum in 2021 and 1.49% per annum in 2020.

The interbank loan payables are long term in nature and are due and payable between one to five years after the end of the reporting period as disclosed in Note 26.

Interest expense arising from due to other banks amounted to P11,982,689 and P347,259 in 2021 and 2020, respectively.

16. DEPOSIT LIABILITIES

The deposit liabilities as at December 31, 2021 and 2020 amounted to P907,949,889 and P1,649,815,075, respectively. This includes peso-denominated, dollar-denominated and yuan-denominated current deposits which carry annual interest rates of 0.125%, 0.025% and 0.15%, respectively, in 2021 and 0.125%, 0.025% and 0.15%, respectively, in 2020.

Accrued interest payable arising from deposit liabilities amounted to P28,017 and P87,810 as at December 31, 2021 and 2020, respectively, which is part of the deposit liabilities account.

Interest expense arising from deposit liabilities amounted to P313,269 and P1,047,422 in 2021 and 2020, respectively.

Under Section X253 of the MORB and BSP Circular No. 1004, all local currency deposits and deposit substitute liabilities of universal/ commercial banks are subject to reserved requirements of 18.00% effective on the reserve week starting on June 1, 2018.

Following the reduction in reserved requirement effective December 6, 2019 to 10.00%, the BSP issued Circular No. 1082, Reduction in Reserve Requirement, dated March 23, 2020 which approves the decrease in the reserve requirement ratios of deposit and deposit substitute liabilities of universal and commercial banks and non-bank financial institutions with quasi-banking functions to 12.00%. The Circular took effect on April 3, 2020.

As at December 31, 2021, the Manila Branch is compliant with BSP Circular No. 1082, as applicable. The Manila Branch has reserves maintained as at December 31, 2021 and 2020 amounting to P25.57 and P35.39 million, respectively. Total Due from BSP reported as required reserves amounted to P1,538,698,276 and P574,225,538 as at December 31, 2021 and 2020, respectively, as disclosed in Note 6.

17. ACCRUED EXPENSES AND OTHER PAYABLES

This account consists of:

	Notes	2021	2020
Accrued salaries		**P 79,513,401**	P43,078,896
Accrued taxes		**14,324,237**	10,682,716
Accrued penalties		**13,654,842**	9,133,309
Accounts payable		**6,510,763**	303,555
IRS interest payable	14	**237,672**	223,803
Statutory contributions		**182,457**	153,626
Provision for liability	22	**23,623**	12,434
Other accrued expenses		**1,385,091**	1,121,913
		P115,832,086	P64,710,252

Accrued salaries consist of accruals for salaries, bonuses and other employee related payables.

Accrued taxes consist of withholding tax on compensation, expanded withholding tax and fringe benefits tax.

Accrued penalties pertain to accrual of regulatory penalties for non-compliance to the mandatory allocation of credit resources for Agriculture/ Agrarian Reform Credit Act of 2009 (Agri-Agra), Section 331 of the MORB.

Accounts payable mainly pertains to the outstanding rent payable by the Manila Branch.

IRS interest payable pertains to the interest payable that Manila Branch has from the IRS agreement with ICBC Head Office.

Statutory contributions arise from mandatory contributions to PhilHealth, Pag-IBIG and Social Security System.

Provision for liability pertains to loss allowance on off-balance sheet items.

Other accrued expenses consist of accruals for professional services fees, utilities and telephone expenses.

18. LEASES

Leases Within the Scope of PFRS 16

The Manila Branch has two outstanding lease contracts as at December 31, 2021. These refer to the contract for the lease of office premises, parking lots and external signage.

The rent agreement for its office premises and parking lots is for a period of five (5) years, commencing on September 15, 2018 to September 14, 2023 and is automatically renewed for two (2) further terms of 5 years each, unless terminated. The lease contract includes annual escalation clause of 5.00% beginning on its second year and every year thereafter.

Meanwhile, rent agreement for its external signage is for a period of forty-three months, commencing on March 1, 2020 to September 14, 2023 and is automatically renewed for two (2) further terms of 5 years each, unless terminated. The lease contract includes annual escalation clause of 5.00% beginning on its second year and every year thereafter.

Upon signing of the contract, the Manila Branch paid advance rent for office units and external signage equivalent to three (3) months' rent amounting to P4.68 million and P0.84 million respectively, which will be applied to the last 3 months of the lease term (see Note 12).

The Manila Branch paid refundable deposits pertaining to the maintenance, construction, and security of its office premises. As at December 31, 2021 and 2020, the Manila Branch's refundable deposits amounted to P7.03 million and P7.20 million, respectively (see Note 12).

Information about leases for which the Manila Branch is a lessee is presented below.

I. ROU Assets

The movement and carrying amount of ROU assets is shown below:

	ROU Assets
Cost	
January 1, 2020	P78,616,916
Additions	9,943,292
December 31, 2020	88,560,208
Additions	95,969
December 31, 2021	**88,656,177**
Depreciation	
January 1, 2020	15,320,251
Depreciation	18,326,046
December 31, 2020	33,646,297
Depreciation	19,783,108
December 31, 2021	**53,429,405**
Carrying Amounts	
December 31, 2021	**P35,226,772**
December 31, 2020	P54,913,911

II. Lease Liabilities

Lease liabilities are payable as follows:

	2021	2020
Maturity analysis - contractual undiscounted cash flows		
Less than one year	**P31,278,907**	P20,237,232
More than one year	**4,671,359**	36,788,965
Total undiscounted lease liabilities at December 31	**P35,950,266**	P57,026,197
Lease liabilities included in the statements of financial position as at December 31	**35,090,773**	55,333,723
Current	**P20,653,138**	P19,470,047
Non-current	**P14,437,635**	P35,863,676

The movement of lease liabilities is shown below:

	2021	2020
Beginning	**P55,333,723**	P63,381,657
Additions to lease liabilities	**-**	9,943,292
Accretion of interest on lease liabilities	**737,012**	822,329
Payment of interest on lease liabilities	**(737,012)**	(822,329)
Payment of principal on lease liabilities	**(20,242,950)**	(17,991,226)
Total	**P35,090,773**	P55,333,723

III. Amounts Recognized in Profit or Loss

	2021	2020
Depreciation of ROU assets	**P19,783,108**	P18,326,046
Expenses relating to rent on car lease	**9,603,329**	9,005,481
Interest on lease liabilities	**737,012**	822,329
Total	**P30,123,449**	P28,153,856

IV. Amounts Recognized in the Statement of Cash Flows

	2021	2020
Principal payment of lease liabilities	**P20,242,950**	P17,991,226
Rent on car lease	**9,603,329**	9,005,481
Interest expense on lease liabilities	**737,012**	822,329
Total	**P30,583,291**	P27,819,036

Leases Outside the Scope of PFRS 16

In January 2020, the Manila Branch entered into a car lease contract for its employees' transportation needs. The rent agreement is for a period of three (3) years beginning on December 3, 2019 and expiring on December 16, 2022 wherein parties may extend rental term upon mutual agreement in writing. This lease contract is not considered as lease contract under PFRS 16 since the lessor has substantive substitution rights on leased asset. The Manila Branch accounted for this as an expense in exchange for a service.

Future lease obligations on car lease is payable as follows:

	2021	2020
Less than one year	**P1,313,760**	P1,447,680
Between one and five years	**-**	1,327,040
Total	**P1,313,760**	P2,774,720

19. RETIREMENT BENEFIT PLAN

Requirement of Republic Act (RA) 7641

RA 7641 provides for the minimum retirement pay to qualified private sector employees in the Philippines. Benefits due under RA 7641 are accounted for as defined benefit plan under PAS 19. However, there are instances when an employer establishes a defined contribution plan and does not have an equivalent defined benefit plan covering the benefits required under RA 7641.

An employee upon reaching the age of 60 years or more, but not beyond 65 years which is declared the compulsory retirement age, who has served at least five (5) years in the said establishment, may retire and shall be entitled to retirement pay equivalent to at least one-half (1/2) month salary for every year of service, a fraction of at least six (6) months being considered as one whole year.

The Company is in compliance of the minimum regulatory requirement of RA 7641 as at December 31, 2021 and 2020.

Defined benefit plan

The Manila Branch has an unfunded, non-contributory defined benefit retirement plan covering all its employees based on RA 7641.

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

Interest rate risk

A decrease in the government bond interest rate will increase the plan liability; however, this will be partially offset by an increase in the return on the plan's debt investments.

Longevity risk

The present value of the defined benefit plan liability is calculated by reference to the best estimate of the mortality of plan participants both during and after their employment. An increase in the life expectancy of the plan participants will increase the plan's liability.

Salary risk

The present value of the defined benefit plan liability is calculated by reference to the future salaries of plan participants. As such, an increase in the salary of the plan participants will increase the plan's liability.

The most recent actuarial valuations of defined benefit obligation were carried as at December 31, 2021 by an independent actuary. The present value of the defined benefit obligation and the related current service cost and past service cost were measured using Projected Unit Credit Method.

The principal assumptions used for the purposes of the actuarial valuations were as follows:

	Valuation at	
	2021	2020
Discount rate	**5.00%**	3.83%
Expected rate of salary increases	**4.00%**	4.00%

The breakdown of the net retirement (asset) liability recognized in the statement of financial position are as follows:

	2021	2020
Present value of defined benefit obligation	**P1,961,672**	P2,236,592
Fair value of plan assets	**(3,296,973)**	(2,113,883)
Funding status	**(1,335,301)**	122,709
Effect of asset ceiling	**87,525**	-
Net defined benefit liability(asset)	**(P1,247,776)**	P122,709

The details of the retirement plan recognized in the statement of comprehensive income is shown below:

	2021	2020
Service cost		
Current service cost	**P1,292,224**	P2,236,592
Net interest income	**(17,727)**	-
Components of retirement benefit costs recognized in profit or loss *(Note 21)*	**1,274,497**	2,236,592
Remeasurement on the retirement benefit liability		
Actuarial gains and losses:		
from changes in financial assumptions	**(381,228)**	-
from changes in demographic assumptions	**169**	-
from experience adjustments	**(1,271,746)**	-
Adjustments for restrictions on the defined benefit asset	**91,384**	(2,751)
Effect of asset ceiling	**87,525**	-
Components of retirement benefit costs recognized in OCI	**(P1,473,896)**	(P2,751)

Movements in the present value of defined benefit obligations are as follows:

	2021	2020
Balance, January 1	**P2,236,592**	P -
Interest expense	**85,661**	-
Current service cost	**1,292,224**	2,236,592
Net actuarial loss	**(1,652,805)**	-
Balance, December 31	**P1,961,672**	P2,236,592

Movements in the fair value of plan assets are as follows:

	2021	2020
Balance, January 1	**P2,113,883**	P -
Interest income	**103,388**	-
Contributions	**1,171,086**	2,111,132
Remeasurement gain/(loss) on return of plan assets	**(91,384)**	2,751
Balance, December 31	**P3,296,973**	P2,113,883

The Manila Branch's plan assets is composed of Unit Investment Trust Funds (UITF) and any accumulated gain or loss on the said UITF, net of any accrued trust fees payables. The assets are held in trust by a third party bank (fund manager) for the Manila Branch. The Retirement Trust Fund assets are valued by the fund manager using the net asset value per unit method with amounts representing the investments fair value.

