INDUSTRIAL AND COMMERCIAL BANK OF CHINA LIMITED MANILA BRANCH

FOREIGN CURRENCY DEPOSIT UNIT

FINANCIAL STATEMENTS
DECEMBER 31, 2021 and 2020

With Independent Auditors' Report

NavarroAmper&Co.

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

INDEPENDENT AUDITOR'S REPORT TO ACCOMPANY INCOME TAX RETURN

Bureau of Internal Revenue
BIR Building, East Triangle
Diliman, Quezon City

Gentlemen:

In connection with our audit of the statement of financial position of the Foreign Currency Deposit Unit (the "FCDU") of Industrial and Commercial Bank of China Limited - Manila Branch (the "Manila Branch") as at December 31, 2021, and the statement of comprehensive income, and statement of cash flows for the year then ended, on which we have rendered our report dated June 20, 2022, and in compliance with the Statement required by Section 8-A of Revenue Regulations V-1, as amended by Revenue Regulations V-20, we state that no partner of our Firm is related by consanguinity or affinity to any of the principal officers of the FCDU of the Manila Branch.

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

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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 the Foreign Currency Deposit Unit (the "FCDU") 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, 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 FCDU 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 FCDU 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 FCDU of the Manila Branch as at and for the year then 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 FCDU of 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 FCDU of the Manila Branch, or to cease operations, or has no realistic alternative but to do so.

The Management is responsible for overseeing the FCDU of 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 FCDU 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 FCDU of 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 FCDU of 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 19 and Revenue Regulations No. 15-2010 in Note 20 to the financial statements are presented for purposes of filing with the BSP and Bureau of Internal Revenue, respectively, and are not required part of the basic financial statements. Such supplementary information are the responsibility of Management and have been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the supplementary information are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

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INDUSTRIAL AND COMMERCIAL BANK OF CHINA LIMITED - MANILA BRANCH
FOREIGN CURRENCY DEPOSIT UNIT
STATEMENT OF FINANCIAL POSITION
(WITH COMPARATIVE FIGURES AS AT DECEMBER 31, 2020)

		December 31	
	Notes	**2021**	2020
ASSETS			
Due from Other Banks - net	*6*	**P 389,255,565**	P 168,756,491
Loans and Receivables - net	*7*	**4,348,703,467**	3,936,124,319
Financial Asset at Fair Value through Profit or Loss (FVTPL)	*10*	**10,518,167**	-
Other Assets		**5,937,835**	3,171,348
		P4,754,415,034	P4,108,052,158
LIABILITIES			
Due to Head Office and Other Branches - net	*10*	**4,045,680,483**	P2,700,281,585
Deposit Liabilities	*9*	**708,269,692**	1,406,758,606
Accrued Expense and Other Payables	*10*	**237,878**	223,586
Financial Liability at Fair Value through Profit or Loss (FVTPL)	*10*	**-**	639,537
Other Liability	*11*	**226,981**	148,844
		P4,754,415,034	P4,108,052,158

See Notes to the Financial Statements.

INDUSTRIAL AND COMMERCIAL BANK OF CHINA LIMITED - MANILA BRANCH
FOREIGN CURRENCY DEPOSIT UNIT
STATEMENT OF COMPREHENSIVE INCOME
(WITH COMPARATIVE FIGURES FOR 2020)

		Year Ended December 31	
	Notes	**2021**	2020
INTEREST INCOME			
Loans and receivables	*7*	**P110,033,683**	P110,911,593
Due from Head Office and other branches	*10*	**893,340**	6,047,245
Due from other banks	*6*	**327,520**	471,303
		111,254,543	117,430,141
INTEREST EXPENSE			
Due to Head Office and other branches	*10*	**7,970,312**	23,896,439
Interest expense of lease liability		**368,506**	272,524
Deposit liabilities	*9*	**163,621**	934,253
		8,502,439	25,103,216
NET INTEREST INCOME		**102,752,104**	92,326,925
CREDIT LOSSES	*8*	**44,909,662**	112,221,071
		57,842,442	(19,894,146)
OTHER INCOME			
Fees and commissions	*11*	**22,084,707**	8,495,389
Fair value gain - net	*10*	**10,476,641**	-
		32,561,348	8,495,389
OPERATING EXPENSES			
Salaries, bonuses and allowances	*12*	**101,983,520**	15,998,700
Depreciation and amortization		**24,552,987**	22,371,095
Taxes and licenses		**7,490,677**	4,280,406
Occupancy expenses		**4,801,664**	4,221,319
Fair value loss - net	*10*	**-**	648,915
Other operating expenses	*13*	**14,972,202**	11,176,873
		153,801,050	58,697,308
LOSS BEFORE INCOME TAX EXPENSE		**(63,397,260)**	(70,096,065)
INCOME TAX EXPENSE	*14*	**1,275,148**	6,650,377
NET LOSS		**(64,672,408)**	(76,746,442)
OTHER COMPREHENSIVE INCOME (LOSS)			
Item that may be reclassified to profit or loss			
Translation adjustment		**3,133,899**	(1,980,381)
TOTAL COMPREHENSIVE LOSS		**(P61,538,509)**	(P78,726,823)

See Notes to the Financial Statements.

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INDUSTRIAL AND COMMERCIAL BANK OF CHINA LIMITED - MANILA BRANCH
FOREIGN CURRENCY DEPOSIT UNIT
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		**(P 63,397,260)**	(P 70,096,065)
Adjustments for:			
Interest income	*6,7,10*	**(111,254,543)**	(117,430,141)
Credit losses	*8*	**44,909,662**	112,221,071
Interest expense	*9,10*	**8,502,439**	25,103,216
Depreciation and amortization		**24,552,987**	22,371,095
Fair value (gain) loss – net	*10*	**(10,476,641)**	648,915
Operating loss before working capital changes		**(107,163,356)**	(27,181,909)
Increase in:			
Loans and receivables		**(460,579,810)**	(1,771,762,917)
Financial asset at FVTPL		**(10,518,167)**	-
Other assets		**(1,491,339)**	-
Increase (decrease) in:			
Deposit liabilities		**(698,436,884)**	1,379,474,565
Financial liability at FVTPL		**(639,537)**	-
Due to Head Office and other branches		**1,394,879,043**	504,563,392
Other liabilities		**92,429**	148,844
Cash provided by operations		**116,142,379**	85,241,975
Interest received		**111,211,643**	80,135,259
Interest paid		**(8,713,699)**	(15,218,396)
Income taxes paid		**(1,275,148)**	(6,650,377)
Net cash provided by operating activities		**217,365,175**	143,508,461
NET EFFECT OF EXCHANGE RATE DIFFERENCES		**3,133,899**	(1,980,381)
NET INCREASE IN CASH AND CASH EQUIVALENTS		**220,499,074**	141,528,080
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR			
Due from other banks	6	**168,756,491**	27,228,411
CASH AND CASH EQUIVALENTS AT END OF THE YEAR			
Due from other banks	6	**P 389,255,565**	P 168,756,491

See Notes to the Financial Statements.

