ANNUAL REPORT ASSESSMENT CHECKLIST BANGKO MABUHAY (A RURAL BANK), INC. As of December 31, 2022				
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1. Corporate Policy

a. Bank's Vision and Mission Statements

- **Corporate Mission**

Consistent with the statement "the bank works as the engine of economy", Bangko Mabuhay (A Rural Bank), Inc., (the Bank) is committed to contribute to the national development through effective financial intermediation, optimization of its resources and professionalism in the banking industry.

- **Corporate Vision**

In attaining its financial strength, the bank envisions to be a leader in the rural banking industry. The Bank also aims to expand its products and services, being constantly guided by its corporate vision and commitment to continuous improvement and development not only of its services, as well as, of its human resources.

b. Introduction of the Bank's Brand

Bangko Mabuhay (A Rural Bank), Inc. was incorporated on January 21, 2015 through the consolidated of Rural Bank of Tanza (Cavite), Inc. (RB Tanza) and Rural Bank of Teresa (Rizal), inc. The Bangko Sentral ng Pilipinas (BSP) granted Bangko Mabuhay the authority to operate as a rural bank on March 23, 2015. The consolidated bank commenced its operation on April 1, 2015.

The consolidated bank adopted its name from RB Tanza's business name "Bangko Mabuhay". This business name was used since 1995 in order to introduce RB Tanza's products and services from a two-unit Bank in Tanza, Cavite to opening of additional three (3) branches in the Province of Cavite in the mid-90s.

The Bank's tagline "Kaagapay sa Buhay" (companion in life) is a testament of the Bank's commitment to provide its clients retail banking services, which include (1) deposit products such checking account, regular and special savings deposit, regular and long-term time deposit and ATM savings accounts; (2) retail loans such as microfinance, small and medium enterprise loans, consumption, and real estate mortgage loans; and (3) other services namely bills payment (thru Bayad Center), remittance service (via Western Union, TransFast, and BDO Remit), electronic payment and financial services (EPFS) receive funds only via InstaPay and PESONet, microinsurance, and automated teller machine (ATM) services.

The Bank's corporate color is red, symbolizing blood which sustains life. As life blood to the economy, the Bank lives up to its name "Mabuhay" (to live) in catering to the banking needs of retail customers such as the micro, small, medium enterprises, households, and other residents of the community.

c. Business model of the Bank

Bangko Mabuhay's business model consists of full branch and branchlite operation with banking services and products, as described below:

Business Model	Deposit Products	Loan Products	Other Services
Full Branch	Regular Savings ATM Savings Special Savings Demand Deposit Regular Time Deposit Long Term Non-Negotiable Time Deposit	Microfinance SME Business Loans Corporate Loan Salary Loan Housing Loan Other Consumer Loan	Bills Payment Remittance Services thru Western Union, TransFast, and BDO Remit Electronic Payment and Financial Services (EPFS) InstaPay and PESONet receive funds only Accredited SSS Paying Agent
Branchlite	Micro Deposit	Microfinance	Bills Payment Remittance Services thru: Western Union, TransFast, and BDO Remit

2. Financial Summary/ Financial Highlights

		2022		2021		Increase (Decrease)	%
Profitability							
Interest Income	₱	93,252,190	₱	96,750,109	₱	(3,497,919)	-4%
Interest Expense		5,840,085		7,356,764		(1,516,679)	-21%
Net Interest Income		87,412,105		89,393,345		(1,981,240)	-2%
Non-interest income		44,001,107		33,276,942		10,724,165	32%
Operating Expenses		119,835,633		115,903,410		3,932,223	3%
Net Income after Tax		12,390,825		8,596,927		3,793,898	44%
Selected Balance Sheet Data							
Liquid Assets		1,406,335,536		1,422,902,293		(16,566,757)	-1%
Gross Loans		415,220,368		361,576,820		53,643,548	15%
Total Assets		2,019,728,489		1,967,430,221		52,298,268	3%
Total Deposits		1,647,890,929		1,598,859,009		49,031,920	3%
Total Stockholders' Equity		335,920,241		328,534,733		7,385,508	2%
Selected Financial Ratios							
Return on Assets		0.62%		0.44%			
Return on Equity		3.73%		2.65%			
Net Interest Margin		5.09%		5.69%			
Past Due Ratio		13.14%		41.02%			
Gross Non-Performing Loans		9.75%		34.94%			
Minimum Liquidity Ratio		100.83%		105.19%			
Capital Adequacy Ratio		25.45%		24.71%			
Branches and Manpower							
Branches		8		8			
Branchlite Units		3		3			
ATMs		5		5			
Officers		21		21			
Rank and file		155		159			
Total		176		180			
Shareholder Information							
Earnings Per Share		6.51		4.55			
Book Value per Share		177.80		173.94			
Cash Dividends Paid		5,005,315		-			

3.Financial Condition and Results of Operation

a. Review of Bank's operations and result of operations for the financial year

The year 2022 marked the Bank's 50th Anniversary (since the founding of RB Tanza in 1972) and gradual recovery from the impact of the COVID-19 pandemic. Net income from operations rose by 44% to ₱12.391 Million due mainly to increase of non-interest income by 32% which was attributed to the income from sale of acquired properties. In the wake of recovering economy, the demand for micro and small/ medium loans improved that translated into gross loans rising by 15% to ₱ 415.2 Million.

There had been a significant improvement in asset quality as past due ratio decreased to 13.14% in 2022 from 41.02% in 2021, while, gross non-performing loans (NPL) sunk to 9.75% in 2022 from 34.94% in 2021, due mainly to intensive collection effort. The Bank continued to advance asset quality by proactively engaging with borrowers significantly affected by the pandemic. As a result, NPLs remained manageable and were adequately provided for. The NPL cover went up to 86.55% in 2022 from 36.32% in 2021.

For the first time since 2019, the Bank's deposit liabilities went up by 3% to ₱1.648 Billion due mainly to the increase year-on-year in demand deposit by 16% to ₱ 248.7 Million and in savings deposit by 3% to ₱1.915.9 Billion. Savings deposit comprised about 73% of total deposit liabilities.

The Monetary Board, in its Resolution No. 1145 dated 4 August 2022, approved the amendment to the relevant provisions of the Manual of Regulations for Banks (MORB) on the minimum capital requirements for rural banks. Section 121 of the Manual of Regulations for Banks was amended per Circular No. 1151, thereby increasing minimum capital for rural banks, as follows:

	Minimum Capital for Rural Banks
Head Office Only	P50 Million
Up to 5 Branches	P50 Million
6 to 10 Branches	P120 Million
More than 10 Branches	P 200 Million

The Circular took effect in September, 2022. As of end of August, 2022, the Bank with its eight branches had an aggregate capital of P 331 Million. Nevertheless, the Board is committed to ensure continuous compliance with the new minimum capital for rural banks.

In November, 2022, the Bank opened its newly constructed Teresa Branch Office at the lot owned by the Bank in Teresa Rizal. The total capital expenditure on the lot and building of Teresa Branch amounted to about ₱8 Million. The new office is a stone throw away from its former leased office. The new location enhanced the Bank's presence in the downtown area of Teresa, Rizal.

b. Highlight of major activities during the year that impact operations

In 2021, the Bank launched the RISE (Rebuild, Improve, Support, Expand) Program which was aimed to promote loan services for Micro, Small and Medium Entrepreneurs (MSMEs), considered as the backbone of the economy. With sustained promotion of RISE in 2022, MSME loans increased by 21% to ₱294.7 Million, as a result, gross loans went up by 15% to ₱415.2 Million. As of December 31, 2022, MSME loans accounted for about 71% of gross loans.

Income from sale of acquired properties rose by 97% to ₱21.9 Million which helped improve results of operations by 44% to ₱12.391 Million.

c. Major strategic initiatives of the Bank

Reduction of Past Due Loans

With the improving economic condition, the Bank prioritized reduction of past due loans thru sustained collection efforts and the granting to borrowers of relief measures such as modifying the terms and conditions of loan agreements to reflect change in the borrowers' projected cash flows and improve the probability of full collection. The said relief measures were granted under BSP Memorandum No. M-2021-056 which provided guidance on the regulatory treatment of loans with terms and conditions that have been modified for purpose of measuring expected credit losses and classifying accounts as non-performing. Such strategic initiative resulted into the reduction of past due ratio from 41.02% as at end of 2021 to 13.14% as of December 31, 2022.

Incentive Scheme

In support of the launching of RISE promoting loan services to MSMEs, the Board approved a new incentive scheme for Account Managers aimed at boosting morale and ultimately performance. This resulted to the year-on-year increase in MSME loans by 21% and total loan portfolio by 15%.

Market, Sell, and Service Microinsurance Products

On December 1, 2022, the BSP approved the Bank's application to market, sell and service microinsurance products subject to certain conditions. The Bank will sell microinsurance products to its microinsurance borrowers which will serve as mortgage redemption insurance. The Bank will earn commission from the sale of the microinsurance products. Pioneer Life Inc. (PLI) is the provider of the microinsurance products and is not a related party.

Electronic Payment and Financial Services (EPFS)

Because of the new normal of physical distancing as health protocol to stop the spread of the virus, the Board and Senior Management resolved to offer electronic payment and financial services (EPFS) to enable its customers to send funds and initiate other financial transactions via electronic channels (e-channel) courtesy of InstaPay and PESONet.

Bangko Mabuhay is a member of the Philippine Payments Management, Inc. (PPMI), the payment system management body of the National Retail Payment Systems (NRPS) Framework, which enables the Bank to participate in the electronic payment system.

In order to implement EPFS in e-channel, particularly sending of funds, the Bank would outsource the mobile banking application. However, the Bank has not found yet the right outsource provider.

Financial Literacy Program

The Board approved in March, 2022, the Bank's financial Education Program for the year 2022 as part of its implementation of the Bank's Financial Consumer Protection Framework. The topics of the program, intended for the Bank's clients, included, among others, understanding deposit insurance, how to open a deposit account, how to change PIN, safety measures on use of ATM Card and ATM, how to compute for the interest, etc. The 2022 Financial Literacy Program shall be implemented by providing Financial Education Programs through various communication tools such as print and digital media platforms.

Adoption of Sustainability Finance Framework

The Bank has taken steps to integrate Environmental and Social Risk (E&S) risk management policies and procedures in the Bank's credit risk and operational risk management processes in order to fully comply with BSP Circular No. 1085 and 1128, as follows:

- The Loan Policies manual was amended dated February 25, 2023 with Board Resolution (BR) No. 2023-034 to incorporate the CM No. 2022-042 Guidance on the implementation of the Environmental and Social Risk Management (ESRM) System.
- The Borrower Risk Rating (BRR) convention/training was conducted by the Credit Risk Management (CRM) Group as introduction to the new BRR Tool. The said new BRR had incorporated Environmental Risk factors which was approved by the Executive Credit Committee on March 11, 2023. The BRR tool, which was revised, finalized and disseminated, took effect on April 24, 2023.

d. Challenges, opportunities, and responses during the year

The surge in COVID cases of Bank personnel in January, 2022, attributed to Omicron variant of the COVID-19, led to the temporary closure of all three branchlite offices. However, due to subsequent 100% vaccination of Bank Personnel, the Bank did not experience any disruptions, particularly temporary closures of Bank Offices, for the rest of the year.

Since April, 2022, the Province of Occidental Mindoro had been experiencing power interruptions after its local power supplier decided to operate at only 7.5 MW because of the nonpayment by the National Power Corporation of its fuel subsidy for its power plants. To ensure power supply for its Mamburao Branch operations, the Bank dedicated its heavy-duty power generator and another backup generator to the said branch which resulted into 75% jump in fuel expenses.

In view of the ongoing COVID19 pandemic, the Board and Senior Management resolved to further strengthen the Bank's Credit Risk Management by considering borrower's resilience to weather a similar economic crisis and operational flexibility or the soundness and adaptability of the business model in dealing with economic turbulence, in evaluating creditworthiness. Furthermore, the Board approved policies and procedures on restructuring loans of borrowers significantly affected by the pandemic.

4. Risk Management Framework Adopted

The Bank's risk management framework, aligned with existing regulations, seeks to ensure that there is an effective process in place to manage risk across the Bank. The Risk Management program is driven by a formal approach and aligned with the organization's profile and strategic objectives, through formalizing roles within the organization, active committees, policies and procedures, reporting, communication, and technology. This program also produces various risk mitigation activities within the business units. The resulting strategic, financial, and operational risk mitigation activities are implemented to: 1) strengthen the organization; 2) reduce the potential for unexpected losses; and 3) manage the volatility experienced by the Bank.

a. Overall risk management culture and philosophy

Risk management is integral to all aspects of the Bank's activities and is the responsibility of all staff.Managers have a particular responsibility to evaluate their risk environment, to put in place appropriate controls and to monitor the effectiveness of those controls. The risk management culture emphasizes careful analysis and management of risk in all business processes.

The Bank's risk management approach reflects its values, influences the culture and guides its operations, as such, is captured in policy statements, Board and management directives, operating procedures, training programs, and is demonstrated in daily activities by management and staff. The Bank's Risk Management Framework consists of structured and consistent risk management processes that are applied across the organization under the following principles:

i. The Bank is in the business of business of taking risks and therefore, risk must be managed and controlled if it is measured consistently and accurately.

ii. The Bank recognizes that an effective risk management system is a critical component of bank management and a foundation for its safe and sound operation.

iii. The Risk Management process is a top-down process and shall continually operate at all levels within the Bank. It is important to emphasize that each individual within the Bank has a role and must participate in the process.

iv. The Bank shall promote a culture of risk awareness aligned on the expectations of Bank's regulatory supervisors.

v. All bank's activities shall be in accordance with applicable legal and regulatory provisions of the Philippines as well as to the Bank's internal policies and procedures.

vi. Policies and practices that generate incentives for inappropriate actions shall be avoided. These include, but are not limited to overemphasis on short term performance results that ignore long term risks, ineffective segregation of duties that allow misuse of assets or concealment of poor results, etc.

vii. It is the Bank's firm policy that liquidity will never be compromised for profitability.

b. Risk appetite and strategy

The Bank faces a broad range of risks doing business as a financial intermediary. These risks include its day-to-day operational activities which can be significant. These risks are managed through detailed processes that emphasize the importance of integrity, maintaining high quality staff, and accountability.

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

The Bank's Risk Appetite Statement considers the most significant risks to which the Bank is exposed and provides an outline of the approach to managing these risks. All strategic plans and business plans for functional areas must be consistent with this Statement. The Risk Appetite Statement is treated as a live and evolving document where its intent is challenged and discussed on a frequent basis.

i. Strategic Risks. The Bank aspires to be among the country's top rural banks. This requires on-going development and innovation in its operations through strategic plan. The Bank has a low appetite for threats to the effective and efficient delivery of its strategic plan. It recognizes that the actual or perceived inability to deliver strategic plan could have a significant impact on its ability to achieve its objectives as well as its reputation. The Bank's Board meets regularly to discuss actual performance vis-à-vis plan. A framework is in place to ensure the Bank's strategic plan is managed and reported on a consistent basis.

ii. Liquidity Risks. The Bank has a very low appetite for liquidity risks because these have significant impact on the Bank's reputation.

iii. Credit Risk. The Bank has a low appetite for credit risks. Risk tolerances for the Bank's credit activities are approved by the Board. Performance against these measures is monitored and reported to the Board and Senior Management on a monthly basis.

iv. Human Resources-related Risks. The Bank's significant human resources-related risks include the following:

- **Calibre of People** – The Bank relies on motivated and high-quality staff to perform its functions. It aims to create an environment where employees are empowered to the full extent of their abilities. The appetite for losses to the value of the Bank's collective competencies, knowledge and skills is very low.

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

- **Work Health & Safety (WHS)** – The Bank aims to create a safe working environment for all its staff, where people are protected from physical or psychological harm. It has a very low appetite for practices or behaviors that lead to staff being harmed while at work.

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

(i) **Information Technology Information Technology (IT)** risks cover both daily operations and on-going enhancements to the Bank's IT systems. These include:

- **Processing** – Prolonged outage of the Bank’s Core System: The Bank has a very low appetite for risks to the availability of systems which support its critical business functions including those which relate to inter-bank settlements, banking operations and financial markets operations. Maximum recovery times have been identified and agreed with each business area.

- **Information Security** – Cyber-attack on Bank’s systems or networks: The Bank has a very low appetite for threats to Bank assets arising from external malicious attacks. To address this risk, the Bank aims for strong internal control processes and the development of robust technology solutions.

- **On-going Development** - The implementation of new technologies creates new opportunities, but also new risks. The Bank has a low appetite for IT system-related incidents which are generated by poor change management practices.

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

(iii) **Physical Security**. The Bank strives to provide a highly-secure environment for its people and assets by ensuring its physical security measures meet high standards. The Bank has a very low appetite for the failure of physical security measure.

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

(v) **Information Management.** The Bank is committed to ensuring that its information is authentic, appropriately classified, properly conserved and managed in accordance with regulatory and business requirements. It has a very low appetite for the compromise of processes governing the use of information, its management and publication. The Bank has no appetite for the deliberate misuse of its information.

vi. Interest Rate Risk in Banking Books (IRRBB). The Bank considers the overall impact of the bank's interest rate sensitive assets, liabilities and off-balance sheet exposures over short-, medium- and long-term time horizons on their earnings and economic value in order to manage current and prospective risk to earnings and capital arising from adverse movements in interest rates that affect the Bank's banking book position.

The Bank captures all material sources of IRRBB and assesses the effect of interest rate changes on earnings and/or economic value. The measurement of IRRBB is based on outcomes arising from a range of interest rate shocks and stress scenarios. Towards this end, Bank measures and assesses the impact of a 100-, 200- and 300-basis point or 1%, 2%, and 3%, respectively, movement in interest rates to the Bank's net interest income on a monthly basis.

vii. Reputational Risks. – The Bank has no tolerance to risks to earnings, capital, and liquidity arising from negative perception on the Bank of its customers, shareholders, investors, employees, market analysts, the media and other stakeholders such as regulators and other government agencies that can adversely affect the Bank's ability to maintain existing business relationships, establish new businesses or partnerships, or continuously access varied sources of funding.

viii. Environmental and Social Risks – The Bank has no appetite for environmental and social (E&S) risks that pose potential financial, legal and/or reputational negative effect of environmental and social issues on the Bank. As part of credit risk management, the Bank shall not finance projects with E&S issues such as environmental pollution, climate risks (both physical and transition risk), hazards to human health, safety and security, and threats to community, biodiversity and cultural heritage, among others.

c. Bank-wide risk governance structure and risk management process

The Bank's risk management framework, aligned with existing regulations, seeks to ensure that there is an effective process in place to manage risk across the Bank. Risk management is integral to all aspects of the Bank's activities and is the responsibility of all staff. Managers have a particular responsibility to evaluate their risk environment, to put in place appropriate controls and to monitor the effectiveness of those controls. The risk management culture emphasizes careful analysis and management of risk in all business processes.

Risks are identified, assessed and managed at both an enterprise level (‘top-down') and business level (‘bottom-up'). The Executive/ Credit Committee and the Audit Committee, and as well as the Board of Directors, oversee risk management process.

d. Money Laundering and Terrorist Financing Prevention Program

The Money Laundering and Terrorist Financing Prevention Program (MTPP) of the Bank is designed to provide guidance for the its employees to ensure that the Bank’s products, services and operations are not used for money laundering (ML) and terrorist financing (TF) purposes. The MTPP is updated to adopt new Anti-Money Laundering and Counter-Terrorist Financing (AML/CTF) rules and regulations.

The Bank is committed to develop and implement an effective money laundering and terrorist financing prevention program, take appropriate action on detected or potential suspicious activity, comply with applicable anti-money laundering laws and regulations, and promote AML awareness among its employees.

5. Corporate Governance

This section comprehensively discusses the bank’s corporate governance framework and corporate culture adopted by the bank. The following minimum information should be discussed in this section:

a. Overall corporate governance structure and practices

The Board of Directors is composed of 11 directors, majority of whom, are non-executive directors. The Board of Directors is the highest authority in the matters of governance and managing the business of the Bank. The directors hold their office charged with the duty to exercise sound and objective judgment for the best interest of the bank. The Board is responsible to promote and adhere to the principles and best practices of corporate governance to foster the long-term success of the bank in fulfilling its mission and vision.

The Board is assisted in its governance function by two (2) Board-level Committees such as 1) Executive/Credit; and 2) Audit. All board committees report regularly to the BOD on their activities as follows:

- **Executive/ Credit Committee**

  The Executive/ Credit Committee safeguards the quality of the Bank’s loan portfolio by applying prudent risk acceptance criteria considering borrower’s overall risk dimension amidst prevailing industry and economic conditions. The Committee regularly meets to discuss, approve and endorse new credit applications and to be promptly apprised with developments relating to watch listed and classified loan accounts. In addition to credit risk acceptance, the Bank’s Credit Committee formulates credit policies and also handles credit administrative support which includes credit investigation, insurance, securities documentation and custodianship and disposal of non-performing assets.

This Committee also assists the Board of Directors in fulfilling its corporate governance responsibilities. It reviews and evaluates the qualifications of all persons nominated to the Board as well as those nominated to other positions requiring appointment by the Board of Directors. The committee is responsible for ensuring the Board’s effectiveness and due observance of corporate governance principles and guidelines. It oversees the periodic performance evaluation of the board and its committees and executive management; and also conducts an annual self-evaluation of its performance. The Committee is also responsible for the development and oversight of the bank's risk management program.

- **Audit Committee**

The Audit Committee is tasked primarily with assisting the Board in fulfilling its oversight responsibilities. The Committee reviews the Bank’s financial information, its systems of internal controls and risk management, the audit process, and compliance with significant applicable legal, ethical and regulatory requirements. It monitors the Bank’s compliance with approved internal policies and controls, as well as statutory regulations, emphasizing an accounting system that is compliance with prescribed Accounting Standards. The Committee facilitates free and open communication among Management, Compliance, Risk Management, Internal Audit, the external auditors, BSP examiners and the Committee. It enjoys sufficient authority to promote independence and to ensure broad audit coverage, adequate consideration of audit reports, and appropriate action on audit recommendations. It is also empowered, among others, to appoint, compensate and oversee external audit engagements, review and comment on internal and external audit reports; and resolve financial reporting disputes between management and the auditor.

b. Selection process for the Board and Senior Management

The Board of Directors is nominated and elected by stockholders every year, each director serves a one-year term until the election of another set of directors. On the other hand, Executive Committee recommends appointment of Senior Management subject to approval of the Board. Through the Executive Committee, the Bank ensures that all directors and Senior Management are qualified based on their integrity, physical fitness, competence, education, moral standing in the community, and relevant business or banking experience, among others. The Bank does not discriminate against gender, age, and ethnic, political, religious or cultural backgrounds. There is one independent director whose role is to provide independent judgment, outside experience, and objectivity to the Board and who has not served as independent director for a maximum cumulative term of nine years from the reckoning period rule.

c. Board’s Over-All Responsibility

The Board of Directors, composed of eleven (11) directors, is primarily responsible for defining the Bank's vision and mission. The Board has the fiduciary responsibility to the Bank and all itsshareholders including minority shareholders. It approves and oversees the implementation of strategies to achieve corporate objectives. It likewiseapproves and oversees the implementation of the risk governance framework, the systems of checks and balances, establishment of a sound corporate governance framework. The Board of Directors approves the selection of the Chief Executive Officer and key members of Senior Management and controlfunctions and oversees their performance.

d. Role and Contribution of Chairman of the Board, Executive and Non-executive Directors

The Chairperson of the Board, who provides leadership in the board of directors, is responsible for:

- effective functioning of the board of directors, including maintaining a relationship of trust with members of the board of directors;
- Overseeing the meeting agenda focuses on strategic matters including discussion on risk appetites, and key governance concerns;
- Ensuring a sound decision making process;
- Encouraging and promoting critical discussion to ensure that dissenting views can be expressed and discussed within the decision-making process;
- Ensuring members of the board of directors receives accurate, timely, and relevant information;
- Ensuring the conduct of proper orientation for first time directors and provides training opportunities for all directors; and
- Ensuring conduct of performance evaluation of the board of directors at least once a year.

The President & General Manager is an executive director who is responsible in the general supervision, administration and management of the Bank. There are nine (9) non-executive directors who are responsible for oversight function on the business and affairs of the Bank, and one (1) of whom is an independent director.

e. Board composition

Name of Director	i. Type of directorship	ii. No. of years served as director	iii. Number shares held	iv. Percentage of ownership
1. Misael P. Santos	Chairman	5	20,755	1.10%
2. Edwin S. Fojas	Executive	35	103,414	5.48%
3. Raymundo A. Del Rosario	Non-executive	31	157,630	8.35%
4. Joselito C. Fojas	Non-executive	8	7,497	0.40%
5. Elena J. Malabanan	Non-executive	34	158,597	8.40%
6. Emmanuel P. Santos	Non-executive	9	295,552	15.65%
7. Purificacion N. Garcia	Non-executive	31	44,494	2.36%
8. Cynia J. Fojas	Non-executive	31	64,956	3.44%
9. Maria Criselda M. Fojas	Executive	8	9,535	0.50%
10. Maria Elisa P. Fojas	Non-executive	9	800	0.04%
11. Roberto U. Teo	Non-executive Independent	5	1	-

f. Board qualification

Name of Director, Nationality and Age	Relevant Qualifications/ experience
1. Misael P. Santos (Filipino, 52 years old)	Dr. Misael P. Santos was elected as member of the Board of Directors on February 18, 2017. He was appointed Chairman by the Board of Directors in 2020. His training includes corporate governance for rural bank directors, Anti-Money Laundering (AML) Regulations and Risk Management. He is a medical doctor by profession. He graduated from the De La Salle University with degrees in Bachelor of Sciencein Biology and Medicine.
2. Emmanuel P. Santos (Filipino, 61 years old)	Dr. Emmanuel P. Santos was elected as Chairman of the Board on February 10, 2018 and was succeeded by Dr. Misael P. Santos in 2020. He is a member of the Executive/ Credit Committee. His trainings include Corporate Governance, Risk Management for Rural Bank Directors, AML Regulations and risk management. Mr. Santos studied Bachelor of Science in Psychology and Medicine in University of Sto.Tomas.
3. Edwin S. Fojas (Filipino, 71 years old)	Mr. Edwin S. Fojas is the President and General Manager since 1985. Concurrently he holds the chairmanship of the Executive/ Credit Committee. A career banker for more than 30 years, Mr. Fojas started his banking career in a Commercial Bank, where he gained experience and knowledge in banking, prior to his on-boarding with this Bank. His trainings include Corporate Governance Course for rural bank directors; Microfinance Modular Training conducted by the Rural Bankers Association of the Philippines (RBAP) – Microenterprise Access to Banking Services (MABS); Acquired Asset Management and Bank Security; AML Regulations and risk management. Mr. Fojas graduated from De La Salle University with a degree of Bachelor of Science in Commerce and completed post graduate studies of Masters in Business Management at the Asian Institute of Management.

4. Raymundo A. Del Rosario (Filipino, 73 years old)	Mr. Raymundo A. Del Rosario was elected as member of the Board of Directors since 1991. He is the incumbent Vice President and a member of the Executive/ Credit Committee. Mr. Del Rosario is also serving a member of the Provincial Board of the Province of Cavite, after being elected in 2020. Aside of his more than 25 years experience as director of the bank, Mr. Del Rosario had been engaged in construction, real estate, gas service station business. His trainings included Corporate Governance for rural bank directors, AML regulations and risk management. Mr. Del Rosario studied Bachelor of Science in Commerce at the Far Eastern University.
5. Joselito C. Fojas (Filipino, 71 years old)	Mr. Joselito C. Fojas was elected as member of the Board of Directors since 2013, He is the incumbent Treasurer and a member of the Executive/ Credit Committee. He is also a Director and Treasurer of Soleil CapitalePhilipines, Inc., a subsidiary of Soleil Chartered Bank with head office in New York, USA and engaged in financial packaging and in the issuance of financial instruments. He is also a member of the Board of Directors of Green House Techno Development Corp., member of the Board of Trustees of the Institute of Reproductive Health, a foundation engaged primarily in the propagation of natural family planning methods, a partner of the Source Organic Market, a company engaged in marketing and distribution of organic produce, and a partner of First Option Realty, a company engaged in real estate marketing and brokering. His trainings include corporate governance for rural bank directors, AML regulations and risk management. Mr. Fojas took up Bachelor of Science in Industrial Engineering in the University of the Philippines and finished post graduate Masters in Business Management at the Asian Institute of Management.
6. Elena J. Malabanan (Filipino, 84 years old)	Dr. Elena J. Malabanan was elected as member of the Board of Directors in 1988. Dr. Malabanan has served as member of the Board of Directors for more than 30

	years. She is a member of the Audit Committee. Her trainings included corporate governance for rural bank directors, best practices in crafting a customized risk management manual, AML regulations and risk management. She studied Bachelor of Science in Medicine in University of Sto. Tomas.
7. Purificacion N. Garcia (Filipino, 85 years old)	Ms. Purificacion N. Garica was elected as member of the Board of Directors since 1993. She is a member of the Audit Committee Her training includes corporate governance for rural bank directors, AML regulations and risk management. She graduated from National Teachers College with a degree in Bachelor of Science in Education.
8. Cynia J. Fojas (Filipino, 81 years old)	Dr. Cynia J. Fojas was elected as member of the Board of Directors in 1992.Dr. Fojas has served as member of the Board of Directors for more than 2 decades. Her trainings included corporate governance for rural bank directors, best practices in crafting a customized risk management manual, AML regulations and risk management. She studied Bachelor of Science in Medicine in University of Sto. Tomas.
9. Maria Criselda M. Fojas (Filipino, 34 years old)	Ms. Maria Criselda M. Fojas was elected as member of the Board of Directors since 2013. She was formerly a member of the Audit Committee and Corporate Governance Committee. Her trainings include corporate governance and risk management for rural bank directors, AML regulations and risk management. Ms. Fojas graduated from De La Salle University with a degree in Political Science. She also completed her Bachelor of Laws in Arellano University. She serves the Bank as Chief Legal Officer.
10. Maria Elisa P. Fojas Filipino, 61 years old)	Ms. Maria Elisa P. Fojas was elected as member of the Board of Directors in 2004.