Significant actuarial assumptions for the determination of the retirement benefit obligation are discount rate and expected salary increase. The sensitivity analysis below has been determined based on reasonably possible changes of the respective assumptions occurring at the end of the reporting period, while holding all other assumptions constant.

	Change in Assumption	Increase (Decrease) on Retirement Benefit Obligation
2021		
Discount rate	+100 basis points	**(P261,526)**
	-100 basis points	**319,922**
Expected salary growth rate	+1.00%	**319,922**
	-1.00%	**(266,115)**
2020		
Discount rate	+100 basis points	(P376,030)
	-100 basis points	476,031
Expected salary growth rate	+1.00%	470,070
	-1.00%	(378,724)

The sensitivity analysis presented above may not be representative of the actual change in the retirement 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 above sensitivity analysis, the present value of the retirement benefit obligation has been calculated using the Projected Unit Credit method at the end of the reporting period, which is the same as that applied in calculating the defined benefit obligation liability recognized in the statements of financial position.

As at December 31, 2021 and 2020, the weighted average duration of the defined benefit obligation is 14.8 and 19.0 years, respectively.

20. FEES AND COMMISSIONS

This account consists of:

	2021	2020
Commission income	**P18,042,858**	P13,123,908
Advisory fees	**8,389,136**	5,367
Guarantee fees	**6,788,794**	2,561,210
Remittance fees	**82,060**	47,668
	P33,302,848	P15,738,153

The Manila Branch has unearned income on guarantees pertaining to fees received in advance on its issuance of financial guarantees amounting to P4,815,264 and P2,378,498 -as at December 31, 2021 and December 31, 2020, respectively. The unearned income is presented in the "Other liabilities" account in the statements of financial position.

21. SALARIES, BONUSES, AND ALLOWANCES

This account consists of:

	Note	2021	2020
Salaries and wages		**P173,478,331**	P141,132,117
Employee benefits		**29,214,212**	25,343,779
Post-employment benefit cost	**19**	**1,274,497**	2,236,592
		P203,967,040	P168,712,488

Salaries and wages pertain to the basic salary, overtime pay, and other fixed allowances of employees.

22. ALLOWANCE FOR CREDIT LOSSES

The composition and movements in the account are as follows:

2021	**Due from BSP** (Note 6)	**Due from other banks** (Note 7)	**Investments in Securities at Amortized Cost** (Note 9)	**Loans and Receivables** (Note 10)	**Commitments and Financial Guarantee Contracts** (Note 17)	**Total**
Balance at January 1, 2020	**P 768**	**P14,935**	**P4,464,554**	**P132,908,274**	**P12,434**	**P137,400,965**
Impairment (reversal) / loss for the year	**1,290**	**(16,445)**	**(3,091,146)**	**44,147,713**	**11,189**	**41,052,601**
Effect of foreign exchange rate difference	**-**	**1,534**	**-**	**8,241,264**	**-**	**8,242,798**
Balance at December 31, 2021	**P2,058**	**P 24**	**P1,373,408**	**P185,297,251**	**P23,623**	**P186,696,364**
2020						
Balance at January 1, 2020	P -	P -	P5,101,180	P11,400,839	P12,365	P16,514,547
Impairment loss for the year	768	14,935	(636,626)	121,507,435	542	120,885,945
Effect of foreign exchange rate difference	-	-	-	-	(473)	473
Balance at December 31, 2020	P 768	P14,935	P4,464,554	P132,908,274	P12,434	P137,400,965

23. OTHER OPERATING EXPENSES

General and administrative expenses consist of:

	2021	2020
Utilities	**P 9,631,175**	P 9,544,117
Communications	**5,153,541**	5,193,458
Penalties	**4,521,534**	4,414,375
Management and other professional services	**4,433,027**	3,074,934
Agent bank charges	**2,523,478**	3,647,344
Representation and entertainment	**1,249,611**	1,169,144
Membership fees and dues	**1,162,315**	1,469,976
Office supplies	**928,736**	99,488
Service charges	**596,303**	1,615,959
Trainings	**120,990**	1,408,769
Donation	**-**	100,035
Others	**5,582,270**	6,088,101
	P35,902,980	P37,825,700

Agent bank charges pertain to the fees charged by BDO Unibank, Inc. for the management of the Manila Branch's investment in government securities. It is expressed as a fixed percentage of the total assets being managed.

Service charges pertain to expenses incurred after a settlement service or advisory services were acquired from other institutions.

Membership fees and dues pertain to payments made to Chinese Enterprise Philippine Association, Credit Management Association of the Philippines and Bankers' Association of the Philippines as part of membership requirements.

Others include equipment rent, company social, security services, repairs and maintenance among others.

24. INCOME TAXES

RBU

Under Philippine tax laws, the Manila Branch is subject to percentage and other taxes, as well as corporate income taxes. Percentage and other taxes paid consist primarily of gross receipts tax and documentary stamp tax which are presented as part of "Taxes and licenses" in the statement of comprehensive income. Income taxes consist of corporate income tax and final withholding tax of 20% on gross interest income from government securities, deposits and other deposit substitutes. This is presented as "Income tax expense" in the statement of comprehensive income.

On March 26, 2021, the Republic Act (RA) 11534 also known as "Corporate Recovery and Tax Incentives for Enterprises Act" or "CREATE" Act was passed into law which reduced the corporate income tax rates and rationalized the current fiscal incentives by making it time-bound, targeted and performance-based.

Among others, the Act includes the following significant revisions:

1. Effective July 1, 2020, domestic corporations with total assets not exceeding P100 million and net taxable income of P5 million and below shall be subject to 20% income tax rate while the other domestic corporations and resident foreign corporations will be subject to 25% tax income tax rate;

2. Minimum corporate income tax (MCIT) rate is reduced to from 2% to 1% from July 1, 2020 to June 30, 2023;

3. Percentage tax for non-VAT taxpayers is reduced from 3% to 1% from July 1, 2020 to June 30, 2023; and

4. Repeal of the improperly accumulated earnings tax.

FCDU

R.A. No. 9294, the existing tax regulation governing Manila Branch, provides:

- Offshore income or the income derived by FCDUs from foreign currency transactions with non-residents, Offshore Banking Unit's (OBU) in the Philippines, local commercial banks including branches of foreign banks that may be authorized by the BSP to transact business with foreign currency deposit system units and other depository banks under the foreign currency deposit system shall be exempt from all taxes, except for net income from such transactions as may be specified by the Secretary of Finance, upon recommendation by the Monetary Board to be subject to the regular income tax payable by banks;
- Gross onshore income or interest income from foreign currency loans granted by other FCDUs to residents under the offshore units in the Philippines or other depository banks under the expanded system shall be subject to a final tax at a rate of 10%;
- Interest income derived by a resident individual or corporation on deposits with other FCDUs and OBUs are subject to 15% final tax; and
- All other FCDU income not classified as either offshore or onshore are subject to the higher of the RCIT or MCIT.

The income tax expense consists of:

	2021	2020
Current:		
RBU	**P -**	P -
FCDU	**1,275,070**	6,649,369
Final taxes	**30,407,615**	39,653,966
Deferred income tax benefit	**(19,579)**	(37,638)
	P31,663,106	P46,265,697

The reconciliation between the statutory income tax and the effective income tax is as follows:

	2021	2020
Loss before income tax expense	**(P32,056,062)**	(P91,520,229)
Statutory income tax (25% for 2021 and 30% for 2020)	**(P8,014,015)**	(P27,456,069)
Adjusted for the tax effects of:		
Tax-paid and tax-exempt income	**(38,576,811)**	(61,342,186)
Nondeductible expense	**10,018,200**	26,881,241
Unrecognized deferred tax assets	**39,760,301**	79,930,595
Final tax expense	**30,407,615**	39,653,966
Difference on statutory rate and 10% special rate for FCDU	**(1,912,605)**	(11,371,212)
Others	**(19,579)**	(30,638)
Income tax expense	**P31,663,106**	P46,265,697

The movement in the deferred tax asset (liability) is as follows:

Retirement liability	**Balance at Beginning of Year**	**Recognized in Profit or Loss**	**Recognized in OCI**	**Balance at End of Year**
December 31, 2021	**P36,813**	**P19,579**	**(P368,336)**	**(P311,944)**
December 31, 2020	P -	P37,638	(P825)	P36,813

Management believes that certain future deductible items may not be realized in the near foreseeable future as future taxable income may not be sufficient for the related tax benefits to be realized. Accordingly, the Manila Branch did not recognize deferred tax assets on the following:

	2021		2020	
	Deductible Temporary Differences	**Deferred Tax Asset**	Deductible Temporary Differences	Deferred Tax Asset
NOLCO	**P412,926,835**	**P103,231,709**	P377,933,565	P113,380,070
Loss allowance	**41,056,566**	**10,264,141**	137,400,965	41,220,290
Accrued salaries	**58,000,000**	**14,500,000**	23,968,914	7,190,674
	P511,983,401	**P127,995,851**	P539,303,444	P161,791,034

As at December 31, 2021 and 2020, the Manila Branch has outstanding NOLCO amounting to P412,729,023 and P377,933,565, respectively.

The BIR issued Revenue Regulations (RR) No. 25-2020 to implement Section 4 of R.A. No. 11494, Bayanihan to Recover as One Act, which provides that the NOLCO incurred for taxable years 2020 and 2021 can be carried over as a deduction from gross income for the next five (5) consecutive taxable years immediately following the year of such loss.

Details of the Company's NOLCO under RR No. 25-2020 are as follows:

Inception Year	Amount	Expired/Used	Balance	Expiry Year
2020	P140,786,672	P -	P140,786,672	2025
2021	59,984,637	-	59,984,637	2026
	P200,771,309	P -	P200,771,309	

Details of the Manila Branch's NOLCO not covered by RR No. 25-2020 which could be carried over as a deduction from the Manila Branch's future taxable income for the next three (3) succeeding taxable years are as follows:

Inception Year	Amount	Expired/Used	Balance	Expiry Year
2018	P 25,071,353	P25,071,353	P -	2021
2019	212,155,526	-	212,155,526	2022
Total	P237,226,879	P25,071,353	P212,155,526	

25. FAIR VALUE INFORMATION

The majority of valuation models deploy only observable market data as inputs.

The methods and assumptions used by the Manila Branch in estimating the fair values of financial instruments are as follows:

Due from BSP, Due from Other Banks, Due to Head Office and Other Branches, and Due to Other Banks

Fair values approximate carrying amounts given that these instruments are subject to an insignificant risk of change in value due to its short-term nature.

Financial Asset at FVTPL

Fair value of the derivative instrument is determined based on published quotes or price valuations provided by counterparties or calculations using market-accepted valuation techniques.

Financial Asset at FVTOCI

Unquoted equity securities are measured at fair value. These are securities in PCHC held as per membership requirement.

Investment Securities at Amortized Cost

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 comparable.

Loans and Receivables

Loans and receivables are carried net of allowance for credit and impairment losses. For loans and receivables maturing within one (1) year, the carrying values approximates the fair values in view of the relatively insignificant impact of discounting due to short term nature of these instruments.

For loans and receivables maturing beyond one (1) year, the fair values of loans and receivables are estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date commensurate to the credit risk borne by the Manila Branch for each of the borrower. Where the instruments are repriced at different periods or have relatively short-term maturities, the carrying amounts approximate fair values.

