BANGKO NG KABUHAYAN
(A RURAL BANK) INC.
SINCE 1952

Annual Report

31 December 2022

I. CORPORATE POLICY

VISION:

- To be the most preferred Microfinance and SME- oriented Rural Bank across Luzon.

MISSION:

- To be the catalyst in the microfinance and SME sectors by assisting our customers in their creation of wealth through our efficient services and innovative financial products and dedicated team of competent and highly motivated professionals.
- To tap depositors who share the vision of developing Microfinance and SME entrepreneurs in the country.
- To maintain the highest ethical standards, sense of responsibility, and fairness to our stakeholders and the community we serve.

b. Introduction of the Bank's brand that differentiates it from other Banks.

- In keeping with the Bank's new name – Bangko ng Kabuhayan, (A Rural Bank) Inc., we continue to offer products that fit the financing needs of different target market/client-profile: Flexibility in meeting our target clients' financing needs. These are micro-finance, Micro-Plus, Micro+S, and SME loans.

c. Business model of the Bank

- For the Bank's funding, the Bank obtains deposits from high net-worth and bona fide individuals and lend these funds to Micro and SME borrowers. The benchmark for this model is Indonesia's highly successful BTPN Bank.

II. Financial Summary / Financial Highlights

	Consolidated		Parent Bank (SOLO)	
Minimum Required Data	**Current Year**	**Previous Year**	**2022**	**2021**
Profitability				
Total Net Interest Income			33,618,798	30,046,715
Total Non-Interest Income			11,135,614	7,360,885
Total Non-Interest Expenses			41,465,224	37,595,134
Pre-provision profit				
Allowance for credit losses			13,169,569	8,060,374
Net Income			3,374,345	1,177,629
Selected Balance Sheet Data				
Liquid Assets				
Gross Loans			174,591,287	154,815,091
Total Assets			246,057,929	241,997,768
Deposits			145,841,647	149,246,510
Total Equity			79,353,058	76,192,868
Selected Ratios				
Return on Equity			4.41%	1.58%
Return on Assets			1.30%	0.60%
CET 1 capital ratio (for UBs/KBs)				
Tier 1 capital ratio (for UBs/KBs)				

Capital Adequacy Ratio			29.05	28.28
Per common share data (For UBs, KBs and publicly listed Banks)				
Net Income per share:				
Basic				
Diluted				
Book value				
Others				
Cash dividends declared				
Headcount			49	50
Officers			5	5
Staff			44	45

As of 30 September 2022, the Bank has a total loan volume of ₱188 million or 74.31% of our 2022 target. In our effort to more actively expand our Micro and SME products and with the opening of the economy post COVID-19 restrictions, the Bank has recently reorganized its Sales teams. The move aims to maximize output in terms of account portfolio and income generation and is based on the level of capability, expertise, and portfolio performance of each account officer and team lead (vis-a-vis the Bank's loan products). The Bank employs the following strategies:

1) The Loans & Business Development Department has actively expanded its Micro and SME products while continuing to market Micro finance and Micro Loan products.
2) We grant loans that are largely based on Cash flow and preferably collateralized by real estate mortgage (REM) or chattel and refrain from accepting inventories and personal assets as collaterals.
3) The Management has been vigilantly monitoring loan releases to ensure that proceeds are used for their intended purposes.
4) The major changes in the Loans and Business Development structures are:
    - 4.1 We have re-organized the Loans and Business Development teams into clusters - combining the manpower from existing teams and regrouping them into specialized two units per group - Micro Loan unit and Micro+S/SME unit. The Micro Loan units are manned by Account Officers (AOs) with vast and tested expertise/experience in microfinance account generation and management while the Micro+S/SME units are composed of AOs whose expertise lie on big-ticket products.
    - 4.2 The Bank's ALCO (Management team) closely monitors the collection targets to ensure that portfolio level and quality are maintained at all times. Furthermore, the Bank's Collection unit has been "revitalized" by having it directly supervised by the President, with the assistance of the Loans and Business Development Head. This is in order for the unit to have more focus on collecting accounts that fall under delinquency status even before they reach past due status. The aim is to apply airtight collection efforts to avoid accounts turning past due and reverting to current status accounts that have been declared past due. This set up is closely monitored by the Compliance Unit to ensure that 'checks and balances' is in place at all times.
5) We will adopt digital payment channels starting with reputable platforms to help increase collections and provide clients alternative and convenient ways to pay off their loans. This includes implementing a Unified QR code system.

6) The Heads of Loans and Business Development and Liability Insurance, in collaboration with the Bank's Human Resources Management Dept (HRMD)., have put in place appropriate training sessions and coaching program that are timely given to Account Officers (AOs) and Team Leaders (TLs) (i.e., handling accounts – from tapping potential market, identifying suitable prospects, evaluating credit-worthiness of future borrowers, and doing post-sales review and service).

7) The Management follows the BSP's recommendations on the treatment of delinquent accounts (i.e., past due accounts tagging) to make our loan provisioning realistic.

III. Financial Condition and Results of Operation

Bangko ng Kabuhayan, (A Rural Bank) Inc.		as of	as of	Increase (Decrease)
Balance Sheet		**December 31 2022**	**December 31 2021**	
ASSETS				
Cash on Hand		2,985,897	2,682,394	303,503
	COCI	1,993,751		1,993,751
Cash In Bank		59,901,682	68,073,773	-8,172,091
Loan Receivable		174,591,287	154,815,091	19,776,196
	Allowance for doubtful accounts	-14,613,551	-8,589,736	-6,023,814
L/R -Net of Allowance		159,977,736	146,225,355	13,752,381
FFE & IT		1,292,170	1,037,496	254,674
Leasehold Improvement		1,861,262	5,059,421	-3,198,159
Service Vehicles		961,627	1,328,827	-367,200
Software Under Development		1,717,333	1,974,933	-257,600
ROPA		477,816	257,896	219,920
Sales Contract Receivable		3,001,517	2,647,794	353,723
Accounts Receivable		5,427,430	5,283,797	143,632
Prepaid Expenses		371,269	371,873	-604
Other Assets		6,088,440	7,054,209	-965,770
TOTAL ASSETS		**246,057,930**	**241,997,768**	**4,060,161**
LIABILITIES				
	Savings Deposit	32,154,177	31,720,978	433,199
	Time Deposit	113,687,470	117,525,533	-3,838,063
Deposit Liabilities		145,841,647	149,246,510	-3,404,863
Redeemable Preferred Shares		3,478,800	3,478,800	-
Retirement Benefit Obligation		3,751,317	3,167,396	583,921
Loans and Other Account Payables		8,742,765	2,112,593	6,630,172
Other Liabilities		4,890,342	7,799,600	-2,909,258
TOTAL LIABILITIES		**166,704,871**	**165,804,900**	**899,971**
EQUITY				
Paid-up Capital		160,082,208	153,556,108	6,526,100
Undivided Profits		3,374,345	1,177,629	2,196,716
Retained Earnings		-84,103,495	-78,540,869	-5,562,626
TOTAL EQUITY		**79,353,058**	**76,192,868**	**3,160,190**
TOTAL LIABILITIES & EQUITY		**246,057,930**	**241,997,768**	**4,060,161**