	Her training includes corporate governance for rural bank directors, AML regulations and risk management. Ms. Fojas manages businesses such as construction, beach and swimming pool resorts in Cavite.
11. Roberto U. Teo (Filipino, 72 years old)	Mr. Roberto U. Teo was appointed independent director to the Board on February 18, 2017. As independent director, he holds the chairmanship of the Audit Committee. Mr. Teo is also a member of the Board of Directors of LBP Leasing and Finance Corporation, a fully owned subsidiary of the Land Bank of the Philippines, Chairman of the Board of Mt Apo Travel and Tours Inc. (since 2013), President and director of GT Philippines Inc. (since 2013). He was a former Director at the Tourism Infrastructure and Enterprise Zone Authority (2014-2018), and served as Assistant City Administration for Operation of Davao City. His trainings include corporate governance for rural bank directors, public corporate governance for board of directors of GOCCs, comprehensive real estate seminar and review, franchising seminar, tourism congress pre-planning workshop, executive director seminar, AML regulations and risk management. Mr. Teo is a graduate of the Asian Institute of Management with a Master in Business Management Degree. He completed his Bachelor of Science in Chemical Engineering at the De La Salle University.

g. List of board-level committees including membership and function

Board Level Committees	Membership	Function
Executive/ Credit Committee	Edwin S. Fojas – Chairperson Members: Raymundo A. Del Rosario Emmanuel P. Santos Joselito C. Fojas	-Meet frequently as necessary and, acting as a loan committee, shall have the power to examine and approve or disapprove loans application. -Assist the Board of Directors in fulfilling its corporate governance responsibilities.

		-Oversee risk management program
Audit Committee	Roberto U. Teo – Chairperson Members: Elena J. Malabanan Purificacion N. Garcia	-Oversee the financial reporting Framework -Monitorand evaluate the adequacy and effectiveness of the internal control system -Oversee the internal audit function and external audit function - Oversee implementation of corrective actions -Investigate significant issues /concerns raised

h. The Board of Directors was elected by the Stockholders in their annual meeting held on February 12, 2022. The Board met 24 times, while Audit Committee and Executive/ Credit Committee held 4 and 41 meetings, respectively, in 2022. Executive / Credit Committee meetings were conducted face-to-face, while on the other hand, meetings of the Board of Directors and Audit Committee were held via teleconferencing using Zoom application due to the prevailing health crisis brought about by the pandemic.

Hereunder is the report of Directors' attendance in board and board-level committee meetings during the calendar year 2022, including the number of board and committee meetings and percentage attended by each director:

Name of Director	Board Number of Attended and Percentage of attendance		Audit Committee Number of meetings Attended and Percentage		Executive/ Credit Committee Number of Meetings Attended and percentage	
	No.	%	No.	%	No.	%
Emmanuel P. Santos	24	100			41	100
Edwin S. Fojas	24	100			33	80
Raymundo A. Del Rosario	24	100			23	56
Joselito C. Fojas	24	100			35	85
Elena J. Malabanan	24	100	4	100		
Misael P. Santos	24	100				
Purificacion N. Garcia	24	100	4	100		
Maria Elisa P. Fojas	24	100				
Cynia J. Fojas	24	100				
Maria Criselda M. Fojas	24	100				
Roberto U. Teo	24	100	4	100		
Total of Meetings Held	24		4		41	

During the Year						

i. List of executive officers/senior management

Name of Officer, Nationality and Age	Position	Relevant qualifications/ experience
Edwin S. Fojas (Filipino, 71 years old)	President & General Manager	Mr. Fojas graduated from De La Salle University with a degree of Bachelor of Science in Commerce and completed post graduate studies of Masters in Business Management at the Asian Institute of Management. He has more than 30 years of banking experience. Also, he completed trainings in Corporate Governance Course conducted by the De La Salle University in 2002; Microfinance Modular Training conducted by the Rural Bankers Association of the Philippines (RBAP) – Microenterprise Access to Banking Services (MABS) in 2002; Acquired Asset Management and Bank Security sponsored by the Confederation of Southern Tagalog Rural Bankers (CSTRB) in 2003 and 2004, respectively; Anti Money Laundering in-house training conducted by the Compliance Officer in 2015; and Corporate Governance for Rural Bank Directors and Officers conducted by the RBRDFI in 2018.
Imelda D. Montenegro (Filipino, 59 years old)	Assistant General Manager/ Comptroller	Ms. Montenegro has a Bachelor of Science in Commerce major in Accounting at the St. Paul's College. She has more than 30 years of banking experience in accounting, lending, branch operations, and treasury. Her trainings include corporate housekeeping, best practices in credit, microfinance, market and credit risk management and treasury/comptrollership management.

j. Performance assessment program

The Assessment and Evaluation System of the Bank involves assessment of the activities or accomplishments of the Board, Committees and Individual Directors, Officers and Staff. The performance assessment program consists of the following steps:

Step 1 – Identification of Criteria and Expected Activities
Step 2 – Methodology and Assessment Approach
Step 3 – Assessment Timetable
Step 4 – Corporate Governance and Operational Improvement Program
Step 5 – Documentation
Step 6 – Directives, Desired Actions and Areas of Improvements

The Board of Directors, as a whole, in coordination with the Compliance Officer, conducts the self-assessment, assessment of committees and compliance officer; the Audit Committee assesses/evaluates the Internal Auditor; Senior Management is evaluated by the Corporate Governance Committee, while the other officers and staff are evaluated by the Assistant General Manager or by their respective supervisors. Management reports to the Board of Directors the results of the performance evaluation of officers and staffandshallprovide recommendations based on the results of the rating. The recommendations maybe in the form of merit increase, promotions or both.

The Board of Directors, President and Bank Officers document all its assessment activities for future reference. This is to ensure a common understanding of the corporate governance and operational improvement program, including improvement of bank personnel. It is also to assign clear accountability for its effective implementation, both the program and the timetable for its implementation should be appropriately documented.

The Board of Directors, President and Bank Officers provide/set instructions to the ratee so as to improve the results of the assessment/ evaluation and of the Bank's operations as a whole. Such specific actions and recommendations commensurate with the issues identified and resulting assessment on the quality of corporate governance, operational activities and personnel improvement thru training will be part of the recommendation.

k. Orientation and Education Program

The Directors and Senior Management maintain professional integrity and continuously seek to enhance their skill, knowledge and understanding of the activities that the bank is engaged in or intends to pursue as well as the developments in the banking industry including regulatory changes through continuous education or training. Directors and Senior Management attend corporate governance seminar conducted by BSP accredited training providers, prior to, or at least immediately after, assumption of office. The Compliance Officer conducts an in-house training of the Directors and Senior Management in the matter of risk management, updates on Anti-Money Laundering regulations and other relevant laws, rules and regulations.

As part of the continuing education, the Directors attended webinars on (1) Anti-Money Laundering (AML) Regulations/ AML Risk Management Framework and (2) Risk Management which were conducted by the Compliance Officer in September and November, 2022, respectively.

The Bank's Human Resources Department (HRD) has implemented an annual program continuing education for rank and file, supervisors and middle management, and senior management with a combination of in-house and external training based on the training needs and results of performance evaluation.

l. Retirement and Succession Policy

The normal retirement date of Senior Management is upon his/her attainment of age sixty (60). However, the Board may approve extension of tenure of the President/ General Manager to remain active after his/her normal retirement date but not beyond 80 years old. On the other hand, the Bank does not impose mandatory retirement age for the Directors. Independent directors may only serve as such for a maximumcumulative term of nine (9) years, after which, the independent director shall be perpetually barred from serving as independent director in theBank, but may continue to serve as regular director. The nine (9) year maximum cumulative term for independent directors shall be reckoned from 2012.

Succession Policy provides Bank's succession plan to identify and develop internal personnel with the potential to fill key or critical organization positions. The Bank's Succession Plan involves planning for smooth continuation and to manage gaps that will arise when individuals in key positions leave or are promoted thru the individual development plan.

m. Remuneration and Incentive Policy

The Bank provides rewarding careers by maintaining competitive compensation and benefits program for employees. The remuneration policy of the Bank applies to all employees including its senior officers. The relative value of each job and corresponding pay levels are determined by a competency-based job evaluation system. The Human Resources Department regularly reviews compensation policies and recommends changes through the Corporate Governance Committee for endorsement to the Board of Directors for approval.

On top of the salaries, the Bank's employees, including its senior management, also receive other compensation and benefits such as:

- Profit-sharing as provided by the Bank's By-laws
- Performance-based incentives/merit bonus
- 13th month pay
- Overtime pay
- Leaves (Vacation, sick ,maternity, paternity, solo parent, and special leave for women)
- Medical benefits (hospitalization and out-patient benefits for employees)
- Financial assistance loans for officers and employees
- Rice subsidy
- Retirement benefits based on tenure and salary

i. Remuneration Policy and Structure for Executive and Non-Executive Directors

Executive and non-executive directors receive a per diem allowance for actual attendance at meetings. The said directors also participate in the profit sharing as provided in the Bank's By-laws.

ii. Remuneration Policy for Senior Management

The Board of Directors determines and approves the salaries of the Senior Management, specifically, the President/General Manager and the Assistant General Manager. The said senior officers are the top two highest paid personnel of the Bank.

n. Policies and procedures on related party transactions

i. Overarching policies and procedures for managing related party transactions

The Bank recognizes that transactions between and among related parties create financial, commercial and economic benefits to individual institutions and to the entire group where said institutions belong. In this regard, it is the Policy of the Bank that related party transactions (RPT) are done on an arm's length basis. Towards this end, the Bank exercises appropriate oversight and implement effective control systems for managing said exposures as these may potentially lead to abuses that are disadvantageous to the bank and its depositors, creditors, fiduciary clients, and other stakeholders.

The Board manages conflicts of interest or potential conflicts of interest and is responsible in:

- Evaluating on an ongoing basis existing relations between and among businesses and counterparties to ensure that all related parties are continuously identified, RPTS are monitored, and subsequent changes in relationships with counterparties (from non-related to related and vice versa) are captured. Related parties, RPTs, and changes in relationships shall be reflected in the relevant reports to the board of directors and regulators/supervisors.

- Evaluating all material RPTs to ensure that these are not undertaken on more favorable economic terms (e.g., price, commissions, interest rates, fees, tenor, collateral requirement) to such related parties than similar transactions with nonrelated parties under similar circumstances and that no corporate or business resources of the BSFI are misappropriated or misapplied, and to determine any potential reputational risk issues that may arise as a result of or in connection with the transactions. In evaluating RPTS, the Committee takes into account, among others, the following:

  - The related party's relationship to the Bank and interest in the transaction;
  - The material facts of the proposed RPT, including the proposed aggregate value of such transaction;
  - The benefits to the Bank of the proposed RPT;
  - The availability of other sources of comparable products or services; and
  - An assessment of whether the proposed RPT is on terms and conditions that are comparable to the terms generally available to an unrelated party

under similar circumstances. The Bank shall have in place an effective price discovery system and have exercised due diligence in determining a fair price for RPTs.

ii. Material RPTs

All RPTs that are considered material are subject to the approval by the Board of Directors. The Bank's internal policy on RPT:

- Ensures that appropriate disclosure is made, and/or information is provided to regulating and supervising authorities relating to the Bank's RPT exposures, and policies on conflicts of interest or potential conflicts of interest. The disclosure shall include information on the approach to managing material conflicts of interest that are inconsistent with such policies; and conflicts that could arise as a result of the Bank's affiliation or transactions with other related parties.
- Directs Management to report to the board of directors on a regular basis, the status and aggregate exposures to each related party as well as the total amount of exposures to all related parties.
- Ensures that transactions with related parties, including write-off of exposures are subject to periodic independent review or audit process.
- Oversees the implementation of the system for identifying, monitoring, measuring, controlling, and reporting RPTs, including the periodic review of RPT policies and procedures.

o. Self-Assessment Function

i. Internal Audit and Compliance Functions

The internal audit function, with strict accountability for confidentiality and safeguarding records and information, is authorized full, free, and unrestricted access to any and all of the Bank's records, physical properties, and personnel pertinent to carrying out any engagement. It also hasthe authority to directly access and to communicate with any officer or employee, to examine any activity or entity of the bank, as well as to access any records, files or data whenever relevant to the exercise of its assignment. All employees are requested to assist the internal audit activity in fulfilling its roles and responsibilities**.** The internal audit activity also has free and unrestricted access to the Board.

The compliance function remains sufficiently independent of the operations that it conducts compliance testing and evaluation to enable him/her to perform his/her duties in a manner, which facilitates impartial and effective professional judgments and recommendations. The compliance function has no operational responsibilities. The compliance function reports directly to the Board of Directors on a monthly basis.

The Compliance Officer reports on a regular basis to senior management on compliance matters. The report refers to the compliance risk assessment that has taken place during the reporting period, including any changes in the compliance risk profile based on relevant measurements such as performance indicators, summary of any identified breaches and/or deficiencies and the corrective measures recommended to address them, and report on corrective measures already taken.

ii. Review of Effectiveness and Adequacy of the Internal Control System

The Audit Committee provides assistance to the Board of Directors in reviewing the assurance reports of the Internal Audit Department covering the results of assessment on the adequacy and effectiveness of internal controls, risk management and governance processes, and in overseeing the financial management processes, the systems of internal accounting and financial controls, the performance and independence of the external and internal auditor, and annual independent audit of the Bank's financial statements.

Internal control and risk management are further strengthened with the Board of Directors' approval of the Audit Committee recommendations arising from periodic review of Internal Audit, management reports and consultation with the Bank's frontline and support units.

p. Dividend policy

Prior to the declaration of dividends, the Board of Directors ensures compliance with the minimum capital requirements and risk-based capital ratios even after the dividend distribution. The Board of Directors has the power to declare and approve cash dividend, while the stockholders have the right to approve stock dividends. The net amount available for dividends is the amount ofunrestricted or free retained earnings and undivided profits reported in the statement of financial position as of the calendar year-end immediately preceding thedate of divided declaration. For the years 2022 and 2021, the Bank declared cash dividend amounting to ₱5 Million (₱2.65 per share) and nil, respectively.

q. Corporate Social Responsibility

Every graduation month for elementary and high school levels in the Municipality of Tanza, Cavite, the Bank awards the highest honor graduates of elementary and high schools, public or private, with medal, token cash in form of savings deposit account and testimonial luncheon as part of the Bank's corporate social responsibility with aim in inspiring young achievers of the community.

However, in the wake health crisis, the Board decided to temporarily defer awarding of medals, token cash, and holding of testimonial ceremony in years 2022 and 2021, until the pandemic is over wherein mass gathering for commencement rites would be allowed by the government authorities.

r. Consumer Protection Practices

i. Role and Responsibility of the Board and Senior Management

The Board of Directors of the Bank is ultimately responsible for ensuring that consumer protection practices are embedded in the Bank's business operations.The Board and

Senior Management are responsible for developing the Bank's consumer protection strategy and establishing an effective oversight over the Bank's consumer protection programs.

The Board is primarily responsible for approving and overseeing the implementation of the Bank's consumer protection policies as well as the mechanism to ensure compliance with said policies.While Senior Management is responsible for the implementation of the consumer protection policies approved by the Board, the latter shall be responsible for monitoring and overseeing the performance of Senior Management in managing the day to day consumer protection activities of the Bank.

ii. Consumer Protection Risk Management System of the Bank

As part of the Bank's consumer protection risk management system, the bank has put in place appropriate management controls and take reasonable steps to ensure that in handling complaints/requests, it identifies and remedies any recurring or systemic problems, and identifies weaknesses in the Bank's internal control procedures or process by:

- Analyzing complaints/requests data;
- Analyzing causes of complaints/requests;
- Considering whether such identified weaknesses may also affect other processes or products, including those not directly complained of/requested; and
- Correcting, whether reasonable to do so, such causes taking into consideration the concomitant costs and other resources.

iii. Consumer Assistance Management System

In order that financial consumers are provided with accessible, affordable, independent, fair, accountable, timely and efficient means for resolving complaints with their financial transactions. The Bank has established the Consumer Assistance Management System (CAMS) for complaint handling and redress. CAMS shall provide guidelines on receiving, recording, evaluating, resolving, monitoring, reporting and giving feedback to consumers.

The Consumer Assistance Group is responsible in handling consumer concerns. The said Group is composed of the Consumer Assistance Group Head, who is concurrently the Assistant General Manager; Consumer Help In-charge in the person of Department Heads and Branch Managers; and, the front-liner who is designated as Consumer Help Officer.

The Assistant General Manager heads the Consumer Assistance Group. Each Manager/Supervisor is in-charge of the Department's/Branch's/MBO's designated consumer help officer who handles consumer concerns. There are alternates for the in-charge and help officer of each team to ensure presence of consumer help officer during banking hours. Group Head is be responsible for the i) overseeing and evaluating the effectiveness of CAMS; and ii) reporting to the Board and Senior Management.

The Consumer Help In-Charge is responsible for handling complaint/request which is escalated by the Consumer Help Officer. On a daily basis, this officer shall review the register of consumer concern and reports the same to the Group Head. The complex complaint/request may further be escalated by the In-charge to the Group Head or Senior Management for proper disposition.

The Consumer Help Officer is a front-liner who: i) receives and acknowledges consumer concerns; ii) records concerns in a Register/database; iii) makes an initial review and investigation of concerns; iv) handles simple complaint/request or escalates complex complaint/request to the Consumer help-in-charge; and reports to the Unit Consumer Help In-Charge.

6. Corporate Information

a. Organizational structure

Name of Officer	Position
1. Edwin S. Fojas	President & General Manager
2. Imelda D. Montenegro	Assistant General Manager/ Comptroller
3. Ma. Criselda M. Fojas	Chief Legal Officer
4. Elijah S. Maranan	Acting Compliance Officer
5. Richelle M. Villar	Cashier
6. Marites T. Luis	Accounting Manager
7. Marites L. Monzon	Loan Documentation & Administrative Manager
8. Jasmin A. Riemedio	Credit Risk Manager
9. Joel Trapago	Collection Manager
10. Jonathan I. Montesines	Information and Communication Technology Manager
11. Marilyn P. Alcasid	Loan Marketing and Microfinance Manager
12. Eileen P. Dones	Internal Audit Manager
13. Angelina B. Gabriel	Customer Service Manager
14. Joseph C. Dampitan	Branch Manager – Molino
15. Ruel B. Andaya	Branch Manager – Indang
16. Myra P. Arcena	Branch Manager - Naic
17. John Philip J. Cezar	Branch Manager - Mamburao
18. Pia Regina B. Piguing	Branch Manager – Teresa
19. Jane Lindle T. Talavera	Branch Manager – Tanay
20. James A. Molod	Branch Manager – Mendez
21.Rodel H. Rogador	Branch Manager – Alfonso

b. List of major stockholders (with 2% and up of stockholdings) of the bank, including nationality, percentage of stockholdings and voting status

Name of Stockholder	Nationality	Percentage of Ownership	Voting Status
1. Emmanuel P. Santos	Filipino	15.65%	Voting
2. Elena J. Malabanan	Filipino	8.66%	Voting

3. Raymundo A. Del Rosario	Filipino	8.35%	Voting
4. Heirs of Lily C. Fojas	Filipino	8.30%	Voting
5. Edwin S. Fojas	Filipino	5.48%	Voting
6. Myrna S. Fojas	Filipino	4.98%	Voting
7. Heirs of Raul J. Fojas	Spanish	4.79%	Voting
8. Heirs of Jovencio S. Fojas, Jr.	Filipino	4.69%	Voting
9. Macario S. Fojas	Filipino	4.69%	Voting
10. Leticia P. Santos	Filipino	4.25%	Voting
11. Cynia J. Fojas	Filipino	3.44%	Voting
12. Sergio J. Fojas	Filipino	2.99%	Voting
13. Heirs of Romeo O. Ner	Filipino	2.80%	Voting
14. Purificacion N. Garcia	Filipino	2.36%	Voting

c. List and description of products and services offered

The Bank's products and services are as follows:

Product/Services	**Description**
Deposit	Regular savings, ATM savings, special savings, checking account, regular time deposit, long term non-negotiable time deposit
Loans	SME, microfinance, salary/consumption, housing, corporate loan, agricultural loan
Remittance	Western Union,TransFast, BDO Remit
Bills Payment	Utility bills, etc. (Bayad Center)
Others	SSS paying (pension) agent Microinsurance Electronic Payment and Financial Services (EPFS): • InstaPay – Receiving of Funds only • PESONet – Receiving of Funds only

d. Bank website and social media accounts

- Website: www.bangkomabuhay.com.ph.
- Facebook account: Bangko Mabuhay – A Rural Bank, Inc.
- Instagram account: bangkomabuhayofficial

e. List of banking units as of December 31, 2022:

Bank Office	Location	Contact Numbers
1. Head Office	Bangko Mabuhay Building, A. Soriano Highway, Bgy. Daang Amaya III, Tanza, Cavite	(046) 489-20-01 to 04
2. Molino Branch	Bangko Mabuhay Building, Zapote-Paliparan Road, Bgy. Molino III, Bacoor City, Cavite	(046) -477-01-50; (046)-477-01-04
3. Indang Branch	Bangko Mabuhay Building, De Ocampo St., Poblacion, Indang, Cavite	(046)-415-07-93; (046)-862-10-65
4. Naic Branch	Bangko Mabuhay Building, P. Poblete St., Bgy. Gombalza, Naic, Cavite	(046)-412-05-98 (046)-412-06-51
5. Mamburao Branch	San Jose St., Bgy. 7, Mamburao, Occidental Mindoro	(043)458-12-74
6. Teresa Branch	No. 48 Corazon C. Aquino Avenue (formerly Pres. M.L. Quezon St.), Poblacion, Teresa, Rizal	(02)-8552-78-37
7. Tanay Branch	Near Tanay Public Market, SitioPasipit, Bgy. Plaza Aldea, Tanay, Rizal	(02)-8635-74-58 (02)-7213-34-64
8. Mendez Branch	No. 145 J.P. Rizal St., Poblacion, Mendez, Cavite	(046)-413-01-64 (046)-413-02-51
9. Alfonso Branch	Bgy. Luksuhin Ibaba, Alfonso, Cavite	(046)-404-57-75
10.Dasmariñas Branchlite	Camerino Avenue corner San Juan St., Bgry. Zone 1, Dasmariñas City, Cavite	(046)-850-20-75 (046)-432-03-64
11. Manggahan Branchlite	No. 36 Grepps Building, CM Delos Reyes St., Bgy. Manggahan, Gen. Trias City, Cavite	(046)-509-50-23
12. Silang Branchlite	Josephine Village, Bgy. Lucsuhin, Silang, Cavite	(046)-409-33-85

7. Information on sustainability finance as required under Section 153 of the Manual of Regulations for Banks (MORB).

a. Overview of Environmental and Social (E&S) risk management system

The Bank is cognizant that climate change and other environmental and social risks could pose financial concerns considering their significant and protracted implications on the Bank's operations and financial interest. Therefore, the Board and Senior Management are committed to embed sustainability principles in the Bank's governance framework, risk management system, business strategy and operations.

Toward this end, the Bank shall promote a culture that fosters environmentally and socially responsible business decisions and build its team's internal capacity and awareness of climate risks on how to assess and manage the same, integrate this process into existing risk management system. Managing climate-related physical risks contributes to the reduction of credit risk on the Bank's loan portfolio.

b. Breakdown of E&S Risk Exposures of the Bank per Sector

The Bank caters to agricultural sector, housing sector and the micro, small and medium enterprises (MSMEs). These sectors are exposed or vulnerable to physical risks or E&S risk. Hereunder is the breakdown of E&S risk exposures of the Bank per sector:

Loans Subject to E&S Risk Exposure as of December 31, 2022				
Loan Product	Current	Past Due	Non-Performing	Total
Agra-agri credit				
a. Agrarian reform loans	₱	₱ -	₱ 213,370	₱ 213,370
b. Other agri credits	8,644,474	-	2,620,036	11,264,510
Microfinance	23,219,809	-	9,252,936	32,472,745
SME Loans				
a. Small enterprise	79,820,212	8,481,254	46,465,777	134,767,243
b. Medium enterprise	31,005,446	7,535,074	35,288,041	73,828,561
Loans for housing purpose	54,440,140	4,099,419	2,577,788	61,117,347
Total	₱ 197,130,081	₱ 20,115,747	₱ 96,417,948	₱ 313,663,776
% to Total Loan Portfolio	47%	5%	23%	76%

Loans Subject to E&S Risk Exposure as of December 31, 2021				
Loan Product	Current	Past Due	Non-Performing	Total
Agra-agri credit				
a. Agrarian reform loans	₱	₱ -	₱ 213,370	₱ 213,370
b. Other agri credits	11,651,646	-	5,549,406	17,201,052
Microfinance	22,815,518	-	11,680,234	34,495,752
SME Loans				
a. Small enterprise	79,820,212	8,481,254	46,465,777	134,767,243
b. Medium enterprise	31,005,446	7,535,074	35,288,041	73,828,561
Loans for housing purpose	35,082,784	5,310,660	9,748,867	50,142,311
Total	₱ 180,375,606	₱ 21,326,988	₱ 108,945,695	₱ 310,648,289
% to Total Loan Portfolio	57%	7%	34%	86%

c. Information on Existing and Emerging E&S risks and their impact on the Bank

The Bank's operates in the Region 4-A, in Provinces of Cavite and Rizal; and in Region 4-B, in the Province of Occidental Mindoro. The Bank recognizes that the existing and emerging E&S risks and its potential impact on the Bank of climate change should be taken into consideration in its strategic plan. These impacts include major changes in rainfall patterns and distributions, threats to the natural ecosystems, declining rice yields, increasing intense droughts, rising sea level, and water scarcity, among others.

Understanding and deepening the knowledge level on physical risks and transition risks brought about by the E&S risks will enable the Bank to finance agricultural, housing and MSME sectors in a sustainable manner. Physical risks refer to the potential loss or damage to tangible assets arising from climate change and/or other weather-related condition, while transition risks pertain to potential economic adjustment cost resulting from policy, legal, technology, market change to meet climate change mitigation and adaption requirements.

d. Initiatives to Promote Adherence to Internationally-recognized Sustainability Standards and Practices

The Board and Senior Management strive to promote adherence to internationally-recognized sustainability standards and practices by:

- Enhancing the understanding and technical skills of Bank personnel on sustainability finance through capacity building;
- Monitoring the Bank's progress in attaining sustainability objectives and reporting thereof to the Board of Directors; and
- Ensuring operation and personnel performance are consistent with the objectives.

UHY M.L. Aguirre & Co., CPAs

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INDEPENDENT AUDITOR'S REPORT

Stockholders and Board of Directors
BANGKO MABUHAY (A RURAL BANK), INC.
Bangko Mabuhay Building, A. Soriano Highway
Brgy. Daang Amaya III, Tanza, Cavite

Opinion

We have audited the financial statements of **BANGKO MABUHAY (A RURAL BANK), INC.** (the "Bank"), which comprise the statements of financial position as of December 31, 2022 and 2021, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements present fairly, in all material respects, the financial position of **BANGKO MABUHAY (A RURAL BANK), INC.** as of December 31, 2022 and 2021, and its financial performance and cash flows for the years then ended in accordance with Philippine Financial Reporting Standards – (PFRS).