Security Deposits

The carrying amount of refundable deposits presented under "Other assets" account approximates fair value at year end.

The Manila Branch believes that the effect of discounting and future cash flows for these instruments using the prevailing market rates is not significant. These are classified as current assets when they become collectible within 12 months from the reporting date.

Deposit Liabilities

The carrying amount of savings deposit liabilities approximates fair value, considering that these are due and demandable.

Other Financial Liabilities

The carrying amounts of other liabilities, excluding statutory payables and provisions for employee salaries, penalties, taxes and other accrued expenses included in "Accrued Expenses and Other Payables" account approximate fair values due mainly to either the demand feature of or the relatively short-term maturities of these liabilities.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy based on the lowest level input that is significant to the fair value measurement as a whole.

The following table provides the fair value hierarchy of the Manila Branch's assets and liabilities measured at fair value and those for which fair values should be disclosed (amounts in thousands):

	2021				
	Carrying Amount	**Level 1**	**Level 2**	**Level 3**	**Fair Value**
Assets Measured at Fair Value					
Financial asset at FVTPL:					
Derivative assets	**P 16,652**	**P -**	**P16,652**	**P -**	**P 16,652**
Financial asset at FVTOCI:					
Unquoted equity	**17,018**	**-**	**-**	**17,018**	**17,018**
Assets for which Fair Values are Disclosed					
Financial assets at amortized cost:					
Investment securities at amortized cost	**2,100,678**	**2,100,678**	**-**	**-**	**2,100,678**
Loans and receivables	**5,575,786**	**-**	**-**	**5,575,786**	**5,761,083**
Other assets*	**7,032**	**-**	**-**	**7,032**	**7,032**
	P7,717,166	**P2,100,678**	**P16,652**	**P5,599,836**	**P7,717,166**
Liabilities Measured at Fair Value					
Financial liability at FVTPL					
Derivative liabilities	**P -**	**P -**	**P -**	**P -**	**P -**
Liabilities for which Fair Values are Disclosed					
Due to other banks	**701,562**	**-**	**-**	**701,562**	**701,562**
Due to Head Office and other branches	**4,444,842**	**-**	**-**	**4,444,842**	**4,444,842**
Deposit liabilities	**907,950**	**-**	**-**	**907,950**	**907,950**
Accrued expenses and other payables**	**87,647**	**-**	**-**	**87,647**	**87,647**
	P6,142,001	**P -**	**P -**	**P6,142,001**	**P6,142,001**

**Other assets pertain to refundable security deposits.*
***Accrued expense and other payables consist of accrued salaries, accounts payable, IRS interest payable and other accrued expenses.*

	2020				
	Carrying Amount	Level 1	Level 2	Level 3	Fair Value
Assets Measured at Fair Value					
Financial asset at FVTPL:					
Derivative assets	P 2,594	P -	P 2,594	P -	P 2,594
Financial asset at FVTOCI:					
Unquoted equity	20,686	-	-	20,686	20,686
Assets for which Fair Values are Disclosed					
Financial assets at amortized cost:					
Investment securities at amortized cost	3,211,604	3,211,604	-	-	3,211,604
Loans and receivables	5,173,056	-	-	5,173,056	5,173,056
Other assets*	7,202	-	-	7,202	7,202
	P8,415,142	P3,211,604	P 2,594	P5,200,944	P8,415,142
Liabilities Measured at Fair Value					
Financial liability at FVTPL					
Derivative liabilities	P10,055	P -	P10,055	P -	P 10,055
Liabilities for which Fair Values are Disclosed					
Due to other banks	495,347	-	-	495,347	495,347
Due to Head Office and other branches	3,397,070	-	-	3,397,070	3,397,070
Deposit liabilities	1,649,815	-	-	1,649,815	1,649,815
Accrued expenses and other payables**	44,728	-	-	44,728	44,728
	P5,597,015	P -	P10,055	P5,586,960	P5,597,015

** Other assets pertain to refundable security deposits.*
***Accrued expense and other payables consist of accrued salaries, accounts payable, IRS interest payable and other accrued expenses.*

As at December 31, 2021 and 2020, there have been no transfers into and out of each of the levels of the fair value hierarchy.

26. FINANCIAL RISK MANAGEMENT

Financial risk management objectives and policies

The Head Office has the ultimate role and responsibilities in developing and approving a comprehensive risk management framework for the ICBC Group through its Risk Management Committee (RMC) and the Audit Committee of the Board of Directors. Business authorization is granted to the Manila Branch by the Head Office on an annual basis, as well as guidance and support on business development, risk management, internal governance, compliance, considering the safeguarding of the Manila Branch's long-term financial stability, solvency and liquidity situation.

The General Manager of the Manila Branch has the overall responsibility for the establishment and oversight of various risk management measures within the mandate of the Head Office.

The Management has established the Risk Oversight Committee (ROC), which is the decision-making body within the Manila Branch responsible for reviewing and strengthening risk management measures and assessing indicator results of risk and compliance management. Its risk mission and objectives are to consistently and accurately consider risks and return in evaluating transactions and exposures while preserving and maintaining adequate risk-based capital, and to ensure adequate returns on such capital. Risk mitigation strategies form an integral part on the risk management activities.

The Manila Branch has significant exposure to the following risks from its use of financial instruments:

- Credit Risk
- Liquidity and Funding Risk
- Market Risk

The Manila Branch's policies and objective in managing these risks are summarized below:

<u>Credit Risk</u>

Credit risk is defined by the Manila Branch as the risk of financial loss arising from the borrower's inability to repay principal and/or interest. Of all forms of risk faced by the Manila Branch, credit risk from non-payment or late payment is the most significant as potential losses from mismanagement of credit risk may be substantial.

The Manila Branch assumes credit risk in a wide range of lending and other activities in diverse markets. Credit risks arise not only from traditional lending to customers, but also from inter-bank, treasury and capital markets activities.

The Manila Branch's credit risk is mainly attributable to its loans, due from banks and other non-financial institutions and financial investments. The Manila Branch is also exposed to credit risk arising from derivative financial instruments but is limited to derivative financial assets recorded in the statements of financial position. In addition, the Manila Branch provides guarantees for customers and may therefore be required to make payments on their behalf. These payments will be recovered from customers in accordance with the terms of the agreement. Therefore, the Manila Branch assumes a credit risk similar to that arising from loans and applies the same risk control procedures and policies to reduce risks.

Credit Risk Management

The Head Office delegates credit business authority to the General Manager based on the annual operation and management authorization, who may then sub-delegate, in whole or in part, its credit business authority to different levels of authorized approvers. Credit Management from Risk Control Department conducts independent credit assessment and evaluation of all counterparties and other risks presented for approval by the Front Office. The Credit Risk Officer, also the Deputy General Manager, oversees the credit and credit risk management processes of the Manila Branch as the chairman of the Credit Review Committee.

The Manila Branch has adopted stringent procedures in extending credit terms to borrowers and in monitoring its credit risk. Personnel involved in the management of credit risk and the credit process must therefore exercise due diligence and sound judgment in the evaluation and assessment of risks when assessing lending requests from borrowers as well as in post-lending management of credit facilities since credit facilities should only be granted for genuine business requirements.

The final part of the end-to-end credit process is comprised of post-approval and monitoring procedures, such as annual credit reviews, which aims to maintain the quality of credits and safeguard the assets of the Manila Branch with the view of avoiding potential losses. This is achieved by ensuring that all transactions are within the approved limits, appropriateness of the credit rating is monitored and credit limits and that other credit issues such as amount, maturity, security, repayment and other financial covenants are in accordance with the approved terms.

Risk Concentrations of the Maximum Exposure to Credit Risk

Concentration risk can arise from excessive exposures to individual obligors, groups of connected counterparties and groups of counterparties with similar characteristics (e.g., counterparties in specific geographical locations, economic or industry sectors). Concentrations of risk are managed by counterparty and by industry sector.

The Manila Branch generally considers concentration risk as excessive when the ratio of a segment's exposure (e.g., this may be an industry demographic attribute or a program) to the total portfolio exceeds the BSP threshold. The BSP considers that credit concentration risk exists when the total loan exposure to an industry or economic sector exceeds 30.00% of the total loan portfolio or 10.0% of Tier 1 capital, except for commercial real estate industry which has regulatory limit of 20.0% of total loan portfolio excluding interbank loans receivable.

The table below shows the credit quality of the Manila Branch's financial assets by type of industry, gross of allowance for credit and impairment losses as at December 31, 2021 and 2020 (in thousands):

2021	**Government and Official Institutions**	**Financial Institutions**	**Electricity, Energy, Power**	**Manufacturing**	**Real Estate, Renting and Business Activities**	**Others**	**Total**
Due from BSP	**P1,538,696**	**P -**	**P -**	**P -**	**P -**	**P -**	**P1,538,696**
Due from other banks	**-**	**420,646**	**-**	**-**	**-**	**-**	**420,646**
Loans and receivables:							
Loans to customers	**-**	**-**	**866,558**	**764,985**	**1,295,584**	**2,806,401**	**5,733,528**
Accrued interest receivable	**-**	**-**	**11,616**	**763**	**509**	**14,667**	**27,555**
Financial asset at FVTPL	**-**	**16,652**	**-**	**-**	**-**	**-**	**16,652**
Investment securities at amortized cost	**2,102,051**	**-**	**-**	**-**	**-**	**-**	**2,102,051**
Other assets*	**-**	**-**	**-**	**-**	**7,032**	**-**	**7,032**
	P3,640,747	**P437,298**	**P878,174**	**P765,748**	**P1,303,125**	**P2,821,068**	**P9,846,160**
2020							
Due from BSP	P 574,225	P -	P -	P -	P -	P -	P 574,225
Due from other banks	-	177,801	-	-	-	-	177,801
Loans and receivables:							
Loans to customers	-	250,000	977,268	944,209	1,220,345	1,883,363	5,275,185
Accrued interest receivable	-	1,201	11,442	825	4,771	12,541	30,780
Financial asset at FVTPL	-	2,594	-	-	-	-	2,594
Investment securities at amortized cost	3,216,068	-	-	-	-	-	3,216,068
Other assets*	-	-	-	-	7,202	-	7,202
	P3,790,293	P431,596	P988,710	P945,034	P1,232,318	P1,895,904	P9,283,855

Other assets pertain to refundable security deposits.

Collateral and Other Credit Enhancements

The amount and type of collateral required depend on the assessment of the credit risk of the counterparty. Guidelines are in place specifying the types of collateral and valuation parameters which can be accepted.

The Manila Branch holds collateral against certain loans in the form of mortgage interest over real property. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and are updated periodically or when a loan is individually assessed as impaired.

Management monitors the market value of collateral periodically and requests additional collateral in accordance with the underlying agreement when it is considered necessary.

Maximum Exposure to Credit Risk after Collateral Held or Other Credit Enhancements

The Manila Branch's exposure to credit risk arises from the default of the counterparty, with a maximum exposure equal to the carrying amounts of these assets.