Bangko ng Kabuhayan, (A Rural Bank) Inc. Income Statement	for the period of January to December2022	for the period of January to December2021	Increase (Decrease)
INCOME			
Interest Income- Daily	-	57,667	(57,667)
Interest Income - Microfinance	9,554,351	12,124,945	(2,570,593)
Interest Income - Microloan	-	-	-
Interest Income - Microplus SME	14,436,854	11,456,390	2,980,464
Interest Income - SME	12,836,422	9,342,697	3,493,726
Interest Income - Agri and Other Loans	1,976,173	987,490	988,682
Total Income from loans	38,803,800	33,969,188	4,834,612
Service Fees - Micro and other loans	4,266,842	4,964,947	(698,105)
Total Income from Service Fees/Processing fees	4,266,842	4,964,947	(698,105)
Gain/Losses - ROPA Sale & SCR	2,090,826	137,850	1,952,976
Recovery on Written-Off Assets	265,865	1,411,743	(1,145,878)
Interest Income from banks	134,971	290,389	(155,418)
Penalties	3,355,675	1,267,511	2,088,165
Miscellaneous Income			-
Notarial & Insurance	328,541	716,542	(388,002)
Dormant Accounts	31,031	4,824	26,207
Other Charges	437,332	261,350	175,982
Other Misc Income	730,384	145,712	584,672
Total Other Income	7,374,624	4,235,920	3,138,704
TOTAL GROSS INCOME	**50,445,266**	**43,170,055**	**7,275,211**
EXPENSES			
Interest Expense	5,424,989	4,350,712	1,074,277
Compensation & Fringe	19,038,307	18,972,082	66,225
Taxes and Licenses	3,113,274	2,955,066	158,208
Rent	873,892	772,229	101,663
Transportation	1,730,854	1,778,887	(48,034)
Admin and Other Operational Expenses	13,142,504	10,624,248	2,518,256
Representation & Entertainment	76,694	105,997	(29,302)
Provisions for doubtful accounts	3,670,407	2,433,205	1,237,202
TOTAL EXPENSES	**47,070,921**	**41,992,426**	**5,078,495**
Net Income/(loss)	**3,374,345**	**1,177,629**	**2,196,716**

MLR as of December 31, 2022

PART I. MINIMUM LIQUIDITY RATIO (MLR)
(in PHP, Absolute Amounts)

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Item	Nature of Item	Reference	Account Code	Amount
A.	Stock of Liquid Assets	Part II, Item B	100080000000000000	46,767,332.48
B.	Qualifying Liabilities	Part III, Item D	200080000000000000	164,951,698.49
C.	**MLR [A divided by B]**		990070000000000000	**28.352%**

PART I. CALCULATION OF RISK-BASED CAPITAL ADEQUACY RATIO (in absolute amounts)

Item	Nature of Item	Account Code	Amount	
A.	**Calculation of Qualifying Capital**			
A.1	Net Tier 1 Capital	395000000000710000		78,821,292.09
A.2	Net Tier 2 Capital	395000000000720000		4,922,781.75
A.3	Total Qualifying Capital *[Sum of A.1 and A.2]*	395000000000700000		83,744,073.84
B.	**Calculation of Risk-Weighted Assets**			
B.1	Total Credit Risk-Weighted Assets [*B.1(d) minus B.1(h)*]	195931000000000000		231,646,494.14
(a)	Risk-Weighted On-Balance Sheet Assets	100000000000811000	231,646,494.14	
(b)	Risk-Weighted Off-Balance Sheet Assets	400000000000812000	0.00	
(c)	Counterparty Risk-Weighted Assets	110100000000813000		
(d)	Total Credit Risk Weighted Assets [*Sum of B.1(a), B.1(b) and B.1(c)*]	100000000000810000	231,646,494.14	
(e)	Deductions from Total Credit Risk-Weighted Assets			
(f)	General Loan Loss Provision (in excess of the amount permitted to be included in upper Tier 2 capital) *[Part III.1, Item G.(1)(b) minus Part II, Item B.1 (7)*]	175150500000000000	0.00	
(g)	Unbooked valuation reserves and other capital adjustments affecting asset accounts based on the latest report of examination as approved by the Monetary Board	365052000000711000	0.00	
(h)	Total Deductions [*Sum of B.1(f) and B.1(g)*]	165000000000810000	0.00	
B.2	Total Operational Risk-Weighted Assets	195000000000830000		56,650,895.44
B.3	Total Market Risk-Weighted Assets	100000000000820000		
B.4	Total Risk-Weighted Assets [*Sum of B.1, B.2 and B.3*]	100000000000800000		288,297,389.58
C.	**RISK-BASED CAPITAL ADEQUACY RATIO [*A.3 divided by B.4 multiply by 100*]**	990000000000000000		**29.05**

IV. Risk Management Framework Adopted

Risk Assessment Procedure

The Risk Assessment Procedure provides the organization with a list of risks identified, stated clearly and assessed as to their importance in meeting the Bank's objectives. This procedure shall help the Bank identify potential risks while fulfilling its regulatory compliance as it stays on top of potential issues that could interfere outcomes.

- BnK risk assessment: analyzing current risks and identifying potential risks that may or are affecting the Bank.
- BnK risk evaluation: Evaluation of BNK's previous handling of risks and comparing potential risks with criteria set out by the Bank such as costs and legal requirements.
- Designing and implementing an overall risk management process for the Bank, which includes analyses of the financial impact of risks on BNK.
- Building risk awareness among the staff by providing them relevant support and training.
- Risk assessment must also consider both internal and external sources for cost, schedule, and technical risks. Early identification of risks is important because it is easier, less costly, and less difficult to make changes and correction during the earlier stage, rather than during the later phases of the project.

The Bank shall use a Risk Register to identify risks for their severity, and the actions and steps to be taken to mitigate the risks. This will be the tool for monitoring the risk management process within the Bank. The BnK Risk Register will be reviewed & approved by the Audit Committee before issuance to the department heads.

Department / Person Responsible

- All employees have responsibilities to consider risks in making decisions.
- Those in leadership positions make business decisions and fulfill their responsibilities with enough base analysis of risk information.
- Officers must provide information necessary for the Management to review and identify loss exposures.
- Supervisors must be aware of their role in the prevention of loss and be accountable to follow procedures, attend risk control meetings and when appropriate, and provide any recommended training.
- For Departments, it is the responsibility of the Department Heads to ensure that the Bank's risk register is updated whenever necessary, as the updating of the risk register is usually delegated to the control function.