Basis for Opinion

We concluded our audit in accordance with Philippine Standards on Auditing (PSAs). 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 Bank in accordance the Code of Ethics for Professional Accountants in the Philippines together with the ethical requirements that are relevant to our audit of the financial statements in the Philippines, and we have fulfilled our 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.

Emphasis of Matter

We draw attention to Note 2 to the financial statements, which indicates that the Bank's financial statements have been prepared in accordance with PFRS, as modified by the application of the financial reporting reliefs issued by the BSP and approved by the SEC in response to the COVID-19 pandemic. Our opinion is not modified in respect of this matter.

Responsibilities of Management and Those Charged with Governance 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 Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless Management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

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

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

Further descriptions of the auditor's responsibilities for the audit of the financial statements are indicated in the Appendix I of this auditor's report.

Report on the Supplementary Information Required Under Revenue Regulations and BSP Circular 1074

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 Revenue Regulations 15-2010, Revenue Regulations 34-2020 and BSP Circular 1074 to the financial statements are presented for purposes of filing with Bureau of Internal Revenue and the Bangko Sentral ng Pilipinas, respectively, and are not a required part of the basic financial statements. Such information is the responsibility of the Management of **BANGKO MABUHAY (A RURAL BANK), INC.** The information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

UHY M.L. AGUIRRE & CO., CPAs
Tax Identification No. 006-533-775
BOA Accreditation No. 4511
July 9, 2021 valid until May 14, 2024
BIR Accreditation No.08-005582-000-2021
September 13, 2021 valid until September 12, 2024
BSP Accreditation No. 4511-BSP
Valid for Financial Audit Report For the Years 2019, 2020, 2021, 2022 and 2023
SEC Group B Accreditation No. 4511-SEC
November 17, 2022 valid until November 16, 2023
NEA Accreditation No. 2020-12-00069
December 11, 2020 valid until December 10, 2023
CDA-CEA Accreditation No. 038-AF
April 21, 2021 valid until April 20, 2024
IC Accreditation No. 4511-IC
September 3, 2021 valid until September 2, 2025

By: Michael L. Aguirre

MICHAEL L. AGUIRRE
Partner
CPA Certificate No. 097376
PRC ID Expiry Date September 11, 2024
BOA Accreditation No. 4511
July 9, 2021 valid until May 14, 2024
BSP Accreditation No. 97376-BSP
Valid for Financial Audit Report For the Years 2019, 2020, 2021, 2022 and 2023
SEC Group B Accreditation No. 97376-SEC
November 17, 2022 valid until November 16, 2023
Tax Identification No. 182-084-772
BIR Accreditation No. 08-005582-001-2021
October 11, 2021, valid until October 10, 2024
IC Accreditation No. 97376-IC
September 3, 2021 valid until September 2, 2025
PTR No. 9569967
Issued on January 11, 2023
Makati City

April 15, 2023
Makati City, Philippines

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Banks'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 Banks'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 Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statement, including the disclosures and whether the financial statement represents the underlying transactions and events in a manner that achieves fair presentation.

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

BANGKO MABUHAY (RURAL BANK), INC.

STATEMENT OF FINANCIAL POSITION
December 31, 2022
(With Comparative Figures for 2021)
(in Philippine Peso)

	Notes	2022	2021
ASSETS			
Cash and other cash items	9	**22,922,329**	30,360,521
Due from Bangko Sentral ng Pilipinas	10	**42,350,245**	37,336,809
Due from other banks	11	**558,805,986**	523,363,882
Financial assets at amortized cost	12	**782,256,976**	831,841,081
Loans and receivables - net	13	**398,918,292**	338,728,788
Bank Premises, Furniture, Fixtures and Equipment-net	14	**44,051,701**	43,715,189
Right-of-use asset-net	16	**1,231,090**	959,537
Investment Properties - net	15	**121,070,851**	118,603,766
Deferred tax assets - net	30	**13,498,124**	11,829,863
Other Assets - net	17	**34,622,895**	30,690,785
TOTAL ASSETS		**2,019,728,489**	1,967,430,221
LIABILITIES AND EQUITY			
LIABILITIES			
Deposit liabilities	18	**1,647,890,929**	1,598,859,009
Bills payable	19	**10,000,000**	20,000,000
Income tax payable	30	**-**	-
Lease liabilities	20	**1,484,821**	1,235,174
Retirement liabilities - net	27	**3,265,158**	4,007,972
Other liabilities	21	**21,167,340**	14,793,333
TOTAL LIABILITIES		**1,683,808,248**	1,638,895,488
STOCKHOLDERS' EQUITY			
Capital stock	22	**188,879,800**	188,879,800
Additional Paid-in Capital	22	**26,811,831**	26,811,831
Surplus free	22	**121,923,635**	114,538,127
Remeasurement losses on retirement liabilities	22	**(1,695,025)**	(1,695,025)
NET STOCKHOLDERS' EQUITY		**335,920,241**	328,534,733
TOTAL LIABILITIES AND EQUITY		**2,019,728,489**	1,967,430,221

See Accompanying Notes to Financial Statements

BANGKO MABUHAY (RURAL BANK), INC.
STATEMENT OF COMPREHENSIVE INCOME
For the Year Ended December 31, 2022
(With Comparative Figures for 2021)
(in Philippine Peso)

	Notes	2022	2021
INTEREST INCOME			
Loans and receivables	24	**72,601,799**	79,937,858
Due from other banks	24	**17,019,211**	2,236,298
Financial assets at amortized cost	24	**3,631,180**	14,575,953
		93,252,190	96,750,109
INTEREST AND FINANCE CHARGES			
Deposit liabilities	25	**5,697,973**	7,231,171
Bills Payable	25	**130,723**	18,078
Lease liabilities	25	**11,389**	107,515
		5,840,085	7,356,764
NET INTEREST INCOME		**87,412,105**	89,393,345
OTHER INCOME			
Service sharges and commissions	26	**16,735,636**	14,133,920
Gain from sale of non-financial assets	26	**21,929,542**	11,128,852
Miscellaneous income	26	**5,135,021**	7,770,384
Recovery on charge-off assets	26	**200,908**	243,786
		44,001,107	33,276,942
TOTAL OPERATING INCOME		**131,413,212**	**122,670,287**
OPERATING EXPENSES	27	**119,835,633**	115,903,410
PROFIT BEFORE INCOME TAX		**11,577,579**	6,766,877
PROVISION FOR (BENEFIT FROM) INCOME TAX	30	**(813,246)**	(1,830,050)
PROFIT		**12,390,825**	8,596,927
OTHER COMPREHENSIVE INCOME		**-**	-
NET INCOME		**12,390,825**	8,596,927

See Accompanying Notes to Financial Statements

BANGKO MABUHAY (RURAL BANK), INC.
STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY
For the Year Ended December 31, 2022
(With Comparative Figures for 2021)
(in Philippine Peso)

					liabilities	
Balance at January 1, 2021	22	188,879,800	26,811,831	105,941,200	(1,695,025)	319,937,806
Total comprehensive income				8,596,927	-	8,596,927
Dividends declared	22	-	-	-	-	-
Balance at December 31, 2021		188,879,800	26,811,831	114,538,127	(1,695,025)	328,534,733
Dividends declared				(5,005,317)		(5,005,317)
Total comprehensive income		-	-	12,390,825	-	12,390,825
Balance at December 31, 2022		**188,879,800**	**26,811,831**	**121,923,635**	**(1,695,025)**	**335,920,241**

See Accompanying Notes to Financial Statements

BANGKO MABUHAY (RURAL BANK), INC.
STATEMENT OF CASH FLOWS
For the Year Ended December 31, 2022 (With Comparative Figures for 2021) (in Philippine Peso)

	Notes	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before income tax		11,577,579	6,766,877
Adjustments for:			
Interest Income	24	(93,252,190)	(96,750,109)
Depreciation and amortization	30	13,696,590	13,795,097
Interest expense	25	5,840,085	7,356,764
Gain on sale of non-financial assets	26	(21,929,542)	(11,128,852)
Retirement benefit expense	28	3,200,478	3,200,478
Gain on plan asset		363,812	(299,132)
Operating cash flows before working capital changes		(80,503,188)	(77,058,877)
Changes in operating assets and liabilities			
Decrease (increase) in:			
Loans and receivables		(58,827,327)	50,211,026
Other assets		(7,306,169)	10,952,906
Increase (decrease) in:			
Deposit liabilities		49,347,376	(13,441,543)
Other liabilities		7,296,956	(9,702,081)
Net cash used in operations		(89,992,352)	(39,038,569)
Interest received		91,890,013	97,682,337
Contribution to retirement plan		(4,307,104)	(1,709,923)
Interest paid		(6,024,818)	(7,517,816)
Income tax paid		-	(695,705)
Net cash generated from (used in) operations		(8,434,261)	48,720,324
CASH FLOWS FROM INVESTING ACTIVITIES			
Net proceeds from sale of investment properties		26,521,379	17,124,582
Redemption (additional) financial assets at amortized cost		49,584,105	4,861,890
Additional investment properties		(11,629,770)	(13,387,376)
Acquisition of bank premises,furniture,fixtures, & equipment	14	(7,517,971)	(7,445,982)
Proceeds from employee under litigation - goodwill	17	838,794	-
Acquisition of computer software	17	(535,584)	(746,298)
Net cash generated from investing activities		57,260,953	406,816
CASH FLOWS FROM FINANCING ACTIVITIES			
Availment (payment) of payable	19	(10,000,000)	5,000,000
Payment of lease liabilities	20	(804,027)	(783,458)
Dividends paid		(5,005,317)	-
Net cash generated from (used in) financing activities		(15,809,344)	4,216,542
NET INCREASE IN CASH		33,017,348	53,343,682
CASH AT BEGINNING OF YEAR		591,061,212	536,971,232
CASH AT END OF YEAR		624,078,560	590,314,914

BANGKO MABUHAY (RURAL BANK), INC.
NOTES TO FINANCIAL STATEMENTS
December 31, 2022
(With Comparative Figures for 2021)
(in Philippine Peso)

1. CORPORATE INFORMATION

Bangko Mabuhay (A Rural Bank), Inc. was incorporated in the Philippines on January 21, 2015 through the consolidation of Rural Bank of Tanza (Cavite), Inc. and Rural Bank of Teresa (Rizal), Inc. The consolidation was approved by the Bangko Sentral ng Pilipinas (BSP) and the Philippine Deposit Insurance Corporation (PDIC) under the Strengthening Program for Rural Banks (SPRB) pursuant to Republic Act (RA) No. 7353 and the Monetary Board Resolution No. 1541 dated September 19, 2013. The consolidated bank was incorporated and registered with Securities and Exchange Commission (SEC) under Registration Number CS201500594. On March 23, 2015, the BSP granted the Bank the Certificate of Authority to engage in the business of rural banking which commenced operations on April 1, 2015.

The Bank's Head Office is located at A. Soriano Highway, Bgy. Daang Amaya III, Tanza Cavite (which is also its principal and registered address). The Bank operates in the Philippines, particularly in the Provinces of Cavite, Rizal and Occidental Mindoro and as of December 31, 2022 and 2021, has 8 branches and 3 branch-lite units. A branch-lite unit under BSP regulations refers to any permanent office of the Bank that is other than its head office or a branch. The said branch-lite units perform limited banking activities (such as microfinance, micro-deposit, bills payment and remittance services) and record its transactions in the books of the head office or the branch to which these units are annexed. The branches' and branch-lite units' addresses as of reporting dates are as follows:

No.	Name of Branch/ Branch-lite Unit	Address
1	Molino Branch	Bangko Mabuhay Building, Zapote-Paliparan Road, Bgy. Molino III, Bacoor City, Cavite
2	Indang Branch	Bangko Mabuhay Building, De Ocampo St., Poblacion, Indang, Cavite
3	Naic Branch	Bangko Mabuhay Building, P. Poblete St., corner Balong Pari St., Poblacion, Naic, Cavite
4	Mamburao Branch	San Jose St., Bgy. Poblacion 7, Mamburao, Occidental Mindoro
5	Teresa Branch	No. 48 Corazon C. Aquino Avenue (formerly Pres. M.L. Quezon St.), Poblacion, Teresa, Rizal
6	Tanay Branch	Near Tanay Public Market, Sitio Pasipit, Bgy. Plaza Aldea, Tanay, Rizal
7	Mendez Branch	No. 145 J. P. Rizal St., Poblacion, Mendez, Cavite
8	Alfonso Branch	Bgy. Luksuhin-Ibaba, Alfonso, Cavite
9	Dasmariñas Branch-lite	Camerino Avenue corner San Juan St., Bgy. Zone 1, Dasmariñas City, Cavite

10	Manggahan Branch-lite	No. 36 Greps Building, C.M. Delos Reyes St., Bgy. Manggahan, Gen. Trias City, Cavite
11	Silang Branch-lite	Josephine Village, Bgy. Lucsuhin, Silang, Cavite

The Bank files, pays and remits its tax obligations to Bureau of Internal Revenue District Office No. 54B situated at Kawit, West Cavite under TIN 008-937-347-000.

The corporate term of the Bank is perpetual, unless otherwise stated, pursuant to Article 11 of the Revised Corporation Code of the Philippines which took effect on February 23, 2019.

The Board of Directors (BOD) of the Bank has reviewed and approved the release of accompanying financial statements for the years ended December 31, 2022 and 2021 on April 15, 2023.

2. BASIS FOR THE PREPARATION AND PRESENTATION OF FINANCIAL STATEMENTS

Statement of Compliance

The financial statements of the Bank have been prepared in accordance with Philippine Financial Reporting Standards (PFRS). PFRSs include all applicable PFRSs, Philippine Accounting Standards (PASs), and interpretations issued by the International Financial Reporting Interpretations Committee (FRIC) as approved by the Financial Reporting Standards Council (FRSC) and adopted by the SEC.

Basis of Preparation

The accompanying financial statements have been prepared in accordance with PFRS, as modified by the application of the financial reporting reliefs issued by the Bangko Sentral ng Pilipinas (BSP) and approved by the SEC in response to the COVID-19 pandemic.

On April 01, 2020, the Bangko Sentral ng Pilipinas (BSP) issued BSP Memo No 2020-017 providing for the implementing rules and regulations (IRR) on the 30-day grace period on loan payments under R.A. No. 11469 or the “Bayanihan to Heal As One Act.” It mandates all covered institutions to implement a 30-day grace period to all loans with principal and/or interest falling due within the Enhanced Community Quarantine (ECQ) period (17 March 2020 to 12 April 2020), without incurring interest on interest, penalties, fees and other charges. The 30-day grace period shall apply to each loan of individuals and entities with multiple loans.

On September 18, 2020, the Bangko Sentral ng Pilipinas (BSP) issued another BSP Memo No 2020-068 providing for the implementing rules and regulations (IRR) on the 60-day grace period on loan payments under R.A. No. 11494 or the “Bayanihan to Recover As One Act.” It requires all covered institutions to implement a mandatory one-time 60-day grace period to all loans that are existing, current and outstanding falling due, or any part thereof, on or before December 31, 2020.The Mandatory one-time 60-day grace period shall apply to each loan of individuals and entities with multiple loans.

Total extended loans receivable, related unamortized discount and allowance for credit losses, are as follows:

		2022		2021
Loans Receivable	₱	27,730,190	₱	85,608,873
Allowance for Credit Losses		(2,973,309)		(3,261,179)
	₱	24,756,881	₱	82,347,694

Presentation and Functional Currency

Items included in the financial statements of the Bank are measured using Philippine Peso, the currency of the primary economic environment in which the Bank operates (the "functional currency"). All information presented in the functional currency has been rounded to the nearest Peso., except when otherwise specified.

The Bank chose to present its financial statements using its functional currency.

The statements of financial position of the Bank are presented in order of liquidity. An analysis regarding recovery of assets or settlement of liabilities within 12 months after the reporting date (current) and more than 12 months after the reporting date (non-current) is presented in Note 7.

Income and expenses are not offset in the statement of comprehensive income unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the accounting policies of the Bank.

For purposes of reporting cash flows, cash includes cash and other cash items, due from BSP and other banks that are highly liquid, readily convertible to known amounts of cash with original maturities of three months or less from dates of placements and which are subject to insignificant risk of changes in value. Due from BSP includes statutory reserves required by the BSP which the Bank considers as cash as withdrawals can be made to meet the Bank's cash requirements as allowed by the BSP.

Use of Judgments and Estimates

The preparation of the Bank's financial statements requires Management to make judgments, estimates, and assumptions that affect the amounts reported in the Bank's financial statements and accompanying notes.

Judgments are made by Management in the development, selection and disclosure of the Bank's significant accounting policies and estimates and the application of these policies and estimates.

The estimates and assumptions are reviewed on an ongoing basis. These are based on Management's evaluation of relevant facts and circumstances as of the reporting date. Actual results could differ from such estimates.

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.

Going Concern Assumption

The Bank is not aware of any significant uncertainties that may cast doubts upon the Bank's ability to continue as a going concern.

3. ADOPTION OF NEW AND REVISED REPORTING STANDARDS

Changes in Accounting Policies and Disclosures

The Bank adopted all accounting standards and interpretations as at December 31, 2022 and 2021. The accounting policies adopted are consistent with those of the previous financial year, except for new and revised accounting standards adopted by the Bank starting January 1, 2021. Adoption of these standards did not have any significant impact on the Bank's financial position or performance unless otherwise indicated.

These 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, and assessed to be applicable to the Bank's financial statements, are as follows:

NEW AND REVISED ACCOUNTING STANDARDS

New and Revised PFRSs effective for annual period beginning on or after January 1, 2022

- **Amendments to PFRS 3, Reference to the Conceptual Framework**

  The amendments are intended to replace a reference to the Framework for the Preparation and Presentation of Financial Statements, issued in 1989, with a reference to the Conceptual Framework for Financial Reporting issued in March 2018 without significantly changing its requirements. The amendments added an exception to the recognition principle of PFRS 3, Business Combinations to avoid the issue of potential 'day 2'gains or losses arising for liabilities and contingent liabilities that would be within the scope of PAS 37, Provisions, Contingent Liabilities and Contingent Assets or Philippine-IFRIC 21, Levies, if incurred separately.

  At the same time, the amendments add a new paragraph to PFRS 3 to clarify that contingent assets do not qualify for recognition at the acquisition date. The amendments are effective for annual reporting periods beginning on or after January 1, 2022 and apply prospectively.
  The Bank is currently examining the impact of adopting these amendments to PFRS 3 in its financial reporting.

- **Amendments to PAS 16, Plant and Equipment: Proceeds before Intended Use**

  The amendments prohibit entities deducting from the cost of an item of property, plant and equipment, any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognizes the proceeds from selling such items, and the costs of producing those items, in profit or loss.

  The amendment is effective for annual reporting periods beginning on or after January 1, 2022 and must be applied retrospectively to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented when the entity first applies the amendment.

  The Bank is currently examining the impact of adopting these amendments to PAS 16 in its financial reporting.

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

  The amendments specify which costs an entity needs to include when assessing whether a contract is onerous or loss-making. The amendments apply a "directly related cost approach". The costs that relate directly to a contract to provide goods or services include both incremental costs and an allocation of costs directly related to contract activities. General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract.

The amendments are effective for annual reporting periods beginning on or after January 1, 2022. The Bank is currently examining the impact of adopting these amendments to PAS 37 in its financial reporting.

Annual Improvements to PFRSs 2018-2020 Cycle

- **Amendments to PFRS 1, First-time Adoption of Philippines Financial Reporting Standards, Subsidiary as a first-time adopter**

  The amendment permits a subsidiary that elects to apply paragraph D16(a) of PFRS 1 to measure cumulative translation differences using the amounts reported by the parent, based on the parent's date of transition to PFRS. This amendment is also applied to an associate or joint venture that elects to apply paragraph D16(a) of PFRS 1.

  The amendment is effective for annual reporting periods beginning on or after January 1, 2022 with earlier adoption permitted.

  The amendments are not expected to have a material impact on the Bank.

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

  The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment.

  The amendment is effective for annual reporting periods beginning on or after January 1, 2022 with earlier adoption permitted. The Bank will apply the amendments to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment.

  The amendments are not expected to have a material impact on the Bank's financial statements.

- **Amendments to PAS 41, Agriculture, Taxation in fair value measurements**

  The amendment removes the requirement in paragraph 22 of PAS 41 that entities exclude cash flows for taxation when measuring the fair value of assets within the scope of PAS 41.

  An entity applies the amendment prospectively to fair value measurements on or after the beginning of the first annual reporting period beginning on or after January 1, 2022 with earlier adoption permitted. The amendments are not expected to have a material impact on the Bank.

- **Amendments to PFRS 16, Lease Incentives**

  The amendment to Illustrative Example 13 accompanying IFRS 16 removes from the example the illustration of the reimbursement of leasehold improvements by the lessor in order to resolve any potential confusion regarding the treatment of lease incentives that might arise because of how lease incentives are illustrated in that example.

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

  The Bank is currently examining the impact of adopting these amendments to PFRS 16 in its financial reporting.

New and Revised PFRSs in Issue but Not Yet Effective

Effective beginning on or after January 1, 2023

- **Amendments to PAS 1, Presentation of Financial Statements and PFRS Practice Statement 2 Making Materiality Judgements—Disclosure of Accounting Policies**

  The amendments change the requirements in PAS 1 with regard to disclosure of accounting policies. The amendments replace all instances of the term 'significant accounting policies' with 'material' accounting policy information'. Accounting policy information is material if, when considered together with other information included in an entity's financial statements, it can reasonably be expected to influence decisions that the primary users of general-purpose financial statements make on the basis of those financial statements.

  The supporting paragraphs in PAS 1 are also amended to clarify that accounting policy information that relates that immaterial transactions, other events or conditions is immaterial and need not be disclosed. Accounting policy information may be material because of the nature of the related transactions, other events or conditions, even if the amounts are immaterial. However, not all accounting policy information relating to material transactions, other events or conditions is itself material.
  The amendments to PAS 1 are effective for annual periods beginning on or after 1 January 2023, with earlier application permitted and are applied prospectively. The amendments to PFRS Practice Statement 2 do not contain an effective date or transition requirements.

  The Bank is currently examining the impact of adopting PFRS 17 in its financial reporting.

- **Amendments to PAS 8 Accounting Policies, Changes in Accounting Estimates and Errors — Definition of Accounting Estimates**

  The amendments replace the definition of a change in accounting estimates with a definition of accounting estimates. Under the new definition, accounting estimates are "monetary amounts in financial statements that are subject to measurement uncertainty".

  The definition of a change in accounting estimates was deleted. However, the Board retained the concept of changes in accounting estimates in the Standard with the following clarifications:

  • A change in accounting estimate that results from new information or new developments is not the correction of an error; and

- 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.

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

The Bank is currently examining the impact of adopting PFRS 17 in its financial reporting.

- **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 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 utilised) 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 1 January 2023, with earlier application permitted.

The Bank is currently examining the impact of adopting PFRS 17 in its financial reporting.

Effective beginning on or after January 1, 2024

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

The amendments clarify paragraphs 69 to 76 of PAS 1, Presentation of Financial Statements, to specify the requirements for classifying liabilities as current or non-current. The amendments clarify:

•What is meant by a right to defer settlement.
• That a right to defer must exist at the end of the reporting period
• That classification is unaffected by the likelihood that an entity will exercise its deferral right
• That only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification

The amendments are effective for annual reporting periods beginning on or after January 1, 2023 and must be applied retrospectively. However, in November 2021, the International Accounting Standards Board (IASB) tentatively decided to defer the effective date to no earlier than January 1, 2024. The Bank is currently assessing the impact the amendments will have on current practice and whether existing loan agreements may require renegotiation.

Effective beginning on or after January 1, 2025

- **PFRS 17, Insurance Contracts**

PFRS 17 is a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, PFRS 17 will replace PFRS 4, Insurance Contracts. This new standard on insurance contracts applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply.

The overall objective of PFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in PFRS 4, which are largely based on grandfathering previous local accounting policies, PFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of PFRS 17 is the general model, supplemented by:

•A specific adaptation for contracts with direct participation features (the variable fee approach)
• A simplified approach (the premium allocation approach) mainly for short-duration contracts

On December 15, 2021, the FSRSC amended the mandatory effective date of PFRS 17 from January 1, 2023 to January 1, 2025. 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.

PFRS 17 is effective for reporting periods beginning on or after January 1, 2025, with comparative figures required. Early application is permitted.

The Bank is currently examining the impact of adopting PFRS 17 in its financial reporting.

- **PFRS 17, Initial Application of PFRS 17 and PFRS 9— Comparative Information**

The amendment adds a transition option for a classification overlay to address possible accounting mismatches between financial assets and insurance contract liabilities in the comparative information presented on initial application of PFRS 17. The amendments would be available for:

• any financial assets, including those held in respect of an activity that is unconnected to contracts within the scope of PFRS 17; and
• both entities that initially apply PFRS 9 at the same time as they apply PFRS 17, and entities that had already applied IFRS 9 before the initial application of PFRS 17 where those entities redesignate financial assets applying paragraph C29 of PFRS 17.

The transition option would:

• be available, on an instrument-by-instrument basis;
• allow an entity to present comparative information as if the classification and measurement requirements of PFRS 9 had been applied to that financial asset, but not require an entity to apply the impairment requirements of PFRS 9; and
• require an entity that applies the classification overlay to a financial asset to use reasonable and supportable information available at the transition date to determine how the entity expects that financial asset to be classified applying PFRS 9.

The amendment does not amend the transition requirements in PFRS 9. At the date of initial application of IFRS 9, an entity is required to apply the transition requirements in IFRS 9 to a financial asset, regardless of whether it has applied the classification overlay to that asset.

The amendment 17 is effective for reporting periods beginning on or after January 1, 2025. Early application is permitted.

The Bank is currently examining the impact of adopting PFRS 17 in its financial reporting.

Deferred effectivity

- **Amendments to PFRS 10, Consolidated Financial Statements, and PAS 28, Sale or Contribution of Assets between an Investor and its Associate or Joint Venture**

The amendments address the conflict between PFRS 10 and PAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that a full gain or loss is recognized when a transfer to an associate or joint venture involves a business as defined in PFRS 3. Any gain or loss resulting from the sale or contribution of assets that does not constitute a business, however, is recognized only to the extent of unrelated investors' interests in the associate or joint venture.

On January 13, 2016, the Financial Reporting Standards Council deferred the original effective date of January 1, 2016 of the said amendments until the International Accounting Standards Board (IASB) completes its broader review of the research project on equity accounting that may result in the simplification of accounting for such transactions and of other aspects of accounting for associates and joint ventures.

The Bank is currently assessing the impact of adopting PFRS 10 and PAS 28 in its financial reporting.

4. SIGNIFICANT ACCOUNTING POLICIES

Principal accounting and financial reporting policies applied by the Bank in the preparation of its financial statements are enumerated below and are consistently applied to all the years presented, unless otherwise stated.

Fair Value Measurement

For measurement and disclosure purposes, the Bank determines the fair value of an asset or liability at initial measurement or at each reporting date. 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.

The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either: a.) in the principal market for the asset or liability, or b.) in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible to the Bank.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. If the asset or liability measured at fair value has a bid and ask price, the price within the bid-ask spread that is most representative of fair value in the circumstances shall be used to measure fair value, regardless of where the input is categorized within the fair value hierarchy.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use. The Bank uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

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

- Level 1 – Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognized in the financial statements at fair value on a recurring basis, the Bank determines whether transfers have occurred between levels in the hierarchy by reassessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

The carrying amounts of the financial assets and liabilities as at December 31 for both years approximate their fair values based on the bank's fair value hierarchy.

Classification and measurement of financial assets

For purposes of classifying financial assets, an instrument is an ‘equity instrument’ if it is a non-derivative and meets the definition of ‘equity’ for the issuer (under PAS 32, Financial Instruments: Presentation). All other non-derivative financial instruments are ‘debt instruments’. Financial assets are classified, at initial recognition, as subsequently measured at amortized cost, Fair Value Through Other Comprehensive Income (FVTOCI), and Fair Value Through Profit or Loss (FVTPL). The classification depends on the financial asset’s contractual cash flow characteristics and the Bank’s business model for managing them. In order for a financial asset to be classified and measured at amortized cost or FVTOCI, it needs to give rise to cash flows that are solely payments of principal and interest (SPPI) on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level. The Bank’s business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

Business model test

The Bank determines its business model at the level that best reflects how it manages Banks of financial assets to achieve its business objective. The Bank's business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios and is based on observable factors such as:

a. How the performance of the business model and the financial assets held within that business model are evaluated and reported to the Bank's key management personnel;

b. The risks that affect the performance of the business model and the financial assets held within that business model and, in particular, the way those risks are managed;

c. How managers of the business are compensated (for example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected);

d. The expected frequency, value and timing of sales are also important aspects of the Bank's assessment. 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 Bank's original expectations, the Bank 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.