The table below shows the maximum exposure to credit risk as at December 31, 2021 and 2020 after taking into account any collateral held or other credit enhancements (in thousands):

	2021			2020		
	Carrying Amount	**Fair Value of Collateral**	**Maximum Exposure to Credit Risk**	Carrying Amount	Fair Value of Collateral	Maximum Exposure to Credit Risk
Due from BSP	**P 1,538,696**	**P -**	**P 1,538,696**	P 574,225	P -	P 574,225
Due from other banks	**420,646**	**-**	**420,646**	177,800	-	177,800
Loans and receivables	**5,761,083**	**924,102**	**4,836,981**	5,305,964	1,140,546	4,165,418
Financial asset at FVTPL	**16,652**	**-**	**16,652**	2,594	-	2,594
Investment securities at amortized cost	**2,102,051**	**-**	**2,102,051**	3,216,068	-	3,216,068
Other assets*	**7,032**	**-**	**7,032**	7,202	-	7,202
	P9,846,160	**P924,102**	**P8,922,058**	P9,283,853	P1,140,546	P8,143,307
Off Balance Sheet exposures	**P1,404,852,131**	**P -**	**P1,404,852,131**	P455,732,124	P -	P455,732,124

**Other assets pertain to refundable security deposits.*

Credit Quality Per Class of Financial Assets

The credit quality of financial assets is managed by the Manila Branch using internal and external credit ratings which covers both on- and off- balance sheet exposures.

Internal Rating

The Manila Branch has adopted its Head Office's internal rating model which is based on quantitative and qualitative assessment of a corporate customer. The quantitative assessment takes into consideration profitability, accounting quality, cash flow and liquidity, capital and debt structure and solvency among others while qualitative assessment includes industry environment, the entity's market position and competitive strengths and weaknesses, management and corporate governance.

External Rating

In ensuring quality investment portfolio, the Manila Branch uses the credit risk rating based on the rating of Moody's, Standard & Poor's and Fitch.

The table below shows the credit risk rating comprising the equivalent external grades for each internal credit risk rating following the Head Office's master scale of 21-grade credit rating applied for comparison purposes only.

Internal Borrower's Risk Ratings	Moody's Equivalent Grades	Standard & Poor's and Fitch's Equivalent Grades	Description
sAAA+ AAA+ sAAA AAA sAAA- AAA-	Aaa, Aa1, Aa2 Aa3 Aaa, Aa1, Aa2 A2 A3 Baa1	AAA, AA+, AA AA- A+ A A- BBB+	Customers with great operating and financial strength as well as strong and very stable solvency and have demonstrated that they can withstand and bear major internal and external adverse change, with very reliable and predictable net cash flow.
sAA+ AA+	Baa2 Baa2	BBB BBB	Customers with very good operating and financial strength as well as very strong solvency and can withstand and bear large internal and external adverse changes, with good financial performance and sufficient cash flows.
sAA AA	Baa3 Baa3	BBB- BBB-	Customers with very good operating and financial strength as well as very strong solvency and may be affected by adverse changes in internal and external economic situations.
sAA- AA-	Ba1 Ba1	BB+ BB+	Customers with moderately good operating and financial strength as well as moderately strong solvency but will be affected by adverse changes in internal and external economic situations; has moderately sufficient cash flow; moderate strong customer market competitiveness.
sA+ A+ A A-	Ba2 Ba2 Ba3 B1	BB BB BB- B+	Customers with general operating and financial strength as well as acceptable solvency and will be greatly affected by changes in the external economic environment; it has a slightly poor net cash flow, fair customer market competitiveness.
BBB+ BBB BBB-	B2 B3 Caa1, Caa2, Caa3	B B- CCC	Customers with weak financial position, very poor operating and financial strength, weak and unstable solvency, as well as a weak ability to withstand risks; has a poor cash flow, an extremely heavy dependence on banking facilities, and weak customer market competitiveness.

Internal Borrower's Risk Ratings	Moody's Equivalent Grades	Standard & Poor's and Fitch's Equivalent Grades	Description
BB	Ca, C	CC, C	It suffers severe losses or losses for consecutive years, has an extremely poor financial performance, is almost insolvent, and has basically no ability to withstand risks; it has an insufficient cast flow, very weak customer market competitiveness.
B	C	D	The customer goes bankrupt and shuts down or materially defaults on its debts.

The table below shows the credit score rating comprising each category of credit quality and risk category.

Standard & Poor's Equivalent Grades	Credit Quality Description	Risk Category
AAA / AA+ / AA	Highest Quality	Very Low Risk
AA- / A+	High Quality	Low Risk
A / A-	Upper Medium Grade	Low Risk
BBB+ / BBB / BBB-	Medium Grade	Moderate Risk
BB+ / BB / BB- / B+	Speculative	Substantial Risk
B / B-	Speculative	High Risk
CCC	Poor	Very High Risk
CC/ C	Poor	Very High Risk
D	Default	Very High Risk

The credit quality of the assets held by the Manila Branch is generally monitored through the internal and external ratings, which is then used to detect any deterioration in the quality of assets and tracks migration of credit risks.

Significant Increase in Credit Risk

The assessment of significant increase since initial recognition in the credit risk is performed at least on a quarterly basis for financial instruments held by the Manila Branch. The Manila Branch takes into consideration all reasonable and supportable information (including forward-looking information) that reflects significant change in credit risk for the purposes of classifying financial instruments. The main considerations are regulatory and operating environment, internal and external credit risk gradings, debt-servicing capacity, operating capabilities, contractual terms, and repayment records. The Manila Branch compares the risk of default of a single financial instrument or a portfolio of financial instruments with similar credit risk characteristics as at the end of the reporting period and its risk of default at the date of initial recognition to determine changes in the risk of default during the lifetime of a financial instrument or a portfolio of financial instruments. In determining whether credit risk of a financial instrument has increased significantly since initial recognition, the Manila Branch considers factors indicating whether the probability of default has risen sharply, whether the financial instrument has been past due for more than 30 days, and whether the market price has been falling to assess deterioration.

As at December 31, 2021 and 2020, the Manila Branch has no past due financial assets.

Default

The Manila Branch defines a corporate borrower as in default when it meets one or more of the following criteria at the timing of recognition:

(i) The principal or interest of loan is past due more than 90 days;

(ii) The corporate borrower is unlikely to pay its credit obligations in full, without recourse by the Manila Branch to actions such as liquidation against collateral; or

(iii) The corporate borrower has the above matters in other financial institutions refers to (i), (ii).

POCI Assets

POCI assets are financial assets that are credit-impaired on initial recognition. Impairment on a POCI asset is determined based on lifetime ECL from initial recognition. POCI assets are recognized initially at an amount net of impairment and are measured at amortized cost using a credit-adjusted effective interest rate. In subsequent periods, any changes to the estimated lifetime ECL are recognized in profit or loss. Favorable changes are recognized as a reversal of impairment if the lifetime ECL at the reporting date is lower than the estimated lifetime ECL at origination.

Stage of Financial Instruments

The Manila Branch classifies financial instruments into three (3) risk stages and makes provisions for expected credit losses accordingly, depending on whether credit risk on that financial instrument has increased significantly since initial recognition.

DETERIORATION IN CREDIT QUALITY			
	Stage 1	**Stage 2**	**Stage 3**
Impairment Stage	No significant increase in credit risk	Significant increase in credit risk	Credit impaired
Recognition of ECL	Collective 12-month ECL when credit risk is low to moderate or risk of default has not increased significantly	Collective or Individual Lifetime ECL when credit quality deteriorates significantly but not credit impaired	Individual Lifetime ECL when credit losses are incurred, or asset is credit impaired

ECLs are updated at each reporting date for new information and changes in expectations even if there has not been a significant increase in credit risk.

Refer to Note 3 Impairment of Financial Instruments for the definition of the three (3) risk stages.

The table below shows the credit quality of the Manila Branch's financial assets by credit risk rating and stage as at December 31, 2021 (in thousands):

	2021				
	Stage 1	**Stage 2**	**Stage 3**	**POCI**	**Total**
Due from BSP and other banks					
AAA / AA+ / AA	P1,959,344	P -	P -	P -	P1,959,344
AA- / A+	-	-	-	-	-
A / A-	-	-	-	-	-
BBB+ / BBB / BBB-	-	-	-	-	-
BB+ / BB / BB- / B+	-	-	-	-	-
B / B-	-	-	-	-	-
CCC	-	-	-	-	-
CC / C	-	-	-	-	-
D	-	-	-	-	-
Unrated	-	-	-	-	-
Loss Allowance	(2)	-	-	-	(2)
Carrying Amount	P1,959,342	P -	P -	P -	P1,959,342
Investment assets at amortized cost					
AAA / AA+ / AA	P -	P -	P -	P -	P -
AA- / A+	-	-	-	-	-
A / A-	-	-	-	-	-
BBB+ / BBB / BBB-	2,102,051	-	-	-	2,102,051
BB+ / BB / BB- / B+	-	-	-	-	-
B / B-	-	-	-	-	-
CCC	-	-	-	-	-
CC / C	-	-	-	-	-
D	-	-	-	-	-
Unrated	-	-	-	-	-
Loss Allowance	(1,373)	-	-	-	(1,373)
Carrying Amount	P2,100,677	P -	P -	P -	P2,100,677
Loans and receivables					
AAA / AA+ / AA	P2,922,454	P -	P -	P -	P2,922,454
AA- / A+	1,995,858	-	-	-	1,995,858
A / A-	-	-	-	-	-
BBB+ / BBB / BBB-	-	842,771	-	-	842,771
BB+ / BB / BB- / B+	-	-	-	-	-
B / B-	-	-	-	-	-
CCC	-	-	-	-	-
CC / C	-	-	-	-	-
D	-	-	-	-	-
Unrated	-	-	-	-	-
Loss Allowance	(31,295)	(154,002)	-	-	(185,297)
Carrying Amount	P4,887,017	P688,769	P -	P -	P5,575,786
Other assets					
AAA / AA+ / AA	P -	P -	P -	P -	P -
AA- / A+	-	-	-	-	-
A / A-	-	-	-	-	-
BBB+ / BBB / BBB-	-	-	-	-	-
BB+ / BB / BB- / B+	-	-	-	-	-
B / B-	-	-	-	-	-
CCC	-	-	-	-	-
CC / C	-	-	-	-	-
D	-	-	-	-	-
Unrated	7,032	-	-	-	7,032
Loss Allowance	-	-	-	-	-
Carrying Amount	P7,032	P -	P -	P -	P 7,032