Below is the risk appetite and tolerance of the bank:

2022 Risk Appetite and Tolerance Report		**Threshold**	**December 31, 2022**
Earnings	Net Income Target for 2023		₱3.76 million
	For the Period of January to →		₱3.343 million
Capital Adequacy	CET 1 ratio	4.5%	27.34%
	Total CAR	10%	29.05%
Credit Risk	PDR	10%	12.00%
Balance Sheet Risk	Minimum Capital	₱50.0 Million	₱79.35 million
Liquidity Risk	Minimum Liquidity Ratio	20%**	28.35%
Compliance Risk	No finding of unsafe and unsound banking practice by BSP.	None	None
Anti-Money Laundering Rsik	CTR and STR reports / submitted within the required timeframe	No delayed / unsubmitted	3 transactions reported late (December 15, 2022)
Reputational Risk	Major Reputational Risk event	None	None

c. Bank-wide risk governance structure and risk management process (Define the roles and responsibilities and the reporting lines for the different business units that composed the risk management group/unit. For better appreciation, illustrate in a chart/table form the risk management structure and organization of the relevant risk management function. Discuss also the scope and nature of risk reporting and/or measurement systems)

Business Units	Roles and Responsibilities	Scope & Nature of Risk Report / Measurement systems
Funds Management	• Holds the key of cash safe. • Receives cash from other Banks/Branches and acknowledges them, where necessary. Opens the cash safe before commencement of business along with other personnel holding the key. • Supervises receipt and payment of cash. • Supervises the carrying of the cash to the cash Department. • Delivers cash to the paying cashier against receipt on a memo. • Arranges sending cash to other Branches.	Interest Rate Risk Liquidity Risk Compliance
Accounting	- Recording and reporting of cash flow transactions of a company. - takes charge of accounts receivable, accounts payable, financial reporting, and maintaining financial controls.	Financial Risk Technology Risk
Credit Support	- prepares all loan documents, records, and takes custody of all type of legal documents, arranges for disbursements of loan facility once **security** documents are complete, liaises with the Bank's lawyers, frequently reviewing portfolio / credit and **security** files, etc. - Safe-keeps the credit files/documents of the borrower. -Computes payment amortization schedules. - Checks the Credit score of the borrowers.	Credit Risk Compliance Risk
Loans	- markets the loan products of the Bank. - obtains information for loan applications and answers questions about the process.	Credit Risk Market Risk Compliance Risk

	- Analyses applicants' financial status, credit, and property evaluations to determine feasibility of granting loans. - Explains to customers the different types of loans and credit options that are available, as well as the terms of those services. - Obtains copies of loan applicants' credit histories, corporate financial statements, and other financial information.	

d. AML governance and culture, and description of the overall Money Laundering (ML)/Terrorist Financing (TF) risk management framework to prevent the use of the Bank for ML/TF activities

- ➢ Establishing the identity of new individual customers (Know your Client or KYC).
- ➢ Identifying the true owners when opening new accounts for companies/corporations.
- ➢ Producing and retaining identification and transaction records.
- ➢ Reporting covered and suspicious transactions to the competent authorities (Anti-Money Laundering Council).
- ➢ Enhancing relationships with the authorities.
- ➢ Preventive procedures, training, pre-employment screening and internal controls.

V. Corporate Governance

a. Overall corporate governance structure and practices (describe the overall governance framework adopted by the Bank)

- ➢ Reviewing and reporting to the Committee and Board on matters of corporate governance and developing and recommending to the Board corporate governance principles applicable to the Bank;
- ➢ Monitoring compliance with regulations, directives, and other instructions of the regulatory bodies and the Board in regards to corporate governance issues;
- ➢ Overseeing the Board and its committees in their annual assessments of their performance, including their supervisory oversight functions.
- ➢ Reviewing and evaluating the qualifications of all persons nominated to the Board as well as those nominated to other positions requiring appointment by the Board of Directors.
- ➢ Periodically reviewing and reassessing the Bank's Corporate Governance guidelines and policies and recommend proposed changes to the Board for approval.
- ➢ Periodically reviewing and reporting to the Board on matters of corporate governance, including reviewing and recommending to the Board regarding stockholder proposals.

- Overseeing the Compliance Officer's duties and responsibilities and carrying out such other duties that may be delegated to the Compliance Officer by the Board from time to time.

b. Selection process for the Board and senior management (describe the Bank's process/procedure for identifying, assessing and selecting Board and senior management candidates to ensure application of fit and proper standards).

For the Board

- The Business affairs of the Bank shall be conducted under the supervision and control of a Board of Seven (7) Directors. The holders of common stock entitled to vote shall elect such directors in the manner provided in Section 31 of Act 1459, as amended, whose qualifications shall be subject to the approval of the Monetary Board of the Bangko Sentral ng Pilipinas.

- He shall be at least twenty-five (25) years of age at the time of his election appointment;
- He shall be at least a college graduate or have at least five (5) years' experience in business;
- He must have attended a special seminar on corporate governance for Board of directors conducted or accredited by the BSP.
- He must be fit and proper for the position of a director of the Bank. In determining whether a person is fit and proper for the position of a director, the following matters must be considered: integrity/probity, competence, education, diligence and experience/training.
- The regular term of a director shall be from the date of his election to the regular annual meeting of the stockholders of the Bank or until his successor shall have been elected and qualified to take his place at said annual meeting. Unless a director shall sooner resign, be removed from office, or becomes unable to act by reason of death, disqualification, or otherwise, he shall hold office during the term for which elected and until his successor is elected and qualified.
- A majority of the directors shall constitute a quorum for the transaction of business at any meeting of the Board of Directors, but less than a quorum may adjourn from time to time until a quorum is in attendance.
- If vacancies occur in the Board of Directors, the remaining directors constituting a quorum shall by majority vote, elect persons to fill such vacancies for the unexpired term. In cases of resignation or death of all or a majority of the directors, any stockholder may call a special meeting in the same manner that the President may call such meeting, and the directors for the unexpired term may be elected at any such special meeting in the Manner provided for the election at annual meetings.
- A director may be removed in the manner provided for by law at a regular or special meeting called for that purpose, by a vote holding or representing two-thirds (2/3) of the subscribed stock entitled to vote.

The Committee shall oversee the members of the Board's annual self-evaluation and will assess the performance of the senior management officers. It will also assess the performance of Board Committees in relation to the strategic objectives of the Bank.