Solely Payments of Principal and Interest (SPPI) test

As a second step of its classification process, the Bank assesses the contractual terms of financial instruments to identify whether they meet the SPPI test. 'Principal' for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset (for example, if there are repayments of principal or amortization of the premium/discount). The most significant elements of interest within a lending arrangement are typically the consideration for the time value of money and credit risk.

To make the SPPI assessment, the Bank applies judgment and considers relevant factors such as the currency in which the financial asset is denominated, and the period for which the interest rate is set. In contrast, contractual terms that introduce a more than de minimis exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are SPPI on the amount outstanding. In such cases, the financial asset is required to be measured at FVTPL.

Financial Assets at Amortized Cost

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

1. The asset is held within a business model with the objective to hold assets in order to collect contractual cash flows; and

2. The contractual terms of the instrument give rise on specified dates to cash flows that are SPPI on the principal amount outstanding.

Financial assets meeting these criteria are measured initially at fair value plus transaction costs. These are subsequently measured at amortized cost using the effective interest rate (EIR) method, less allowance for credit losses, with the interest calculated recognized as 'Interest income' in the statement of comprehensive income. Gains and losses are recognized in the statement of comprehensive income when the financial assets are derecognized and impaired, as well as through the amortization process. The losses arising from impairment of such assets are recognized in the statement of comprehensive income under 'Provision for credit and impairment losses - net'. The effects of restatement on foreign currency-denominated financial assets at amortized cost are recognized in the statement of comprehensive income.

The Bank classified 'Cash and other cash items', 'Due from BSP', 'Due from other banks', 'Loans and receivables', 'Financial assets at amortized cost', and certain financial assets under 'Other assets' as financial assets at amortized cost.

Reclassification of financial assets

The Bank can reclassify financial assets if the objective of its business model for managing those financial assets changes. The Bank is required to reclassify as follows:

1. From amortized cost or FVTOCI to FVTPL, if the objective of the business model changes so that the amortized cost or FVTOCI criteria are no longer met;

2. From FVTPL to amortized cost or FVTOCI, if the objective of the business model changes so that the amortized cost or FVTOCI criteria start to be met and the characteristics of the instrument's contractual cash flows are SPPI; and

3. From amortized cost to FVTOCI if the business model changes so that the objective becomes both to collect contractual cash flows and to sell or from FVTOCI to amortized cost if the business model becomes solely for the collection of contractual cash flows.

Reclassification of financial assets designated as at FVTPL or equity financial assets at FVTOCI at initial recognition is not permitted. A change in the objective of the Bank's business model must be effected before the reclassification date. The reclassification date is the beginning of the next reporting period following the change in the business model.

Classification and Measurement of Financial Liabilities

Financial liabilities are classified, at initial recognition, either as financial liabilities at FVTPL or other financial liabilities at amortized cost.

Financial liabilities at amortized cost

These liabilities are classified as such when the substance of the contractual arrangement results in the Bank having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares. The components of issued financial instruments that contain both liability and equity elements are accounted for separately, with the equity component being assigned the residual amount after deducting from the instrument as a whole the amount separately determined as the fair value of the liability component on the date of issue.

These financial liabilities are measured initially at fair value, net of directly attributable transaction costs. After initial measurement, these liabilities are subsequently measured at amortized cost using the effective interest method. Amortized cost is calculated by taking into account any discount or premium on the issue and fees that are an integral part of the effective interest rate (EIR).

This accounting policy relates to the statement of financial position captions 'Deposit liabilities', 'Bills payable', and certain financial liabilities 'Other liabilities' which are not designated at FVTPL.

Cash and cash equivalents

For purposes of cash flows, cash and other cash items includes cash on hand and in vault and checks and other cash items. Cash equivalents include highly liquid investments, if any, that are readily convertible to known amounts of cash with maturities of three months or less from the date of acquisition and that are subject to an insignificant risk of change in value.

For purposes of reporting cash flows, cash includes cash and other cash items, due from BSP and other banks that are highly liquid, readily convertible to known amounts of cash with original maturities of three months or less from dates of placements and which are subject to insignificant risk of changes in value.

Due from Bangko Sentral ng Pilipinas

This account represents deposit of the bank to the Bangko Sentral ng Pilipinas as part of its legal reserve requirement to secure its deposit liabilities.

Due from Other Banks

This account represents deposits with other banking institutions earning variable interest rates prevailing at market.

Financial Assets at Amortized Cost

This refers to investments in debt securities, quoted in an active market with fixed or determinable payments and fixed maturity that a bank has the positive intention and ability to hold to maturity other than:

(a) those that meet the definition of financial assets designated at FVTPL; or

(b) those that the Bank designates as financial assets designated at FVTOCI.

Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and with no intention of trading.

Loans and receivables shall be measured at amortized cost using the effective interest method. Loans and receivables are stated at the outstanding balance reduced by allowance for credit losses and impairment losses.

Interest on non-supervised loans collected in advance (Unearned Income) is amortized to income over the term of the loan. Interest income on past due loans arising from discount amortization (and not from the contractual interest of the accounts) shall be accrued as provided in PAS 39. Interest on charges on supervised credits are recognized as income upon collection. Such assets are carried at cost or amortized cost using the effective interest method. Gains and losses are recognized in the statement of comprehensive income when the loans and receivables are derecognized or impaired, as well as through the amortization process.

Specific and general loan loss provision are determined and set-up after conducting a loans and other assets review classification, through aging, analysis and other criteria and after considering the guidelines in the classification of loans and the provisioning requirements for classified and unclassified loan accounts. After classifying loans as either current, past due or items in litigation, the same are qualitatively appraised and categorized. Loans and other credit accommodations shall be grouped into the following classification:

1) Pass. These are loans and other credit accommodations that do not have a greater-than normal credit risk. The borrower has the apparent ability and willingness to satisfy obligations in full and therefore no loss in ultimate collection is anticipated.

2) Especially Mentioned (EM). These are loans and other credit accommodations that have potential weaknesses that deserve management's close attention. If left uncorrected, these weaknesses may affect the repayment of the loan.

3) Substandard. These are loans and other credit accommodations that have well-defined weaknesses that may jeopardize repayment/liquidation in full, either in respect of the business, cash flow or financial position, which may include adverse trends or developments that affect willingness or repayment ability of the borrower.

4) Doubtful. These are loans and other credit accommodations that exhibit more severe weaknesses than those classified as "Substandard", whose characteristics on the basis of currently known facts, conditions and values make collection or liquidation highly improbable, however the exact amount remains undeterminable as yet. Classification as "Loss" is deferred because of specific pending factors which strengthen the assets.

5) Loss. These are loans and other credit accommodations which are considered uncollectible or worthless and of such little value that their continuance as bankable assets are not warranted although the loans may have some recovery or salvage value. This shall be viewed as a transitional category for loans and other credit accommodations which have been identified as requiring write-off during the current reporting period even though partial recovery may be obtained in the future.

Credit exposures shall be classified into three stages using the following time horizons in measuring ECL:

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

Following the "Basic Guidelines in Setting Up of Allowance for Credit Loss", as a general rule, Especially Mentioned and Substandard - Underperforming [e.g., substandard accounts that are unpaid or with missed payment of less than ninety (90) days] shall be considered as Stage 2 accounts, while Substandard Non-performing, Doubtful, and Loss accounts shall be considered as Stage 3 accounts.

The loan loss estimation of the bank is subject to the following guidelines:

1. Individually Assessed Credit Exposure:*(include investments in debt securities measured at fair value through other comprehensive income and amortized cost, loan commitments, sales contract receivables, accounts receivables, accrued interest receivables, and advances).*

A. Loans and other credit exposures with unpaid principal and/or interest shall be classified and provided with allowance for credit losses (ACL) based on the number of days of missed payments as follows:

For unsecured loans and other credit exposures			
No. of days unpaid/with missed payment	Classification	Minimum Allowance for Credit Losses (ACL)	Stage
31-90 days	Substandard (underperforming)	10%	2
91-120 days	Substandard (non-performing)	25%	3
121-180 days	Doubtful	50%	3
181 days and over	Loss	100%	5

For secured loans and other credit exposures			
No. of days unpaid/with missed payment	Classification	Minimum ECL	Stage
31-90 days*	Substandard (underperforming)	10%	2
91-180 days*	Substandard (non-performing)	10%	3
181-365 days	Substandard (non-performing)	25%	3
Over a year – 5 years	Doubtful	50%	3
Over 5 years	Loss	100%	3
* When there is imminent possibility of foreclosure and expectation of loss, ACL shall be increased to 25%			

Provided, that where the quality of physical collaterals or financial guarantees securing the loans and advances are determined to be insufficient, weak or without recoverable values, such loans and advances shall be treated as if these are unsecured.

B. Loans and other credit exposures that exhibit the characteristics for classified accounts described under Section 143 of MORB shall be provided with ACL as follows:

Classification	Minimum ACL	Stage
Especially Mentioned	5%	2
Substandard-secured	10%	2 or 3*
Substandard-unsecured	25%	2 or 3*
Doubtful	50%	3
Loss	100%	3
* The stage depends on whether the accounts are classified as non-performing (Stage 3) or underperforming (Stage 2)		

2. Collectively Assessed Loans and Other Credit Exposures. *(include microfinance loans, micro enterprises and small business loans and consumer loans such as salary loans, credit card receivables, auto loans,*

housing loans and other consumption loans, and other loan types which fall below the FI's materiality threshold for individual assessment.)

For unsecured loans and other credit exposures			
No. of days unpaid/with missed payment*	Classification	Minimum ECL	Stage
1 - 30 days	Especially Mentioned	2%	2
31 - 60 days /1st restructuring	Substandard	25%	2 or 3 **
61 - 90 days	Doubtful	50%	3
91 days and over / 2nd restructuring	Loss	100%	3
* Portfolio at risk (PAR) for microfinance loans ** The stage depends on whether the accounts are classified as non-performing (Stage 3) or underperforming (Stage 2).			

For secured loans and other credit exposures				
No. of days unpaid/with missed payment*	Classification	ACL %		Stage
		Other Types of Collateral	Secured by Real Estate	
31 - 90 days	Substandard (underperforming)	10%	10%	2
91 - 120 days	Substandard (non-performing)	25%	15%	3
121- 360 days	Doubtful	50%	25%	3
361 days - 5 years	Loss	100%	50%	3
Over 5 years	Loss	100%	100%	3

General and Specific Provisions for Loan Accounts

1. The Bank shall treat Stage 1 provisions for loan accounts as General Provision (GP), while Stages 2 and 3 provisions shall be treated as Specific Provisions (SP).

2. The Bank shall set up general loan loss provision (GLLP) equivalent to one percent (1%) of all outstanding Stage 1 on-balance sheet loans, except for accounts considered as credit risk-free under existing regulations. The Banks is not required to provide a one percent (l%) GP on other credit exposures covered by PFRS 9 such as off-balance sheet accounts and investments.

3. Allowance for credit losses for Stages 1, 2, and 3 accounts shall be recognized in the statement of comprehensive income. In cases when the computed allowance for credit losses on Stage 1 accounts is less than the 1 percent GP required, the deficiency shall be recognized by appropriating the Surplus-Free account (Bank shall use Surplus Reserve - others as temporary account of Surplus- General Provision). GP recognized in statement of comprehensive income as allowance for credit losses for Stage 1 accounts and the amount appropriated in Surplus-Free shall be considered as Tier 2 capital subject to the limit provided under the Capital Adequacy Ratio (CAR) framework.

Significant increase in credit risk
In order to determine whether an instrument is subject to 12-month or Lifetime ECL, the Bank assesses whether there has been a significant increase in credit risk (SICR) since initial recognition. The criteria for determining whether credit risk has increased significantly vary by portfolio and include classification of loans as set out in BSP Circular 855: Guidelines on Sound Credit Risk Management Practices. The credit risk of a particular exposure is deemed to have increased significantly since initial recognition if, based on the Bank's internal credit assessment, the borrower or counterparty is determined to have well- defined credit weaknesses, that is, when the loan is tagged as substandard, as a minimum, based on the rules as set out in BSP Circular 1011: Guidelines on the Adoption of PFRS 9. These may include adverse trends or developments of financial, managerial, economic or political nature, or a significant weakness in collateral. Credit weakness may be manifested by unfavorable record or unsatisfactory characteristics or may only be potential that deserves management's close attention and may lead to significant losses or may result in collection or liquidation of the outstanding loan amount to be highly improbable. Exposures with missed payment for more than thirty (30) days is also an indicator of SICR.

Other financial assets at amortized cost
ECLs for other financial assets at amortized cost are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Bank expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are recognized in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

Policies applicable for all financial assets at amortized cost:

a. Staging assessment

   For non-credit-impaired financial assets:

   -Stage 1 is comprised of credit exposures that are considered "performing" and with no SICR since initial recognition or with low credit risk.

   -Stage 2 is comprised of credit exposures that are considered "under-performing" or not yet non-performing but with SICR since initial recognition.

   For credit-impaired financial assets:

   -Stage 3 is comprised of credit exposures with objective evidence of impairment, thus, considered as "non-preforming".

Offsetting Financial Instruments.
Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Bank has an enforceable legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, and the related assets and liabilities are presented gross in the statements of financial position.

Derecognition of Financial Instruments
The Bank derecognizes a financial asset only 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 entity. If the Bank neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Bank recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Bank retains substantially all the risks and rewards of ownership of a transferred financial asset, the Bank continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

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

On disposal of a debt instrument, the difference between the carrying amount and the sale proceeds is recognized in statements of comprehensive income. Any amount previously recognized in OCI relating to that asset is reclassified to statements of comprehensive income.

On disposal of an equity investment, the difference between the carrying amount and sales proceed is recognized in statements of comprehensive income if there was no election made to recognize fair value changes in OCI. If there was an election made, any difference between the carrying amount and sales proceed amount would be recognized in OCI and transferred to retained earnings along with the amount previously recognized in OCI relating to that asset.

Accounts receivables that are factored out to banks and other financial institutions with recourse to the Bank are not derecognized until the recourse period has expired and the risks and rewards of the receivables have been fully transferred. The corresponding cash received from the financial institutions is recorded as borrowings.

Treatment of Relief Measures for the purpose of determining Estimated Credit Losses (ECL)

Under Republic Act (R.A.) No. 11469, otherwise known as the "Bayanihan to Heal as One Act" and its Implementing Rules and Regulations (IRR), all BSP-Supervised Financial Institutions (BSFIs) are mandated to grant a 30-day grace period to loan payments falling due within the Enhanced Community Quarantine ECQ)/ Modified Enhanced Community Quarantine (MECQ) period wherein lockdown situation is implemented to control spread of COVID-19. In addition, RA No. 11494, also known as "Bayanihan to Recover as One Act", requires all BSFIs to implement a one-time 60-day grace period for all existing, current and outstanding loans with principal and/or interest, including amortization falling due from September 15, 2020 until December 31, 2020, without incurring any interest on interest, penalties, fees and other charges.

According to BSP Memorandum No. M-2020-061, since the said provision of the law is mandatory, the application of the grace period should not be considered as an indicator of significant increase in credit risk and should not trigger the migration of the loan accounts to Stage 2 and Stage 3 provisioning. In the same vein, BSFIs are expected to exclude the mandatory grace period in the count of the number of days of missed payment of the loan. The Bank applied this rule in computing for the ECL.

Cognizant that BSP Supervised Financial Institutions (BSFIs) grant to their borrowers of relief measures such as modifying the terms and conditions of loan agreements to reflect change in the borrowers' projected cash flows and improve the probability of full collection in the wake of continuing impact of the COVID-19 health crisis, the BSP issued Memorandum no. M-2021-056 in October, 2021, to provide guidance on the regulatory treatment of loans with terms and conditions that have been modified, especially consumption loans, for purpose of measuring expected credit losses and classifying the accounts as non-performing.

Under the new regulatory relief, the grant of payment deferral or extension of the term of the loan shall: (i) not automatically be considered an indicator of significant increase in credit risk, hence should not result in the loan automatically being classified under Stage 2 or 3, and (ii) not warrant the classification of the account as a “restructured loan”: Provided, That prior to the grant of payment deferral or extension of the term of the loan, the borrower has continuously paid the account on schedule and the borrower exhibits the capacity to repay the loan under the modified terms. Furthermore, other forms of modification of the terms and conditions of the loan in view of the financial difficulty of the borrower, shall warrant the classification of the account as either under Stage 2 or 3, depending on the severity of the financial difficulty of the borrower. These accounts shall be reported as restructured in the prudential report

In view thereof, the Board of Directors directed Senior Management to establish prudent criteria in assessing and modifying the loan terms and condition with timeline of implementation within the First Quarter, 2022, in order to avail of the said regulatory relief which shall be effective until December 31, 2022.

Sales Contract Receivables (SCR)

This refers to the amortized cost of assets acquired in settlement of loans through foreclosure or dation in payment and subsequently sold on installment basis whereby the title to the said property is transferred to the buyers upon full payment of the agreed selling price. This shall be recorded initially at the present value of the installment receivable discounted at the imputed rate of interest. Discount shall be accreted over the life of the SCR by crediting interest income using the effective interest method. Any difference between the present value of the SCR and the derecognized assets shall be recognized in statement of comprehensive income at the date of sale in accordance with the provisions of PAS 15. This account is presented as part of "Loans and Receivable" account in the statement of financial position.

Unamortized interest and discounts

Interest and charges on non-supervised loans collected in advance is amortized to income over the term of the loans. Normally, the account is presented as contra-account of loans and receivables.

Bank premises, furniture, fixtures and equipment

Properties and equipment are initially measured at cost less any subsequent accumulated depreciation and amortization. The cost of an asset consists of its purchase price and costs directly attributable to bringing the asset to its working condition for its intended use.

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

Major spare parts and stand-by equipment qualify as properties and equipment when the bank expects to use them during more than one period. Similarly, if the spare parts and servicing equipment can be used only in connection with an item of properties and equipment, they are accounted for as properties and equipment.

Estimated future dismantlement costs of items of properties and equipment arising from legal or constructive obligations are recognized as part of properties and equipment and are measured at present value at the time when the obligation is incurred.
Depreciation is computed on the straight-line method with estimated useful lives of the assets as follows:

Classification	Estimated Useful life
Bank premises- buildings and improvements	20 years
Office equipment	2 - 5 years
Furniture and fixtures	2 - 5 years

Transportation equipment	5 - 8 years
Information and technology equipment	2 -5 years
Leasehold improvements	Shorter between the useful life of 5 years and lease term

Land is not depreciated and is stated at cost less any impairment in value.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in the statement of comprehensive income.

Fully depreciated assets still in use are retained in the financial statements.

Investment Properties

Real and other properties acquired (ROPA) in settlement of loans through foreclosure or dation in payment shall be booked initially at the carrying amount of the loan plus booked accrued interest less allowance for probable losses plus transaction costs incurred upon acquisition (such as non-refundable capital gains tax and documentary stamp tax paid in connection with the foreclosure/purchase of the acquired real estate property): Provided, That where the booked amount of ROPA exceeds the appraised value of the acquired property, an allowance for probable losses equivalent to the excess of the amount booked over the appraised value shall be set up: Provided, further, That if the carrying amount of ROPA exceeds ₱5 million, the appraisal of the foreclosed/ purchased asset shall be conducted by an independent appraiser acceptable to the BSP.

Investment properties are derecognized when they have either been disposed of or when the investment property is permanently withdrawn from use and no future benefit is expected from its disposal. Any gain or loss on the retirement or disposal of an investment property is recognized in the statement of income in the year or retirement or disposal. Expenditures incurred after its acquisition such as repairs and maintenance cost are normally charged to operations in the year in which the costs are incurred. The buildings classified as investment properties are depreciated over the remaining useful life which shall not exceed ten (10) years. Land is not depreciated and is carried at cost less accumulated impairment losses.

Other Assets

Other assets are recognized at cost. The account includes prepaid expenses, deferred income taxes, and other resources. Unused supplies, if any, are measured initially at cost. Subsequent measurement of unused supplies is at cost less impairment loss, if any. Intangible assets are subsequently measured at cost less amortization and impairment loss.

Financial Liabilities

Financial liabilities include Deposit Liabilities, other non-interest-bearing borrowings and advances from affiliates if any. Financial liabilities are recognized when the bank becomes a party to the contractual provisions of the instrument.

Deposit Liabilities

Deposits are measured at cost, which is a reflection of their fair values.

Bills payable

This refers to the amortized cost of obligations to the Land Bank of the Philippines or the amortized cost of borrowings from other banks and non-bank financial institutions with quasi-banking authority, other than those payable on call/demand.

Other Liabilities

Other liabilities are recognized upon incurrence of transaction/s wherein the Bank has an obligation to settle the same in the future. The account includes accrued interest expense, accrued taxes and other expenses and other payables.

Capital Stock

Share capital is determined using the nominal value of shares that have been issued and fully paid. The costs of acquiring bank's own shares are shown as a deduction from equity attributable to the bank's equity holders until the shares are cancelled or reissued. When such shares are subsequently sold or reissued, any consideration received, net of directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the bank's equity holders.

Additional paid-in capital

Additional paid-in capital includes any premiums received on the initial issuance of capital stock. Any transaction costs associated with the issuance of shares are deducted from additional paid-in capital, net of tax. The additional paid-in capital account is recorded on the Bank's statement of financial position as part of equity and cannot be returned to shareholders as dividends.

Surplus Free

Surplus free includes all current and prior period results as disclosed in the statement of comprehensive income and not restricted for use by the Bank.

Revenue Recognition

Revenue is recognized to depict the transfer of promised services to customers in an amount that reflects the consideration which the Bank expects to be entitled to in exchange for those goods or services. PFRS 15 prescribes a five-step model to be followed in the recognition of revenue, wherein the Bank takes into consideration the performance obligations which it needs to perform in the agreements the Bank has entered into with its customers. Revenue is measured by allocating the transaction price, which includes variable considerations, to each performance obligation on a relative stand-alone selling price basis, taking into account contractually defined terms of payment and excluding value-added tax or (VAT), where applicable. Transaction prices are based on third-party pricing, arm's length pricing and cost-plus arrangement, as applicable. These are further adjusted by inputting the related time value of money on contract assets with more than one year of amortization.

When determining the Bank's performance obligations, the Bank assesses its revenue arrangements against specific criteria to determine if the Bank is acting as principal or agent. The Bank considers both the legal form and the substance of its agreement, to determine each party's respective roles in the agreement. The Bank is acting as a principal when it has control over the respective services before the Bank renders those. When the Bank's role in a transaction is that of principal, revenue is presented on a gross basis, otherwise, revenue is presented on a net basis.

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

- Interest Income is recognized as the interest accrues (taking into account the effective yield on the asset).
- Service charges and commissions are recognized on an accrual basis, when the service has been provided, unless collectibility is in doubt.
- Gain on sale of acquired assets is recognized if transactions indicate that the full ownership is transferred to the acquiree.
- Rental income arising from leased premises is accounted for on a straight-line basis over the lease terms of ongoing leases. Leases where the Bank does not transfer substantially all the risks and benefits of ownership of the assets are classified as operating leases. Initial direct costs incurred in negotiating operating leases are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as the rental income. Contingent rents are recognized as revenue in the period in which they are earned.
- Miscellaneous income is composed of processing fees, banking fees and insurance. These are recognized on an accrual basis when the service has been provided, unless collectibility is in doubt.

Cost and Expenses Recognition

An expense is recognized when it is probable that a decrease in future economic benefit related to a decrease in an asset or an increase in liability has occurred and the decrease in economic benefits can be measured reliably. Revenues and expenses that relate to the same transaction or other event are recognized simultaneously.

Interest Expense
Interest expense for all interest-bearing financial liabilities is recognized in 'interest expense' in the statements of comprehensive income using the EIR of the financial liabilities to which they relate to.

Leases

- Right-of-use assets

The bank recognizes right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognized, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless it is reasonably certain that the Bank obtains ownership of the leased asset at the end of the lease term, the recognized right-of-use assets are depreciated on a straight-line basis, over the shorter of its estimated useful file and the lease term. Right-of-use assets are subject to impairment.

- Lease liabilities

At the commencement date of the lease, the Bank recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantee. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised and payments of penalties for terminating a lease, if the lease term reflects exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognized as expense in the period on which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Bank uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

- Short-term leases and leases of low-value assets

The Bank applies the short-term lease recognition exemption to its short-term leases (i.e. those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). The Bank also applies the lease of low-value assets recognition exemption to leases that are considered of low value. Lease payments on short-term leases and leases of low-value assets are recognized as expense on a straight-line basis over the lease term.

- Significant judgment in determining the lease term of contracts with renewal options

The Bank determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised. The Bank has the option, under some of its leases to lease the assets for additional terms of three to five years. The Bank applies judgment in evaluating whether it is reasonably certain to exercise the option to renew. That is, it considers all relevant factors that create an economic incentive for it to exercise the renewal. After the commencement date, the Bank reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise (or not to exercise) the option to renew (e.g., a change in business strategy).

Leases in which the Bank does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases.

Rental income arising from leased properties is accounted for on a straight-line basis over the lease terms and is included in revenue in the statement of comprehensive income.

Employee Benefits

Post-employment Benefits

The liability or asset recognized in the statement of financial position in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method.

The net interest cost is calculated by applying the discount rate to the net balance of the defined benefit obligation and the fair value of plan assets. This cost is included in employee benefit expense in the statement of comprehensive income.

Remeasurement gains or losses arising from experience adjustments and changes in actuarial assumptions are recognized in the period in which they occur, directly in other comprehensive income. They are included in retained earnings in the statement of changes in stockholder’s equity and in the statement of financial position.

Changes in the present value of the defined benefit obligation resulting from plan amendments or curtailments are recognized immediately in profit or loss as past service costs.

Short-term Benefits

The Bank recognizes a liability net of amounts already paid and an expense for services rendered by employees during the accounting period. Short-term benefits given by the Bank to its employees include salaries and wages, social security contributions, short-term compensated absences, profit sharing and bonuses, and non-monetary benefits.

Retirement Benefits

The Bank operates a defined benefit retirement plan and a defined contribution plan, which require contributions to be made to a separately administered fund.

Defined benefit retirement plan

The net defined benefit liability or asset is the aggregate of the present value of the defined benefit obligation at the reporting date reduced by the fair value of plan assets, adjusted for any effect of limiting a net defined benefit asset to the asset ceiling (if any). The asset ceiling is the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. The cost of providing benefits under the defined benefit plans is actuarially determined using the projected unit credit method.

Defined benefit costs comprise the following:

1. Service cost;
2. Net interest on the net defined benefit liability or asset;
3. Remeasurements of net defined benefit liability or asset.

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

Net interest on the net defined benefit liability or asset is the change during the period in the net defined benefit liability or asset that arises from the passage of time which is determined by applying the discount rate based on government bonds to the net defined benefit liability or asset. Net interest on the net defined benefit liability or asset is recognized as expense or income in the statement of comprehensive income.

Remeasurements comprising actuarial gains and losses, return on plan assets and any change in the effect of the asset ceiling (excluding net interest on retirement liability) are recognized immediately in other comprehensive income (OCI) in the period in which they arise. Remeasurements are not reclassified to the statement of comprehensive income in subsequent periods.

Plan assets are assets that are held by a long-term employee benefit fund. Plan assets are not available to the creditors of the Bank, nor can they be paid directly to the Bank. Fair value of plan assets is based on market price information. When no market price is available, the fair value of plan assets is estimated by discounting expected future cash flows using a discount rate that reflects both the risk associated with the plan assets and the maturity or expected disposal date of those assets (or, if they have no maturity, the expected period until the settlement of the related obligations). If the fair value of the plan assets is higher than the present value of the defined benefit obligation, the measurement of the resulting defined benefit asset is limited to the present value of economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

The Plan utilizes actuarial assumptions by using factors, such as; employee turn-over rates, future mortality rates and discount rate based on reference rate being used by the government, among others.

Employee leave entitlement

Employee entitlements to annual leave are recognized as a liability when they are accrued to the employees. The undiscounted liability for leave expected to be settled after the end of the annual reporting period is recognized for services rendered by employees up to the end of the reporting period. For leave entitlements expected to be settled for more than twelve months after the reporting date, the estimated liability is actuarially determined and reported under ‘Other Liabilities’ in the statement of financial position. Currently the Bank requires all employees to avail forced leaves before the end of the reporting date.