NOTES TO THE FINANCIAL STATEMENTS AS AT AND FOR THE YEARS ENDED DECEMBER 31, 2021 (WITH COMPARATIVE FIGURES FOR 2020)

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") 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 in the Philippines by the Bangko Sentral ng Pilipinas (BSP) on November 7, 2018. The Manila Branch started business operations on February 14, 2019. To date, 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 statement of the Foreign Currency Deposit Unit (FCDU) of the Manila Branch have been prepared in accordance with Philippine Financial Reporting Standards (PFRS) for the first time. PFRS includes all applicable PFRS, Philippine Accounting Standards (PAS), and interpretations issued by the International Financial Reporting 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 FCDU financial statements have been prepared on the historical cost basis, except for:

- certain financial instruments measured at fair value; and
- certain financial instruments that are carried at amortized cost.

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 FCDU of 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 books of accounts of the FCDU of the Manila Branch are maintained in United States Dollar (USD), the currency of the primary economic environment in which the Branch's FCDU operates. For financial reporting purposes, the FCDU accounts are translated into their equivalents in Philippine Peso (PHP).

All financial information presented in PHP and USD have been rounded off to the nearest currency unit, except when otherwise indicated.

3. ADOPTION OF NEW AND REVISED ACCOUNTING STANDARDS

Adoption of New and Revised Accounting Standards Effective in 2021

The FCDU of 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 FCDU of 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 FCDU of 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 FCDU of 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 the FCDU of the Manila Branch's corporate income tax rate to change from 30% to 25% for non-registered taxable activities as disclosed in Note 14. 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 Year 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 FCDU of 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 FCDU of 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 FCDU of the Manila Branch's financial statements since the FCDU of 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 FCDU of 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 FCDU of the Manila Branch 's financial statements since the FCDU of 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 FCDU of the Manila Branch 's financial statements since the FCDU of 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 FCDU of 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 FCDU 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 FCDU 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 FCDU 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 FCDU 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 FCDU 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 FCDU 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 FCDU 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.

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 "Fair value 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 Bankers Association of the Philippines (BAP)closing rate prevailing at the statement 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" and is accumulated and presented as part of Due to Regular Banking Unit under the Due to Head Office and Other Branches account. 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 FCDU of the Manila Branch's financial statements when the FCDU of 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 FCDU of 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 FCDU of 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 FCDU of 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 FCDU of 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 FCDU of 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 Note 2.

Financial assets are subsequently measured at amortized cost or fair value on the basis of the FCDU 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.

Debt instruments classified as at FVTOCI

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

i) the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and

ii) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest.

FVTOCI debt instruments are subsequently measured at fair value with gains and losses arising due to changes in fair value recognized in OCI. Interest income and foreign exchange gains and losses are recognized in profit or loss.

Equity instruments designated as at FVTOCI

On initial recognition, for an equity investment that is not HFT, 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 HFT 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 FCDU of 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 FCDU of the Manila Branch's financial assets at FVTPL consists of derivative assets (see Note 10).

The FCDU of 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 FCDU of 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 FCDU of 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 FCDU of the Manila Branch recognizes an allowance for ECL on all financial assets measured at amortized cost such as cash and cash equivalents and loans and receivables. The FCDU of 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 FCDU of 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.

Expected Credit Loss 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 FCDU of the Manila Branch in accordance with the contract and the cash flows that the FCDU of the Manila Branch expects to receive).

The FCDU of 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 FCDU of the Manila Branch is exposed to credit risk.

The FCDU of 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 expected credit losses 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 expected credit losses is recognized as loss allowance. Refer to Notes 5 and 16 on credit risk discussion for the description of how the FCDU of 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 expected credit losses is recognized as loss allowance. Refer to Note 16 on credit risk section for the definition of credit-impaired financial assets, including the quantitative and qualitative information considered by the FCDU of 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 FCDU of the Manila Branch's understanding of the specific future financing needs of the debtors, and other relevant forward-looking information.

The FCDU of 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

The FCDU of the Manila Branch monitors all financial assets 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 FCDU of 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 FCDU of 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 FCDU of 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 16.

The FCDU of 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 FCDU of 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 FCDU of 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 16. 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 FCDU of 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 SICR (see Note 16 for definition of default with respect to the FCDU of 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 FCDU of 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 16.

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 FCDU of 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 FCDU of the Manila Branch considers factors such as bond yields, credit ratings and the ability of the borrower to raise funding.

Write-off

The FCDU of 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 FCDU of 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 FCDU of 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; and
- for loan commitments and financial guarantee contracts: as a provision.

Derecognition

The FCDU of 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 FCDU of the Manila Branch neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the FCDU of the Manila Branch recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the FCDU of the Manila Branch retains substantially all the risks and rewards of ownership of a transferred financial asset, the FCDU of 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 FCDU of the Manila Branch or a contract that will or may be settled in the FCDU of the Manila Branch's own equity instruments and is a non-derivative contract for which the FCDU of 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 FCDU of the Manila Branch's own equity instruments.

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

Since the FCDU of 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) held-for-trading, 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 FCDU of the Manila Branch derecognizes financial liabilities when, and only when, the FCDU of 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 FCDU of 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 FCDU of 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.

Net Due to Regular Banking Unit

In accordance with Financial Reporting Package of Banks updated as at July 15, 2015 and issued by the BSP, the FCDU of the Manila Branch maintains "Due to Regular Banking Unit (RBU)" to record the net profits of the FCDU of the Manila Branch including realized profits awaiting transfer to the RBU Books, and the cumulative foreign exchange differences arising from the translation of FCDY accounts to PHP as presentation currency and cumulative gains or losses arising from the mark-to-market valuation of FVTOCI financial assets and other accounts as required to be recognized in an entity's equity. This is presented under "Due to Head Office and other branches" account in the statement of financial position.

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 FCDU of 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 FCDU of the Manila Branch and the asset has a cost or value that can be measured reliably.

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 FCDU of 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 FCDU of 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 FCDU of 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 FCDU of 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.

Revenue Recognition

The FCDU of the Manila Branch recognizes revenue from the following major sources:

Fees and Commissions

The FCDU of 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 FCDU of the Manila Branch reflects the amount of consideration to which the FCDU of 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 FCDU of 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 FCDU of the Manila Branch.