For Officers

- He shall be at least twenty-one (21) years of age;
- He shall be at least a college graduate, or have at least five (5) years' experience in Banking or trust operations or related activities or in a field related to his position and responsibilities or have undergone training in Banking or trust operations acceptable to the appropriate department of the SES.
- He must be fit and proper for the position he is being proposed/appointed to. In determining whether a person is fit and proper for a particular position, the following matters must be considered: integrity, competence, education, diligence, and experience/training.
- The Executive Officers of the Bank shall include the President, Vice President, Secretary, Bank Manager, and a Cashier who shall be elected by a majority of the entire membership of the Board of Directors at its. First meeting held after the annual stockholders meeting, and at such other times during the year as may be required to fill vacancies. The position of Secretary and Cashier may be combined in one person.
- The President shall be the Chief Executive Officer of the Bank. He shall see to it that all orders and resolution of the Board of Directors, all orders of the Monetary Board of the Central Bank of the Philippines, and all rules and regulations of the Bank are carried into effect, and shall exercise such other powers and perform such other duties as are prescribed for the Office of the President in these by laws.
- The Vice-President shall exercise the power, authority and duties of the President during the absence or inability to act on the latter.
- The Secretary shall provide for the keeping of the records of the Bank and shall have the custody of the seal of the corporation. The Secretary shall, in addition, exercise such other powers and perform such other duties as are prescribed for the Office of the Secretary in these by-laws, and all other duties usually pertaining to that office, and such other duties as may be prescribed from time to time by the Board of Directors.
- The Cashier shall have custody of all funds, securities, and other assets of the association, shall provide full and complete record of all assets and liabilities of the Bank, and shall make such reports with respect there to as may be required by the Board of Directors. The Cashier shall, in addition, exercise such other powers and perform such other duties as are prescribed by these by-laws for the office of the Cashier, and all other duties usually pertaining to that office, and such other duties as may be prescribed by the Board of Directors.
- The Board of Directors may provide for the position of a Bank Manager who shall have, subject to the control of the Board of Directors general management of the business affairs of the Bank.

c. Board's overall responsibility (describe the general responsibility of the Board in the approval and oversight of management's implementation of Bank's strategic objectives, risk strategy, corporate governance and corporate values, among others)

- Shall act in a manner characterized by transparency, accountability, and fairness.
- Determine the Corporation's purpose, its vision and mission and strategies to carry out its objectives.
- Ensure that the Corporation complies with all relevant laws, regulations, and codes of best business practices.
- Establish strategic objectives and a set of corporate values that will be communicated throughout the organization and its member Banks.
- Ensure transparency and receipt of sufficient information on a timely basis for effective governance.

d. Description of the major role and contribution of the chairman of the Board

- The major role and contribution of the Chairman of the Board is to manage and to provide leadership to the Board of Directors of the Bank. The Chairman is accountable to the Board and acts as a direct contact between the Board and the Management of the Bank through the Chief Executive Officer (CEO). The Chairman acts as the communicator for Board decisions where appropriate.

e. Board composition (include the names of the members of the Board. For each member, include the following:

Names of the members of the Board	Type of Directorship	Principal Stockholder represented if nominee	Number of years served as Director	Number of Direct and Indirect shares held	Percentage of shares held to total outstanding shares of the Bank
Camacho, Jose Isidro N.	Executive	Compania De Maria Clara Holdings, Inc.	7	1	0.0001%
Ma. Teresa M. Jesudason	Independent Director	Independent	2	1	0.0001%
Lilia G. Baun	Independent Director	Independent	2	1	0.0001%
De Ocampo, Leonard R.	Executive	Amang Rodriguez Holdings, Inc.	7	1	0.0001%
Lorenzo, Martin P.	Non-Executive	Amang Rodriguez Holdings, Inc.	7	1	0.0001%
Lagua, Benel D.	Independent Director	Amang Rodriguez Holdings, Inc.	3	1	0.0001%
Pineda, Jesus M.	Non-Executive	MMP Investments	15	1	0.0001%

f. Board qualification (provide details of the relevant qualifications and experiences of each member of the Board of directors, including current directorship and officership in other companies, their age and nationality).

Board Member	Company	Current Directorship & Officership	Age	Nationality
 Jose Isidro N. Camacho	-Diniwid Beach Hotel Corporation (Philippines) -Credit Suisse (Singapore) Limited -Transnational Diversified Group Holdings, Inc. (Philippines) -A Mining Corporation of Filsystem (Philippines) - Compania de Anuncia Holdings, Inc. (Phils) -Compania de Carlos Holdings, Inc. (Phils) - Compania de Lorenzo Holdings, Inc. (Phils) - Compania de Teodoro Holdings, Inc. (Phils) - Compania de Feliz Holdings, Inc. (Phils) - Compania de Maria Clara, Inc. (Phils) -Compania de Roberta Holdings, Inc (Phils) - Compania de Arsenio Holdings, Inc. (Phils) - BT Investment Holdings, Inc. - Sun Life of Canada (Phils), Inc. - Sun Life Grepa Financial, Inc. (Phils) - Amang Rodriguez Holdings, Inc. (Phils) - Asian Infrastructure Investment Bank (AIIB), China	Chairman Vice Chairman Director Director Chairman Chairman Chairman Chairman Chairman Chairman Chairman Chairman Director Non-Executive Chairman Director Member, Board of Directors Member of International Advisory Panel	67	Filipino
 Ma. Teresa M. Jesudason	-Fil-Invest Credit Corporation / Asia-Euro Money Brokers, Inc. - Bankers Trust Company	-Investment Officer / Manager & Chief Broker - Vice President, Manila - Vice President and Team Leader, Hongkong - Assistant Treasurer, Sales and Customer Service, Manila - Various positions with Bankers Trust with Increasing levels of responsibility	71	Filipino

	- Deutsche Bank A.G., Philippines - Banco Santander Philippines, Inc. - Rizal Commercial Banking Corporation - INDUSTRIAL GUARANTEE LOAN FUND (IGLF) - Development Bank of the Philippine (DBP) - DBP MANAGEMENT CORPORATION - LGU GUARANTY CORPORATION	- Vice President & Head of Global Institutional Services Department – Client Management, Sales & Service for Philippines - Vice President, Head of Deposits and Investment Services -First Vice President, Head of Institutional Relationship Management Division - Chief Executive Officer Member, Technical Advisory Group - Head, Financial Institutions Group - Head, Sales & Distribution Group, Branch Banking Sector - Member, Management Committee - Member, Asset Liability Management Committee - Member, Executive Credit Committee - Member, Anti-Money Laundering Committee - Head, Wholesale Banking Dept., Branch Banking Sector - First Senior Vice President - Director - Director		
 Lilia G. Baun	-LGU Guarantee Corp. -PNB Securities -Investment House Association of the Phils. -PNB Capital & Investment Corp -PNB Investment Banking Corp -Development Bank of the Philippines (DBP) -DBP Leasing Corp -A1-Amanah Islamic Investment Bank -TIDCORP Provident Fund -TIDCORP/Philippine Export Import Credit Agency -PNB-Investment Banking Group -PNB–Treasury Department	-Director -Director -Director -EVP & OIC -EVP & COO -SVP & OIC -VP & Treasurer -SVP, Head Corp Banking Group Sector -Director -Director -Director -Vice President -Assistant Vice President -Bank Executive Officer IV	63	Filipino