Related Party Relationships and Transactions

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

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

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

Basic Earnings per Share and Book Value Per Share

Basic earnings per share is calculated by dividing the net income for the year attributable to the common shareholders by the weighted average number of common shares outstanding during the year, after considering the retroactive effect of stock dividend declaration, if any. Book value per share is computed by dividing total equity less any preferred shares over outstanding common shares at reporting date.

Taxation

Current Tax
Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the tax authority. The tax rates and tax laws used to compute the amount are those that have been enacted or substantively enacted as at the statements of financial position date.

Deferred Income 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 liabilities are generally recognized for all taxable temporary differences.

Deferred tax assets are generally recognized for all deductible temporary differences, carry-forward of unused tax credits from excess Minimum Corporate Income Tax (MCIT) over Regular Corporate Income Tax (RCIT) and unused Net Operating Loss Carry-over (NOLCO), to the extent that it is probable that taxable profits will be available against which those deductible temporary differences and carry forward of unused MCIT and unused NOLCO can be utilized.

Deferred income tax, however, is not recognized when it arises from initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction that affects neither the accounting profit nor the taxable profit or loss.

The carrying amount of deferred tax assets 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 assets and liabilities 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 Bank expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is legally enforceable right to offset current tax assets against current tax liabilities and when they relate to income tax levied by the same taxation authority and the Bank intends to settle its current tax assets and liabilities on a net basis.

Provisions

Provisions are recognized when the Bank has a present obligation, whether legal or constructive, as a result of a past event, it is probable that the Bank will be required to settle the obligation, and a reliable estimate can be made for the amount of the obligation.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

Contingent Assets and Contingent Liabilities

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

Foreign Currency Transactions and Translation

In preparing the financial statements of the Bank, transactions in currencies other than the Bank's functional currency, i.e., foreign currencies, are recognized at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date.

Exchange difference are recognized in profit or loss in the period in which they arise except for:

- Exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings;
- Exchange differences arising on non-monetary assets and liabilities where the gains and losses of such non-monetary items are recognized directly in equity; and
- Exchange difference on transactions entered into in order to hedge certain foreign currency risks.

Events After the Reporting Period

The bank identifies subsequent events as events that occurred after the balance sheet date but before the date when the financial statements were authorized for issue. Any subsequent events that provide additional information about the bank's financial position at the balance sheet date is reflected in the financial statements. Events that are not adjusting events are disclosed in the notes to the financial statements when material.

Prior Period Adjustment

The Bank corrects material prior period errors retrospectively in the first set of financial statements authorized for issue after their discovery by: (a) restating the comparative amounts for the prior period presented in which the error occurred; or (b) if the error occurred before the earliest prior period presented, restating the opening balances of assets, liabilities and equity for the earliest prior period presented.

When it is impracticable to determine the key effects of an error on comparative information for one or more prior period s presented, the bank shall restate the opening balances of assets, liabilities and equity for the earliest period for which retrospective restatement's practicable (which may be the current period).

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

The preparation of the financial statement requires the Management to make judgments, estimates and assumptions that affect the reported amounts in the financial statements and related disclosures. Future events may occur which will cause the assumptions used in arriving at the estimates to change. The effects of any change in estimates are reflected in the financial statements as they become reasonably determinable.

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Critical Judgments in applying Accounting Policies

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

<u>Revenue and Expense Recognition</u>
The Bank's revenue and expense recognition policies require Management to make use of estimates and assumptions that may affect the reported amounts of revenue and expense. The Bank's revenue and expense are recognized when earned or incurred, except interest on loans receivables on past due accounts which are recognized when collection is actually made as provided under existing BSP MORB.

<u>Distinction between Operating and Finance Lease</u>
The Bank has entered into lease agreements as a lessee. Critical judgment was exercised by Management to distinguish each lease agreement as either an operating or finance lease by looking at the transfer or retention of significant risk and rewards of ownership of the properties covered by the agreements. Rent expense of the Bank relating to its operating leases for the years ended December 31, 2022 and 2021 amounted to ₱241,500 and ₱270,000, respectively, as disclosed in Note 28. Right-of-use assets as of December 31, 2022 and 2021 amounted to ₱1,231,090 and ₱ 959,537, respectively as disclosed in Note 16. Lease liabilities as of December 31, 2022 and 2021 amounted to ₱1,484,821 and ₱1,235,174, respectively, as disclosed in Note 20. Interest expense on lease liabilities for the years ended December 31, 2022 and 2021 amounted to ₱130,723 and ₱107,515, respectively as disclosed in Note 20. Depreciation expense on right-of-use asset for the years ended December 31, 2022 and 2021 amounted to ₱662,930 and ₱635,722, respectively as disclosed in Note 16.

<u>Amortized cost of financial instruments</u>
The determination of amortized cost on financial instruments includes estimating future payments or receipts from such financial instruments. The Bank assesses annually whether new information warrants revisions to such estimates which will require adjusting the carrying accounts of financial instruments, except for reclassified financial assets, to reflect actual or revised estimated of cash flows. The Bank recalculates the carrying amount by computing the present value of estimated future cash flows at the financial instrument's original effective interest rate. The adjustment is recognized in the statement of comprehensive income as income or expense.

The Bank's financial assets at amortized cost amounted to ₱782,256,976 and ₱831,841,081 as of December 31, 2022 and 2021, respectively, as disclosed in Note 12.

Provisions and Contingencies
Judgment is exercised by Management to distinguish between provisions and contingencies. The Bank takes into consideration its present, legal or constructive obligations, if any, in accordance with its policies and Management's assessment.

Fair Value of Financial Instruments (see Note 8)
Where the fair values of financial assets and financial liabilities recorded on the statements of financial position cannot be derived from active markets, these are determined using a variety of valuation techniques that include the use of mathematical models. The input to these models is taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. These estimates may include considerations of liquidity, volatility, and correlation.

Asset Impairment
The Bank performs an impairment review when certain impairment indicators are present. Determining the fair value of bank premises, furniture, fixtures and equipment, investment properties, and intangible assets, which require the determination of future cash flows expected to be generated from the continued use and ultimate disposition of such assets, requires the Bank to make estimates and assumptions that can materially affect the financial statements. Future events could cause the Bank to conclude that bank premises, furniture, fixtures and equipment properties and intangible asset associated with an acquired business is impaired. Any resulting impairment loss could have a material adverse impact on the financial condition and results of operations. The preparation of the estimated future cash flows involves significant judgment and estimations. While the Bank believes that its assumptions are appropriate and reasonable, significant changes in the assumptions may materially affect the assessment of recoverable values and may lead to future additional impairment charges under generally accepted accounting principles in the Philippines.

Management has determined that the Bank's bank premises, furniture, fixtures and equipment, investment properties and intangible asset are not impaired, hence, no impairment loss was recognized in both 2022 and 2021.

Fair value of Investment Properties
Fair values of investment properties are determined using valuation methodologies acceptable under PFRS and valuation standards. Management determines the applicable valuation model based on the related income generated from the asset.

Change in Use of Assets
PAS 40 requires Management to use its judgment to determine whether a property qualifies as an investment property. The Bank has developed criteria so it can exercise its judgment consistently. On one hand, a property that is held to earn rentals or for capital appreciation or both and which generates cash flows largely independently of the other assets held by the Bank is accounted for as investment properties.

On the other hand, a property that is used for operations or in the process of providing services or for administrative purposes and which do not directly generate cash flows as a stand-alone asset is accounted for as bank premises, furniture, fixtures and equipment. The Bank assesses the accounting on an annual basis.

Key Sources of Estimation Uncertainty

Impairment Losses on Loan Receivable and Financial Assets at Amortized Cost

The Bank reviews its loans and other receivable and financial assets at amortized cost portfolios to assess impairment at least on a quarterly basis. In determining whether an impairment loss should be recorded in the statements of comprehensive income, the Bank makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from the portfolio. The evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers or issuers in a group, or national or local economic conditions that correlate with defaults on assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows.

The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any difference between loss estimates and actual loss experience.

The Bank carries certain financial assets at fair value, which requires the extensive use of accounting estimates and judgment. Significant components of fair value measurement were determined using verifiable objective evidence such as foreign exchange rates, interest rates, volatility rates. However, the amounts of changes in fair value would differ if the Bank utilized different valuation methods and assumptions. Any change in fair value of these financial assets and liabilities would affect profit and loss and equity. As of December 31, 2022 and 2021, the Management believes that the allowance provided by the Bank is sufficient to cover BSP requirements.

As of December 31, 2022 and 2021, loans and other receivables, net of allowance for credit losses, amounted to ₱398,918,292 and ₱338,728,788, respectively, as disclosed in Note 13. Financial assets at amortized cost amounted to ₱782,256,976 and ₱831,841,081 as of December 31, 2022 and 2021, respectively, as disclosed in Note 12.

Estimation of Useful Lives of Assets

The Bank estimates the useful lives of bank premises, furniture, fixtures and equipment, investment properties, right-of-use asset and intangible asset based on the period over which the assets are expected to be available for use. The estimated useful lives of premises, furniture, fixtures and equipment, investment properties, and intangible assets are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the bank's assets. In addition, the estimation of the useful lives of premises, furniture, fixtures and equipment, investment properties, and intangible asset is based on bank's collective assessment of industry practice, internal technical evaluation and experience with similar assets. It is possible, however, that future results of operations could be materially affected by changes in estimates brought about by changes in factors and circumstances. A reduction in the estimated useful lives of premises, furniture, fixtures and equipment, investment properties, and intangible asset would increase the recognized operating expenses and decrease non-current assets.

The Bank has bank premises, furniture, fixtures and equipment stated at carrying value of ₱44,051,701 and ₱43,715,189 as of December 31, 2022 and 2021, respectively, as disclosed in Note 14. Right-of-use asset amounted to ₱1,231,090 and ₱959,537 as of December 31, 2022 and 2021, respectively, as disclosed in Note 16.

Investment properties amounted to ₱121,070,851 and ₱118,603,766 as of December 31, 2022 and 2021, respectively, as disclosed in Note 15.

Impairment of Non-Financial Assets

Except for intangible assets with indefinite useful lives, PFRS requires that an impairment review be performed when certain impairment indicators are present. Though Management believes that the assumptions used in the estimation of fair values reflected in the financial statements are approximate and reasonable, significant changes in these assumptions may materially affect assessment of recoverable values and any resulting impairment loss could have a material adverse effect on the results of operations.

Investment properties amounted to ₱121,070,851 and ₱118,603,766 as of December 31, 2022 and 2021, respectively, as disclosed in Note 15.

Computer software amounted to ₱2,230,032 and ₱2,975,801 as of December 31, 2022 and 2021, respectively, as disclosed in Note 17.

Determining Realizable Amount of Deferred Tax Asset

The Bank reviews its deferred tax asset at the end of each reporting period and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized.

The Management believes that it is highly probable they will generate taxable profit to allow all deferred tax assets to be utilized. The Bank's deferred tax assets amounted to ₱13,407,171 and ₱11,829,863, as of December 31, 2022 and 2021, respectively, as disclosed in Note 31.

Estimating Allowance for Credit Losses

The Bank reviews its loans and receivables at each statement of financial position date to assess whether an allowance for credit losses should be recorded in the statements of comprehensive income. In particular, judgment by Management is required in the estimation of the amount and timing of future cash flows when determining the level of allowance required. Such estimate is based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

In addition to specific allowance against individually significant loans and receivables, the Bank also makes a collective impairment allowance against exposures which, although not specifically identified as requiring a specific allowance, have a greater risk of default than when originally granted. This collective allowance is based on any deterioration in the internal rating of the loan or investment since it was granted or acquired. These internal ratings take into consideration factors such as any deterioration in country risk, industry, and technological obsolescence, as well as identified structural weaknesses or deterioration in cash flows.

The carrying value of loans and receivables are ₱398,918,292 and ₱338,728,788, net of allowance for credit losses on loans and receivables amounting to ₱46,384,272 and ₱55,074,771 as of December 31, 2022 and 2021, respectively, as disclosed in Note 13.

Post-employment and Other Employee Benefits

The determination of the retirement obligation and cost and other retirement benefits is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions include among others, discount rates, expected returns on plan assets and rates of compensation increase. In accordance with the generally accepted accounting principles, actual results that differ from the assumptions are accumulated and amortized over future period and therefore, generally affect the recognized expense and recorded obligation in such future periods. While the Bank believes that the assumptions are reasonable and appropriate, significant difference in the actual experience or significant changes in the assumptions may materially affect the pension and other retirement obligations.

The Bank has a funded non-contributory retirement plan. The cost of providing benefits is determined using the Projected Unit Credit Method which reflects services rendered by employees to the date of valuation and incorporates assumptions concerning employees' projected salaries. Post-employment expenses include current service cost plus amortization of past service cost, experience adjustments and changes in actuarial assumptions over the expected average remaining working lives of the covered employees.

Past service cost is recognized immediately to the extent that the benefits are already vested, and otherwise is amortized on a straight-line basis over the average period until the benefits become vested.

The retirement benefit obligation recognized in the statements of financial position represents the present value of the defined benefit obligation as adjusted for unrecognized past service cost and as reduced by the fair value of plan assets.

The funding policy is to contribute an amount based on the actuarial valuation report which is carried out at each reporting date.

The Bank's recorded net pension obligation amounted to ₱3,265,158 and ₱4,007,972 as of December 31, 2022 and 2021, respectively, as disclosed in Note 28.

Estimating the Incremental Borrowing Rate (IBR) for Lease Liabilities

The Bank cannot readily determine the interest rate implicit in the lease, therefore, it uses its IBR to measure lease liabilities. The IBR for lease liabilities is the rate of interest that the Bank would have to pay to borrow over a similar term, and with similar security, the funds necessary to obtain an asset of a similar value to the right-of-use assets in a similar economic environment. The Bank used the latest existing average lending rate per BSP as IBR in computing its lease liabilities.

The carrying values of the Bank's right-of-use assets and lease liabilities as of December 31, 2022 and 2021 are disclosed in Notes 16 and 20, respectively.

6. COVID-19 AND ITS IMPACT ON JUDGMENT AND ESTIMATE

The impact of the COVID-19 pandemic has changed the business environment and affected all aspects of business operations. Judgments and estimates now need to take into account these new changes. Management refocused their judgments and estimate relative to almost every reporting period and certain statements of comprehensive income accounts while considering the latest accounting and audit guidance from numerous public and private boards and government agencies. While not inclusive of every account that may be impacted, summarized below are some key areas Management examined as they evaluate their current judgment and estimates:

a) Revenue

Revenue estimates can be affected by many factors, but the changes in business environment resulting from COVID-19 can lead to changes in variable consideration included in ongoing customer/borrower contracts. Accounting for revenue is covered in “Revenue from Contracts with Customers”. At the inception of the contract, it is Management's responsibility to estimate the value of variable consideration to which it will be entitled.

In 2021, due to the prolonged heath crisis brought about by the COVID-19 pandemic, the Bank's revenue decreased by 4%, however, in 2022, due to improving economic conditions brought about by waning effects of the pandemic due to the vaccines, revenue increased by 6%. As the Bank operates, its services have started picking up in demand in mid-2022 and into the forthcoming year.

It was evident that the impact on the business and results have been significant in year 2020, however, due to the availability of COVID-19 vaccines since 2021, the Bank's business and results had gradually recovered and had resulted positive result in 2022. Nevertheless, the Bank will continue to follow the various government policies and advice and, in parallel, will do its utmost to continue operations in the best and safest way possible without jeopardizing the health of its people.

b) Loans and Receivables
The Bank has considered the financial condition of customers to help determine if accounts receivable will just take longer to collect compared to historical trends or if specific reserves and/or general reserves are needed above and beyond typical reserve levels.

The Bank granted customers credit terms ranges from 90 days to 10 years and are interest bearing. The balances of receivables are within the credit terms given, thus represents currently maturing collectibles from customers. However, due to the provision of the government for relief through the issuance of Republic Act No. 11494, otherwise known as the “Bayanihan to Recover as One Act” that provides concessions to various obligations, receivable may take longer to collect upon customer availment and negotiate any concession. As of the current period, there are certain customers who have availed of such.

The Management assessed that realizability of receivables are probable without loss contingencies and without the necessity to set allowance for probable loss.

The Bank’s effectiveness in its credit and collection efforts in allowing credit to reputable customers, as well as its ability to collect cash from them in a timely manner is at par.

c) Accounts payable, Bills payable, Lease liabilities
The Bank has assessed settlement of its trade payables, loans and finance leases with regard to supplier negotiations for consideration payment terms in relation to the provision of the government for relief through the issuance of Republic Act No. 11494, otherwise known as the “Bayanihan to Recover as One Act” that provides concessions to various obligations during the height of the pandemic and imposed restrictions. The Bank has considered its financial condition to determine if the aforementioned obligations will take longer to settle compared to historical trends in terms of expected cash flows. Despite of the current situation, the Bank has managed an efficient and effective approach to supplier payment that does not affect essential business needs as the Bank’s assessed that future operations will remain and with favorable expectation.

As of the reporting period, the Bank assessed that current obligations can be settled within the normal credit terms based on expected cash flows.

d) Going Concern
Management has considered the potential implications of COVID-19 and the measures taken to control it in assessing the Bank’s ability to continue as a going concern. The Management neither intends to liquidate the Bank nor to cease operations. Management has considered the impact of measures taken by governments in its assessment of going concern. Management has also considered any adjusting events after the reporting date that may indicate that the Bank is no longer a going concern. Although there are inconsiderable uncertainties, however, it does not cast significant doubt upon the Bank’s ability to continue as a going concern in accordance with PAS 1. The Bank determined that the financial statements is prepared on a going concern basis and there are no material uncertainties related to events or conditions that cast significant doubt over the Bank’s ability to continue as a going concern.

e) Income Taxes
In response and recovery interventions to the corona virus pandemic, the government, particularly the Bureau of Internal Revenue (BIR) issued Revenue Regulations (RR) 25-2020 which provides that the net operating loss for the current year, if any, is to be carried over as deduction from gross income for the next five (5) consecutive taxable years immediately following the current year as provided by the Rules and Regulations implementing Section 4 (bbbb) of Republic Act (RA) No. 11494, otherwise known as the “Bayanihan to Recover as One Act” relative to Net Operating Loss Carry-Over (NOLCO) under Section 34

(D) (3) of the NIRC, as amended. Furthermore, the BIR subsequently issued RR 5-2021 to implement the new tax income rates on regular income of corporations as provided for in the RA No. 11534 or the Corporate Recovery and Tax Incentives for Enterprises Act (CREATE), to wit:

<table>
<tr><th rowspan="3">Type of Corporation</th><th colspan="4">The Higher Between "Regular" or "Minimum Corporate Income Tax (MCIT)"</th></tr>
<tr><th colspan="2">Regular</th><th colspan="2">MCIT</th></tr>
<tr><th>Rate</th><th>Effectivity</th><th>Rate</th><th>Effectivity</th></tr>
<tr><td rowspan="2">Domestic Corporations, in general</td><td rowspan="2">25%</td><td rowspan="2">July 1, 2020</td><td>1%</td><td>July 1, 2020 to June 30,2023</td></tr>
<tr><td>2%</td><td>July 1, 2023</td></tr>
<tr><td rowspan="2">For Corporations, with net taxable income not exceeding P 5 Million AND total assets not exceeding P 100 Million excluding land on which the particular business entity's office, plant and equipment is located</td><td rowspan="2">20%</td><td rowspan="2">July 1, 2020</td><td>1%</td><td>July 1, 2020 to June 30,2023</td></tr>
<tr><td>2%</td><td>July 1, 2023</td></tr>
</table>

<u>f) Events after the end of the reporting period</u>
Although the effects of COVID-19 pandemic are waning because of the availability of vaccines, the Bank has taken a number of measures to monitor and mitigate the effects of COVID-19, such as safety and health measures for its people and securing the supply of resources that are essential to its business process.

At this stage, the impact on its business and results is limited and the Bank expects this to remain the case. The Bank will continue to follow the various government policies and advice, and in parallel, and will do its utmost to continue its operations in the best and safest way possible without jeopardizing the health of its people.

7. RISK MANAGEMENT OBJECTIVES AND POLICIES

General Risk Management Principles

The Bank's activities expose it to a variety of financial risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. Taking risk is core to the financial business, and the operational risks are an inevitable consequence of being in business. The Bank's aim is therefore to achieve an appropriate balance between risk and return and minimize potential adverse effects on the Bank's financial performance.

The Bank's risk management policies are designed to identify and analyze these risks, to set appropriate risk limits and controls, and to monitor the risks and adherence to limits by means of reliable and up-to-date information systems. The Bank regularly reviews its risk management policies and systems to reflect changes in markets, products and emerging best practice.

The Board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, and financial risk. In addition, internal audit is responsible for the independent review of risk management and the control environment. The most important types of risks are credit risk, liquidity risk, market risk and other operational risks. Market risk includes currency risk, interest rate and other price risk. The bank is exposed to financial risk through its financial assets and financial liabilities. The most important components of this financial risks are credit risk, liquidity risk and market risk.

The following table summarizes the carrying amount of financial assets and liabilities recorded by category:

	Notes		2022		2021
Financial Assets					
Cash and other cash items	9	₱	**22,922,329**	₱	30,360,521
Due from Bangko Sentral ng Pilipinas	10		**42,350,245**		37,336,809
Due from other banks	11		**558,805,986**		523,363,882
Financial assets at amortized cost	12		**782,256,976**		831,841,081
Loans and receivable - net	13		**398,918,292**		338,728,788
Other assets*	17		**11,723,423**		7,939,267
		₱	**1,816,977,251**	₱	1,769,570,348
Financial liabilities					
Deposit liabilities	18	₱	**1,647,890,929**	₱	1,598,859,009
Bills payable	19		**10,000,000**		20,000,000
Lease liabilities	20		**1,484,821**		1,235,174
Other liabilities**	21		**16,015,488**		10,032,470
		₱	**1,675,391,238**	₱	1,630,126,653

**Excluding non-financial assets amounting to ₱22,899,472 and ₱22,751,518 for the years 2022 and 2021, respectively*
***Excluding non-financial liabilities amounting to ₱5,151,852 and ₱4,760,863 for the years 2022 and 2021, respectively*

Credit Risk

The Bank takes on exposure to credit risk, which is the risk that counterparty will cause a financial loss for the Bank by failing to discharge an obligation. Credit risk is the most important risk for the Bank's business; management therefore carefully manages its exposure to credit risk. Credit exposures arise principally in lending activities that lead to loans and receivables. There is also credit risk in off-balance sheet financial instruments, such as loan commitments and guarantees.

Credit risk measurement

Credit risk is the possibility of losses associated with changes in the credit profile of borrowers or counterparties. These losses, associated with changes in portfolio value, could arise due to default or due to deterioration in credit quality.

• Default risk: obligor fails to service debt obligations
• Recovery risk: recovery post default is uncertain
• Spread risk: credit quality of obligor changes leading to a fall in the value of the loan
• Concentration risk: over exposure to an individual obligor, group or industry
• Correlation risk: concentration based on common risk factors between different borrowers, industries or sectors which may lead to simultaneous default limits, diversification strategy, and its risk-based pricing of loans and receivables based on its credit risk appetite and the size of its capital.

The Bank has adopted the standardized measurement of credit risk. In this regard, the tasks under the credit risk unit are as under, among others:

- Segmentation of the credit portfolio (in terms of risk but not size);
- Model Requirements (for risk assessments);
- Data requirements;
- Credit risk reporting requirements for regulatory / control and decision-making purposes at various levels;
- Policy requirements for credit risk (credit process & practices, monitoring & portfolio management etc.);
- Align risk strategy & business strategy.

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

An analysis of the maximum exposure to credit risk relating to on-balance sheet assets without taking into account of any collateral held or other credit enhancements is shown below:

	Notes	2022	2021
Financial Assets			
Cash and other cash items*	9	₱ **10,017,106**	₱ 16,269,500
Due from Bangko Sentral ng Pilipinas	10	**42,350,245**	37,336,809
Due from other banks	11	**558,805,986**	523,363,882
Financial assets at amortized cost	12	**782,256,976**	831,841,081
Loans and receivables**	13	**445,601,489**	393,890,596
Other assets***	17	**11,723,423**	7,939,267
		₱ **1,850,755,225**	₱ 1,810,641,135

**Excluding cash in vault amounting to ₱12,905.223 and ₱14,091,021 in 2022 and 2021, respectively.*
***Gross of allowance for credit losses and unamortized discount amount to ₱46,683,197 and ₱55,161,809 in 2022 and 2021, respectively.*
****Excluding non-financial assets amounting to ₱22,899,472 and ₱22,751,518 for the years 2022 and 2021, respectively*

Credit Quality of Financial Assets

The table below shows the credit quality by class of financial assets as of December 31, 2022 and 2021:

2022	Neither past due nor impaired	Past due but not impaired	Impaired	Total
Cash and other cash items*	₱ 10,017,106	₱ -	₱ -	₱ 10,017,106
Due from Bangko Sentral ng Pilipinas	42,350,245	-	-	42,350,245
Due from other banks	558,805,986	-	-	558,805,986
Financial assets at amortized cost	782,256,976	-	-	782,256,976
Loans and receivable - net**	367,781,850	13,969,876	16,867,641	398,619,367
Other assets***	11,723,423	-	-	11,723,423
	₱ 1,772,935,586	₱ 13,969,876	₱ 16,867,641	₱ 1,803,773,103

2021	Neither past due nor impaired	Past due but not impaired	Impaired	Total
Cash and other cash items*	₱ 16,269,500	₱ -	₱ -	₱ 16,269,500
Due from Bangko Sentral ng Pilipinas	37,336,809	-	-	37,336,809
Due from other banks	523,363,882	-	-	523,363,882
Financial assets at amortized cost	831,841,081	-	-	831,841,081
Loans and receivable - net**	233,144,474	23,488,736	137,170,349	393,803,559
Other assets***	7,939,267	-	-	7,939,267
	₱ 1,649,895,013	₱ 23,488,736	₱ 137,170,349	₱ 1,810,554,098

**Excluding cash in vault amounting to ₱12,905,223 and ₱14,091,021 in 2022 and 2021, respectively*
***Net of unamortized discount amounting to ₱298.925 and ₱87.038 in 2022 and 2021, respectively.*
*** *Excluding non-financial assets amounting to ₱22,899,472 and ₱22,751.518 for the years 2022 and 2021, respectively*

Risk limit control and mitigation policies

The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and industry segments. Such risks are monitored on a revolving basis and subject to an annual or more frequent review, when considered necessary. Limits on the level of credit risk by industry sector are set out in the credit policy. Exposure to credit risk is also managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits where appropriate.

Impairment and provisioning policies

The Bank has adopted a Credit Impairment and Income Recognition Policy, whereby the impairment and provisioning policies are defined. The Bank assesses at each balance sheet date whether there is objective evidence that loans and receivables are impaired. The criteria that the Bank uses to determine that there is objective evidence of an impairment loss include:

•Delinquency in contractual payments of principal or interest;
•Cash flow difficulties experienced by the borrower;
•Breach of loan covenants or conditions;
•Initiation of bankruptcy proceedings;
•Deterioration of the borrower's competitive position; and
•Deterioration in the value of collateral.

Market Risk – Non-Trading

Market risk is the risk of loss resulting from adverse movements in the value of financial instruments because of changes in market prices. The financial instruments are in form of government securities. One type of market risk that the Bank monitors on a regular basis is the interest rate risk.

Interest Rate Risk Management

Interest rate risk arises from the possibility of changes in interest rates will affect future cash flows or the fair values of financial instruments. Management monitors its exposure to fluctuations in interest rates by measuring the impact of interest rate movements on the net worth of the Bank's total books. This is done by modelling the impact of various changes in interest rates to the net interest positions of the Bank's total books.

Given the re-pricing position of the assets and liabilities of the Bank's total books, if interest income rates decreased and interest expense rates increased by both 300 basis points, the Bank's total books would expect net interest income to decrease by ₱99.7 Million in 2022 and ₱95.4 Million in 2021.This sensitivity analysis is performed for risk management purposes and assumes no other changes in re-pricing structure. Actual change in net interest income will vary from the model.

Liquidity Risk Management

Liquidity risk is defined within the Bank's policy framework as 'the risk that, at any time, the Bank does not have sufficient realizable financial assets to meet its financial obligations as they fall due'.

The liquidity policy of the Bank is to ensure that it:

- can meet its financial obligations as they fall due in the normal course of business; and
- maintains an adequate stock of highly liquid assets to enable it to meet unexpected funding needs at short notice.