Related Party Transactions

A related party transaction is a transfer of resources, services or obligations between the FCDU of 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 FCDU of the Manila Branch's corporate income tax expense 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 FCDU of 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 FCDU of 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 statement of the FCDU 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 FCDU 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 FCDU of the Manila Branch, the functional currency of the FCDU books have been determined to be the USD as disclosed in Note 2.

Business model assessment

Classification and measurement of financial assets depend on the results of the SPPI and the business model test. The FCDU of 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 FCDU of 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 FCDU 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 FCDU of 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 FCDU of the Manila Branch's original expectations, the FCDU of 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 FCDU of 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 FCDU of the Manila Branch's financial assets measured at amortized cost comprising cash and due from other banks and loans and receivables amounted to P4,737,959,032 and P4,104,880,810 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 FCDU of 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.

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 FCDU of 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 FCDU of 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 Stage 1 Loan receivables at amortized cost range from 68.10% to 68.38%, while Stage 3 Non-performing loan is at 55.76%.

Estimating allowance for ECLs

The FCDU of 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 FCDU of 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 other banks recognized in the FCDU of the Manila Branch's statement of financial position as at December 31, 2021 and 2020 amounted to P389,255,565 and P168,771,415, which is net of the related allowance for ECL amounting to nil and P14,924, respectively, as disclosed in Note 6.

As at December 31, 2021 and 2020, the carrying amounts of loans receivable subsequent to initial recognition amounted to P4,348,703,467 and P3,936,124,319, respectively, as disclosed in Note 7. The amounts are net of allowance for ECL amounting to P176,560,868 and P123,394,787 as at December 31, 2021 and 2020, respectively, as disclosed in Note 8.

Determining the fair value of financial instruments

The FCDU of 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 FCDU of the Manila Branch utilized different valuation methodology. Any change in fair value of these financial assets and liabilities would affect profit or loss.

As at December 31, 2021, the carrying amounts of financial assets carried at FVTPL subsequent to initial recognition amounted to P10,518,167 while as at December 31, 2020, the carrying amounts of financial liabilities carried at FVTPL subsequent to initial recognition amounted to P639,537.

Deferred tax assets

The FCDU of 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 FCDU of 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.

No deferred tax assets were recognized by the FCDU of the Manila Branch as Management has assessed that it is not probable that sufficient taxable income will be generated in the coming years from which the benefits of deductible temporary differences can be utilized as disclosed in Note 14.

6. **DUE FROM BANKS** - net

This account consists of the following:

	Note	2021	2020
Due from other banks		**P389,255,565**	P168,771,415
Allowance for expected credit losses	**8**		(14,924)
		P389,255,565	P168,756,491

Due from other banks represent deposit accounts with domestic and foreign banks which earn interest at the prevailing rate of 0.05% to 1.00% per annum in 2021 and 2020.

Interest income earned from the savings account amounted to P327,520 and P471,303 in 2021 and 2020, respectively, and is presented under the "Interest income" in the statement of comprehensive income.

7. LOANS AND RECEIVABLE - net

Loans and receivables include the following:

	Notes	2021	2020
Syndicated loans to customers at amortized cost		**P4,500,024,300**	P4,034,489,066
Accrued interest receivable		**25,240,035**	25,030,040
		4,525,264,335	4,059,519,106
Allowance for expected credit losses	*8*	**(176,560,868)**	(123,394,787)
		P4,348,703,467	P3,936,124,319

As at December 31, 2021, 86.80% of the total loans of the FCDU of the Manila Branch are subject to periodic interest repricing (2020: 88.87%). Remaining foreign- currency denominated receivables from customers are subject to annual interest rates ranging from 1.05% to 6.25% per annum in 2021 and 1.05% to 6.94% per annum in 2020.

Interest income earned from loans and receivables amounted to P110,033,683 and P110,911,593 million in 2021 and 2020, respectively, and is presented under the "Interest income" in the statement of comprehensive income.

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

Based on the FCDU of the Manila Branch's assessment, the modifications in the contractual cash flows as a result of the above reliefs are not substantial and therefore do not result in the derecognition of the affected financial assets.

<u>BSP regulatory reporting</u>

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

	2021 Amounts		2020 Amounts	
Secured loans:				
Financial instruments	**P1,095,203,525**	**24.3%**	P1,049,302,550	26.0%
Chattel mortgages	**841,483,500**	**18.7%**	792,379,500	19.6%
Unsecured loans	**2,563,337,275**	**57.0%**	2,192,807,016	54.4%
Total	**P4,500,024,300**	**100.0%**	P4,034,489,066	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	
	Amount	**%**	Amount	%
Manufacturing	**P1,358,911**	**30.2%**	P944,209	23.4%
Electricity, energy, power	**866,558**	**19.2%**	977,268	24.2%
Transportation and storage	**841,484**	**18.7%**	792,380	19.6%
Real estate, renting and business activities	**795,584**	**17.7%**	720,345	17.9%
Others*	**637,487**	**14.2%**	600,287	14.9%
	P4,500,024	**100.0%**	P4,034,489	100.0%

**Others include Information and communication 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 FCDU of the Manila Branch has 30.2% and 23.4% concentration in the manufacturing sector, respectively. Management believes that the high concentration in the manufacturing sector should not be a cause for concern because the main target of the FCDU of the Manila Branch are large industry leaders with good development prospects to expand business scale.

As at December 31, 2021 and 2020, other than the above mentioned, the FCDU of 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.

The gross and net NPLs of the FCDU of the Manila Branch, as defined under Section 304 of MORB, amounted to nil as at December 31, 2021 and 2020.

Effective January 24, 2013, BSP Circular No. 779 amended the regulations on Single Borrower 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 FCDU of the Manila Branch has been compliant 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.

On March 14, 2020, the BSP issued BSP Memorandum No. M-2020-008 Regulatory Reliefs for BSP-supervised financial institutions (BSFIs) Affected by the COVID-19, as amended by M-2020-0032 dated April 27, 2020 and M-2020-0022 dated April 8, 2020. The said memorandum provides for certain temporary regulatory relief measures for financial institutions supervised by the BSP, as follows:

- Staggered booking of allowance for credit losses over a maximum of five years for all types of credits extended to individuals and businesses directly affected by COVID-19 as of March 8, 2020, subject to prior approval of the BSP;
- Exclusion from the computation of past due and non-performing classification, the loans by borrowers in affected areas which should have been reclassified as past due as of March 8, 2020, including those loans becoming past due or non- performing six months thereafter, subject to the following: (a) such loans shall be reported to the BSP; (b) the exclusion shall be allowed from March 8, 2020 until December 31, 2021; and (c) BSP documentary requirements for restructuring of loans may be waived provided that the FCDU of the Manila will adopt appropriate and prudent operational control measures;
- Non-imposition of monetary policies for delays incurred in the submission of all supervisory reports to BSP due to be submitted from March 8, 2020 up to six months thereafter;
- Non-imposition of penalties on legal reserve deficiencies computed under Section 255 of the MORB starting from reserve week following March 8, 2020 up to six months thereafter, subject to prior approval of the BSP;
- Increase in the Single Borrower's Limit (SBL) from 25.0% to 30.0% until March 31, 2021;
- Allowance of (a) loans to Micro, Small and Medium Enterprises (MSMEs) and (b) loans to critically impacted large enterprises as alternative mode of compliance with reserve requirements until December 31, 2021; and
- Provision of financial assistance to officers affected by the present health emergency, for the grant of loans, advances or any other forms of credit accommodations, subject to the submission by the bank of a request for BSP approval within 30 calendar days from the approval thereof.