	-PNB-Merchant Banking Department -PNB-Internal Audit Department	-Department Manager -Bank Executive Officer II -Senior Research Specialist -Examiner		
 Leonard R. De Ocampo	-Dasmarinas Village Homeowners Association -Far Eastern University -Wildflour - Far East Bank and Trust - CitiBank GCB, Phils - Johnson & Johnson Phils - Pepsi Cola Products Phil - Manila Times - University Of Asia and the Pacific - Cibo Restaurant - Filia Foods, Inc. - Macondray Plastics, Inc. - Pancake House, Inc. - Digitizedata.com, Inc.	-Board of Director -MBA Professor -Director -Trader/Economic Forecaster -Portfolio Manager, Asst Mgr -Financial Analyst - Management Associate - Corp Planning & Dev't Mgr. - Sr Financial Planning Mgr - Columnist -Undergrad Professor -Consultant - Consultant - Director - Director - Founder	55	Filipino
 Benel D. Lagua	-Philippine Institute of Pure and Applied Chemistry (PIPAC) -Institute of Corporate Directors -Management association of the Philippines - Financial Executive of the Philippines - Dela Salle University Professional Schools, Inc. - Ateneo de Manila	Director Fellow Lifetime member Lifetime member Professional Lecturer IV Lecturer	66	Filipino
 Martin Ignacio P. Lorenzo	-First Lucky Holdings, Corp - CAT Resource and Asset Holdings, Inc. - Altius Real Property Holdings, Inc. - Courxera Holdings, Corp. - Buena Vista Corporate Asset Holdings, Inc. - Cocosorbetero Holdings, Inc. - Block 9 Lot 1 Holdings, Inc. - First Green Renewable Holdingds, Inc. - First Lucky Education Holdings Corp. - Macondray Finance Corp. - Macondray Insurance Brokers Corp.	Chairman & CEO Chairman & CEO Chairman Chairman Chairman & CEO Chairman & President Chairman & President Chairman & President Chairman & President Chairman & President Chairman & President	57	Filipino

	- Marlor Investment Corp. - SORestaurant Holdings Corp.	Chairman & President Chairman & President		
 Jesus M. Pineda, Jr.	-Philippine Lighting Industry Association -Ugong Trade and Holdings -Filipina Climate Solution, Inc.	President Chairman / President Chairman	84	Filipino

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

AUDIT COMMITTEE	POSITION
BENEL D. LAGUA	Chairman
MA. TERESA M. JESUDASON	Member
LILIA G. BAUN	Member

Function: To assist the Board of Directors in fulfilling its oversight responsibilities with respect to internal controls, including financial reporting control and information technology, security, accounting policies and auditing for the financial reporting process and compliance with related legal and regulatory requirements. Assist the Board in its oversight of:

i. Integrity of the financial reporting;
ii. Compliance with legal and regulatory requirements;
iii. The effectiveness of internal controls and procedures;
iv. The qualifications and independence of the independent auditors; and
v. The performance of the Company's independent auditors, and of the internal audit program.

- **CORPORATE GOVERNANCE COMMITTEE**

CORPORATE GOVERNANCE COMMITTEE	POSITION
MA. TERESA M. JESUDASON	Chairman
BENEL D. LAGUA	Member
LILIA G. BAUN	Member

Function: To assist the Board of Directors in fulfilling its corporate governance responsibilities. The Committee is responsible for exercising oversight with respect to the governance of the Board of Directors of the Bank, including:

i. Reviewing and reporting to the Board on matters of corporate governance and developing and recommending to the Board corporate governance principles applicable to the Bank;

ii. To monitor compliance of regulations, directives, and other instructions of the regulatory bodies and the Board in regards to Corporate Governance issues; and

iii. Oversee the Board and its committees in their annual assessments of their performance, including their supervisory oversight functions.

iv. Review and evaluate the qualifications of all persons nominated to the Board as well as those nominated to other positions requiring appointment by the Board of directors.

- **EXECUTIVE COMMITTEE**

EXECUTIVE COMMITTEE	POSITION
JESUS M. PINEDA, JR.	Chairman
BENEL D. LAGUA	Member
LEONARD R. DE OCAMPO	Member

Function: Shall provide advice to and aid the officers of the Bank in all matters concerning its interests and the management of its business and shall exercise all the administrative powers of the Board of Directors with reference to the usual and ordinary business of the Bank when said Board of Directors is not in session.

- **RELATED PARTY TRANSACTION COMMITTEE**

RELATED PARTY TRANSACTION COMMITTEE	POSITION
LILIA G. BAUN	Chairman
BENEL D. LAGUA	Member
MA. TERESA M. JESUDASON	Member

An overview of the general responsibilities of the Committee is simplified below:

1. Evaluate existing relations between and among businesses and counterparties.
2. Evaluate all material RPTs to ensure that these are not undertaken on more favorable economic terms.
3. Ensure appropriate disclosures are made and/or information is provided to regulatory bodies of the Bank.
4. Report to the Board of directors the status and aggregate exposures to each related party.
5. Ensure that RPTs are subject to independent review or audit process.
6. Oversee the implementation of the system of RPTs, including the review of RPT policies and procedures.

h. Directors' attendance at Board and committee meetings (include the total number of Board and committee meetings for the election year and the number of Board and committee meetings attended by each director). A sample template is provided below.

Number of Directors	Board Number of Meetings		Audit Committee Number of Meetings		Corporate Governance Committee Number of Meetings		Related Party Transactions Committee Number of Meetings	
	Attended	%	Attended	%	Attended	%	Attended	%
1. Camacho, Jose Isidro N.	4	100%						
2. De Ocampo, Leonard R.	4	100%	8	100%	3	100%	3	100%
3. Ma. Teresa M. Jesudason	4	100%	8	100%	3	100%	3	100%
4.Lilia G. Baun	4	100%	8	100%	3	100%	3	100%
5. Pineda, Jesus M.	3	75%						
6.Benel D. Lagua	3	75%	8	100%	3	100%	3	100%
7.Martin P. Lorenzo	3	75%						
Total Number of Meetings held during the year	**4**	**100%**	**8**	**100%**	**3**	**100%**	**3**	**100%**

i. Changes in the Board of directors (for complex Banks only) (indicate the changes in the composition of the Board of directors that happened during the period including the reason for said change, i.e., resignation, death, removal)

- **Not Applicable**

j. List of executive officers/senior management (disclose the name, position, relevant qualifications/experience, age and nationality of the officer. Senior management refers to the president/CEO or officer of equivalent rank and other persons having authority and responsibility for planning, directing and controlling the activities of the Bank).