	2020				
	Stage 1	Stage 2	Stage 3	POCI	Total
Due from BSP and other banks					
AAA / AA+ / AA	P 752,042	P -	P -	P -	P 752,042
AA- / A+	-	-	-	-	-
A / A-	-	-	-	-	-
BBB+ / BBB / BBB-	-	-	-	-	-
BB+ / BB / BB- / B+	-	-	-	-	-
B / B-	-	-	-	-	-
CCC	-	-	-	-	-
CC / C	-	-	-	-	-
D	-	-	-	-	-
Unrated	-	-	-	-	-
Loss Allowance	(16)	-	-	-	(16)
Carrying Amount	P 752,042	P -	P -	P -	P 752,042
Investment assets at amortized cost					
AAA / AA+ / AA	P -	P -	P -	P -	P -
AA- / A+	-	-	-	-	-
A / A-	-	-	-	-	-
BBB+ / BBB / BBB-	3,216,068	-	-	-	3,216,068
BB+ / BB / BB- / B+	-	-	-	-	-
B / B-	-	-	-	-	-
CCC	-	-	-	-	-
CC / C	-	-	-	-	-
D	-	-	-	-	-
Unrated	-	-	-	-	-
Loss Allowance	(4,465)	-	-	-	(4,465)
Carrying Amount	P3,211,603	P -	P -	P -	P3,211,603
Loans and receivables					
AAA / AA+ / AA	P2,246,016	P -	P -	P -	P2,246,016
AA- / A+	1,774,117	-	-	-	1,774,117
A / A-	492,174	-	-	-	492,174
BBB+ / BBB / BBB-	-	793,657	-	-	793,657
BB+ / BB / BB- / B+	-	-	-	-	-
B / B-	-	-	-	-	-
CCC	-	-	-	-	-
CC / C	-	-	-	-	-
D	-	-	-	-	-
Unrated	-	-	-	-	-
Loss Allowance	(29,899)	(103,009)	-	-	(P132,908)
Carrying Amount	P4,482,408	P690,648	P -	P -	P5,173,056
Due from Head Office					
AAA / AA+ / AA	P -	P -	P -	P -	P -
AA- / A+	-	-	-	-	-
A / A-	-	-	-	-	-
BBB+ / BBB / BBB-	-	-	-	-	-
BB+ / BB / BB- / B+	-	-	-	-	-
B / B-	-	-	-	-	-
CCC	-	-	-	-	-
CC / C	-	-	-	-	-
D	-	-	-	-	-
Unrated	-	-	-	-	-
Loss Allowance	-	-	-	-	-
Carrying Amount	P -	P -	P -	P -	P -
Other assets					
AAA / AA+ / AA	P -	P -	P -	P -	P -
AA- / A+	-	-	-	-	-
A / A-	-	-	-	-	-
BBB+ / BBB / BBB-	-	-	-	-	-
BB+ / BB / BB- / B+	-	-	-	-	-
B / B-	-	-	-	-	-
CCC	-	-	-	-	-
CC / C	-	-	-	-	-
D	-	-	-	-	-
Unrated	7,202	-	-	-	7,202
Loss Allowance	-	-	-	-	-
Carrying Amount	P 7,202	P -	P -	P -	P 7,202

**Other assets pertain to refundable deposits.*

Impairment Assessment

Generally, a financial asset is considered to be credit-impaired if:

(i) It has been overdue for more than 90 days;

(ii) In light of economic, legal or other factors, the Manila Branch has made concessions to a borrower in financial difficulties, which would otherwise have been impossible under normal circumstances;

(iii) The borrower is probable to be insolvent or carry out other financial restructurings;

(iv) Due to serious financial difficulties, the financial asset cannot continue to be traded in an active market;

(v) There are other objective evidences that the financial asset is impaired.

Description of Parameters, Assumptions, and Estimation Techniques

ECL for a financial instrument is measured at an amount equal to 12-month ECL or lifetime ECL depending on whether a significant increase in credit risk on that financial instrument has occurred since initial recognition or whether an asset is considered to be credit-impaired. The loss allowance is measured using risk parameters method.

The key parameters are as follows:

- Probability of Default (PD)
  PD is the possibility that a customer will default on its obligation within a certain period of time in light of forward-looking information. The Manila Branch's PD is adjusted based on the results of the Internal Rating-Based Approach under the New Basel Capital Accord, taking the forward-looking information into account and deducting the prudential adjustment to reflect the debtor's point-in-time (PIT) PD under the current macroeconomic environment.

- Loss Given Default (LGD)
  LGD is the magnitude of the likely loss if there is a default considering forward-looking information. The LGD is depending on the type of counterparty, the method and priority of the recourse, and the type of collaterals, with taking the forward-looking information into account.

- Exposure at Default (EAD)
  EAD refers to the total amount of on-balance sheet and off-balance sheet exposures in the event of default and is determined based on the historical repayment records.

The assumptions underlying the ECL calculation, such as how the PDs and LGDs of different maturity profiles change are monitored and reviewed on a quarterly basis by the Head Office.

There have been no significant changes in estimation techniques or significant assumptions made during the year.

As at December 31, 2021 and 2020, the ECL of the Manila Branch amounted to P186,696,364 and P137,400,965, respectively. The Management has identified a significant increase in credit risk on its financial assets measured at amortized cost from origination date.

Forward-looking Information Contained in ECL

The calculation of ECL incorporates forward-looking information. The Head Office has performed historical analysis and identified the key economic variables, including Gross Domestic Product ("GDP"), Inflation Rate and Change Rate of Total Import Goods, impacting ECL for each portfolio. The impact of these economic variables on the PD has been determined by performing statistical regression analysis to understand the correlations among the historical changes of the economic variables. The Head Office provides forecasts of these economic variables quarterly including the best estimate view of the economy over the next year.

When calculating the weighted average ECL, the optimism, neutral and pessimism scenarios and its weightings determined by a combination of macro-statistical analysis and expert judgment are taken into account by the Head Office.

Sensitivity of ECL in Future Economic Conditions

The ECL are sensitive to judgments and assumptions made regarding formulation of forward-looking scenarios and how such scenarios are incorporated into the calculations.

The ICBC Group has carried out sensitivity analysis of key economic variables, used in forward-looking measurement. As at December 31, 2021, when the key economic indicators in the neutral scenario move up or down by 10%, the ECL will not change by more than 5%.

This sensitivity calculation of ICBC Group is applicable to the Manila Branch.

Recovery of Impairment Loss

If in a subsequent period, an improvement in scenarios arise whereby the borrower's credit rating, financial strength and the overall economy recovery and others, the previously recognized impairment loss is reversed directly to profit and loss, in line with the adjustment of the impairment loss account.

Restructured Loans

Where possible, the Manila Branch seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, the loan is no longer considered past due. Management continuously reviews restructured loans to ensure that all criteria are met and the future payments are likely to occur. When the loan has been restructured but not derecognized, the Bank also reassesses whether there has been a SICR and considers whether the assets should be classified as Stage 3. If the restructuring terms are substantially different, the loan is derecognized and a new 'asset' is recognized at fair value using the revised effective interest rate.

Liquidity and Funding Risk

The Manila Branch defines liquidity and funding risk as the risk to the bank's earnings, capital and solvency, arising from inability to meet contractual payments and other financial obligations on their due date, or the inability to fund (at a reasonable cost) the business needs of the bank and, by extension, the needs of its customers, and risk that the Manila Branch will not be able to meet efficiently both expected and unexpected current and future cash flow without affecting either the daily operations or its financial condition.

Liquidity Risk Management

The objective of the Manila Branch's liquidity and funding risks management is to maintain at all times liquidity resources which are adequate, both as to amount and quality, to ensure that there is no significant risk that its liabilities cannot be met as they fall due.

In order to implement effective internal control on liquidity risk, the Manila Branch has established a sound framework for measuring, monitoring and controlling liquidity risk across different time horizons and stress scenarios:

- Identification

  The Manila Branch examines its key liquidity and funding risks drivers in the context of a comprehensive list of potential liquidity and funding risks factors which is reviewed and approved by the RMC at least annually.

- Measurement

  The Manila Branch uses a series of measures to monitor both short and long-term liquidity including: ratios, cash outflow triggers, wholesale funding maturity profile, and early warning indicators. Strict criteria and limits are in place to ensure highly liquid marketable securities are available as part of the portfolio of liquid assets. The Manila Branch's liquidity measurement involves assessing cash inflows against outflows and the liquidity value of its assets to identify the potential for future net funding shortfalls.

- Liquidity and Funding Risks Control through Limits

  The Manila Branch has set limits to control liquidity risk exposure and vulnerabilities and established corresponding escalation procedures. These limits are not only used for managing day-to-day liquidity, but also include measures aimed at ensuring that it can continue to operate in a period of market stress, bank-specific stress and a combination of the two to ensure that, under stressed conditions, available liquidity exceeds liquidity needs.

- Intraday Liquidity Management

  The Manila Branch actively manages its intraday liquidity positions so that it is able to meet payment and settlement obligations on a timely basis under both normal and stress financial conditions.

The Manila Branch also has a formal Liquidity Contingency Plan (LCP) that sets out the strategies for addressing liquidity shortfalls in emergency situations. The LCP outlines policies to manage a range of stress environments and establish clear lines of responsibility, and details clear invocation and escalation procedures. The results of the scenarios and the assumptions used in stress tests are factored in the LCP's design, plans and procedures which, in turn, are closely integrated with the Manila Branch's liquidity and funding risk appetite setting.

The maturity profile of the Manila Branch's financial assets and liabilities as at December 31, 2021 and 2020 are as follows (in thousands):

2021	Carrying Amount	Gross Nominal Inflow/ Outflow	Less than 1 Month	1-3 Months	3-12 Months	1-5 Years	More than 5 Years
Financial Assets							
Due from BSP	P1,538,696	P1,538,698	P1,538,698	P -	P -	P -	P -
Due from other banks	420,646	420,646	420,646	-	-	-	-
Financial asset at FVTPL	16,652	16,652	6,134	-	-	10,518	-
Financial asset at FVTOCI	17,018	17,018	17,018	-	-	-	-
Investment securities at amortized cost	2,100,678	2,309,170	-	-	414,964	1,298,667	595,539
Loans and receivables	5,575,786	6,396,217	256,332	-	506,533	3,912,471	1,720,881
Other assets*	7,032	7,032	-	-	-	7,032	-
	9,676,508	10,705,433	2,238,828	-	921,497	5,228,688	2,316,420
Financial Liabilities							
Deposit liabilities	907,950	907,950	907,950	-	-	-	-
Due to other banks	701,562	740,604	-	-	-	740,604	-
Accrued expense and other payables**	87,647	87,647	87,647	-	-	-	-
Due to Head Office and other branches	4,444,842	4,619,094	3,055,814	714,515	-	848,765	-
	6,142,001	6,355,295	4,051,411	714,515	-	1,589,369	-
Net Liquidity Surplus (Gap)	P3,534,507	P4,350,138	(P1,812,583)	(P714,515)	P921,497	P3,639,319	P2,316,420
2020							
Financial Assets							
Due from BSP	P5,742,225	P5,742,226	P5,742,226	P -	P -	P -	P -
Due from other banks	177,801	177,816	177,816	-	-	-	-
Financial asset at FVTPL	2,594	2,594	-	-	2,594	-	-
Financial asset at FVTOCI	20,686	20,686	20,686	-	-	-	-
Investment securities at amortized cost	3,211,604	3,216,068	26,832	-	-	3,189,236	-
Loans and receivables	5,173,056	5,305,964	30,779	-	500,000	3,835,474	939,711
Other assets*	7,202	7,202	-	-	-	7,202	-
	14,335,168	14,472,556	5,998,339	-	502,594	7,031,912	939,711
Financial Liabilities							
Deposit liabilities	1,649,815	1,649,815	1,649,815	-	-	-	-
Financial liability at FVTPL	10,055	10,055	-	-	9,415	640	-
Due to other banks	495,347	495,347	347	-	495,000	-	-
Accrued expense and other payables**	44,728	44,728	44,728	-	-	-	-
Due to Head Office and other branches	3,397,070	3,397,070	1,001	3,396,069	-	-	-
	5,597,015	5,597,015	1,695,891	3,396,069	504,415	640	-
Net Liquidity Surplus (Gap)	P8,738,153	P8,875,541	P4,302,448	(P3,396,069)	(P 1,821)	P7,031,272	P 939,711

* *Other assets pertain to refundable security deposits.*

***Accrued expense and other payables consist of accrued salaries, accounts payable, IRS interest payable and other accrued expenses.*

As at December 31, 2021 and 2020, there are no financial assets pledged as collateral.