The FCDU of the Manila Branch did not avail any of the reliefs above on the year the relief was provided by the BSP.

8. ALLOWANCE FOR EXPECTED CREDIT LOSSES

The composition and movements in the account are as follows:

	Due from Other Banks (Note 6)	**Loans and Receivables** (Note 7)	**Total**
2021			
Balance at January 1, 2021	**P14,924**	**P123,394,787**	**P123,409,710**
(Reversal) Credit loss for the year	**(14,924)**	**44,924,585**	**44,909,662**
Effect of foreign exchange difference	**-**	**8,241,496**	**8,241,496**
Balance at December 31, 2021	**P -**	**P176,560,868**	**P176,560,868**
2020			
Balance at January 1, 2020	P -	P 11,187,843	P 11,187,843
Credit loss for the year	14,128	112,206,944	112,221,071
Effect of foreign exchange difference	796	-	796
Balance at December 31, 2020	P14,924	P123,394,787	P123,409,710

9. DEPOSIT LIABILITIES

In 2021 and 2020, the FCDU of the Manila Branch holds dollar denominated and yuan-denominated current deposits are subject to annual interest rates of 0.025% and 0.15%, respectively.

The deposit liabilities of the FCDU of the Manila Branch as at December 31, 2021 and 2020 amounted to P708,269,692 and P1,406,758,606, respectively.

Accrued interest payable arising from deposit liabilities amounted to P15,198 and P67,228 as at December 31, 2021 and 2020, respectively, included in the carrying amount mentioned above.

Interest expense arising from deposit liabilities amounted to P163,621 and P934,253 in 2021 and 2020, respectively, as shown in the statement of comprehensive income.

10. RELATED PARTY TRANSACTIONS

A related party transaction is a transfer of resources, services or obligations between the FCDU of 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 FCDU of the Manila Branch; (b) associates; (c) individuals owning, directly or indirectly, an interest in the voting power of the FCDU of the Manila Branch that gives them significant influence over the FCDU of the Manila Branch and close members of the family of any such individual.

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

Summary of significant transactions and outstanding balances with related parties as at December 31, 2021 and 2020 follows:

Nature of Transaction	Amount/ Volume	Outstanding Balance Due from related party	Due to related party	Nature, Terms of Conditions	Notes
2021					
Parent					
Due from Head Office					
Due from banks:					
Deposits	P33,323,588	P138,399	P -	Working fund with Head	
Withdrawals	(33,973,639)	-	-	office; short - term,	a
Accrued interest receivable	-	-	-	unsecured and unimpaired	
Due to Head Office					
Interoffice borrowings:				Fixed rate, interest	
Proceeds	P14,968,207	-	1,835,964	bearing, borrowings to	
Withdrawals	(16,043,382)	-	-	Head office; short-term,	b
Accrued interest payable	8,223	-	854	unsecured	
Entities Under Common Control					
Due from other Branches					
Due from banks:					
Deposits	P5,507,033	23,553	-	Working fund with Head	
Withdrawals	(5,745,150)	-	-	office; short - term,	a
Accrued interest receivable	893	-	-	unsecured and unimpaired	
Due to other Branches					
Interoffice borrowings:				Fixed rate, interest	
Proceeds	6,630,398	-	2,239,508	bearing, borrowings to	
Withdrawals	(5,695,272)	-	-	other ICBC branches;	b
Accrued interest payable	(1,341)	-	84	short-term, unsecured	
Due to RBU	131,222	-	131,222		c
Due to Head Office and Other Branches	P -	P -	P4,207,632		
Due from Head Office and Other Branches	P -	P161,952	P -		

Nature of Transaction	Amount/ Volume	Outstanding Balance		Nature, Terms of Conditions	Notes
2020					
Parent					
Due from Head Office					
Due from banks:					
Deposits	P48,461,788	P 788,450	P -	Working fund with Head office; short - term, unsecured and unimpaired	a
Withdrawals	(47,683,887)	-	-		
Accrued interest receivable	534	-	-		
Due to Head Office					
Interoffice borrowings:					
Proceeds	10,964,765	-	2,401,150	Fixed rate, interest bearing, borrowings to Head office; short-term, unsecured	b
Withdrawals	(9,626,950)	-	-		
Accrued interest payable	12,494	-	280		
Entities Under Common Control					
Due from other Branches					
Due from banks:					
Deposits	34,962,426	261,670	-	Working fund with Head office; short - term, unsecured and unimpaired	a
Withdrawals	(34,700,756)	-	-		
Accrued interest receivable	5,513	167	-		
Due to other Branches					
Interoffice borrowings:					
Proceeds	25,474,013	-	1,304,383	Fixed rate, interest bearing, borrowings to other ICBC branches; short-term, unsecured	b
Withdrawals	(25,350,742)	-	-		
Accrued interest payable	11,402	-	817		
Due to RBU	43,939	-	43,939		c
Due to Head Office and Other Branches	P -	P -	P3,750,569		
Due from Head Office and Other Branches	P -	P1,050,287	P -		

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

Interest income earned on demand deposit accounts for the year ended December 31, 2021 and 2020 amounted to nil and P.53 million, respectively.

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

b. These represent short-term borrowings from the Head Office and other branches. These borrowings have variable interest rates benchmarked to the London Interbank Offer Rate (LIBOR) and Europe Interbank Offer Rate (EURIBOR). In 2021, interest rates range from (0.28%) to 0.88%.