NAME	POSITION	QUALIFICATIONS / EXPERIENCE	AGE	NATIONALITY
 Leonard R. De Ocampo	President	-6 years in Banking institutions as Trader/Economic forecaster, Financial Analyst -24 years as Director of financial company. - RBAP member	55	Filipino
 Rene Roque C. Neri	VP/Head – Loans and Business Development	-5 years in Insurance company as Senior Field Auditor -12 years in Banking institutions (LBP) as Area Lending Head -5 years in leasing company as VP-Finance.	57	Filipino

 Manuel I. Inserto	VP- Liability Generation	-24 years in LandBank as AVP. -19 years in various Banking Institutions.	71	Filipino
 Theresa S. Datinguinoo	VP – Human Resources Management and Corporate Communications	-Over 25 years in the human resources management profession and organization development, in the financial services industry. - 6 years HR consultant for insurance, financial services, and IT services companies.	55	Filipino
 Jennifer E. Valcarcel	Senior Manager and Chief Compliance Officer	-9 years in multinational company as personal and accounting assistant -15 years in Rural Bank as Cashier, Accounting Officer and currently Compliance Officer. - Member of Compliance and Internal Audit Group of RBAP	51	Filipino
 Irene Simbajon	Internal Auditor	-3 years in Banking experience as Audit Examiner -1 year Accounting Staff in Foundation company. -2 years as Audit Staff in mobile and computer accessories company.	38	Filipino

k. Performance Assessment Program (describe the process adopted by the Bank in assessing the performance of the Board and senior management based on established performance standards that are consistent with the Bank's strategic objectives).

The Board of Directors and the different Board committees have self-administered performance evaluation done yearly. The Bank's senior management's performance is assessed using a Performance Evaluation Form that measures both key result areas and competencies.

	BANGKO NG KABUHAYAN, (A RURAL BANK) INC.					
	BOARD OF DIRECTORS SELF-EVALUATION FOR THE PERIOD OF JANUARY - DECEMBER 2022					
	Board composition and structure - its constitution and diversity and that of its Committees, competencies of the ` Board and Committee charters, frequency of meetings, procedures;	**5**	**4**	**3**	**2**	**1**
		Excellent	**Very Good**	**Adequate**	**Fair**	**Unsatisfactory**
1	My awareness and understanding of the roles and responsibilities of the Board of Directors.					
2	My understanding of the organization's vision and mission and all its products and services.					
3	Clarity of the Board's structural pattern (board composition, reporting relationships).					
4	My understanding of the function of each Board Committee and agreement with the composition of each committee.					
5	How I continuously seek to enhance my skills, knowledge and understanding of the activities of the Bank and the developments in the banking industry through continuing education.					
	Board Dynamics - annual Board calendar, availability of information, communication and interactions with CEO and senior executives, Board agenda, group cohesiveness, and the quality of participation in Board meetings;	**5**	**4**	**3**	**2**	**1**
		Excellent	**Very Good**	**Adequate**	**Fair**	**Unsatisfactory**
6	My attention and dedication that allowed me to properly and effectively carry out my duties and responsibilities as a Board member by regularly attending meetings and replying to communications in a timely manner.					
7	My being comfortable with my colleagues and in expressing my thoughts and ideas during Board meetings and other interactions with the Board members.					
8	My active participation in policy-related decisions which effectively guide the operational activities of the Bank.					
9	My exercise of independent judgment by viewing each problem or situation objectively.					
10	How I always kept myself well-informed about matters needing the attention of the Board.					
	Strategy, risk, and financial performance – the Board's role in company strategy, the integrity and the robustness of the financial and other controls regarding abusive related party transactions, vigilant mechanism and risk management.	**5**	**4**	**3**	**2**	**1**
		Excellent	**Very Good**	**Adequate**	**Fair**	**Unsatisfactory**
11	My awareness of the Bank's business strategy, goals, and financial performance at any given time.					
12	My active involvement in giving relevant inputs concerning the Bank's business strategies vis-a-vis the Bank's operational performance.					
13	The way I always expressed my ideas and suggestions for the Bank to continue enforcing stricter controls and measures to help mitigate risks and for good corporate governance and how I followed through on my suggestions.					
14	My knowledge of the statutory and regulatory requirements affecting the Bank, including its Articles of Incorporation and By-Laws, the rules and regulations of the SEC and the requirements of the BSP and where applicable, the requirements of other regulatory agencies.					
15	My awareness of the Bank 's pending (if any) and recently-resolved issues with the BSP, and how I contritbuted to resolving such issues.					
	Board integrity, reputation, and culture	**5**	**4**	**3**	**2**	**1**
		Excellent	**Very Good**	**Adequate**	**Fair**	**Unsatisfactory**
16	The fairness with which I conducted business transactions with the Bank and guaranteed that my personal interest did not conflict with the interest of the					
17	My honesty and loyalty to the Bank, keeping in mind that I always acted in the best interest of the Bank and its stockholders, regardless of the amount of their stockholdings, and other stakeholders such as its depositors, investors, and borrowers, and the general public.					
18	My integrity and professionalism as I continued to be of good standing in my community and profession, and in the other organizations I serve.					
19	How I always acted judiciously before deciding on any matter discussed in the Board by carefully evaluating the issues, and if necessary asking questions and clarifications.					
20	How I kept secure and confidential all non-public information acquired or learned by reason of my position as a director.					

I. Orientation and Education Program (disclose the in-house and external training program of the Bank for its directors and senior management to ensure that they continuously possess the qualifications for the position).

- Corporate Governance
- RBAP training Programs / seminars
- Taxation
- AMLA

BANGKO NG KABUHAYAN, (A RURAL BANK) INC.		
EMPLOYEE TRAININGS FOR 2022		
TRAINING		
2022 Training Hours	BSP Briefing on Relief Measures on Loan Modifications/Restructured Loan & Capital Relief on Provisioning Requirements	**12**
	Basic Corporate Governance for RB Directors	128
	Walk-Through Session - Credit Risk Management Manual	42
	HR Resource & Disaster Management and Business Continuity Manuals	24
	CIC Credit Report & Credit Score Assessing Credit Worthdiness Amid a Pandemic	18
	CIC CIC Webinar Series on “Responsible borrowing and combating abusive lending in the time of COVID-19”	28
	RBAP & PDIC Series on Regulatory Issuances	4
	Basic Occupational Safety & Health for SO1 Training	64
	RBAP Walk through Session On Compliance Audit & MTPP Manual	6
	IT Auditing on Banks (IT Risk, Controls & IT Auditing	8
	How Spot Fake Documents, Verify Signature, Detect & Prevent Forgery	24
	Accounting For Non-Accountants with Financial Statement Analysis	64
	Compliance & Internal Auditors Core Group Workshop	16
	Advance Excel Training for Bankers	80
	Philhealth Employee Virtual Forum 2022	5
	BAIPHIL Executive Learning Series 2022	6
	Regional Workshop on Risk Management of SME Lending	25
	BAIPHIL Live2Lead Leardership workshop	16
	CRD PROJECT: Invitation to the Seminar for Participating Banks	3
	Briefing on Submission of Reports via IFSS Enterprise Web Portal	6
	2022 TOTAL TRAINING HOURS	**579**

m. Retirement and Succession Policy (describe the retirement and succession policy of the Bank including the retirement age for the Board and senior management; and the term limit for the members of the Board).