Market Risk

Market risk is the risk of a loss in the Manila Branch's on-balance-sheet or off-balance-sheet business due to unfavorable changes in market prices. The value of a financial instrument may change as a result of changes in equity prices, interest rates, foreign currency exchange rates and other market changes. Given the Manila Branch's current business model, foreign exchange risk from banking book and trading book are the major sources of market risk.

Market Risk Management

The Manila Branch follows a prudent policy on managing its financial assets and financial liabilities to ensure that exposure to fluctuations in market prices are kept within acceptable limits. Through market risk management, it is ensured that the market risks undertaken are well managed within the Manila Branch's risk appetite and that the income after risk-adjustment is maximized.

It is the senior management's responsibility to ensure that the structure of the Manila Branch's business and the level of market risk it assumes are effectively managed, that appropriate policies and procedures are established to control and limit these risks, and that resources are available and sufficient for evaluating and controlling market risk. Senior management is particularly responsible for maintaining:

(i) Appropriate limits on risk taking;

(ii) Adequate systems and standards for measuring risk;

(iii) Standards for valuing positions and measuring performance;

(iv) A comprehensive market risk reporting and management review process; and

(v) Effective internal controls.

Consistent with the Head Office's market risk management policy, the Manila Branch's trading book consists of all positions in financial instruments and commodities held either with trading intent or in order to hedge against other elements of the trading book and which are either free of any restrictive covenants on their tradability or able to be hedged. Positions held with trading intent are those held intentionally for short-term resale and/ or with the intent of benefiting from actual or expected short-term price movements or to lock in arbitrage profits.

The Manila Branch segregates their business between trading book and banking book activity on a consistent basis and allocates transactions accordingly for the purpose of adopting more pertinent market risk management measurement.

Trading book positions are accurately valued on daily basis while the portfolio is actively managed. All positions that are not in the Manila Branch's trading book are included in the Manila Branch's banking book. If a specific financial instrument is used to hedge an exposure in banking book, it will be taken out of the trading book for the period of the hedge and included in the banking book.

As the Manila Branch currently do not undertake proprietary trading and market making, trading book exposure only result from client servicing.

The market risk exposure is measured both across risk types, such as interest rate, foreign exchange and across the entire portfolio. The Manila Branch identifies and measures the impact of any new transaction on its market risk position on an on-going basis.

Foreign currency exchange risk

Foreign currency exchange risk arises when an investment's value changing due to changes in currency exchange rate. The Manila Branch undertakes certain transactions denominated in foreign currencies, hence, exposures to exchange rate fluctuations arose. Significant fluctuation in the exchange rates could significantly affect the Manila Branch's financial position.

The Manila Branch undertakes certain transactions denominated in foreign currencies. Hence, exposures to exchange rate fluctuations arise with respect to transactions denominated in US Dollars, Chinese Yuan (CNY), Euro (EUR), and Philippine Peso. Foreign currency exchange risk arises when future commercial transactions and recognized assets and liabilities are denominated in a currency that is not the Manila Branch's functional currency. Significant fluctuation in the exchange rates could significantly affect the Manila Branch's financial position. The exposure is managed partly by natural hedges that arise from offsetting assets and liabilities that are denominated in foreign currencies. The Manila Branch may enter into derivative foreign exchange contracts, if necessary, to hedge against foreign exchange risk.

The table below summarizes the Manila Branch's exposure to foreign exchange risk as at December 31, 2021 and 2020. Included in the table are the Manila Branch's assets and liabilities at carrying amounts, categorized by currency (PHP equivalents in thousands).

2021	**USD**	**EUR**	**CNY**	**Total**
Financial Assets				
Due from other banks	**P 389,175**	**P -**	**P 80**	**P 389,255**
Loans and receivables	**3,767,368**	**592,285**	**-**	**4,359,653**
Financial assets at FVTPL	**10,518**	**-**	**-**	**10,518**
	4,167,061	**592,285**	**80**	**4,759,426**
Financial Liabilities				
Deposit liabilities	**688,010**	**-**	**20,259**	**708,270**
Accrued interest payable	**238**	**-**	**-**	**238**
Due to Head Office and other branches	**3,608,686**	**579,719**	**(23,712)**	**4,164,693**
	4,296,394	**579,719**	**(3,453)**	**4,873,201**
Net Position	**(P129,333)**	**P 12,566**	**P 3,533**	**(P113,775)**
2020				
Financial Assets				
Due from other banks	P -	P -	P 74	P 74
Loans and receivables	-	704,895	-	704,895
	-	704,895	74	704,969
Financial Liabilities				
Deposit liabilities	-	-	257,476	257,476
Accrued interest payable	-	-	38	38
Due to Head Office and other branches	720,345	698,844	(262,098)	1,157,091
	720,345	698,844	(4,584)	1,414,605
Net Position	(P720,345)	P 6,051	P 4,658	(P 709,636)

The table below indicates the currencies which the Manila Branch has significant exposure to as at December 31, 2021 and 2020 on its foreign currency-denominated assets and liabilities and its forecasted cash flows. The analysis calculates the effect of a reasonably possible movement of other currency rates against the PHP, with all other variables held constant on the results of operations (due to the fair value of currency sensitive monetary assets and liabilities) and other comprehensive income. A negative amount in the table reflects a potential net reduction of net income or other comprehensive income while positive amount reflects a net potential increase. Change in currency rates are based on the historical movements of each currency for the same period.

2021	Foreign Currency Appreciates Against PHP by	Effects on Profit before Tax (in thousands)	Foreign Currency Depreciates by	Effects on Profit before Tax (in thousands)
Currency:				
USD	**2.7380%**	**(10,638)**	**(2.7380%)**	**10,638**
EUR	**(1.1787%)**	**(149)**	**1.1787%**	**149**
CNY	**0.6200%**	**22**	**(0.6200%)**	**(22)**
2020				
Currency:				
USD	(2.7040%)	(19,445)	2.7040%	19,445
EUR	2.3400%	126	(2.3400%)	(126)
CNY	0.0957%	31	(0.0957%)	(31)

Interest Rate Risk

Interest rate risk is defined as the current or prospective risk to both the capital and earnings of the Manila Branch arising from adverse movements in underlying interest rate.

One of the Manila Branch's primary business functions is providing financial products that meet the needs of its customers. Loans and deposits are tailored to the customers' requirements with regard to tenor credit standing. The Manila Branch has assessed its interest rate risk drivers and concluded that material risks arise from only re-pricing risk, which is the risk related to the timing mismatch in the maturity and re-pricing of assets and liabilities and off-balance-sheet short and long-term positions.

The table set forth the Manila Branch's interest rate repricing gap as at December 31, 2021 and 2020 (in thousands):

2021	Overnight to 1 Month	1-3 Months	3-6 Months	6-12 Months	1-2 Years	Beyond 2 Years	Non-rate Sensitive	Total
Assets								
Due from BSP (gross)	P1,513,131	P -	P -	P -	P -	P -	P25,567	P1,538,698
Due from other banks (gross)	-	-	-	-	-	-	420,646	420,646
Investment securities at amortized cost (gross)	-	-	-	-	-	2,102,051	-	2,102,051
Loans and receivables (gross)	-	254,995	-	500,000	-	4,978,533	-	5,733,528
	1,513,131	254,995	-	500,000	-	7,080,584	446,211	9,794,921
Liabilities								
Deposit liabilities	907,950	-	-	-	-	-	-	907,950
Due to Head Office and other branches	-	3,259,488	-	-	-	815,984	369,370	4,444,842
	907,950	3,259,488	-	-	-	815,984	369,370	5,352,792
Net Repricing Gap	P605,181	(P3,004,493)	P -	P500,000	-	P6,264,600	P76,841	P4,442,129
2020								
Assets								
Due from BSP	P538,857	P -	P -	P -	P -	P -	P35,295	P574,152
Due from other banks	47,473	-	-	-	-	-	130,343	177,816
Investment securities at amortized cost (gross)	-	-	-	-	712,400	2,472,371	26,832	3,211,603
Loans and receivables (gross)	-	-	-	500,000	-	4,775,185	-	5,275,185
	586,330	-	-	500,000	712,400	7,247,556	192,470	9,238,756
Liabilities								
Deposit liabilities	1,649,727	-	-	-	-	-	-	1,649,727
Due to Head Office and other branches	3,397,070	-	-	-	-	-	-	3,397,070
	5,046,797	-	-	-	-	-	-	5,046,797
Net Repricing Gap	(P4,460,467)	P -	P -	P500,000	P712,400	P7,247,556	P192,470	P4,191,959

The sensitivity of the results of operations is measured as the effect of the assumed changes in interest rates on the net interest income for one period based on the floating rate of financial assets and financial liabilities held as at December 31, 2021 and 2020.

The table below demonstrates the potential impact of the Manila Branch's income before income tax attributed from a 200-basis point parallel move in interest rates, with all other variables held constant, as at December 31, 2021 and 2020. The impact from non-parallel movements may be materially different from the estimated impact of parallel movements (in thousands).

	Increase/Decrease in Interest Rate (in basis points)	Effect in Income before Income Tax
2021	**+275bps**	**P122,159**
	-275bps	**(122,159)**
2020	+250bps	P104,799
	-250bps	(104,799)

Market Risk

As at December 31, 2021 and 2020, the Management believes that the Manila Branch is not exposed to any significant market risk as the Manila Branch's financial assets are concentrated in due from BSP and other banks denominated in PHP which earn interest at fixed bank interest rates and financial assets measured at amortized cost. Consequently, no sensitivity analysis was presented.

Equity Price Risk

Given the nature and amount of the Manila Branch's equity investments in 2021 and 2020, Management believes that the Manila Branch's exposure to equity price risk is minimal.

Interest Rate Risk in the Banking Book (IRRBB)

IRRBB refers to the current or prospective risk to the Manila Branch's capital and earnings arising from adverse movements in interest rates that affect the Manila Branch's banking book positions. The three main forms of IRRBB are gap risk, basis risk and option risk:

- Gap Risk
  Gap risk arises from the term structure of banking book instruments, and describes the risk arising from the timing of instruments' rate changes. The extent of gap risk depends on whether changes to the term structure of interest rates occur consistently across the yield curve (parallel risk) or differentially by period (non-parallel risk).
- Basis Risk
  Basis risk describes the impact of relative changes in interest rates for financial instruments that have similar tenors but are priced using different interest rate indices.
- Option Risk
  Option risk arises from option derivative positions or from optional elements embedded in a bank's assets, liabilities and/or off-balance sheet items, where the bank or its customer can alter the level and timing of their cash flows. Option risk can be further characterized into automatic option risk and behavioral option risk.

As at December 31, 2021 and 2020, the Manila Branch has assessed its interest rate risk drivers and noted that only gap risk is the significant risk it faces.

IRRBB Management

The Manila Branch has established a management framework with the objective of decreasing the sensitivity of its earnings and economic value of equity to market fluctuations.

The Manila Branch adopted three methods to measure IRRBB:

- Standardized Measurement Framework

  A standardized approach for measurement of IRRBB based on changes in economic value. When applying this framework, the Manila Branch calculates the currencies whose balance accounts for more than 5% of the assets or liabilities in the banking books separately according to the characteristics of the nominal repricing cash flow of the relevant on/ off-balance-sheet items in the banking book. Rate sensitivity positions are allocated as fully standardized positions, semi-standardized positions and non-standardized positions.