Interest was accrued for these short-term borrowings and is included as part of Due to Head Office and other branches account in the statement of financial position. Interest expense on these short-term borrowings for the year ended December 31, 2021 and 2020 amounted to P7,970,312 and P23,896,439, respectively.

c. Due to RBU

	2021	2019
	(In Thousands)	
Balance as at January 1, 2021	**P 43,940**	(P 5,832)
Net loss for the year	**(64,672)**	(76,746)
	(20,732)	(82,578)
Inter-unit transfers	**150,961**	128,659
Cumulative translation adjustment	**993**	(2,141)
	P131,222	P 43,940

	2021	2020
Cumulative Foreign Currency Translation Adjustments		
Balance at beginning of the year	**P2,141**	(P 160)
Translation adjustment for the year	**(3,134)**	2,301
	P993	P2,141

Financial instruments at FVTPL

Financial instruments at FVTPL pertains to IRS contract entered by the FCDU of the Manila Branch with the Head Office. 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) years4.

The IRS receivable presented under "Other Assets" in the statement of financial position, IRS liability presented under "Accrued Expense and Other Payables" in the statement of financial position, financial asset at FVTPL, and fair value loss recognized by the FCDU of 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 presented under "Other Assets" in the statement of financial position, IRS liability presented under "Accrued Expense and Other Payables" in the statement of financial position, 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.

Remuneration of Key Management Personnel

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the FCDU of the Manila Branch, directly or indirectly. The FCDU of 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 FCDU of 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 P56.48 million and P9.61 million, respectively.

11. FEES AND COMMISSION

The details of this account is as follows:

	2021	2020
Commitment fees	**P12,500,624**	P8,425,524
Advisory fees	**7,519,016**	3,369
Commission income	**2,013,848**	24,928
Remittance fees	**51,219**	41,568
	P22,084,707	P8,495,389

The FCDU of the Manila Branch has unearned income on guarantees pertaining to fees received in advance on its issuance of financial guarantees amounting to P226,981 and P148,844 as at December 31, 2021 and 2020, respectively. The unearned income is presented in the other liability account in the statement of financial position.

12. SALARIES, BONUSES AND ALLOWANCES

The details of this account is as follows:

	2021	2020
Salaries and wages	**P 86,739,165**	P12,732,529
Employee benefits	**15,244,355**	3,266,171
	P101,983,520	P15,998,700

Salaries and wages pertain to the basic salary, overtime pay, and other fixed allowances of employees managing and operating the FCDU of the Manila Branch.

Employee benefits consists of retirement benefits, insurance, rent, subsidies, and other benefits provided to its employees.

13. OTHER OPERATING EXPENSES

Other operating expenses consist of:

	2021	2020
Utilities	**P 4,815,588**	P 4,473,804
Communications	**2,576,771**	1,610,680
Management and other professional services	**2,216,514**	572,982
Service charges	**1,523,338**	294,515
Membership fees and dues	**581,157**	159,246
Representation and entertainment	**573,538**	358,928
Office supplies	**450,788**	621,362
Trainings	**60,495**	6,167
Agent bank charges	**-**	1,208,749
Others	**2,174,013**	1,870,440
	P14,972,202	P11,176,873

Communication expenses includes among others, expenses for Bloomberg Terminals, cost of Loandex Information System and Negative Information System, cost of access of Reuters and participation to BAP Cyber Security Incident Database (BAPCID) Facility.

Agent bank charges pertain to the fees charged by BDO Unibank, Inc for the management of the FCDU 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. Utilities pertain to incurred water, electricity, postage, telecom, vehicle, maintenance cost and property management cost.

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

14. INCOME TAXES

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.

During the taxable year, gross onshore income totaled USD 357,500, which is taxed at 10.00% gross income tax. Provision for tax amounted to USD 35,750 as disclosed in the statement of comprehensive income.

The income tax expense consists of:

	2021	2020
Current	**P1,275,070**	P6,649,369
Final taxes	**78**	1,008
	P1,275,148	P6,650,377

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

	2021	2020
Loss before income tax expense	**(P63,397,260)**	(P70,096,062)
Statutory income tax (25% for 2021 and 30% for 2020)	**(P15,849,315)**	(P21,028,819)
Adjusted for the tax effects of:		
Unrecognized deferred tax asset	**18,503,004**	33,654,563
Difference on statutory rate and 10% special rate for FCDU	**(1,912,605)**	(11,371,212)
Nondeductible expense	**1,026,515**	7,677,466
Tax-paid and tax-exempt income	**(492,529)**	(2,282,629)
Final tax expense	**78**	1,008
Income tax expense	**P 1,275,148**	P 6,650,377

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 FCDU of the Manila Branch did not recognize deferred tax asset on loss allowance as at December 31, 2021 and 2020. Details of the tax base and deferred tax of the loss allowance follows:

	2021		2020	
	Deductible Temporary Differences	**Deferred Tax Asset**	Deductible Temporary Differences	Deferred Tax Asset
Loss allowance	**P168,334,528**	**P48,254,117**	P123,409,710	P37,022,913
Accrued Salaries	**29,000,000**	**7,250,000**	-	-
NOLCO	**87,199**	**21,800**	-	-
	P197,421,727	**P55,525,917**	P123,409,710	P37,022,913

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
2021	**P87,199**	**P -**	**P87,199**	**2026**

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
2020	P39,9931	P -	P39,9931	2022

15. FAIR VALUE AND MATURITY ANALYSIS OF FINANCIAL INSTRUMENTS

Maturity analysis of Assets and Liabilities

The following table presents the maturity profile of the assets and liabilities of the FCDU of the Manila Branch based on the amounts to be recovered or settled with and/ or after more than 12 months after the reporting period (in thousands):

	2021			2020		
	Within One Year	**Beyond One Year**	**Total**	Within One Year	Beyond One Year	Total
Financial Assets at Gross						
Due from other banks	**P389,256**	**P -**	**P 389,256**	P 168,756	P -	P 168,756
Financial assets at FVTPL	**10,518**	**-**	**10,518**	-	-	-
Loans and receivables	**280,235**	**4,245,029**	**4,525,264**	25,030	4,034,489	4,059,519
Other assets	**77**	**-**	**77**	100	-	100
	680,086	**4,245,029**	**4,925,115**	193,886	4,034,489	4,228,375
Non-financial Assets at Gross						
Other assets	**5,861**	**-**	**5,861**	3,072	-	3,072
	685,947	**4,245,029**	**4,930,976**	196,958	4,034,489	4,231,447
Less: Allowance for credit losses	**38**	**176,523**	**176,561**	15	123,395	123,410
	P685,909	**P4,068,506**	**P4,754,415**	P 196,943	P3,911,094	P4,108,037
Financial Liabilities						
Due to Head Office and other branches	**P3,097,784**	**P816,674**	**P3,914,458**	P2,700,282	P -	P2,700,282
Deposit liabilities	**708,270**	**-**	**708,270**	1,406,759	-	1,406,759
Financial liability at FVPTL	**-**	**-**	**-**	640	-	640
Accrued expense and otherpayables	**238**	**-**	**238**	223	-	223
	3,806,292	**816,674**	**4,622,966**	4,107,904	-	4,107,904
Non-financial Liabilities						
Other liability	**227**	**-**	**227**	149	-	149
	P3,806,519	**P816,674**	**P4,623,193**	P4,108,053	P -	P4,108,053

Fair Value of Financial Instruments

The carrying amount of the financial instruments in the financial statements are equal or approximate their fair value. For long term interest bearing loans and receivables, the effect of discounting is not material. Except for financial assets and liabilities at FVTPL which are categorized as Level 2, all other financial instruments are categorized as Level 3 in the fair value hierarchy.