RETIREMENT POLICY

- The Bank's Retirement Plan, through a Retirement Trust Fund, shall provide payment of a definite amount to its employee's retirement from service, subject to the regulations stated in this policy.

  The Bank has the prerogative to retire an employee who has reached the age of sixty (60) and has rendered at least five (5) years of continuous service in the Bank.

SUCCESSION PLANNING POLICY

- The Bank's succession planning policy provides the foundation for the continuing business operations of the Bank by making provisions for the development, replacement, and strategic application of key people over time.

  The Company's succession planning program is a part of a broader talent management endeavour that aims to attract the best talent, engage those individuals, and develop them through well-planned development efforts. Succession planning enables the organization to build its bench strength to guarantee its long-term health, growth, and stability.

- A job hierarchy within each functional unit is present based on the Bank's approved organization structure that responds to the operational requirements of the business. For a common understanding of terms, job hierarchy may also be referred to as Job Level or Rank.

- Following a well-planned and executed job evaluation study, each functional hierarchy ranges from the lowest job level *(staff positions)* to the highest rank *(department level)*, as seen below:

		FUNCTIONAL UNITS							
Level	CLASSIFICATION	LOANS & BUSINESS DEVELOPMENT (ASSET GENERATION)	CREDIT SUPPORT & REMEDIAL MGT	LIABILITY GENERATION	CASH MANAGEMENT	ACCOUNTING & IT	COMPLIANCE	AUDIT	HR & ADM
EXECUTIVE	DIVISION HEAD	AVP/VP/SVP	AVP/VP/SVP	AVP/VP/SVP	AVP/VP/SVP	AVP/VP/SVP	AVP/VP/SVP	AVP/VP/SVP	AVP/VP/SVP
6	DEPARTMENT HEAD MANAGERIAL	Loans & Bus. Dev. Head	Credit Support & Remedial Mgt. Head	Liability Generation Head	Cash Management Head	Accounting & IT Head	Chief Compliance Officer	Chief Internal Auditor	HRM & Admin Head
5	UNIT/SECTION HEAD SUPERVISORY	Loans Supervisor	Credit Support Supervisor Remedial Management Supervisor	Liability Generation Supervisor	Cash Management Supervisor	Accounting Supervisor	Compliance Supervisor	Internal Auditor	HR Supervisor Adm. Supervisor
4	ASSISTANT SUPERVISORY SENIOR TECHNICAL EXPERT	Team Leader	Credit Support Asst. Supervisor Collection Asst. Sup	Team Leader	Senior Cashier	Accounting Specialist	Compliance Specialist	Audit Specialist	HR Specialist Adm. Officer
3	TECHNCAL EXPERT	Account Officer	Credit Verification Officer Collection Officer	Account Officer	Branch Cashier	Accounting Associate	Compliance Associate	Audit Associate	HR Associate Adm. Associate
2	ASSISTANT	Micro Finance Assistant	Loans Doc. Assistant Collection Assistant	Administrative Assistant	Senior Teller	Accounting Assistant	Compliance Assistant	Audit Assistant	HR Assistant Adm. Asst.
1	STAFF	Microfinance Staff	Loans Documentation Staff Collection Staff	Administrative Staff	Junior Teller	Accounting Staff	Compliance Staff	Audit Staff	Utility Staff Admin Staff

- For the ongoing development of the workforce, the Human Resources Management, in collaboration with heads of units, facilitates the setting up of a training plan for employees to help address identified performance gaps and ensure the technical and behavioral readiness of employees to assume higher responsibilities. Like a roadmap, the Management is guided by the requirements that staff need to meet in order to ensure good performance and career progression. It covers the formal training programs suited for each level and position, the supervised and informal/on-the-job exposure, and other hands-on experience that would guarantee at the very least, the satisfactory and acceptable performance in a job.

n. **REMUNERATION POLICY**

i. Remuneration Policy and Structure for executive and non-executive directors (disclose the Bank's remuneration policy and the structure of its remuneration package for the Board).

- No Compensation shall be paid any director as such, but the director of the Bank may be allowed reasonable honoraria for attendance at meetings, and also reasonable expenses incurred in connection thereto. Salaries of the executive officers of the Bank shall be fixed by the Board of Directors subject to the approval of the Monetary Board of the Bangko Sentral ng Pilipinas.
- All Board members (Present) are given a per diem for every Board of Directors meeting.

ii. Remuneration Policy for senior management (disclose the process used for determining the remuneration of the president/CEO or officer of equivalent rank, and the four (4) most highly compensated management officers of the Bank).

- For the CEO, the package is decided upon by the Board of Directors. For the Officers of the Bank, the President and CEO approves the package after the formal Board approval of the appointment. Next to the President, the four (4) most highly compensated management officers of the Bank in 2021 are the VP for Loans Department, VP for Liability Generation Department, VP for HRM Department & Corporate Communications, and the Compliance Officer.

- An employee who has been granted regular status or permanent appointment for a certain position shall be paid at least the minimum of the established salary range for his position.

- Salary increases within the established range shall be granted on the basis of merit and at the discretion of the Management, following the annual approved salary budget of the Company.

o. Policies and procedures on related party transactions

- It has been agreed upon that the Bank will not give out any DOSRI loans.

- To observe good governance and approve an overarching policy on the handling of RPTs to ensure that there is effective compliance with existing laws, rules and regulations at all times, that these are conducted on an arms' -length basis, and that no stakeholder is unduly disadvantaged. A group-wide RPT policy shall be adopted, encompassing all entities within the Banking group, taking into account their size, structure, risk profile and complexity of operations.

- To approve all material RPTs, those that cross the materiality threshold, and write-off of material exposures to related parties, and submit the same for confirmation by majority vote of the stockholders in the annual stockholders' meeting. Any renewal or material changes in the terms and conditions of RPTs shall also be approved by the Board of directors. All final decisions of the Board on material RPTs, including important facts about the nature, terms, conditions, original and outstanding individual and aggregate balances, justification and other details that would allow stockholders to make informed judgment as to the reasonableness of the transaction, must be clearly disclosed during stockholder's meetings and duly reflected in the minutes of Board and stockholders' meetings.

- To delegate to appropriate management committee, the approval of RPTs that are below the materiality threshold, subject to confirmation by the Board of directors. This shall, however, exclude DOSRI transactions, which are required to be approved by the Board. All decisions under the delegated authority must be properly recorded in the minutes of the committee meetings.