The Bank's liquidity policy requires establishment and maintenance of three lines of defense:

- Cashflow management where the Bank creates a continuously maturing stream of assets and liabilities;
- Maintenance of a liquid asset portfolio; and
- Maintenance of a diversified liability base.

The following tables present the Bank's financial assets and liabilities, as of December 31, 2022 and 2021 based on undiscounted contractual cash flows:

2022	Total	Within 1 year	1 - 5 years	5 years over
Financial Assets				
Cash and cash equivalents	₱ 22,922,329	₱ 22,922,329		
Duef from Bangko Sentral ng Pilipinas	42,350,245	42,350,245		
Due from other banks	558,805,986	543,805,986	15,000,000	-
Financial assets at amortized cost	782,256,975	562,487,826	141,874,572	77,894,578
Loans and Receivables-net	398,918,292	57,489,047	291,125,305	50,303,940
Other assets*	11,723,423			11,723,423
Total	₱ 1,816,977,251	₱ 1,229,055,434	₱ 447,999,877	₱ 139,921,940
Financial Liabilities				
Deposit liabilities	₱ 1,647,890,929	₱ 1,503,317,175	₱ 144,573,754	₱ -
Bills payable	10,000,000	10,000,000		
Lease liabilities	1,484,821	1,484,821		
Other liabilities**	16,015,488	16,015,488	-	-
Total	₱ 1,675,391,238	₱ 1,530,817,484	₱ 144,573,754	₱ -

2021		Total		Within 1 year		1 - 5 years		5 years over
Financial Assets								
Cash and cash equivalents	₱	30,360,521	₱	30,360,521				
Duef from Bangko Sentral ng Pilipinas		37,336,809		37,336,809				
Due from other banks		523,363,882		488,363,882		35,000,000		-
Financil assets at amortized cost		831,841,081		607,124,752		142,660,898		82,055,431
Loans and Receivables-net		338,728,788		50,623,439		181,049,119		107,056,230
Other assets*		7,939,267		-		-		7,939,267
Total	₱	1,769,570,348	₱	1,213,809,403	₱	358,710,017	₱	197,050,928
Financial Liabilities								
Deposit liabilities	₱	1,598,859,009	₱	1,415,941,349	₱	182,917,660	₱	-
Bills payable		20,000,000		20,000,000				
Lease liabilities		1,235,174		1,235,174				
Other liabilities**		10,032,470		10,032,470.00		-		-
Total	₱	1,630,126,653	₱	1,447,208,993	₱	182,917,660	₱	-

**Excluding non-financial assets amounting to ₱22,899,472 and ₱ 22,751,518 for the years 2022 and 2021, respectively*
***Excluding non-financial liabilities amounting to ₱5.151,852 and ₱4,760,863 for the years 2022 and 2021, respectively*

Furthermore, BSP regulations require the Bank to promote short term resilience to liquidity shocks by maintaining a stock of liquid assets proportionate to its on- and off-balance sheet liabilities. Under said regulations, prudential minimum liquidity ratio (MLR) is at twenty percent (20%), where the MLR is expressed as a percentage of the Bank's eligible liquid assets to its qualifying liabilities. The Bank's liquid assets consist of: cash on hand; reserves in the BSP; debt securities guaranteed by the Philippine National Government; and deposits in other banks; while qualifying liabilities: consist of total liabilities; and irrevocable obligations under off-balance sheet items such as committed credit lines. As of December 31, 2022 and 2021, the Bank is compliant with MLR regulations with ratios of 100.83% and 105.19%, respectively.

Operational Risk Management

Operational risks are risks arising from potential inadequate information systems and system, operations or transactional problems (relating to service or product delivery), breaches in internal controls, fraud, or unforeseen catastrophes that may result in unexpected loss. Operational risks include the risk of loss arising from various types of human or technical error, settlement or payments failures, business interruption, administrative and legal risks, and the risk arising from systems not performing adequately.

The Executive Committee and Senior Management are responsible for managing operational risk exposures and apply a number of techniques to efficiently manage such risk, among these are enumerated below:

i) Key Risk Indicators (KRIs) are used to monitor the operational risk profile of the Bank of each business unit, and alert the management of impending problems in a timely manner;
ii) Internal loss information is collected, reported and utilized to model operational risk; and
iii) Review of product and operating manuals, policies, procedures, and circulars, thus allowing the establishment of desired operational risk management practices in all business units.

a. Strategic Risk

Risk on earnings or capital arising from adverse business decisions, improper implementation of decisions, or lack of responsive to industry changes. It is a function of the compatibility of an organization's strategic goals, the business strategies developed to achieve those goals, the resources deployed against these goals, and the quality of implementation. The organization's internal characteristics must be evaluated against the impact of economic, technological, competitive, regulatory, and other environmental changes.

b. Reputation Risk

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

c. Legal Risk and Regulatory Risk Management

Changes in laws and regulations and fiscal policies could adversely affect the Bank's operations and financial reporting. In addition, the Bank faces legal risks in enforcing its rights under its loan agreements, such as foreclosing of collateral. Management uses a legal review process as the primary control mechanism for legal risk. Such as legal review aims to verify and validate the existence, genuineness and due execution of legal documents, and verify the capacity and authority of counterparties and customers to enter into transactions. In addition, the Bank seeks to minimize its legal risk by using stringent legal documentation imposing certain requirements designed to ensure that transactions are properly authorized, and consulting internal and external legal counsels.

Regulatory risk refers to the potential for the Bank to suffer financial loss due to changes in laws or monetary, tax or other governmental regulations of the country. The Bank's Compliance Program, the design and implementation of which is overseen and coordinated by the Compliance Officer, is the primary control process for regulatory risk issues. The Compliance Office is committed to safeguard the integrity of the Bank by maintaining of high-level regulatory compliance. It is responsible for communicating and disseminating new rules and regulations to all units, assessing and addressing identified compliance issues, performing period compliance testing on branches and head office units, and reporting compliance findings to the Board of Directors.

The operations of the Bank are also subject to the regulatory requirements of SEC. Such regulations not only prescribe approval and monitoring of activities but also impose certain restrictive provisions.

The bank is subject to the inherent risk that the application of prescribed standards may conflict or differ from the application of regulations as prescribed from other regulatory bodies resulting to disparity of financial reports. Hence, there is a need to reconcile the disparity in a systematic and clear manner. The BOD ensures that management are updated in relation to pronouncements made by concerned regulatory bodies.

However, in cases where there are differences between BSP regulations and PFRS/PAS as when more than one (1) option are allowed or certain maximum or minimum limits are prescribed by the PFRS/PAS, the option or limit prescribed by BSP regulations shall be adopted by the Bank.

Anti-Money Laundering Controls

The Anti-Money Laundering Act (AMLA) or RA No. 9160 was enacted in September 2001 and was amended by RA Nos. 9194, 10167, 10365, 10927 and 11521 in 2003, 2012, 2013, 2017 and 2021, respectively. Furthermore, terrorist financing was criminalized in RA No. 10168. Under the AMLA, as amended, in order to prevent money laundering and financing activities, the Bank is required to: (1) identify its customers; (2) report covered transactions and suspicious transactions to the Anti-Money Laundering Council (AMLC); and (3) retain customer identification records and transactional documents for a specified period.

On January 27, 2011, the BSP Circular No. 706 was implemented superseding all policies on AMLA. The Circular requires the Bank to adopt a comprehensive and risk-based Money Laundering and Terrorist Financing Program (MTPP) designed according to the Bank's corporate structure and risk profile. Further amendments to the regulations on Anti-Money Laundering (AML) and Combating Financing of Terrorism (CFT) were promulgated thru BSP Circular Nos. 950 and 1022 in March, 2017 and November, 2018, respectively.

The Board approved the MTPP setting forth Bank's AML/CFT policies and procedures. Under the MTPP, each business unit is required to verify the true identity of a customer based on official or other reliable identification documents or records before an account may be opened. Furthermore, the Bank is required to determine risk profile of its customers whether low, normal or high risk in order to perform corresponding due diligence of reduced, average or enhanced. Decisions to enter into business relationship with a high-risk customer require senior management approval.

Under the reporting requirement, the Bank submits Covered Transaction Reports (CTRs) to the Anti-Money Laundering Council (AMLC) involving single transaction in cash or other equivalent monetary instruments in excess of ₱ 0.5 Million within one banking day. The Bank also submits Suspicious Transaction Reports (STRs) to the AMLC in the event that circumstances exist and there are reasonable grounds to believe that the transaction is suspicious.

As for record keeping requirements, the Bank safe keeps, as long as the account exists, all the Know-Your-Customer (KYC) documents involving clients, including documents that establish and record the true and full identity of its clients. Likewise, transactional documents must be maintained and stored for five years from the date of the transaction. In cases involving closed accounts, the KYC documents must be kept for five years after their closure. On the other hand, all records of accounts with court cases must be kept until there is a final resolution.

The Bank's Compliance Officer monitors AMLA compliance and conducts regular compliance testing of business units and regularly reports to the Board of Directors results of monitoring of AMLA compliance.

8. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

The following table presents a comparison by category of carrying amounts and estimated fair value of the Bank's financial instruments as of December 31, 2022 and 2021.

2022	Carrying Value	Quoted (Unadjusted) Prices in Active Markets (Level 1)	Significant Obervable inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
ASSETS					
Assets for which fair value is disclosed					
Cash and cash equivalents	22,922,329		22,922,329		22,922,329
Duef from Bangko Sentral ng Pilipinas	42,350,245		42,350,245		42,350,245
Due from other banks	558,805,986		558,805,986		558,805,986
Investments at amortized cost	782,256,976		782,256,976		782,256,976
Loans and receivables - net	398,918,292		398,918,292		398,918,292
Other assets*	11,723,423		11,723,423		11,723,423
Total	1,816,977,251	-	1,816,977,251	-	1,816,977,251
LIABILITIES					
Liabilities for which fair value is disclosed					
Deposit liabilities	1,647,890,929	-	1,647,890,929	-	1,647,890,929
Bills payable	10,000,000	-	10,000,000	-	10,000,000
Lease liabilities	1,484,821	-	1,484,821	-	1,484,821
Other liabilities**	16,015,488	-	16,015,488	-	16,015,488
	1,675,391,238	-	1,675,391,238	-	1,675,391,238

2021	Carrying Value	Quoted (Unadjusted) Prices in Active Markets (Level 1)	Significant Obervable inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
ASSETS					
Assets for which fair value is disclosed					
Cash and cash equivalents	30,360,521	-	30,360,521	-	30,360,521
Duef from Bangko Sentral ng Pilipinas	37,336,809	-	37,336,809	-	37,336,809
Due from other banks	523,363,882	-	523,363,882	-	523,363,882
Investments at amortized cost	831,841,081	-	831,841,081	-	831,841,081
Loans and receivables - net	338,728,788	-	338,728,788	-	338,728,788
Other assets*	7,939,267	-	7,939,267	-	7,939,267
Total	1,769,570,348	-	1,769,570,348	-	1,769,570,348
LIABILITIES					
Liabilities for which fair value is disclosed					
Deposit liabilities	1,598,859,009	-	1,598,859,009	-	1,598,859,009
Bills payable	20,000,000	-	20,000,000	-	20,000,000
Lease liabilities	1,235,174	-	1,235,174	-	1,235,174
Other liabilities**	10,032,470	-	10,032,470	-	10,032,470
	1,630,126,653	-	1,630,126,653	-	1,630,126,653

**Excluding non-financial assets amounting to ₱22,899,472 and ₱22,751,518 for the years 2022 and 2021, respectively*
***Excluding non-financial liabilities amounting to ₱5,151,852 and ₱4,760,863 for the years 2022 and 2021, respectively*

As of December 31, 2022 and 2021, there were no transfers between Levels 1 and 2 fair value measurements and no transfers into and out of Level 3 fair value measurement.

9. CASH AND OTHER CASH ITEMS

The account consists of the following:

		2022		2021
Cash on hand and in vault	₱	12,905,223	₱	14,091,021
Cash in ATM		9,974,800		16,269,500
Checks and other cash items		42,306		-
Total	₱	22,922,329	₱	30,360,521

Cash on hand and in vault includes USD denominated bills amounting to $1,706 in 2022 and $3,106 in 2021 with equivalent peso value of ₱95,741 and ₱157,704, respectively, under the custody of the cashiers and tellers. Cash in ATM refers to amount of cash in the automated teller machines as of end of reporting period. Checks and other cash items refer to the total amount of checks and other cash items received after the selected clearing cut-off time until the close of the year-end regular banking day. Checks and other cash items are included in the computation of cash and cash equivalents for cash flow statement purposes.

10. DUE FROM BANGKO SENTRAL NG PILIPINAS (BSP)

'Due from BSP' account represents the aggregate balance of noninterest-bearing peso demand deposit account with the BSP which the Bank maintains primarily to meet reserve requirements.

As of December 31, 2022 and 2021, Due from BSP amounting to ₱42,350,245 and ₱37,336,809, respectively, were set aside as reserve for deposit liabilities as required by the BSP.

For the years 2022 and 2021, the reserve requirement is set at 2% through BSP Circular No. 1092. The funds to meet regulatory reserve requirement are recorded under the Due from BSP account. Due from BSP account is a non-interest-bearing account that also serves as clearing account in interbank claims. The table below shows total required reserves and available reserves, i.e., Due from BSP, as of December 31:

	Rates		**2022**		2021
Demand Deposit	2%		4,956,520		4,266,119
Savings Deposit	2%		23,917,274		23,145,121
Time Deposit	2%		4,084,024		4,565,940
Total Required Reserves		₱	32,957,819	₱	31,977,180
Available Reserves		₱	42,350,245	₱	37,336,809

As of December 31, 2022 and 2021, the Bank is in compliance with the regulatory reserve requirements.

11. DUE FROM OTHER BANKS

The balance of this account represents deposits with the following:

		2022		2021
Private Banks				
Commercial Banks	₱	**337,486,030**	₱	272,113,113
Rural and Thrift Banks		**105,744,378**		120,294,398
Government Banks				
Land Bank of the Philippines		**115,575,578**		130,956,371
Total	₱	**558,805,986**	₱	523,363,882

Due from other banks includes US currency deposits amounting to $16,728 with equivalent peso value of ₱938,782 in 2022 and $12,870 with equivalent peso value of ₱653,421 in 2021.

Annual interest rates on due from other banks range from 0% to 4.75% p.a. in 2022 and 0% to 3.875% p.a. in 2021. For the years ended, December 31, 2022 and 2021, the interest income earned on due from other banks amounted to ₱3,631,180 and ₱2,236,298 (see Note 24), respectively, and are included as part of interest income in the statement of comprehensive income.

12. FINANCIAL ASSETS AT AMORTIZED COST

This account consists of government securities purchased from commercial banks, quoted in an active market and stated at amortized cost. Discount and premium recognized are amortized based on effective interest method. These have fixed or determinable payments and fixed maturity that the Bank has the positive intention and ability to hold to maturity to collect principal and /or interests. The term of these investments ranges from within one (1) year to ten (10) years. The balance of this account is composed of the following:

		As of December 31, 2022		
Counterparty	Type	Fair Value	Premium/(Discount)	Amoritzed Cost
Commercial Banks	RTB/ TB	₱ 683,962,462	₱ (9,931,472)	₱ 674,030,990
Land Bank of the Phils.	10-yr Agra Bonds	113,171,823	(4,945,837)	108,225,986
Total		₱ 797,134,285	₱ (14,877,309)	₱ 782,256,976

		As of December 31, 2021		
Counterparty	Type	Fair Value	Premium/(Discount)	Amoritzed Cost
Commercial Banks	RTB/ TB	₱ 717,962,462	₱ (6,703,374)	₱ 711,259,088
Land Bank of the Phils.	10-yr Agra Bonds	126,522,763	(5,940,770)	120,581,993
Total		₱ 844,485,225	₱ (12,644,143)	₱ 831,841,081

Classified as financial assets at amortized cost, these quoted treasury bills and bonds have fixed annual interest rates ranging from 1.40% to 8% in 2022 and 0.625% to 8% in 2021. On the other hand, LBP 10-year Agra Bonds bear market interest rates based on average 91-day treasury bills of the auction immediately preceding end of quarter and payable every semester. Interest earned for the years 2022 and 2021 amounted to ₱17,019,211 and ₱14,575,953 (see Note 24), respectively and is shown as part of interest income in the statements of comprehensive income.

13. LOANS AND RECEIVABLES - NET

The account consists of the following:

		2022		2021
Receivables from customers				
Loans and discounts	₱	415,519,293	₱	361,663,858
Unamortized discounts		(298,925)		(87,038)
Amortized cost		415,220,368		361,576,820
Allowance for credit losses				
Specific		(34,620,118)		(43,469,074)
General		(3,306,086)		(2,416,131)
Total		(37,926,204)		(45,885,205)
Net carrying values		377,294,164		315,691,616
Accrued interest receivable		6,404,789		4,110,384
Allowance for credit losses		-		-
Sales contract receivable		23,677,407		28,116,355
Allowance for credit losses		(8,458,068)		(9,189,566)
Loans and receivables - net	₱	398,918,292	₱	338,728,788

The following table shows the receivables from borrowers, net of unamortized discount and before allowance for credit losses, classified as to terms, as at December 31:

Classified as to Terms:		2022		2021
Short Term (1 year or less)	₱	53,296,155	₱	59,588,722
Medium Term (over 1 year to 5 years)		324,520,415		275,175,102
Long Term (over five years)		37,403,798		26,812,996
Total	₱	415,220,368	₱	361,576,820

Loans and receivables bear annual interest rates ranging from 6% to 70 % per annum, in 2022 and 2021. Interest earned from loans and receivables for the years 2022 and 2021 amounted to ₱72,601,799 and ₱79,937,858, respectively, and is included as part of interest income in the statements of comprehensive income (See Note 24).

As of December 31, 2022 and 2021, loans amounting ₱10 Million and ₱20 Million, respectively, are pledged as collateral to secure borrowings under rediscounting privileges with Land Bank of the Philippines (See Note 19).

Furthermore, as at December 31, 2022 and 2021, housing loans amounting to ₱15,385,568 and ₱11,270,616, respectively, are secured by real estate mortgage and further guaranteed by Philippine Guarantee Corporation (formerly Home Guaranty Corporation).

Accrued Interest Receivable on Financial Assets

Breakdown of accrued interest receivable on financial assets, gross of allowance for credit losses, as of December 31, follows:

		2022		2021
Financial assets at amortized cost	₱	5,744,473	₱	3,901,551
Due from other banks		660,316		208,832
Total	₱	6,404,789	₱	4,110,384

Sales Contract and Receivable (SCR)

SCR represents the balance due from the buyer of investment properties on installment basis. At the time of sale of said acquired asset on installment, the Bank still retains the title of the sold property and will only be transferred to the buyer upon full payment of the agreed selling price.

This account, gross of allowance, consists of as at December 31:

		2022		2021
Performing	₱	10,546,503	₱	15,790,733
Non-performing		13,130,904		12,325,622
Total	₱	23,677,407	₱	28,116,355

SCR is considered non-performing in case of non-payment of any amortization due. According to BSP Regulations, an SCR which has been classified “Substandard” and considered non-performing due to non-payment of any amortization due, may only be upgraded/ restored to unclassified and/or performing status after a satisfactory track record of at least three (3) consecutive payments of the required amortization of principal and/or interest has been established.

SCR bears annual interest rate of 20% per annum in 2022 and 2021. Interest earned from SCR for the years 2022 and 2021, amounted to ₱2,849,578 and ₱4,451,760, respectively, and are included as part of interest income (loans and discounts) in the statement of comprehensive income (See Note 24).

Movements during 2022 for loans and receivables (net of unamortized discount) from customers follow:

	Stage 1 Collective	Stage 2 Collective	Stage 3 Collective	Total
Agricultual and agrarian loans				
Balance at January 1, 2022	11,651,646	-	5,762,776	17,414,422
New assets originated or purchased	47,856,074			47,856,074
Assets derecognized or repaid	(50,063,175)		(3,729,441)	(53,792,616)
Amounts written off				-
Transfers to/(from) Stage 1				-
Transfers to/(from) Stage 2	(800,072)	800,072		-
Transfers to/(from) Stage 3		(800,072)	800,072	-
Others				-
Commercial Loans				-
Balance at January 1, 2022	133,641,176	16,016,328	97,137,247	246,794,751
New assets originated or purchased	286,734,500			286,734,500
Assets derecognized or repaid	(167,235,669)		(71,591,795)	(238,827,464)
Amounts written off				-
Transfers to/(from) Stage 1				-
Transfers to/(from) Stage 2	6,871,594	(6,871,594)		-
Transfers to/(from) Stage 3		(1,673,476)	1,673,476	-
Others				-
Other type of loans				
Balance at January 1, 2021	87,851,651	7,472,408	34,270,326	129,594,385
New assets originated or purchased	77,835,198			77,835,198
Assets derecognized or repaid	(20,504,515)		(47,802,173)	(68,306,688)
Amounts written off				-
Transfers to/(from) Stage 1				-
Transfers to/(from) Stage 2		(844,828)	844,828	-
Transfers to/(from) Stage 3	(36,233,849)		36,233,849	-
Others				-
	377,604,559	14,098,838	53,599,165	445,302,562

Movements during 2022 of allowance for credit and impairment losses follow:

	Stage 1 Collective	Stage 2 Collective	Stage 3 Collective	Total
Agricultual and agrarian loans				
Balance at January 1, 2022	181,460	19,192	4,435,591	4,636,243
New assets originated or purchased				-
Assets derecognized or repaid			(1,075,562)	(1,075,562)
Amounts written off				-
Transfers to/(from) Stage 1	68,504		(68,504)	-
Transfers to/(from) Stage 2		(19,192)	19,192	-
Transfers to/(from) Stage 3				-
Others				-
Commercial Loans				-
Balance at January 1, 2022	1,701,888	462,461	28,323,705	30,488,054
New assets originated or purchased				-
Assets derecognized or repaid			(4,458,780)	(4,458,780)
Amounts written off				-
Transfers to/(from) Stage 1	6,150,737		(6,150,737)	-
Transfers to/(from) Stage 2		(362,186)	362,186	-
Transfers to/(from) Stage 3				-
Others				-
Other type of loans				
Balance at January 1, 2022	779,219	84,127	18,646,315	19,509,661
New assets originated or purchased				-
Assets derecognized or repaid			(2,715,344)	(2,715,344)
Amounts written off				-
Transfers to/(from) Stage 1	642,146		(642,146.00)	-
Transfers to/(from) Stage 2		(55,647)	55,647.00	-
Transfers to/(from) Stage 3				-
Others				-
	9,523,954	128,755	36,731,563	46,384,272

Movements during 2021 for loans and receivables (net of unamortized discount) from customers follow:

	Stage 1 Collective	Stage 2 Collective	Stage 3 Collective	Total
Agricultual and agrarian loans				
Balance at January 1, 2021	6,956,689	136,832	11,206,570	18,300,091
New assets originated or purchased	31,615,000			31,615,000
Assets derecognized or repaid	(25,410,104)		(7,090,565)	(32,500,669)
Amounts written off				-
Transfers to/(from) Stage 1				-
Transfers to/(from) Stage 2	(1,509,938)	1,509,938		-
Transfers to/(from) Stage 3		(1,646,770)	1,646,770	-
Others				-
Commercial Loans				-
Balance at January 1, 2021	132,128,629	50,652,318	98,805,794	281,586,740
New assets originated or purchased	201,654,000			201,654,000
Assets derecognized or repaid	(177,367,974)		(57,595,349)	(234,963,323)
Amounts written off			(1,482,666.07)	(1,482,666)
Transfers to/(from) Stage 1				-
Transfers to/(from) Stage 2	(22,773,479)	22,773,479		-
Transfers to/(from) Stage 3		(57,409,469)	57,409,469	-
Others				-
Other type of loans				
Balance at January 1, 2021	81,429,162	16,397,414	50,601,014	148,427,591
New assets originated or purchased	44,176,367			44,176,367
Assets derecognized or repaid	(16,826,295)		(46,183,277)	(63,009,573)
Amounts written off				-
Transfers to/(from) Stage 1				-
Transfers to/(from) Stage 2	(20,927,583)	20,927,583		-
Transfers to/(from) Stage 3		(29,852,589)	29,852,589	-
Others				-
	233,144,474	23,488,736	137,170,349	393,803,559

Movements during 2021 of allowance for credit and impairment losses follow:

	Stage 1 Collective	Stage 2 Collective	Stage 3 Collective	Total
Agricultual and agrarian loans				
Balance at January 1, 2021	75,557	58,276	5,384,035	5,517,868
New assets originated or purchased	52,951			52,951
Assets derecognized or repaid			(493,764)	(493,764)
Amounts written off				-
Transfers to/(from) Stage 1				-
Transfers to/(from) Stage 2				-
Transfers to/(from) Stage 3		(19,542)	19,542	-
Others				-
Commercial Loans				-
Balance at January 1, 2021	1,679,510	5,853,370	24,639,081	32,171,961
New assets originated or purchased				-
Assets derecognized or repaid				-
Amounts written off			(1,482,666.07)	(1,482,666)
Transfers to/(from) Stage 1	22,378			22,378
Transfers to/(from) Stage 2				-
Transfers to/(from) Stage 3		(5,167,290)	5,167,290	-
Others		(223,618.96)		(223,619)
Other type of loans				
Balance at January 1, 2021	760,817	1,007,744	20,900,168	22,668,729
New assets originated or purchased	18,402			18,402
Assets derecognized or repaid		(923,617)	(2,253,853)	(3,177,470)
Amounts written off				-
Transfers to/(from) Stage 1				-
Transfers to/(from) Stage 2				-
Transfers to/(from) Stage 3				-
Others				-
	2,609,615	585,322	51,879,834	55,074,771

14. BANK PREMISES, FURNITURE, FIXTURES AND EQUIPMENT

The composition of and movements in this account for 2022 are as follows:

2022	Land	Bank Premises-Bldg.	Furniture, Fixtures & Equipment	Other Equipment	IT Equpment	Transportation Equipment	Leasehold Improvements	**Total**
Cost								
Balance, January 1	₱ 16,157,142	₱ 59,644,237	₱ 13,797,994	₱ 6,187,710	₱ 25,242,979	₱ 16,553,785	₱ 679,273	₱ 138,263,118
Additions		3,716,255	190,152	539,976	1,315,990	1,755,598		7,517,971
Transfer (disposal)			(16,913)	7,620	(39,428)	(547,846)		(596,568)
Balance, December 31	₱ 16,157,142	₱ 63,360,492	₱ 13,971,233	₱ 6,735,305	₱ 26,519,540	₱ 17,761,537	₱ 679,273	₱ 145,184,521
Accumulated depreciation								
Balance, January 1		₱ 41,256,141	₱ 13,313,418	₱ 5,524,467	₱ 21,374,711	₱ 12,604,128	₱ 475,063	₱ 94,547,929
Depreciation (note 30)		2,502,998	298,213	402,646	2,144,962	1,756,063	76,577	7,181,458
Transfer (disposal)			(16,913)	7,620	(39,428)	(547,846)		(596,568)
Balance, December 31	₱ -	₱ 43,759,139	₱ 13,594,718	₱ 5,934,733.22	₱ 23,480,245	₱ 13,812,345	₱ 551,640	₱ 101,132,820
Carrying Amount	₱ 16,157,142	₱ 19,601,352	₱ 376,515	₱ 800,572	₱ 3,039,295	₱ 3,949,193	₱ 127,633	₱ 44,051,701

The composition of and movements in this account for 2021 are as follows:

2021	Land	Bank Premises-Bldg.	Furniture, Fixtures & Equipment	Other Equipment	IT Equpment	Transportation Equipment	Leasehold Improvements	Total
Cost								
Balance, January 1	₱ 11,298,088	₱ 59,644,237	₱ 13,739,993	₱ 6,069,178	₱ 23,909,882	₱ 15,859,190	₱ 679,273	₱ 131,199,841
Additions	4,859,054		58,001	147,568	1,333,097	1,048,345		7,446,065
Transfer (disposal)				(29,036)		(353,750)		(382,786)
Balance, December 31	₱ 16,157,142	₱ 59,644,237	₱ 13,797,994	₱ 6,187,710	₱ 25,242,979	₱ 16,553,785	₱ 679,273	₱ 138,263,120
Accumulated depreciation								
Balance, January 1	₱ -	₱ 38,541,417	₱ 12,974,944	₱ 5,151,777	₱ 19,216,457	₱ 11,312,624	₱ 398,486	₱ 87,595,705
Depreciation (note 30)		2,714,725	338,009	401,726	2,158,637	1,645,254	76,577	7,334,928
Transfer (disposal)			466	(29,036)	(382)	(353,750)		(382,702)
Balance, December 31	₱ -	₱ 41,256,142	₱ 13,313,419	₱ 5,524,467	₱ 21,374,712	₱ 12,604,128	₱ 475,063	₱ 94,547,931
Carrying Amount	₱ 16,157,142	₱ 18,388,095	₱ 484,575	₱ 663,243	₱ 3,868,267	₱ 3,949,657	₱ 204,210	₱ 43,715,189

Under Section 109 of the MORB, investments in bank premises, furniture, fixtures and equipment do not exceed 50% of the Bank’s unimpaired capital. As at December 31, 2022 and 2021, the Bank has satisfactorily complied with this requirement.