16. 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). 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 FCDU of 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 FCDU of the Manila Branch's policies and objective in managing these risks are summarized below:

<u>Credit risk</u>

Credit risk is defined by the FCDU of the Manila Branch as the risk of financial loss arising from the borrower inability to repay principal and/ or interest. Of all forms of risk faced by the FCDU of 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 FCDU of 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 FCDU of the Manila Branch's credit risk is mainly attributable to its loans, due from banks and other non-financial institutions and financial investments. 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 FCDU of 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.

<u>Credit risk management</u>

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 Marketing Department. 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 FCDU of 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) or entities in a foreign country or a group of countries with strongly interrelated economies that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations of risk are managed by counterparty and by industry sector.

The FCDU of the Manila Branch generally considers concentration risk as excessive when the ratio of a seg 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 10.00% of Tier 1 capital, except for commercial real estate industry which has regulatory limit of 20.00% of total loan portfolio excluding interbank loans receivable.

The table below shows the credit quality of the financial assets of the FCDU of the Manila Branch by type of industry, gross of allowance for credit losses as at December 31, 2021 and 2020:

	Financial Institutions	Electricity, Energy, Power	Manufacturing	Real Estate and Business Activities	Others	Total
2021						
Due from other banks	**P389,256**	**P -**	**P -**	**P -**	**P -**	**P 389,256**
Loans and receivables:						
Loans to customers	**-**	**866,558**	**1,358,911**	**795,584**	**1,478,971**	**4,500,024**
Accrued interest receivable	**-**	**11,616**	**762**	**1,791**	**11,071**	**25,240**
	P389,256	**P878,174**	**P1,359,673**	**P797,375**	**P1,490,042**	**P4,914,520**
2020						
Due from other banks	P168,756	P -	P -	P -	P -	P 168,756
Loans and receivables:						
Loans to customers	-	977,268	944,209	720,345	1,392,667	4,034,489
Accrued interest receivable	-	11,442	825	1,701	11,062	25,030
	P168,756	P988,710	P 945,034	P722,046	P1,403,729	P4,228,275

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 FCDU of 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 FCDU of the Manila 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 of the FCDU of the Manila Branch 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 other banks	**P 389,256**	**P -**	**P 389,256**	P 168,756	P -	P 168,756
Loans and receivables	**4,525,264**	**1,140,546**	**2,918,973**	4,059,519	1,140,546	2,918,973
	P4,914,520	**P1,140,546**	**P3,087,729**	P4,228,275	P1,140,546	P3,087,729

Credit quality per class of financial assets

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

Internal rating

The FCDU of 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 FCDU of the Manila Branch uses the credit risk rating of Moody's Standard & Poor 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 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 netcash flow.
sAA+ AA+	Baa2 Baa2	BBB BBB	Customers with very good operating and financial strength aswell 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 aswell 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 solvencybut 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- BB+	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; hasa poor cash flow, an extremely heavy dependence on bankingfacilities, and weak customer market competitiveness.
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 customermarket competitiveness.
B	C	D	The customer goes bankrupt andshuts down or materially defaults on its debts.

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

Standard & Poor Equivalent Grades	Credit Quality	Risk Category	Stage
AAA / AA+ / AA	Highest Quality	Very Low Risk	1
AA- / A+	High Quality	Low Risk	1
A / A-	Upper Medium Grade	Low Risk	1
BBB+ / BBB / BBB-	Medium Grade	Moderate Risk	1
BB+ / BB / BB- / B+	Speculative	Substantial Risk	1
B / B-	Speculative	High Risk	2
CCC	Poor	Very High Risk	2
CC/ C	Poor	Very High Risk	3
D	Default	Very High Risk	3

The credit quality of the assets held by the FCDU of 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 FCDU of the Manila Branch. The FCDU of the Manila Branch takes into consideration all reasonable and supportable information (including forward-looking information) that reflects significantly 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 FCDU of 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 FCDU of 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, whether the market price has been falling to assess deterioration.

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

Default

The FCDU of 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 AC using a credit-adjusted effective interest rate. In subsequent periods, any changes to the estimated lifetime ECL are recognized in statement of income and expenses. 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 FCDU of 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.

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 financial assets of the FCDU of the Manila Branch by credit risk rating and stage as at December 31, 2021 (in thousands):

	2021					2020
	Stage 1	**Stage 2**	**Stage 3**	**POCI**	**Total**	Total
Due from Other Banks						
AAA / AA+ / AA	P389,256	P -	P -	P -	P 389,256	P 168,771
AA- / A+	-	-	-	-	-	-
A / A-	-	-	-	-	-	-
BBB+ / BBB / BBB-	-	-	-	-	-	-
BB+ / BB / BB- / B+B / B-	-	-	-	-	-	-
CCC	-	-	-	-	-	-
CC / CD	-	-	-	-	-	-
Unrated	-	-	-	-	-	-
Loss allowance	-	-	-	-	-	(15)
Carrying amounts	P389,256	-	P -	P -	P 389,256	P 168,756
Loans and receivables						
AAA / AA+ / AA	P2,422,046	P -	P -	P -	P2,422,046	P1,491,745
AA- / A+	1,260,447	-	-	-	1,260,447	1,774,117
A / A-	-	-	-	-	-	793,657
BBB+ / BBB / BBB-	-	842,771	-	-	842,771	-
BB+ / BB / BB- / B+	-	-	-	-	-	-
B / B-	-	-	-	-	-	-
CCC	-	-	-	-	-	-
CC / C	-	-	-	-	-	-
D	-	-	-	-	-	-
Unrated	-	-	-	-	-	-
Loss allowance	(22,559)	(154,002)	-	-	(176,561)	(123,394)
Carrying amounts	P3,659,934	P688,769	P -	P -	P4,348,703	P3,936,125

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 FCDU of 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 and FCDU of the Manila Branch.

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

During the years ended December 31, 2021 and 2020, the Management has identified a significant increase in credit risk for one of 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 Manila Branch has performed historical analysis and identified the key economic variables, including 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 Manila Branch.