  The nominal repricing cash flows of these positions are projected to given time buckets and discounted wherein changes in the net present value (excluding the automatic interest rate option positions) are calculated under the six types of scenarios of interest rate shocks. The value changes of automatic interest rate options are also calculated under the interest rate shock scenarios, which includes parallel up, parallel down and non-parallel shifts of the yield curve.

  All future notional repricing cash flows of interest rate sensitive positions are projected into 19 predefined time buckets as set out below according to their repricing dates, which refers to the principal repayment date (at contractual maturity) for fixed rate instruments, first reset date for floating rate instruments, and the interest payment date for any principal that has not yet been repaid or repriced.

Short-term interest rate	Overnight (0.0028Y)	Overnight <t≤1M (0.0417Y)	1M<t≤3M (0.1667Y)	3M<t≤6M (0.375Y)	6M<t≤9M (0.625Y)	9M<t≤1Y (0.875Y)
	1Y<t≤ 1.5Y (1.25Y)	1.5Y<t≤2Y (1.75Y)	-	-	-	-
Mid-term rates	2Y<t≤3Y (2.5Y)	3Y<t≤4Y (3.5Y)	4Y<t≤5Y (4.5Y)	5Y<t≤6Y (5.5Y)	6Y<t≤7Y (6.5Y)	-
Long-term rates	7Y<t≤8Y (7.5Y)	8Y<t≤9Y (8.5Y)	9Y<t≤10Y (9.5Y)	10Y<t≤ 15Y (12.5Y)	15Y<t≤ 20Y (17.5Y)	t>20 (25Y)

Interest rate sensitive positions of banking book include:

(i) Interest rate sensitive assets, which are not deducted from Common Equity Tier 1 (CET1) capital and which exclude fixed assets such as real estate or intangible assets and equity exposures in the banking book;.

(ii) Interest rate sensitive liabilities, including debt instruments included in CET1 and CET2, etc.; and

(iii) Off-balance-sheet items of banking book interest rate sensitivity, including off-balance-sheet derivatives and off-balance-sheet commitments with fixed interest rates.

The sum of the changes in net present value of nominal repricing cash flows and the value changes of automatic interest rate options under interest rate shock scenarios equals the economic value changes under this interest rate scenario. After the aggregation of all currencies, the maximum loss of economic value changes under the six types of interest rate shock scenarios is the value of IRRBB based on the changes of economic value.

After the aggregation of all currencies, the maximum loss of economic value changes under the six types of interest rate shock scenarios is the value of IRRBB based on the changes of economic value.

- Earnings Perspective

  Earnings risk is defined as the short-term sensitivity of earnings to interest rate movements. The focus of earnings perspective is on the impact of interest rate movements on the net interest income (NII) over a time horizon of one year. Market interest rate changes sometimes also have an impact on banking activities that generate fee-based and other non-interest income.

  250 bps shift in interest rates in both directions are applied to measure the impact on net interest income (NII) within one year.

- Stress Testing

  The Manila Branch measures its vulnerability to loss under stressful market conditions and considers those results when establishing and reviewing its policies and limits for IRRBB.

  The Manila Branch carries out an evaluation of exposure to the IRRBB under stressful market conditions arising from its non-trading activities in IRRBB report on a quarterly basis.

  Possible stress scenarios might include abrupt changes in the general level of interest rates (evaluation will cover effect of a sudden and unexpected parallel change in interest rates of 250 basis points in both directions), changes in the slope and the shape of the yield curve (i.e. yield curve risk).

In addition, a set of limits has been put in place to control the Manila Branch's exposure to IRRBB in line with its risk appetite which approved by the Asset and Liability Committee (ALCO).

Monitoring and oversight of Manila Branch's IRRBB have been delegated to the ALCO, which is responsible in ensuring that the structure of the Manila Branch's banking book business and the level of IRRBB are effectively managed, policies and procedures are updated and maintained regularly, and that hedging, and risk-management strategies are adequately reviewed prior execution. While the oversight function is assigned to the ALCO, active management of IRRBB is designated to Treasury Department which is the department in charge of implementing the balance sheet strategies of the Manila Branch. Risk Control Department conducts independent monitoring to ensure that risk-taking positions are within established risk appetite while Internal Audit, as the third line of defense, reviews the implementation and effectiveness of the IRRBB management framework.

27. CAPITAL MANAGEMENT AND ASSIGNED CAPITAL FUNDS

Capital Management

The Head Office implements a group-based capital management mechanism and takes capital as the object and instrument for its management activities, including planning, measurement, allocation, application and operation.

The Head Office's capital management aims at maintaining appropriate capital adequacy ratio and continuously meeting capital supervisory regulations and policies; ceaselessly strengthening and enhancing the bank-wide capital base and supporting business growth and implementation of strategic planning; establishing a value management system focusing on economic capital; reinforcing capital constraint and incentive mechanism and improving capital allocation efficiency; innovating and expanding capital replenishment channels, raising capital quality and optimizing capital structure.

The Head Office's capital management covers various operating entities in the Group, and its contents include capital adequacy ratio management, economic capital management, capital investment and financing management. One of the Head Office's objectives is to maintain reasonable capital adequacy ratio to continuously meet regulatory requirements on capital, keep stable capital base to ensure business growth and implement business development and strategic plans in order to achieve comprehensive, coordinated and sustainable development.

The senior management of the Manila Branch assumes the responsibilities to promote capital management work of the organization, implement the requirements of the Head Office for capital management, ensure that the institution's capital adequacy level continuously meet regulatory requirements, and approve the medium and long-term capital planning, annual capital management plan and other relevant policies.

Capital demand at the Manila Branch is driven mainly by business growth and local regulatory requirements set by the BSP.

The primary objectives of the Manila Branch's capital management are to ensure that it complies with externally imposed capital requirements, increases capital utilization efficiency and achieves optimal capital allocation through the economic allocation and management mechanism established by the Head Office.

To maintain sufficient eligible capital and withstand the possible losses, the Manila Branch should not only meet the minimum requirements set by the authorities but ensure that the target capital adequacy level adapts to the business development strategy, risk management level and external operating environment, balance short-term and long-term capital demands, and consider the long-term sustainability of various capital supplement sources. The Manila Branch reports the application of capital investment and financing projects to the Head Office with full communication.

The Head Office provides the required liquidity and capital to the Manila Branch.

Regulatory Capital

BSP sets and monitors capital requirements for the Manila Branch as a whole. The Manila Branch's capital position presented as at December 31, 2021 and 2020 is based on the combined amounts of RBU and FCDU.

The BSP issued Circular No. 854, Series of 2014, *Minimum Capitalization of Banks,* which amended the capitalization of banks. Under the Circular, commercial banks are required to maintain minimum capitalization of P2.00 billion for Head Office branches.

On April 13, 2018, the Manila Branch received from Head Office an aggregate amount of P3.98 billion as capital infusion which was recorded under "Assigned Capital" account in the statement of financial position. As at December 31, 2021 and 2020, the Manila Branch recorded a deficit amounting to P434,762,397 and P364,075,380, respectively. Notwithstanding the unfavorable results, the Manila Branch is still compliant with BSP Circular No. 854.

<u>BASEL III</u>

BSP Circular No. 781, *BASEL III Implementing Guidelines on Minimum Capital Requirements* provides the implementing guidelines on the revised risk-based capital adequacy framework particularly on the minimum capital and disclosure requirements for universal and commercial banks, as well as the subsidiary banks and quasi-banks, in accordance with Basel III standards. The Circular took effect on January 1, 2014.

BSP Circular No. 781 sets out the minimum Common Equity Tier 1 (CET1) Ratio of 6.00% and Tier 1 capital ratio of 7.50%. It also introduces the capital conservation buffer of 2.50% compromised of CET1 capital. The BSP's existing requirement for capital adequacy ratio (CAR) remains at 10.00% and this ratio shall always be maintained.

On November 21, 2014, the BSP issued Circular No. 858, *Amendments to Relevant Provisions of the Manual of Regulations for Banks Implementing Republic Act No. 10641* amending relevant provisions of the Manual of Regulations for Banks implementing R.A. No. 10641. Included in the amendments is the implementation of the new minimum capital requirements and definition of capital composition for Philippine branches of foreign banks, as follows:

1) Assigned capital
2) Undivided profits
3) Trust Department retained earnings
4) Any Net due from Head Office branches/agencies abroad

5) Accumulated net earnings comprise of;

   i. Unremitted profits not yet approved by the BSP for outward remittance.

   ii. Unrealized losses in operations

   iii. Capital adjustments in accordance with MORB Section X111 paragraph a - g as follows:

      a. Unbooked valuation reserve and other capital adjustments as maybe required by the BSP.

      b. Total outstanding unsecured credit accommodations, both direct and indirect to directors, officers, stockholders and related interests (DOSRI) granted by the bank proper.

      c. Unsecured loans and other credit accommodations and guarantees granted to subsidiaries and affiliates.

      d. Deferred income tax

      e. Appraisal increment reserve as a result of appreciation or an increase in the book value of bank assets.

      f. Equity investment of a bank in another bank or enterprise, whether foreign or domestic, if the other bank or enterprise has a reciprocal equity investment in the investing bank in which case the investment of the bank or the reciprocal investment of other bank or enterprise whichever is lower.

      g. In the case of rural banks/cooperative banks, the government counterpart equity, except those arising from conversion of arrearages under the SP rehabilitation program.

The Manila Branch is required to maintain a prescribed a risk-based capital adequacy ratio (expressed as a percentage of qualifying capital to risk weighted assets) of not less than 10.00%. In complying with the minimum capital requirements, the total capital shall be net of unbooked valuation reserves and other capital adjustments as may be required by the BSP, total outstanding unsecured credit accommodations to DOSRI, and deferred tax.

The regulatory capital position as at December 31, 2021 and 2020 based on Basel III requirements reported to the BSP is shown below (amounts in millions):

	2021	2020
Tier 1 Capital	**P3,578**	P3,607
Tier 2 Capital	**31**	36
Total Qualifying Capital	**P3,609**	P3,643
Total Risk-weighted Assets	**5,196**	4,216
Common Equity Tier 1 Ratio	**68.85%**	85.54%
Capital Conservation Buffer	**62.85%**	79.54%
Tier 1 Capital Ratio	**68.85%**	85.54%
Total Capital Adequacy Ratio	**69.46%**	86.40%

The breakdown of the Manila Branch's risk-weighted assets as at December 31, 2021 and 2020 are as follows (amounts in millions):

	2021	2020
Credit risk	**P4,774**	P4,031
Operational risk	**138**	156
Market risk	**284**	30
	P5,196	P4,217

The Manila Branch has complied with all externally imposed capital requirements throughout the year.

On June 9, 2015, the Monetary Board (MB) issued BSP Circular No. 881, *Implementing Guidelines on the Basel III Leverage Ratio Framework*, which approved the guidelines for the implementation of the Basel III Leverage Ratio in the Philippines and designed to act as supplementary measure to the risk-based capital requirements. It is defined as the capital measure (numerator) divided by the exposure measure (denominator). The leverage ratio shall not be less than 5.0% computed on both solo (head office plus branches) and consolidated bases (parent bank plus subsidiary financial allied undertakings but excluding insurance companies).