As of December 31, 2022 and 2021, there is no property, plant and equipment of the Bank that is pledged as security for liabilities nor restrictions on title thereon.

The Bank disposed certain fully depreciated property and equipment during the year. Gain on disposal of said assets amounted to ₱35.451 in 2022 and ₱34,426 in 2021, and were included as part of gain on sale of non-financial assets in the statements of income.

15. INVESTMENT PROPERTIES - NET

Investment properties consist entirely of real estate properties and improvements thereon acquired in settlement of loans and receivables. The gross carrying amounts, accumulated depreciation and allowance for impairment of investment properties, and its net carrying amounts at the beginning and end of 2022 and 2021 are shown below:

2022	Land	Buildings	Others Properties	Total
Cost				
Balance, January 1	₱ 99,877,272	₱ 57,229,658	₱ 180,000	₱ 157,286,930
Additions	11,326,788	6,354,815		17,681,603
Transfer (disposal)	(7,554,392)	(5,173,856)		(12,728,248)
Balance, December 31	₱ 103,649,669	₱ 58,410,616	₱ 180,000	₱ 162,240,285
Accumulated depreciation				
Balance, January 1	₱ -	₱ 24,814,876	₱ -	₱ 24,814,876
Additions		4,570,848		4,570,848
Transfer (disposal)		(539,573)		(539,573)
Balance, December 31	₱ -	₱ 28,846,151	₱ -	₱ 28,846,151
Allowance for impairment losses				
Balance, January 1	₱ 11,385,164	₱ 2,303,123	₱ 180,000	₱ 13,868,288
Additions				-
Transfer/ (disposal)	(359,784)	(1,185,221)		(1,545,005)
Balance, December 31	₱ 11,025,381	₱ 1,117,902	₱ 180,000	₱ 12,323,283
Carrying Amount	₱ 92,624,288	₱ 28,446,563	₱ -	₱ 121,070,851

2021	Land	Buildings	Others Properties	Total
Cost				
Balance, January 1	₱ 99,446,227	₱ 52,793,625	₱ 180,000	₱ 152,419,852
Additions	5,226,994	8,160,382		13,387,376
Transfer (disposal)	(4,795,948)	(3,724,349)		(8,520,297)
Balance, December 31	₱ 99,877,273	₱ 57,229,658	₱ 180,000	₱ 157,286,931
Accumulated depreciation				
Balance, January 1	₱ -	₱ 20,994,103	₱ -	₱ 20,994,103
Additions		4,471,597		4,471,597
Transfer (disposal)		(650,823)		(650,823)
Balance, December 31	₱ -	₱ 24,814,877	₱ -	₱ 24,814,877
Allowance for impairment losses				
Balance, January 1	₱ 13,258,909	₱ 2,303,123	₱ 180,000	₱ 15,742,032
Additions				-
Transfer/ (disposal)	(1,873,744)			(1,873,744)
Balance, December 31	₱ 11,385,165	₱ 2,303,123	₱ 180,000	₱ 13,868,288
Carrying Amount	₱ 88,492,108	₱ 30,111,658	₱ -	₱ 118,603,766

Fair values of investment properties amounted to ₱505.1 Million and ₱406.8 Million as of December 31, 2022 and 2021, respectively.

Gain on sale of investment properties amounted to ₱21,894,091 and ₱11,094,426 in 2022 and 2021, respectively, and are presented as part of gain on sale of non-financial assets under other income in the statement of comprehensive income.

Direct expenses incurred from these properties amounted to ₱1,789,917 in 2022 and ₱2,016,995 in 2021 are reported under litigation expenses (see Note 27) as part of operating expenses in the statement of comprehensive income.

16. RIGHT-OF-USE ASSET – NET

The composition of and movements in this account as of December 31, 2022 and 2021 are as follows:

	Building under finance lease			
		2022		2021
Cost				
Balance, January 1	₱	3,311,758	₱	3,204,063
Additions		576,667		107,705
Balance, December 31	₱	3,888,425	₱	3,311,768
Accumulated Depreciation				
Balance, January 1	₱	2,352,221	₱	1,716,509
Additions (Note 29)		305,115		635,722
Balance, 'December 31	₱	2,657,335	₱	2,352,231
Carrying Amount	₱	1,231,090	₱	959,537

17. OTHER ASSETS – NET

The account consists as of December 31:

		2022		**2021**
Accounts receivable - net	₱	11,043,139	₱	7,212,685
Goodwill		10,703,347		11,542,141
Prepaid expenses		8,926,420		7,211,139
Computer software-net		2,230,032		2,975,801
Creditable withholding tax		732,513		731,009
Deposit with utility companies		456,799		456,799
Stationery and supplies on hand		175,945		178,292
Sinking Fund - for medical benfits		171,485		217,783
Petty cash fund		52,000		52,000
Documentary and postage stamps		31,135		31,135
Miscellaneous assets		100,080		82,000
Total	₱	34,622,895	₱	30,690,784

Accounts Receivable

Accounts receivable arising claims from the following sources, as of December 31:

		2022		2021
BancNet, Inc.	₱	9,557,249	₱	4,844,400
CIS Bayad Center, Inc.		4,901,429		5,090,015
Advances for insurance premiums		884,716		796,887
Remittance centers and companies		878,485		1,022,472
Others		870,372		642,596
Advances to employees		2,000		3,000
Employees under litigation		-		843,794
SSS - cash bond		-		500,000
Advances to Supplier		-		125,362
SSS- maternity benefits		-		120,575
Over-remittance of expanded taxes		-		113,490
Total	₱	17,094,251	₱	14,102,591

Accounts receivable – net

As of December 31, breakdown of accounts receivable – net, follows:

		2022		2021
Accounts receivable	₱	17,094,251	₱	14,833,600
Allowance for credit losses		(6,051,112)		(6,889,906)
Net	₱	11,043,139	₱	7,943,694

Employees under litigation

This account refers to the claim from a former Rural Bank of Mendez (RB Mendez) personnel, who had perpetrated a qualified theft in year 2012. The said claim was subsequently acquired by the Bank in the purchase of assets of RB Mendez in 2016. The Bank submitted the required reports on crimes and losses (RCLs) to the BSP. Full allowance for losses was imposed to the extent of unsecured claims. The case was litigated by Regional Trial Court (RTC) and was fully settled in 2022.

Goodwill

Goodwill arose from the acquisition of Rural Bank of Mendez, Inc. in 2016 via the purchase of all assets and assumption of all liabilities. The movement in this account for the years 2022 and 2021, follows:

		2022		**2021**
Beginning balance	₱	11,542,141	₱	11,542,141
Add (Deduct):				
Full settlement of Employee under litigation		(838,794)		
Ending balance	₱	10,703,347	₱	11,542,141

Management estimates the expected cash flows from the branch where the goodwill arises from, and has assessed that the carrying amount of the goodwill is recoverable. Accordingly, no impairment loss is recognized in the statement of comprehensive income in 2022 and 2021.

Computer software - net

This account refers to computer license software licenses to enable the Bank to utilize information technology assets such as the core banking system, personal computers in its operation. The cost of the licenses is amortized on a straight-line basis for a period ranging from two (2) to five (5) years. Amortization expense on computer software licenses amounted to ₱1,281,353 in 2022 and ₱1,352,850 in 2021, as disclosed in Note 30. These are included as part of depreciation/amortization expenses under operating expenses in the statement of comprehensive income.

The movement and net carrying values of computer software as of December 31 are presented below:

		2022		2021
Cost				
Beginning balance	₱	12,669,334	₱	12,137,257
Additions		535,584		746,298
(Disposal)/Adjustment		117		(214,221)
Ending balance		13,205,035		12,669,334
Accumulated Amortization				
Beginning balance		9,693,533		8,554,904
Amortization (Note 30)		1,281,353		1,352,850
(Disposal)/Adjustment		117		(214,221)
Ending balance		10,975,003		9,693,533
Net Carrying Value	₱	2,230,032	₱	2,975,801

18. DEPOSIT LIABILITIES

This account consists of the following:

	2022			2021		
	No. of accounts		Amount	No. of accounts		Amount
Savings deposits	58,769		1,195,863,710	66,421		1,157,256,039
Time deposits	225		204,201,217	261		228,297,004
Demand deposits	1,092		247,826,003	1,203		213,305,966
Total	60,086	₱	1,647,890,929	67,885	₱	1,598,859,009

The maturity profile of deposit liabilities as of December 31, follow:

		2022		2021
Within one year	₱	1,503,317,175	₱	1,415,941,349
Beyond one year		144,573,754		182,917,660
Total	₱	1,647,890,929	₱	1,598,859,009

As of December 31, the breakdown of deposit liabilities by size, follows:

	No. of Accounts		2022	No. of Accounts		2021
₱ 500,000 and below	59,479	₱	723,036,340	67,288	₱	714,546,814
More than ₱ 500,000	607		924,854,589	597		884,312,195
Total	60,086	₱	1,647,890,929	67,885	₱	1,598,859,009

Savings deposit and demand deposit bear interest rates at 0.08% p.a. in 2022 and 2021. Time deposit interest rates range from 0.10% p.a. to 1.1% p.a. in 2022 and 2021. Interest expense on deposit liabilities in 2022 and 2021 amounted to ₱5,697,973 and ₱7,231,171 (see Note 25), respectively, and were included as part of interest expense in the statement of comprehensive income.

Under existing BSP regulations, deposit liabilities are subject to required reserves computed as discussed in Note 10. As of December 31, 2022 and 2021, the Bank is in compliance with these regulations.

19. BILLS PAYABLE

This account represents borrowing with Land Bank of the Philippines under rediscounting privilege and outstanding balance amounted to ₱10,000,000 and ₱20,000,000 as of December 31, 2022 and 2021, respectively.

The movements of this account are as follows:

		2022		2021
Balance, January 1	₱	20,000,000	₱	15,000,000
Additions (payments)		(10,000,000)		5,000,000
Balance, December 31	₱	10,000,000	₱	20,000,000

The said borrowing is denominated in Philippine pesos with annual interest rates of 5% in 2022 and 2021, and with term of within one (1) year. Total interest expense on bills payable incurred amounted to ₱11,389 in 2022 and ₱18,078 in 2021 (see Note 25), and is included as part of interest expense in the statement of comprehensive income.

As of December 31, 2022 and 2021, bills payable is collateralized by loans and receivables (see Note13).

20. LEASE LIABILITIES

The following table summarizes all changes to lease liabilities for the years ended December 31, 2022 and 2021:

		2022		2021
Balance, January 1	₱	1,235,174	₱	1,791,115
Accretion of interest expense (Note 25)		130,723		107,515
Addition		922,951		-
Payments		(804,027)		(663,456)
Balance, December 31	₱	1,484,821	₱	1,235,174

21. OTHER LIABILITIES

This account consists as of December 31:

		2022		2021
Accounts payable	₱	11,795,404	₱	6,961,790
Accrued expenses		3,423,015		1,459,008
Other taxes and licenses payable		2,609,214		2,413,176
Due to the Treasurer of the Philippines		1,592,852		1,592,684
Dividends payable		-		777,076
Accrued interest payable		567,794		591,475
Overages		195,124		208,970
SSS, PhilHealth, Pag-IBIG contribution payable		497,108		454,583
Withholding tax payable		366,227		202,601
Unclaimed balances		34,151		34,151
Miscellaneous liabilities		86,451		97,819
	₱	21,167,340	₱	14,793,333

Accounts payable

As of December 31, this account comprises of the following:

		2022		2021
Due to SSS Pensioners	₱	3,522,659	₱	261,732
Others		2,781,871		1,205,707
Due to BancNet		1,547,682		926,522
Unrecorded Bank Credit - Loan Payments		1,207,173		539,954
Interest Rebate due to various borrowers		602,169		1,526,300
Due to insurance companies		504,002		446,239
Refundable rental deposit		410,145		449,145
Due to employees		336,968		393,355
Due to depositors with closed accounts		307,294		575,060
Due to Home Guaranty Corp		287,069		358,210
Due to IT provider		113,400		113,400
Due to directors		88,861		88,861
Due to Western Union		69,881		77,305
CIS Bayad Center		16,230		-
	₱	11,795,404	₱	6,961,790

Accrued expenses

As of December 31, the movement of this account follows:

		2022		2021
Beginning Balance	₱	1,459,008	₱	2,838,091
Accrued profit sharing		3,602,915		1,449,909
Payments made during the year		(1,638,908)		(2,836,951)
Ending balance	₱	3,423,015	₱	1,451,049
Accrued incentive payable to employees		-		7,959
	₱	3,423,015	₱	1,459,008

Breakdown of accrued profit-sharing is as follows:

		2022		2021
Profit sharing to directors (non-executive directors	₱	2,401,944	₱	370,029
Profit sharing to regular employees and executive directors		1,200,972		1,079,880
	₱	3,602,915	₱	1,449,909

Profit sharing or bonus is declared and approved through board resolution by the Board of Directors on a quarterly basis which is paid partially in the subsequent quarters within the year and fully paid in the month after the end of reference year in accordance with the Bank's By-Laws. Because of the uncertainly due to the pandemic, the Board decided to defer the quarterly accrual of profit sharing but instead recognized the accrual of profit sharing based on the consolidated net income after tax at the end of the year. The said profit sharing is charged to salaries and other benefits under operating expenses in the statement of comprehensive income (see Note 27)

22. STOCKHOLDERS' EQUITY

Capital Stock

The Bank's authorized capital stock and paid in capital as of December 31, follow:

		2022				2021		
		Common		Preferred		Common		Preferred
Authorized Capital Stock								
Amount	₱	190,000,000	₱	10,000,000	₱	190,000,000	₱	10,000,000
Number of shares		1,900,000		100,000		1,900,000		100,000
Par value per share	₱	100	₱	100	₱	100	₱	100
Issued and outstanding								
Amount	₱	188,879,800	₱	-	₱	188,879,800	₱	-
Number of shares		1,888,798		-		1,888,798		-

The Bank's preferred stock shall be issued only to PDIC on account of the financial assistance available under the Strengthening Program for Rural Banks (SPRB) in view of the consolidation of Rural Bank of Tanza

(Cavite), Inc. and Rural Bank of Teresa (Rizal), Inc. Preferred shares are entitled to dividend rate equal to prevailing 5-year FXTN rate, on gross basis, on the date of PDIC's subscription to the Preferred shares (PS), payable annually to PDIC. Such rate shall be based on PDST-R2 set the previous business day. The PS is redeemable and convertible to common shares starting at the end of the 5th year but not later than the 10th year from issuance of PS. Furthermore, PDIC may exercise put option on the PS.

As of December 31, 2022 and 2021, the Bank did not avail the financial assistance under the SPRB, hence, no preferred stock was subscribed and outstanding.

Additional Paid-in Capital

Pursuant to the Articles and Plan of Consolidation, the excess of net assets of constituent banks over the value of issued shares as of March 31, 2015, was treated as additional paid in capital. The additional paid-in capital was arrived at based on audited financial statements of constituent banks on March 31, 2015, and its balances as of December 31, follow:

		2022		2021
Net Assets	₱	215,691,631	₱	215,691,631
Less: Common stock issued at par value		188,879,800		188,879,800
Additional Paid-in Capital	₱	26,811,831	₱	26,811,831

Surplus free

This account refers to the accumulated earnings of the Bank composed of previous earnings plus net profits earned and minus dividends declared, if any, during the year. As of December 31, 2022 and 2021, there is no reserve that has been segregated from the Surplus free.

The Board of Directors approved the declaration of cash dividends amounting to ₱5.01 Million (or ₱2.65 per share and nil in 2022 and 2021, respectively.

Capital Risk Management and Regulatory Capital

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

The Bank's lead regulator, the BSP, sets and monitors capital requirements for the Bank. In implementing capital requirements, the BSP mandates the Bank to maintain a prescribed risk-based capital adequacy ratio of qualifying capital to risk weighted assets. The Bank, being a stand-alone rural bank, is required under BSP regulations to comply with qualifying capital account of the Bank should not be less than an amount equal to 10% of its risk weighted assets.

The qualifying capital of the Bank for purposes of determining the capital-to-risk assets ratio consists of Tier 1 (core) capital and Tier 2 (supplementary) capital elements, net of the required deductions from capital.

The Bank's Tier 1 (core) capital is the sum of:

a. Paid-up capital;
b. Retained earnings – free;
c. Undivided profits;

Less:

i., Deferred tax asset; and
ii. Goodwill

The Bank's Tier 2 capital consists of general loan loss provision, limited to 1% of gross risk assets, and any amount in excess thereof shall be deducted from the total risk weighted assets in computing the denominator of the risk-based capital ratio.

Risk weighted assets is the sum of the Bank's credit risk weighted assets and operational risk weighted assets. Pursuant to BSP Memoranda Nos. M-2020-034, M-2020-067 and M-2022-004, the Bank availed of the relief measure on the relaxation in the credit risk weight for current Micro, Small and Medium Enterprises (MSMEs) from 100% to 50% starting September 30, 2020 until December 31, 2022.

Capital adequacy and the use of regulatory capital are monitored monthly the Bank's management, employing techniques based on the guidelines developed by BSP as implemented by the Bank. The required information is submitted to BSP and filed by Bank on a quarterly basis.

Cognizant of the ongoing Corona Virus Disease (COVID-19) pandemic, the Monetary Board (MB), in its Resolution No. 1402 dated October 14,2021, approved the adoption of temporary regulatory relief on the capital treatment of provisioning requirements under Philippine Financial Reporting Standard (PFRS) 9 as promulgated by BSP Memorandum No. 2021-055. Under the said regulatory relief, covered BSFIs will be allowed to add-back the increase in Stage 1 and Stage 2 provisioning requirements booked under allowance for credit losses from end-December 2019 to Common Equity Tier 1 (CET 1) capital over a period of two (2) years starting January 1,2022 reporting period, subject to a declining add-back factor. In determining the amount which will be added back to CET 1 capital, a covered BSFI shall compare the sum of its Stage 1 and Stage 2 provisioning booked under allowance for credit losses as of the current reporting period with the sum of its Stage 1 and Stage 2 provisioning booked under allowance for credit losses as of end-December 2019.

Since the regulatory relief becomes effective January 1, 2022, capital ratios as of December 31, 2022 and 2021 were computed sans aforementioned regulatory relief because there was no noted increase in Stage 1 and Stage 2 provisioning as of current reporting period vis-à-vis sum of Stage 1 and Stage 2 provisioning booked under allowance for credit losses as of end-December 2019.

The following are the risk-based capital adequacy ratios and Net Tier 1 capital ratios of the Bank as of December 31, 2022 and 2021 under the aforementioned relief measure on the relaxation in the credit risk weight of current MSME loans:

		2022		2021
Net Tier 1 Capital	₱	313,413,795	₱	306,857,752
Net Tier 2 Capital		3,306,086		2,416,131
Total Qualifying Capital		316,719,881		309,273,883
Risk Weighted Assets				
Credit Risk Weighted Assets		1,054,262,936		1,048,593,068
Operational Risk Weighted Assets		190,215,355		202,920,477
Total Risk Weighted Assets	₱	1,244,478,291	₱	1,251,513,545
Capital Adequacy Ratios:				
Total Qualifying Capital expressed as percentage of total risk-weighted assets		25.45%		24.71%
Net Tier 1 capital expressed as percentage of total risk -weighted assets		25.18%		24.52%

Without regulatory relief, the risk-based capital adequacy ratios and net tier 1 capital ratios of the Bank as of December 31, follow:

	2022	**2021**
Total Qualifying Capital Expressed as percentage of total risk weighted assets	23.09%	23.46%
Net Tier 1 capital expressed as percentage of total risk-weighted assets	22.85%	23.28%

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

As of December 31, 2022 and 2021, the Bank has satisfactorily complied with the regulatory capital adequacy ratio.

As of December 31, 2021, rural banks, with head office in first class municipality and have at least ten (10) branches, are required under BSP regulations to comply with the minimum capital requirement of P 30 Million. However, in September, 2022, the said regulatory minimum capital requirement for a rural bank with at least 10 branches was amended and raised to P 120 Million. As of end of December 2022 and 2021, the Bank is in compliance with the minimum capital requirement for rural banks.

Information regarding the Bank's “leverage ratio” and “total exposure measure” as of December 31, 2022 and 2021 is shown below:

		2022		2021
Capital Exposure measure (Tier 1 capital)	₱	313,413,795	₱	306,857,752
Total Exposure measure		2,026,491,909		1,972,698,622
Leverage ratio		15.47%		15.56%

		2022		2021
On balance sheet exposures	₱	2,019,637,536	₱	1,967,430,220
Off balance sheet exposures (Note 38)		6,854,373		5,268,402
Total Exposure measure	₱	2,026,491,909	₱	1,972,698,622

As of December 31, 2022 and 2021, the Bank's leverage ratio and total exposure measure is in compliance with the regulatory requirements.

23.ALLOWANCE FOR CREDIT AND IMPAIRMENT LOSSES

Allowance for credit and impairment losses are composed of the following:

	Notes		2022		2021
Balance at January 1					
Loans receivable	13	₱	45,885,205	₱	45,234,349
Sales contract receivables	13		9,189,566		13,209,031
Investment properties	15		13,868,288		15,742,032
Accounts receivable	17		6,889,906		6,380,729
			75,832,965		80,566,141
Provision for credit and impairment losses on:					
Loans receivable	13		-		-
Investment properties	15		-		-
Accounts receivable	17		-		-
			-		-
Reversal/ Adjustment to provision for credit and impairment losses on:					
Loans receivables	13		(7,959,001)		650,856
Sales contract receivables	13		(731,498)		(4,019,465)
Investment properties	15		(1,545,005)		(1,873,744)
Accounts receivable	17		(838,794)		509,177
Accrued interest receivable	13				-
			(11,074,298)		(4,733,176)
Balance at December 31					
Loans receivable	13		37,926,204		45,885,205
Sales contract receivables	13		8,458,068		9,189,566
Investment properties	15		12,323,283		13,868,288
Accounts receivable	17		6,051,112		6,889,906
Ending balance		₱	64,758,667	₱	75,832,965

24. INTEREST INCOME

This account refers to interest earned and/or actually collected for the years 2022 and 2021, from the following financial assets as of December 31, to wit:

	Notes		2022		2021
Loans and receivables	13	₱	72,601,799	₱	79,937,858
Investment securities amortized at cost	12		17,019,211		14,575,953
Deposits with other banks	11		3,631,180		2,236,298
Total		₱	93,252,190	₱	96,750,109

For income tax purposes, interest income from loans and receivables is subject to regular tax rate of 25% in 2022 and 2021, while interest income from held-to-maturity financial assets and deposits with other banks is subject to 20% final withholding tax.

25. INTEREST AND FINANCE CHARGES

This account refers to interest payments and accruals on interest bearing financial liabilities for the years ended 2022 and 2021, as follows:

	Notes		2022		2021
Deposit liabilities	18	₱	5,697,973	₱	7,231,171
Lease liabilities	20		130,723		107,515
Bills payable	19		11,389		18,078
Total		₱	5,840,085	₱	7,356,764

26. OTHER INCOME

This account, also referred to as non-interest income, is composed of:

		2022		2021
Services charges and commission	₱	16,735,636	₱	14,133,920
Gain from sale of non-financial assets		21,929,542		11,128,852
Recovery on charged-off assets		200,908		243,786
Miscellaneous income		5,135,021		7,770,384
	₱	44,001,107	₱	33,276,942

Service charges and commission

Details of service charges and commission are as follow:

		2022		2021
Bank commissions on loans	₱	9,584,789	₱	6,795,419
Commission on insurance premiums		3,215,450		3,261,769
ATM fees		2,172,737		2,300,537
Service fees on bills payment services		729,108		774,193
Service charges on demand deposit		567,708		584,809
Inspection fees		181,751		179,951
Service fees on remittance services		61,654		78,510
Other retail banking fees		222,440		158,731
Total	₱	16,735,636	₱	14,133,920

Miscellaneous income

This account consists of the following:

		2022		2021
Rental income	₱	2,384,465	₱	3,468,017
Penalty on Loans		2,615,889		3,372,639
Others		134,667		929,728
Total	₱	5,135,021	₱	7,770,384

27. OPERATING EXPENSES

This account is composed of the following:

		2022		2021
Salaries and other benefits	₱	57,702,811	₱	56,687,211
Depreciation		13,696,590		13,795,097
Taxes and licenses		11,664,127		11,440,920
Fees and commission		333,007		249,632
Other Administrattive Expenses		36,439,098		33,730,550
Total	₱	119,835,633	₱	115,903,410

Salaries and other benefits

The breakdown of salaries and other benefits is presented below:

	Notes		2022		2021
Salaries and wages		₱	32,887,771	₱	32,951,514
SSS, PHIC, HDMF contribution			3,486,223		3,325,794
13th Month Pay			2,661,831		2,619,642
Profit sharing - employees	21		1,651,336		1,079,880
Medical/ hospitalization expense			376,728		1,875,970
Contribution to Retirement Fund	28		3,200,478		3,200,478
Other fringe benefits			10,811,865		9,253,904
Sub-total - Employees			55,076,232		54,307,182
Profit sharing directors	21		1,951,579		370,029
Directors' fees			675,000		2,010,000
Sub-total - Directors			2,626,579		2,380,029
Total		₱	57,702,811	₱	56,687,211

Other Administrative expenses

Expenses classified as administrative expenses are broken down below.

	Notes		2022		2021
Security and Janitorial		₱	8,310,649	₱	8,307,879
Power, Light & water			3,871,532		3,240,611
Telephone & Communication			3,686,013		3,707,237
Insurance - PDIC			3,253,443		3,254,483
Fuel & Lubricants			2,681,806		1,908,637
Stationery & Supplies			2,341,682		1,899,362
Repairs and Maintenance			2,261,686		2,903,500
Litigation and Acquired Assets Expense	15		1,789,917		2,016,995
Information Technology			1,422,848		1,249,027
Insurance - others			1,270,354		1,230,907
Management and professional fees			1,101,255		522,127
Representation & Entertainment			756,183		576,420
Fines, penalties and other charges			548,330		263,854
Travelling			483,796		358,667
Advertising & publicity			432,775		417,575
Supervision fees			348,132		333,842
Rent	29		241,500		270,000
Memberbership fees and dues			188,950		160,057
Donations and charitable contributions			108,900		108,813
Periodicals and Magazines			27,866		21,196
Miscellaneous Expense			1,311,481		979,360
		₱	36,439,098	₱	33,730,550

28.RETIREMENT BENEFITS

The Bank's Employees Retirement Plan is non-contributory which provides a retirement benefit equal to one (1) month's final salary for every year of service upon retirement whether for normal, early or late retirement. Benefits are paid in lump sum upon retirement.

Actuarial valuation of the Bank's retirement fund is made every three years to determine the current service cost and past service liability of the Bank. The most recent actuarial valuations of plan assets and the present value of the defined benefit obligation were carried out at December 31, 2020 by Actuarial Advisers, Inc. The present value of the defined benefit obligation, and the related current service cost and past service cost, were measured using the Projected Unit Credit Method. The principal assumptions used for the purposes of actuarial valuation were for discount rate of 3.96% and salary rate increase of 3%.

Based on the funding valuation as of December 31, 2020, past service liability of ₱24,677,341 exceeds the fund balance of ₱18,439,844, there is an unfunded liability amounting to ₱6,237,497 as of December 31, 2020. The current service cost for the plan year beginning January 1, 2021 is ₱2,914,965 (or 8.63% of annual payroll).

The fund is managed by the trust department of a universal bank. Additional funding is done on an annual basis. As of December 31, 2022 and 2021, the fair values of the plan assets are ₱21,856,453 and ₱18,446,843, respectively.

Current service costs amounting to ₱3,200,478 in 2022 and 2021 are presented as contribution to retirement benefit expense under salaries and other benefits in the statements of comprehensive income (see Note 27).

The most recent actuarial valuation of plan assets and the present value of the defined benefits obligation were carried out at December 31, 2020 by Actuarial Advisers, Inc. The present value of the defined benefit obligation, and the related current service cost and past service cost, were measured using the Projected Unit Credit Method.