Sensitivity of ECL in future economic conditions

The ECL are sensitive to judgements 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 FCDU of 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 FCDU of 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 FCDU of the Manila 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 at fair value using the revised effective interest rate.

Write-off

The FCDU of the Manila Branch writes off financial assets when it has exhausted practical recovery efforts and has concluded there is no reasonable expectation of recovery.

<u>Liquidity and funding risk</u>

The FCDU of the Manila Branch defines liquidity and funding risk as the risk to the b 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 FCDU of the Manila and, by extension, the needs of its customers, and risk that the FCDU of 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 FCDU 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 FCDU of the Manila Branch has established a sound framework for measuring, monitoring and controlling liquidity risk across different time horizons and stress scenarios:

- Identification

  The FCDU of 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 FCDU of 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 FCDU of 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 FCDU of 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 FCDU of 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 inthe 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 financial assets and liabilities of the FCDU of the Manila Branch as at December 31, 2021 and 2020 are as follows (in thousands):

	Carrying Amounts	Gross Nominal Inflow/ Outflow	Less than 1 Month	1-3 Months	3-12 Mont hs	1-5 Years	More than 5 Years
2021							
Financial Assets							
Due from other banks	**P 389,256**	**P 389,256**	**P389,256**	**P -**	**P -**	**P -**	**P -**
Financial assets at FVTPL	**10,518**	**10,518**	**-**	**-**	**-**	**10,518**	**-**
Loans and receivables	**4,348,703**	**4,912,354**	**256,332**	**-**	**-**	**3,912,472**	**743,550**
Other assets*	**77**	**77**	**-**	**77**	**-**	**-**	**-**
	4,748,554	**5,312,205**	**645,588**	**77**	**-**	**3,922,990**	**743,550**
Financial Liabilities							
Due to Head Office and other branches	**4,045,680**	**4,197,269**	**2,633,988**	**714,515**	**-**	**848,766**	**-**
Deposit liabilities	**708,270**	**708,270**	**708,270**	**-**	**-**	**-**	**-**
Accrued Expense and Other Payables*	**238**	**238**	**238**	**-**	**-**	**-**	**-**
	4,754,188	**4,905,777**	**3,342,496**	**714,515**	**-**	**848,766**	**-**
Net Liquidity Surplus (Gap)	**(P5,634)**	**P406,428**	**(P2,696,908)**	**(P714,438)**	**P -**	**P3,074,224**	**P743,550**
2020							
Financial Assets							
Due from other banks	P 168,756	P 168,771	P 168,771	P -	P -	P -	P -
Loans and receivables	3,936,124	4,059,519	25,030	-	-	3,585,474	449,015
Other assets*	100	100	-	100	-	-	-
	4,104,980	4,228,290	193,801	100	-	3,585,474	449,015
Financial Liabilities							
Financial liability at FVTPL	640	640	-	-	-	640	-
Due to Head Office and other branches	2,803,287	2,803,287	147,875	2,655,412	-	-	-
Deposit liabilities	1,406,759	1,406,759	1,406,759	-	-	-	-
Accrued Expense and Other Payables*	224	224	224	-	-	-	-
	4,210,910	4,210,910	1,554,858	2,655,412	-	640	-
Net Liquidity Surplus (Gap)	(P 105,930)	P 17,480	(P1,361,057)	(P2,655,312)	P -	P3,584,834	P449,015

**Other assets consists of IRS interest receivable*
**Accrued expense and other payables consist of IRS interest payable.*

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

Market risk

Market risk is the risk of a loss in the FCDU of 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 FCDU of 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 appetite and that the income after risk-adjustment is maximized.

It is the senior Management 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 FCDU of 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 FCDU of 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 trading book are included in the FCDU of 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 FCDU of 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 FCDU of the Manila Branch identifies and measures the impact of any new transaction on its market risk position on an on-going basis.

Currency risk

Foreign currency exposure is used to measure foreign exchange risk, which refers to the risk of loss caused by currency imbalance between foreign exchange assets and foreign exchange liabilities due to adverse exchange rate changes. The major foreign exchange rate risks of the Manila Branch arise from foreign exchange exposure generated from client transactions and conversion of working capital in PHP into US dollar.

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

	2021			
	USD	**EURO**	**CNY**	**Total**
Financial Assets				
Due from other banks	P 389,176	P -	P 80	P 389,256
Financial Asset at FVTPL	10,518	-	-	10,518
Loans and receivable	3,756,418	592,285	-	4,348,703
Other Assets*	77	-	-	77
	4,156,189	592,285	80	4,748,554
Financial Liabilities				
Deposit liabilities	688,011	-	20,259	708,270
Accrued Expense and Other Payables**	238	-	-	238
Due to Head Office and other branches	3,489,673	579,719	(23,712)	4,045,680
	4,177,922	579,719	(3,453)	4,754,188
Net Position	(P 21,733)	P12,566	(P 3,533)	(P 5,634)

	2020			
	USD	**EURO**	**CNY**	**Total**
Financial Assets				
Due from other banks	P 168,698	P -	P 58	P 168,756
Loans and receivable	3,239,287	696,837	-	3,936,124
Other Assets*	2	-	-	2
	3,407,987	696,837	58	4,104,882
Financial Liabilities				
Deposit liabilities	1,149,242	-	257,517	1,406,759
Financial Liability at FVTPL	640	-	-	640
Accrued Expense and Other Payables**	5	-	-	5
Due to Head Office and other branches	2,263,536	698,844	(262,098)	2,700,282
	3,413,423	698,844	(4,581)	4,107,686
Net Position	(P5,436)	(P 2,007)	(P 4,639)	(P 2,804)

Other assets consists of IRS interest receivable
***Accrued expense and other payables consist of IRS interest payable.*

The table below indicates the currencies which the FCDU of 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.

	Foreign Currency Appreciates Against PHP by	**Effects on Profit before Tax (in thousands)**	**Foreign Currency Depreciates by**	**Effects on Profit before Tax (in thousands)**
2021				
USD	**2.7380%**	**(P10,638)**	**(2.7380%)**	**P10,638**
EUR	**(1.1787%)**	**(149)**	**1.1787%**	**149**
CNY	**0.6200%**	**22**	**(0.6200%)**	**(22)**
2020				
USD	(2.7040%)	P239	2.7040%	(P239)
EUR	2.3400%	126	(2.3400%)	(126)
CNY	0.0957%	31	(0.0957%)	(31)

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.