The Manila Branch exceeded the minimum leverage ratio 5.0% in 2021 and 2020 based on the Basel III Leverage Ratio Report as at December 31, 2021 and 2020 as presented below (in millions):

	2021	2020
On balance sheet exposure	**P 9,800**	P9,326
Derivative exposures	**23**	11
Off-balance sheet exposures	**1,405**	456
Total exposures (a)	**11,228**	9,793
Tier 1 Capital (b)	**3,578**	3,607
Basel III: Leverage Ratio (b)/(a)	**31.86%**	36.83%

Amounts presented in the table above are in accordance with the financial reporting package submitted by Manila Branch to BSP.

On March 10, 2016, the MB approved the liquidity standards and issued BSP Circular No. 905, *Implementation of BASEL III Framework on Liquidity Standards-Liquidity Coverage Ratio (LCR) and Disclosure Standards*. The LCR is the ratio of high-quality liquid assets (HQLAs) to the total net cash outflows. Under normal situation, the value of ratio should be no lower than 100% daily because the stock of unencumbered HQLA is intended to serve as a defense against the potential onset of liquidity stress. The compliance with the LCR minimum requirement will commence on January 1, 2018 and the prescribed minimum shall be set initially at 90% for 2018 and shall rise to the minimum level of 100% on January 1, 2019.

This applies to universal and commercial banks as well as their subsidiary banks and quasi-banks with the framework anchored on the international standards issued by the Basel Committee on Banking Supervision known as the Basel 3 reforms.

Liquidity Coverage Ratio (LCR)

Based on the LCR reports submitted to the BSP as at December 31, 2021 and 2020, the Manila Branch's LCR is 257% and 261%, respectively, which are above the prescribed minimum requirement initially set at 100.0% (amounts in millions):

	2021	2020
High- Quality Liquid Assets (a)	**P3,685**	P3,928
Net Cash Outflows (b)	**1,434**	1,507
Liquidity Coverage Ratio (a/b)	**257%**	261%

Net Stable Funding Ratio (NSFR)

On June 6, 2018, the BSP issued BSP Circular No.1007 covering the implementing guidelines on the adoption of the Basel III Framework on Liquidity Standards - NSFR. The NSFR is aimed to promote long-term resilience against liquidity risk by requiring banks to maintain a stable funding profile in relation to the composition of its assets and off-balance sheet activities. It complements the LCR, which promotes short term resilience of a bank's liquidity profile. Banks shall maintain an NSFR of at least 100 percent (100%) at all times. The implementation of the minimum NSFR shall be phased in to help ensure that covered banks can meet the standard through reasonable measures without disrupting credit extension and financial market activities. An observation period was set from July 1 to December 31, 2018. Effective, January 1, 2019, banks shall comply with the prescribed minimum ratio of 100%.

Based on the NSFR reports submitted to the BSP as at December 31, 2021 and 2020, the Manila Branch's NSFR is 139% and 155%, respectively, which are above the prescribed minimum requirement initially set at 100.0% (amounts in millions).

	2021	2020
Available stable funding (ASF)	**P6,306**	P6,417
Required stable funding (RSF)	**4,545**	4,153
Ratio of ASF to RSF	**139%**	155%

Reserve for General Loan Loss Provisions (GLLP)

BSP Circular No. 1011, *Guidelines on the Adoption of the Philippine Financial Reporting Standard 9 - Financial Instruments,* requires banks to set up GLLP equivalent to 1.0% of all outstanding Stage 1 on-balance sheet loans, except for accounts considered as credit risk-free under existing regulations. In cases when the computed loss allowance on such Stage 1 accounts is less than the 1.0% general provision required, the deficiency shall be recognized by appropriating the retained earnings in compliance with existing BSP regulations. The Manila Branch appropriated a portion of P21,896,965 and P14,929,115 as at December 31, 2021 and 2020, respectively, to comply with such requirement.

Internal Capital Adequacy Assessment Process (ICAAP)

Circular No. 731 was issued on July 28, 2011 providing supplemental guidelines in relation to the adoption of the ICAAP and the related Supervisory Review Process (SRP) for foreign branches under Circular No. 639 dated January 15, 2009. For branches of foreign banks, the regulation provides that BSP's evaluation of ICAAP will refer to the ICAAP developed at the level of the head office/ parent bank, and the home supervisor's assessment thereof. However, BSP expects that there will be variation in the ICAAP prepared by the branches of foreign banks operating in the Philippines in accordance with the nature, size and complexity of its business in the Philippines, risks faced arising from the occurrence of domestically-oriented scenarios and specific circumstances.

The ICAAP document submitted by the Manila Branch included discussions on stress scenarios and the amount of capital requirements both under base case and stress scenarios. The Manila Branch submitted its latest ICAAP document on May 31, 2021. Provisions of Circular No. 822, Circular No. 854, Circular No. 856, and Circular No. 858 are considered by the Manila Branch in the ICAAP documentation.

28. EVENTS AFTER THE REPORTING DATE

One of the Manila Branch's customer with an outstanding loan classified as Stage 2, filed bankruptcy under the Chapter 11 of the United States Bankruptcy Code before the year ended December 31, 2021.

Subsequent to the year-end during the first quarter of 2022, the Chapter 11 filing was approved by the US courts and this triggered a subsequent restructuring of the loan per the Manila Branch's Asset Risk Provision Policy. Based on the Asset Risk Provision Policy, restructured loans are automatically classified as Stage 3 and labeled as 'Substandard – Non-Performing', and requires an ECL escalation of 50% which resulted to an increase of P243.79 million additional credit losses.

However, the restructuring was not a result of the Manila Branch's customer's loan going past due, but rather, a pre-emptive measure that was set to coincide on the event of its emergence from Chapter 11. The Manila Branch has noted that the loan is current and up to date with no past due or missed payments. Moreover, the customer has shown gradual but consistent signs of recovery, achieving a more competitive posture based on its most current financial information.

The initial observations and preliminary assessment of the Manila Branch based on the latest available information is that loan classification of Stage 3 will be likely downgraded to a lower stage upon revisiting the account after the 6-month observation period, pursuant to the Manila Branch's Asset Risk Provision Policy. This may result in a lower allowance for ECL which may lead to the reversal of the portion of the allowance previously recognized in the first quarter of 2022. Thus, the subsequent escalation of ECL to 50% was not adjusted during the year ended December 31, 2021.

29. COMPARATIVE FIGURES

Certain prior year figures have been reclassified to conform with current year presentation. The reclassifications do not have any material impact on the statement of comprehensive income. The reclassifications done are presented below on the statement of financial position and the statement of comprehensive income:

Statement of Comprehensive Income	December 31, 2020	Effect of Reclassification	December 31, 2020
NET INTEREST INCOME	P329,229,480	P -	**P329,229,480**
CREDIT LOSSES	-	120,885,945	**120,885,945**
	329,229,480	120,885,945	**208,343,535**
OTHER INCOME	15,738,153	-	**15,738,153**
OPERATING EXPENSES			
Salaries, bonuses and allowances	168,712,488		**168,712,488**
Credit Losses	120,885,945	(120,885,945)	**-**
Depreciation and amortization	53,094,565	-	**53,094,565**
Taxes and licenses	31,214,713	-	**31,214,713**
Fair value loss - net	15,748,970		**15,748,970**
Occupancy expenses	9,005,481	-	**9,005,481**
Other operating expenses	37,825,700	-	**37,825,700**
	436,487,862	(120,885,945)	**315,601,917**
LOSS BEFORE INCOME TAX EXPENSE	(91,520,229)	-	**(91,520,229)**
INCOME TAX EXPENSE	46,265,697	-	**46,265,697**
NET LOSS	(137,785,926)	-	**(137,785,926)**
OTHER COMPREHENSIVE LOSS	(1,978,455)	-	**(1,978,455)**
TOTAL COMPREHENSIVE LOSS	(P139,764,381)	P -	**(P139,764,381)**

30. SUPPLEMENTARY INFORMATION REQUIRED BY THE BSP UNDER BSP CIRCULAR NO. 1074

The following supplementary information is required by Appendix 55 - Disclosure Requirements to the Audited Financial Statements (AFS) to Section 174 of the MORB of the BSP, amended by BSP Circular No. 1074.

A. Financial Performance Indicators

The following basic ratios measure the financial performance of the Manila Branch:

	2021	2020
Return on average equity	**(1.26%)**	(3.70%)
Return on average assets	**(0.48%)**	(1.72%)
Net interest margin on average earning assets	**3.22%**	4.22%

B. Commitments and Contingencies

In the normal course of the Manila Branch's operations, there are outstanding commitments and contingencies which are not shown in these financial statements. The Manila Branch does not anticipate material losses as a result of these commitments and contingent liabilities.

The following is a summary of the Manila Branch's commitments and contingencies at their equivalent Philippine peso valued amounts as at December 31, 2021 and 2020 arising from off-book transactions:

	2021	2020
Performance standby letters of credit	**P2,809,704,215**	P 911,464,249
Currency swaps	**509,990,000**	733,000,000
Interest rate swaps	**356,993,000**	336,161,000
Committed credit line	**-**	309,904,147
Total	**P3,676,687,215**	P2,290,529,396

The Manila Branch has no pending suits, claims and regulatory examinations that remain unsettled or outstanding.

Other relevant disclosures required by BSP Circular No. 1074 are in Notes 5, 10, 14, and 26.

31. SUPPLEMENTARY INFORMATION REQUIRED BY THE BIR UNDER REVENUE REGULATIONS NO. 15-2010

In addition to the disclosures mandated under PFRS, and such other standards and/ or conventions as may be adopted, companies are required by the BIR to provide in the notes to the financial statements, certain supplementary information for the taxable year. The amounts relating to such information may not necessarily be the same with those amounts disclosed in the financial statements which were prepared in accordance with PFRS.

In compliance with the requirements set forth by RR No. 15-2010, the following tax information required for the taxable year ended December 31, 2021 are based on the combined amounts of the RBU and the FCDU.

A. Documentary Stamp Tax

Debt instruments	**P6,196,426**
Others	**1,311,731**
	P7,508,157

Documentary stamp taxes paid on debt instruments are assumed by customers.

B. Withholding Taxes

Tax on compensation and benefits	**P38,188,500**
Expanded withholding taxes	**2,974,269**
VAT withholding taxes	**163,234**
Final withholding taxes	**394,577**
	P41,720,580

The above withholding taxes pertain to total remittances to tax authority for the year.

The Manila Branch has accrued withholding tax payable amounting to P6,970,419 as at December 31, 2021.

C. All Other Taxes (Local and National)

This consists of the following:

	2021
Other taxes paid during the year recognized under "Taxes and Licenses"	
Gross receipts taxes	**P13,628,601**
Fringe benefit taxes	**13,298,311**
Documentary stamp taxes	**5,729,917**
License and permit fees	**353,610**
Others	**49,965**
	P33,060,404

The Manila Branch has accrued gross receipt tax payable amounting to P3,320,739 as at December 31, 2021.

D. Tax Cases and Assessments

As at December 31, 2021, the Manila Branch has no pending tax cases nor tax assessment with the BIR.

32. APPROVAL OF FINANCIAL STATEMENTS

The financial statements of the Company have been authorized for issuance by the General Manager, as authorized by the Head Office on June 20, 2022.

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