The components of defined benefit cost included in personal cost under direct costs and operating expenses are as follows:

		2022		2021
Service cost	₱	2,008,976	₱	2,008,976
Interest cost		1,191,502		1,191,502
	₱	3,200,478	₱	3,200,478

The amount included in the statement of financial position arising from the Bank's obligation in respect of its defined benefit plan is as follows:

		2022		2021
Defined benefit obligation, ending	₱	25,121,611	₱	22,454,815
Fair value of plan assets, ending		21,856,453		18,446,843
Funded status - deficit (surplus)		3,265,158		4,007,972
Net defined benefit liability (assets)	₱	3,265,158	₱	4,007,972

Movements in the present value of the defined benefit obligation in the current period are as follows:

		2022		2021
Balance, January 1	₱	22,454,815	₱	21,256,393
Current service cost		2,008,976		2,008,976
Interest cost		1,191,502		1,191,502
Benefits paid from plan asset		(533,682)		(2,002,056)
Loss (gain) - OCI		-		-
Net defined benefit liability (assets)	₱	25,121,611	₱	22,454,815

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

		2022		2021
Balance, January 1	₱	18,446,843	₱	18,439,844
Interest income		-		299,132
Remeasurement gain/(loss) - plan asset		(363,812)		-
Contributions		4,307,104		1,709,923
Benefits paid from plan asset		(533,682)		(2,002,056)
Net defined benefit liability (assets)	₱	21,856,453	₱	18,446,843

Movements in the defined benefit cost (income) recognized in other comprehensive income (OCI):

		2022		2021
Cumulative (gain)/loss in OCI, beginning	₱	(1,695,025)	₱	(16,950,025)
Actuarial (gain)/loss -DBO				
Remeasurement (gain)/loss - plan assets				
Defined benefit cost (income) in OCI		-		-
Cumulative (gain)/loss in OCI, ending		(1,695,025)		(16,950,025)

Movements in the defined benefit cost (income), net of deferred tax recognized in other comprehensive income (OCI):

		2022		2021
Cumulative (gain)/loss in OCI, beginning	₱	(1,695,025)	₱	(1,695,025)
Defined benefit cost (income) in OCI				-
Less: Deferred tax		-		-
Defined benefit cost (income), net of deferrred tax		-		-
Cumulative (gain)/loss in OCI, ending	₱	(1,695,025)	₱	(1,695,025)

Summary of movements in the net defined benefit liability (asset):

		2022		2021
Net defined liability (asset), January 1	₱	4,007,972	₱	2,816,549
Defined benefit cost - P/L		3,200,478		3,200,478
Interest income		363,812		(299,132)
Defined benefit cost - OCI		-		-
Contributions		(4,307,104)		(1,709,923)
Balance, December 31	₱	3,265,158	₱	4,007,972

The Bank applied modified retrospective approach in recording its retirement benefits. The prior year financial statements were not stated. The application of PAS 19 were reflected as adjustments in the beginning balances of equity.

29. LEASE AGREEMENTS

The Bank as a Lessee

The Bank leases the premises of certain branches and branch-lite offices. The lease periods range from less than a year to seven (7) years, renewable upon mutual agreement of the parties. Lease contract includes escalation clause, most of which bears an annual rent increase of 5%. In 2022 and 2021, rent expense recognized in the statement of comprehensive income amounted to ₱241,500 and ₱270,000, respectively, as disclosed in Note 28. In 2022 and 2021, the rent expense represents the leases of ‘short-term leases’ and ‘leases of low-value assets’

Shown below is the maturity analysis of the undiscounted lease payment as of December 31:

		2022		2021
Within one year	₱	241,500	₱	270,000
After one year but not more than five years		-		
Total	₱	241,500	₱	270,000

Lease liabilities

The Bank entered into lease agreements covering its branch premises which have terms ranging from three to seven years, renewable at the option of the Bank under certain terms and conditions. The lease agreements include provisions for annual escalation rate of 5%.

At reporting date, the Bank had outstanding commitment for future minimum lease payments under non-cancellable finance leases, which fall due as follows:

		2022		2021
Within one year	₱	742,040	₱	562,773
After one year but not more than five years		742,781		672,401
Total	₱	1,484,821	₱	1,235,174

The Bank as a Lessor

Operating leases relate to properties of the Bank with average lease terms ranging from three to ten years. The lease agreements include provisions for annual escalation rates ranging from 3% to 10%.

The property rental income earned by the Bank from its properties, all of which is leased out under operating leases, amounting to ₱2,384,465 and ₱3,468,017 for the years ended 2022 and 2021, respectively, as disclosed in Note 26.

At reporting date, the Bank had outstanding commitments for future minimum lease collections under non-cancellable operating leases, which fall due as follows:

		2022		2021
Within one year	₱	2,384,465	₱	3,468,017
After one year but not more than five years		-		-
Total	₱	2,384,465	₱	3,468,017

30. DEPRECIATION AND AMORTIZATION

This account is composed of the following:

	Notes		2022		2021
Bank premises, furniture, fixtures & equipment	14	₱	7,181,459	₱	7,334,928
Investment properties	15		4,570,848		4,471,597
Computer software	17		1,281,353		1,352,850
Right-of-use asset	16		662,930		635,722
Total		₱	13,696,590	₱	13,795,097

31. INCOME TAX

Income Tax Expense

Components of benefit from income tax is as follows:

		2022		2021
Current Tax Expense				
MCIT at 1%	₱	855,014	₱	791,654
Adjustment due to changes in tax rates		-		(418,770)
		855,014		372,884
Deferred Tax Expense				
Origination and reversal of temporary differences		(1,668,260)		(2,233,848)
Adjustment due to changes in tax rates		-		30,914
		(1,668,260)		(2,202,934)
	₱	(813,246)	₱	(1,830,050)

A numerical reconciliation between benefit from income tax and the product of accounting income multiplied by the tax rate in 2022 and 2021 are as follows:

		2022		2021
Accounting Profit	₱	11,577,579	₱	6,766,877
Tax expense at 25%		2,894,395		1,691,719
Tax effect of expenses that are not deductible:				
Non-deductible expenses		1,454,957		1,143,932
Tax effect of income that are not taxable				
Interest income subjected to final tax and exempt from		(5,162,598)		(4,277,845)
Impact of CREATE				(387,856)
	₱	(813,246)	₱	(1,830,050)

Regular corporate income tax (RCIT) is 25% of profit before tax. The bank is also subject to the Minimum Corporate Income Tax (MCIT) which is 1% of gross profit as defined by the Tax Code. The bank is liable whichever is higher between RCIT and MCIT. For the years ended 2022 and 2021, the Bank's taxable income is subject to MCIT.

MCIT is computed as follows:

	Notes		2022		2021
GROSS INCOME					
Total interest income	24	₱	93,252,190	₱	96,750,109
Total other income	26		44,001,107		33,276,942
Total			137,253,297		130,027,051
Less: Non-taxable income (subject to final tax)			(20,650,391)		(16,812,251)
Non-taxable earnings from plan assets					(299,132)
Gross taxable income			116,602,906		112,915,668
Less: Cost of Service					
Interest expense	25		5,840,085		7,356,764
Interest arbitrage			(5,162,598)		(4,203,063)
Interest expense on lease liabilities	25		(130,723)		(107,515)
Salaries and other benefits			26,953,192		27,115,719
BSP supervision fees			348,132		333,842
Insurance - PDIC			3,253,443		3,254,483
Total			31,101,531		33,750,230
Gross income for MCIT purposes			85,501,375		79,165,438
MCIT Rate			1%		1%
Minimum corporate income tax	16	₱	855,014	₱	791,654

RCIT is computed as follows:

	Notes		2022		2021
Profit (loss) before tax per books		₱	11,577,579	₱	6,766,877
Add: Non-deductible expense					
Interest arbitrage			5,162,598		4,203,063
Retirement expense	28		3,200,478		3,200,478
Excess charitable contribution			108,900		108,813
Fines and penalties			548,330		263,854
Loss from plan assets			363,812		-
Total			20,961,697		14,543,085
Less: Non-taxable income/deductible expense					
Interest income subject to final tax			(20,650,391)		(16,812,251)
Reversal of allowance			(9,529,293)		(1,376,766)
Retirement benefits paid from plan asset			(533,682)		(2,002,056)
Earnings/loss from plan assets			-		(299,132)
PRFRS-16 application			(10,374)		(40,222)
Bad debts written-off			-		(1,482,666)
Net taxable income			(9,762,043)		(7,470,008)
RCIT Rate			25%		25%
RCIT		₱	-	₱	-

Under existing Tax Code, the Bank may choose either the itemized deduction or optional standard deduction of 40% of gross receipts as deduction in computing taxable income. For the years ended December 31, 2022 and 2021, the Bank opted to claim itemized deductions.

Deferred tax assets

The deferred tax assets include tax effects of temporary differences in 2022 and 2021. Under the Tax Code, a corporation is liable to pay MCIT (with tax rates of 1% in 2022 and 2021) of gross income (revenue less cost of sales) if it has negative income tax or the MCIT is higher than the Regular Corporate Income Tax (RCIT). The MCIT shall be used as tax credit if the Bank will be liable for the RCIT thereafter. The deferred tax asset movements during the years ended December 31, 2021 and 2020 are shown below:

		2022		2021
Beginning balance	₱	11,829,863	₱	9,626,931
Add (deduct): Tax effects of temporary differences				
Net Operating Loss Carry-Over (NOLCO)		2,440,511		1,867,502
Minimum corporate income tax		855,014		791,654
Reversal of deferred tax assets during the year		(2,291,370)		(714,858)
Retirement expense		666,700		299,604
PFRS 16 application		(2,594)		(10,056)
Effect of new tax rates per CREATE Act (see Note 34)		-		(30,914)
		13,498,124		11,829,863

Details of NOLCO are as follows:

Year Incurred	Amount	Applied Current Year	Applied Previous Year	Unapplied	Expiry Year
2020	₱ 6,508,575	₱	₱	₱ 6,508,575	2025
2021	7,470,008			7,470,008	2026
2022	9,762,043			9,762,043	2025
	₱ 23,740,626	₱ -	₱ -	₱ 23,740,626	

On September 30, 2020, the BIR issued Revenue Regulations No. 25-2020 implementing Section 4(bbbb) of “Bayanihan to Recover As One Act” which states that the NOLCO incurred for taxable years 2020 and 2021 can be carried over and claimed as a deduction from gross income for the next five (5) consecutive taxable years immediately following the year of such loss.

Details of deferred tax asset from excess Minimum Corporate Income Tax (MCIT) are as follows:

Year Incurred	Amount	Applied Current Year	Applied Previous Year	Expired	Unapplied	Expiry Year
2020	₱ 1,594,835	₱	₱	₱	₱ 1,594,835	2023
2021	791,654				791,654	2024
2022	855,014				855,014	2025
	₱ 3,241,503	₱ -	₱ -	₱ -	3,241,503	

Income tax payable

Under the Tax Code, the Bank may be subject to Minimum Corporate Income Tax (MCIT) computed at 2% of gross income, as defined under the tax regulations, or to Regular Corporate Income Tax (RCIT) computed at 30% of income after allowable deductions, whichever is higher. The Bank is subject to the MCIT in 2022 and 2021.

Income tax payable balances as of December 31 are computed as follows:

		2022		2021
MCIT	₱	855,014	₱	791,654
RCIT				-
RCIT / MCIT (whichever is higher)		855,014		791,654
Less: Tax credit				
Quarterly tax payments				(786,624)
Creditable tax withheld on ROPA		(855,014)		(5,030)
Balance as of December 31	₱	-	₱	-

31. EARNINGS AND BOOK VALUE PER SHARE

The earnings per share is computed as follows:

		2022		2021
Net income after taxes for the year	₱	12,390,825	₱	8,596,925
Less: Preference dividends for the current year		-		-
Net income to common shares		12,390,825		8,596,925
Weighted average number of shares				
Outstanding and issued shares		1,888,798		1,888,798
Less: treasury shares		-		-
		1,888,798		1,888,798
Earnings per share	₱	6.56	₱	4.55

The book value per share is computed as follows:

		2022		2021
Total equity	₱	335,920,241	₱	328,534,731
Less: Preference dividends for the current year		-		-
Net income to common shares		335,920,241		328,534,731
Weighted average number of shares				
Outstanding and issued shares		1,888,798		1,888,798
Less: treasury shares		-		-
		1,888,798		1,888,798
Book value per share	₱	177.85	₱	173.94

32. RELATED PARTY TRANSACTIONS

Related party relationship exists when one party has the ability to control, directly, or indirectly through one or more intermediaries, the other party or exercises significant influence over the other party in making financial and operating decisions. The Bank's related parties include:

1. Key management personnel, close family members of key management personnel and entities which are controlled, significantly influenced by or for which significant voting power is held by key management personnel or their close family members;
2. Directors, Officers, Stockholders and Related Interests (DOSRI)
3. Post-employment benefit plan

Remunerations of Key Management Personnel

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Bank, directly or indirectly. The Bank considers the position of Vice-president up to President to constitute key management personnel for purposes of PAS 24. The compensation of key management personnel included under 'Salaries and other benefits' in the statements of income are as follows:

		2022		2021
Short term employee benefits	₱	3,645,067	₱	3,613,393
Post-employment benefits		147,602		147,602
Total	₱	3,792,669	₱	3,760,995

Loans to related parties

The Bank has loan transactions with related parties such as stockholders and key management personnel. Loans to key management personnel are granted through the BSP-approved financial assistance program for officers and employees, and are not subject to individual and aggregate ceilings required for loans granted to DOSRI under BSP regulations.

The following are the Bank's related party transactions by category of related party as of December 31, 2022 and 2021:

	December 31, 2022				
Category		Amount		Outstanding Balance	Nature
Stockholder					
Loans and Receivable	₱	-	₱	-	
Repayments					
Key Management Personnel					Employee loan under BSP
Loans and Receivable				108,533	approved plan at 12% and
Repayments		37,178			maturity of 3 years.
Total	₱	37,178	₱	108,533	

	December 31, 2021		
Category	Amount	Outstanding Balance	Nature
Stockholder			
Loans and Receivable	₱	₱ -	With annual fixed interest rate
Repayments	304,022		of 9.25% and maturity of 5 years.
Key Management Personnel			Employee loan under BSP
Loans and Receivable		25,711	approved plan at 12% and
Repayments	68,146		maturity of 3 years.
Total	₱ 372,168	₱ 25,711	

DOSRI Deposits

The total balance of DOSRI deposits is inclusive of the corresponding related accrued interest included in the financial statements as of December 31, 2022 and 2021. Deposit liabilities transactions with related parties have similar terms with other counterparties (see Note 18).

Transactions with Retirement Fund

The Bank's transactions with its retirement fund for the years ended December 31, 2022 and 2021 relate to the contributions and benefits paid out of the plan to the Bank's employees as disclosed in Note 27.

The following retirement plan assets are placed in the Trust Department of a Universal Bank comprising of the following:

	2022	2021
Deposit in banks	₱ 2,735	₱ 8,273
Investments	21,730,762	18,394,505
Other receivables	143,800	60,948
Accrued payables	(20,845)	(16,883)
Net Retirement Plan Assets	₱ 21,856,453	₱ 18,446,843

The retirement fund neither provides any guarantee or surety for any obligations of the Bank nor its investments by any restrictions or liens.

33. EVENTS AFTER THE REPORTING PERIOD

Continuing COVID-19 pandemic

Despite the waning impact of the COVID-19 pandemic due to availability of vaccines, the Bank has taken a number of measures to monitor and mitigate the effects of COVID-19, such as safety and health measures for its people (such as 100% COVID-19 vaccination of employees) and securing the supply of services that are essential to its operations. At this stage, the impact on the Bank's business and results has not been significant and based on the Bank's experience to date, it expects this to remain the case.

As the Bank operates, it has found increased demand for its services and expects this to continue. The Bank will continue to follow the various Government policies and advice and, in parallel, it will do its utmost to continue its operations in the best and safest way possible without jeopardizing the health of its people.

34. APPROVAL OF FINANCIAL STATEMENTS

These financial statements for the year ended December 31, 2022 were approved and authorized for issuance by the Board of Directors (BOD) on April 15, 2023.

The BOD is still empowered to make amendments on the financial statements even after the date of issue.

35. SUPPLEMENTARY INFORMATION REQUIRED UNDER BSP CIRCULAR 1074

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

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

Financial Performance Indicators

The following are the financial performance indicators of the Bank:

	2022		2021	
	Amount	Ratio	Amount	Ratio
Return on average equity				
Net Profit	12,299,872	3.70%	8,596,927	2.65%
Average total equity	332,182,011		324,236,269	
Return on average assets				
Net Profit	12,299,872	0.62%	8,596,927	0.44%
Average total assets	1,993,533,879		1,972,478,793	
Net Interest Margin				
Net Interest Income	87,412,105	5.30%	89,393,345	5.69%
Average interest earning assets	1,648,443,873		1,572,252,893	

Capital Instruments

The Banks capital instruments consist of the following:

As of December 31, 2022 and 2021, the Bank has outstanding capital stock, as follows:

		2022				2021		
		Common		Preferred		Common		Preferred
Authorized Capital Stock								
Amount	₱	190,000,000	₱	10,000,000	₱	190,000,000	₱	10,000,000
Number of shares		1,900,000		100,000		1,900,000		100,000
Par value per share	₱	100	₱	100	₱	100	₱	100
Issued and outstanding								
Balance at beginning and end of the year	₱	188,879,800	₱	-	₱	188,879,800	₱	-
Number of shares		1,888,798		-		1,888,798		-

Concentration of Credit Exposures

As at December 31, 2022 and 2021, information on concentration of credit as to industry of loans and discounts (at amortized cost and before allowance for credit losses) follows:

		2022			2021	
		Amount	%		Amount	%
Real estate, renting & building	₱	211,414,090	50.92%	₱	116,774,299	32.30%
Wholesale & retail		81,365,685	19.60%		82,690,921	22.87%
Construction		15,574,423	3.75%		55,271,823	15.29%
Other community, social		29,755,801	7.17%		44,563,706	12.32%
Household consumption		28,348,590	6.83%		18,465,672	5.11%
Agri. Hunting & fosrestry		11,477,881	2.76%		17,414,422	4.82%
Transportation, storage		15,408,146	3.71%		16,136,111	4.46%
Health & social work		2,541,692	0.61%		5,864,669	1.62%
Hotel & restaurant		11,771,066	2.83%		3,928,350	1.09%
Education		5,874,343	1.41%		466,847	0.13%
Mining		1,688,650	0.41%		-	0.00%
Total	₱	415,220,368	100.00%	₱	361,576,820	100.00%

The BSP considers that loan concentration of credit exists when the total loan exposure to a particular industry or economic sector exceeds thirty percent (30%) of total loan portfolio. Identified concentrations of credit risks are controlled and managed accordingly.

The Bank has a concentration risk on real estate, renting & building sector as of December 31, 2022 and 2021. As part of the Bank's risk management system, it addresses this risk exposure by having a more intensive monitoring of loans under these sectors.

Breakdown of Total Loans as to Security and Status

As to Security

The following table shows the secured and unsecured portions of receivables from borrowers, net of unamortized discount and before allowance for credit losses, as at December 31:

	2022			2021	
	Amount	%		Amount	%
Secured					
DOSRI- secured by non-risk asset ₱	-	0.00%	₱	-	0.00%
NON-DOSRI					
REM residential	334,785,275	80.63%		283,305,847	78.35%
REM agricultural	11,715,310	2.82%		11,177,920	3.09%
Other collateral	2,576,043	0.62%		4,854,059	1.34%
REM commercial	22,138,764	5.33%		16,542,320	4.58%
	371,215,392	89.40%		315,880,146	87.36%
Unsecured	44,004,977	10.60%		45,696,674	12.64%
Total ₱	415,220,368	100.00%	₱	361,576,820	100.00%

As to Status

The following table shows the receivables from borrowers, net of unamortized discount, classified as to status and loan product as at December 31:

Classified as to status of loans for 2022				
Loan Product	Current	Past Due	Non-Performing	Total
Agra-agri credit				
a. Agrarian reform loans	₱ -	₱ -	₱ 213,370	₱ 213,370
b. Other agri credits	8,644,474	-	2,620,036	11,264,510
Microfinance	23,219,809	-	9,252,936	32,472,745
SME Loans				
a. Small enterprise	121,558,911	6,901,723	15,336,912	143,797,546
b. Medium enterprise	115,232,881	569,535	2,629,083	118,431,499
Loans to private corporations	-	-	-	-
Loans for housing purpose	54,440,140	4,099,419	2,577,788	61,117,347
Loans for personal purpose	22,387,697	1,561,270	4,399,623	28,348,590
Loans for other purpose	15,169,354	966,891	3,438,516	19,574,761
Total	₱ 360,653,266	₱ 14,098,838	₱ 40,468,264	₱ 415,220,368

Classified as to status of loans for 2021								
Loan Product		Current		Past Due		Non-Performing		Total
Agra-agri credit								
a. Agrarian reform loans	₱		₱	-	₱	213,370	₱	213,370
b. Other agri credits		11,651,646		-		5,549,406		17,201,052
Microfinance		22,815,518		-		11,680,234		34,495,752
SME Loans								
a. Small enterprise		79,820,212		8,481,254		46,465,777		134,767,243
b. Medium enterprise		31,005,446		7,535,074		35,288,041		73,828,561
Loans to private corporations		-		-		3,703,195		3,703,195
Loans for housing purpose		35,082,784		5,310,660		9,748,867		50,142,311
Loans for personal purpose		14,153,694		168,003		4,143,975		18,465,672
Loans for other purpose		18,714,057		1,993,745		8,051,862		28,759,664
Total	₱	213,243,357	₱	23,488,736	₱	124,844,727	₱	361,576,820

Breakdown of non-performing loans based on days outstanding are as follows:

		2022		2021
1 - 30 days	₱	3,605,690	₱	12,110,066
31 - 60 days		176,909		5,248,822
61 - 90 days		523,662		25,536,053
91 - 180 days		6,035,097		22,712,212
181 days - over		30,126,906		59,237,573
Total	₱	40,468,264	₱	124,844,726

Under BSP Regulations, as a general rule, loans are considered past due when any principal and/or interest or installment due, or portions thereof, are not paid at their contractual due date, in which case, the total outstanding balance thereof is considered as past due. However, the said Regulation allows the banks to provide a cure period policy on loan products other than microfinance of not more than thirty (30) days within which to allow the obligors or borrowers to catch up on their late payment without being considered as past due. For microfinance that features weekly payments, the cure period is for seven (7) days.

The Board of Directors approved the Bank’s cure period policy based on collection experience and reasonable judgment that support tolerance of occasional payment delays, provided, however, that the observance of a cure period policy shall not preclude the timely adverse classification of an account that has developed material credit weakness. Management regularly reviews the reasonableness of its cure period policy.

Hence, loans classified as past due are accounts which have been past due from 31 to 90 days, while, non-performing loans include accounts which have been past due for more than ninety (90 days), and accounts in litigation. Furthermore, loans are considered non-performing, even without any missed contractual payments, when it is considered impaired under PFRS-9, classified as doubtful or loss, in litigation, and/or there is evidence that full repayment is unlikely without foreclosure of collateral, if any.

Information on related party loans

As required by BSP, the Bank discloses loan transactions with investees and with certain Directors, Officers, Stockholders, and Related Interests (DOSRI). Existing banking regulations limit loan to individual DOSRI to the total of their respective deposits and book value of their respective equity with the Bank and at least seventy percent (70%) of which must be secured. In the aggregate, loans to DOSRI generally should not exceed total equity or fifteen percent (15%) of total loan portfolio, whichever is lower, and likewise, at least 70% of said aggregate loans must be secured.

On the other hand, existing regulations also require that the aggregate outstanding loans and other credit accommodations granted under the bank's financial assistance program to officers and rank and file, inclusive of those granted to officers in the nature of lease with option to purchase, should not exceed five percent (5%) of the bank's total loan portfolio. Key Management Personnel who availed of the said financial assistance program are considered related parties.

	2022		2021	
	DOSRI Loans	Related party loans (Inclusive of DOSRI Loans)	DOSRI Loans	Related party loans (Inclusive of DOSRI Loans)
Outstanding Loans	₱ -	₱ 108,533	₱ -	₱ 25,711
Percent to total loan portfolio (TLP)	0.00%	0.03%	0.00%	0.01%
Percent of Unsecured DOSRI/Related Party Loans to Total DOSRI/Related Party Loans	0%	100.00%	0%	100.00%
Percent of past due DOSRI/Related Party Loans to Total DOSRI/Related Party Loans	0%	0%	0%	0%
Percent of non-performiong DOSRI/Related Party Loan to Total DOSRI/Related Party Loan	0%	0%	0%	0%

Secured Liability and Assets Pledged as Security

The Bank has borrowings from the Land Bank of the Philippines (LBP). The Bank's borrowing from LBP has face value and carrying amount of ₱10 Million and ₱20 Million as of December 31, 2022 and 2021, respectively. The Bank's loans and receivables of the same fair value and carrying amount as that of the borrowing, are pledged to LBP as security for the credit facility availed of.

Commitments and Contingent Liabilities

Hereunder is a summary of the Bank's commitments and contingencies at their equivalent peso contractual amounts as of December 31:

	2022	2021
Unused Credit Line	₱ 6,854,373	₱ 5,267,209
Items held for safekeeping and as colleral	1,138	1,193
Total	₱ 6,855,511	₱ 5,268,402

36. SUPPPLEMENTARY INFORMATION REQUIRED UNDER REVENUE REGULATIONS 15-2010

The following is the supplementary information which is required by the Bureau of Internal Revenue (BIR) under its existing revenue regulations (RR) to be disclosed as part of the notes to the financial statements. This supplementary information is not a required disclosure under PFRS.

Taxes and Licenses

The components of 'Taxes and licenses' recognized in the statement of income for the year ended December 31, 2022, follow:

		Amount
Gross receipts tax (GRT)	₱	8,204,386
Documentary stamp tax		2,197,654
Business permit and license		980,131
Real property tax		177,806
BIR annual registration fee		6,000
Others		98,149
Total	₱	11,664,127

The GRT is imposed on interest, fees and commissions from lending activities at 5% or 1% depending on the loan term, and at 7% on non-lending fees and commissions and other items constituting gross income.

		Gross Receipts		Gross Receipts Tax
Income derived from lending activities	₱	79,773,850	₱	3,988,692
Others		60,704,344		4,215,693
Total	₱	140,478,194	₱	8,204,385

Withholding Taxes

Details of total remittances in 2022 and balances as of December 31, 2022 are as follows:

		Total Remittance		Balance
Final withholding taxes	₱	1,335,644	₱	78,086
Withholding tax on compensation & benefits		820,070		251,864
Expanded withholding taxes		448,713		146,708
Total	₱	2,604,427	₱	476,658

Tax Assessments and Cases

As of December 31, 2022, the Bank has not received any final assessment notices from the BIR and it has no tax cases, litigation and/or prosecution in court or bodies outside BIR.

37. DISCLOSURE REQUIREMENTS FOR TAXPAYERS WITH RELATED PARTY TRANSACTIONS UNDER RR 34-2020

Revenue Regulatoins (RR) No. 34-2020 prescribes the Guidelines and Procedures for the submission of BIR Form No. 1709, Transfer Pricing Dcoumentation (TPD) and other supporting documents, amending for this purpose the pertinent provisions of Revenue Regulations (RR) Nos. 19-2020 and 21-2002, as amended by RR No. 15-2010.

The Bank is not covered by the requirements and procedures for related party transaction provided under this RR.

II. Compliance with Appendix 62 of the MORB –Capital Adequacy Ratio Disclosure in the Annual Report

A. Capital Structure and Capital Adequacy

		2022 (in P Millions)	2021 (in P Millions)
1	Tier 1 capital		
	Paid up common stock	188.880	188.880
	Additional paid in capital	26.812	26.812
	Retained earnings	105.532	105.941
	Undivided Profits	12.300	8.597
	Total Tier 1 Capital	337.524	330.230
2	Tier 2 Capital		
	General Loan Loss Provision	3.306	2.416
3	Deductions from Tier 1 and Tier 2 Capital		
	Unsecured DOSRI	-	-
	Deferred tax asset	13.407	11.830
	Goodwill	10.703	11.542
	Total Deductions	24.110	23.372
4	Total Qualifying Capital	316.720	309.274
5	Capital Requirement for Credit Risk	1,052.892	1,048.593
6	Capital Requirement for Market Risk	-	-
7	Capital Requirement for Operational Risk	190.215	202.920
8	Total Capital Adequacy Ratio Tier 1 Capital Adequacy Ratio	25.45% 25.18%	24.71% 24.52%