Interest rate risk

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

One of the FCDU of the Manila Branch primary business functions is providing financial products that meet the needs of its customers. Loans and deposits are tailored to the requirements with regard to tenor credit standing. The FCDU of 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 interest rate repricing gap of the FCDU of the Manila Branch as at December 31, 2021 and 2020 (in thousands):

	Overnight to 1 month	1-3 Months	3-6 Months	6-12 Months	1-2 Years	Beyond 2 Years	Non-rate Sensitive	Total
2021								
Assets								
Due from other banks	**P 122,336**	**P-**	**P -**	**P -**	**P -**	**P -**	**P266,919**	**P 389,255**
Loans and receivables (gross)	**254,995**	**-**		**-**	**2,753,946**	**1,491,083**		**4,500,024**
	377,331	**-**	**-**	**-**	**2,753,946**	**1,491,083**	**266,919**	**4,889,279**
Liabilities								
Due to Head Office and other branches	**2,383,653**	**714,131**	**-**	**-**	**-**	**816,674**	**-**	**3,914,458**
Deposit liabilities	**708,254**	**-**	**-**	**-**	**-**	**-**	**-**	**708,254**
	3,091,907	**714,131**	**-**	**-**	**-**	**816,674**	**-**	**4,622,712**
Net Repricing Gap	**(P2,714,576)**	**(P714,131)**	**P -**	**P -**	**P2,753,946**	**P 674,409**	**P266,919**	**P 266,567**
2020								
Assets								
Due from other banks	P38,429	P -	P -	P -	P -	P -	P130,343	P 168,772
Loans and receivables (gross)	-	-	-	-	-	4,034,489	-	4,034,489
	38,429	-	-	-	-	4,034,489	130,343	4,203,261
Liabilities								
Due to Head Office and other branches	2,558,331	-	-	-	-	-	141,951	2,700,282
Deposit liabilities	1,406,691	-	-	-	-	-	-	1,406,691
	3,965,022	-	-	-	-	-	141,951	4,106,973
Net Repricing Gap	(P3,926,593)	P -	P -	P -	P -	P4,034,489	(P 11,608)	P 96,288

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 on the income before income tax of the FCDU of the Manila Branch 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).

As at December 31, 2021, the management believes that the FCDU of the Manila Branch is not exposed to any significant market risk as the financial assets of the FCDU of the Manila Branch are concentrated in due from other banks denominated in PHP which earn interest at fixed bank interest rates. Consequently, no sensitivity analysis was presented.

	Increase/Decrease in interest rates (in basis points)	Effect in Income Before Income Tax
2021	**+275bps**	**P7,331**
	-275bps	**(7,331)**
2020	+250bps	(P172)
	-250bps	172

Interest rate risk in the banking book (IRRBB)

IRRBB refers to the current or prospective risk to the FCDU of the Manila Branch's capital and earnings arising from adverse movements in interest rates that affect the FCDU of the Manila Branch 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. 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 FCDU of the Manila 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 FCDU of 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 FCDU of 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 FCDU of 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 (0.0417Y)	1M<t≤3M (0.1667Y)	3M<t≤6M (0.375Y)	6M<t≤9M 6 (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)	66Y<t≤7Y (6.5Y)	-
Long-term rate	7Y<t≤8Y (7.5Y)	8Y<t≤9Y (8.5Y)	9Y<t≤10Y (9.5Y)	10Y<t≤11Y (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 FCDU of 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 FCDU of 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 FCDU 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 FCDU 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.

17. EVENTS AFTER REPORTING PERIOD

One of the FCDU 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 FCDU of 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 FCDU 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 FCDU of 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 FCDU 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 FCDU of 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.

18. 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 in the statement of comprehensive income:

Statement of Comprehensive Income	**December 31, 2020**	**Effect of Reclassification**	**December 31, 2020**
NET INTEREST INCOME	P92,326,925	P -	**P 92,326,925**
CREDIT LOSSES	-	112,221,071	**112,221,071**
	92,326,925	112,221,071	**(19,894,146)**
OTHER INCOME	8,495,389	-	**8,495,389**
OPERATING EXPENSES			
Credit Losses	112,221,071	(112,221,071)	**-**
Salaries, bonuses and allowances	15,998,700		**15,998,700**
Depreciation and amortization	22,371,095	-	**22,371,095**
Taxes and licenses	4,280,406	-	**4,280,406**
Occupancy expenses	4,221,319	-	**4,221,319**
Fair value loss - net	648,915	-	**648,915**
Other operating expenses	11,176,873	-	**11,176,873**
	170,918,379	(112,221,071)	**58,697,308**
LOSS BEFORE INCOME TAX EXPENSE	(70,096,065)	-	**(70,096,065)**
INCOME TAX EXPENSE	6,650,377	-	**6,650,377**
NET LOSS	(76,746,442)	-	**(76,746,442)**
OTHER COMPREHENSIVE LOSS	(1,980,381)	-	**(1,980,381)**
TOTAL COMPREHENSIVE LOSS	(P78,726,823)	P -	**(P 78,726,823)**

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

The following supplementary information is presented for purposes of filing with the BSP and is not a required part of the basic financial statements.

a. Financial Performance Indicators

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

Manila Branch

	2021	2020
Return on average equity	**(1.26%)**	(3.70%)
Return on average assets	**(0.48%)**	(1.72%)
Net interest margin on earning assets	**3.23%**	4.22%

FCDU of the Manila Branch

	2021	2020
Return on average assets	**(1.46%)**	(2.40%)
Net interest margin on earning assets	**2.32%**	0.79%

b. Commitment 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 and the FCDU of the Manila Branch have no pending suits, claims and regulatory examinations that remain unsettled or outstanding.

Other relevant disclosures required by BSP Circular No. 1074 are in Note 5, 7, 10, and 16.

20. SUPPLEMENTARY INFORMATION REQUIRED BY THE BUREAU OF INTERNAL REVENUE (BIR) UNDER REVENUE REGULATIONS NO. 15-2010

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

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.

A. Documentary Stamp Tax

Debt instruments	**P2,497,796**

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

B. Withholding Taxes

Final withholding taxes	**P24,575**

The above withholding taxes pertain to total remittances made by the FCDU of the Manila Branch to tax authority during the year.

The FCDU of the Manila Branch does not have taxes on compensation and benefits recorded separately under FCDU Tax Identification Number as the remittance of these withholding taxes to the BIR during the year was made under the RBU Tax Identification Number.

C. All Other Taxes (Local and National)

This consists of the following:

	2021
Other taxes paid during the year recognized under "Taxes and Licenses"	
Fringe benefit taxes	**P6,649,156**
Gross receipts taxes	**640,733**
License and permit fees	**200,288**
Others	**500**
	P7,490,677

D. Tax Cases and Assessments

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

21. APPROVAL OF FINANCIAL STATEMENTS

The financial statement of the FCDU of the Manila Branch have been authorized for issuance by the General Manager, as authorized by the Head Office on June 20, 2022.

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