- To oversee the integrity, independence, and effectiveness of the policies and procedures for whistle-blowing. The Board should ensure that senior management addresses legitimate issues on RPT that are raised. The Board shall take responsibility for ensuring that a staff member who has raised concerns is protected from detrimental treatment or reprisals.

p. **SELF-ASSESSMENT FUNCTION**

- Self-assessment is done by its Board members.
- The Committee shall oversee the members of the Board's annual self-evaluation and will assess the performance of the senior management officers. It will also assess the performance of Board Committees in relation to the strategic objectives of the Bank.
- Assessments will be summarized by HR and interpreted by the Corp. Secretary.
- The Board Committee assists management in preparing the corporate business plan that will provide over-all business direction and guide in attaining objectives. It receives and reviews reports of internal and external auditors and regulatory agencies where applicable, and ensures that Management is taking appropriate corrective/preventive actions, in a timely manner in addressing control and compliance functions with regulatory agencies. It provides oversight and overall supervision of the Banks' risk management activities including, but not limited to operational risks, finance risk, legal risk, etc.
- Internal Audit - The scope of internal auditing encompasses, but it is not limited to, the examination and evaluation of the adequacy and effectiveness of the Bank's governance, risk management, and internal controls as well as the quality of performance in carrying out assigned responsibilities to achieve the Bank's stated goals and objectives. This includes:

  - Evaluating risk exposure relating to achievement of the Bank's strategic objectives.
  - Evaluating the reliability and integrity of information and the means used to identify measure, classify and report such information.
  - Evaluating the systems established to ensure the compliance with those policies, plans, procedures, laws, and regulations which could have a significant impact on the organization.
  - Evaluating the means of safeguarding assets and, as appropriate, verifying the existence of such assets.
  - Evaluating the effectiveness and efficiency with which resources are employed
  - Evaluating operations or programs to ascertain whether results are consistent with established objectives and goals and whether the operations or programs are being carried out as planned.
  - Monitoring and evaluating governance processes.
  - Monitoring and evaluating the effectiveness of the Bank's risk management processes.
  - Evaluating the quality of performance of external auditors and the degree of coordination with internal audit.
  - Performing consulting and advisory services related to governance, risk management and control as appropriate for the organization.
  - Reporting periodically on the internal audit activity's purpose, authority, responsibility and performance relative to its plan.
  - Reporting significant risk exposures and control issues, including fraud risks, governance issues and other matters needed or requested by the Board.

- Evaluating specific operations at the request of the Board or management as appropriate.

- Compliance – has the following duties and responsibilities, which may be expanded and supplemented from time to time upon the approval of the Board of Directors, AROC or CGC, or as needed and required by the government regulatory bodies:

  1. Oversees the proper and efficient implementation of the Bank's Compliance System and Plan;
  2. Identifies, monitors, and controls compliance risks as defined in BSP's Circular No. 972, Series of 2017;
  3. Provides guidance to the Bank's Board of Directors, AROC, CGC and Senior Management Team on matters relating to compliance;
  4. Initiates the development and/or revisions of policies and procedures for the operation of the Compliance Plan and its related activities to prevent non-compliance with regulatory requirements;
  5. Collaborates with other departments (e.g. Internal Audit, HR) to investigate breaches in the Compliance Plan and material breaches in the pertinent Banking laws, regulations, codes of conduct, and standards of good practice;
  6. Monitors and tests compliance by performing compliance testing on applicable laws and regulatory requirements in accordance with set test standards.
  7. Reports to the AROC & CGC significant compliance matters as well as breaches in pertinent Banking laws, regulations, codes of conduct, and standards of good practice;
  8. Institutes and maintains an effective compliance communication plan for the Bank, including: i) dissemination of new and amendments to regulatory issuances; ii) training; iii) heightened awareness of significant Banking laws, regulatory issuances, compliance issues and related policies and procedures, codes of conduct, and standards good practice;
  9. Collaborates with regulatory bodies, agencies, and compliance organizations to clarify ambiguous provisions of enacted laws or regulatory issuances affecting the Bank.
  10. Exercises oversight responsibilities over compliance-related activities of outsourced functions to ensure consistent implementation of the Bank's Compliance System and Plan;
  11. Ensures that regulatory reports are assigned to appropriate units in the Bank and there are relevant measures to ensure that these are submitted to the regulators on time.

q. Dividend policy (discuss the Bank's policies and procedures for declaring dividends and the amount of total dividends declared during the year, if any)

- Given the state of financials, the Bank aims to declare dividends in the next 5-year horizon.
- Shareholders shall have the right to receive dividends subject to the discretion of the Board

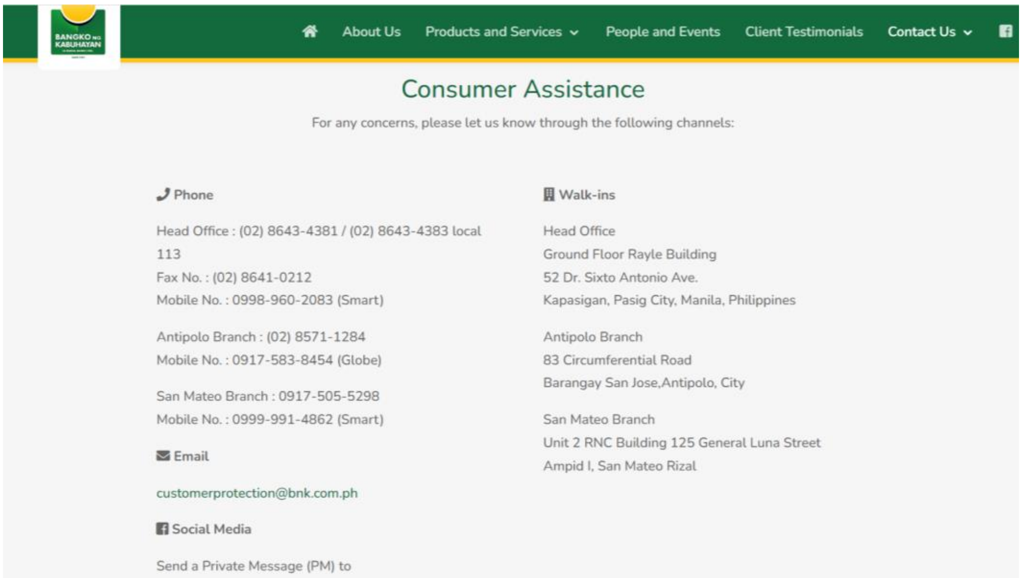
- The Company shall be compelled to declare dividends when its retained earnings shall be in excess of 100% of its paid-in capital stock, except: a) when justified by definite corporate expansion projects or programs approved by the Board or b) when the corporation is prohibited under any loan agreement with any financial institution or creditor, whether local or foreign, from declaring dividends without its consent, and such consent has not been secured; or c) when it can be clearly shown that such retention is necessary under special circumstances obtaining in the Corporation, such as when there is a need for special reserve, for probable contingencies.

r. Corporate Social Responsibility Initiatives (discuss any initiative undertaken or proposed to be undertaken by the Bank during the year)

- It is the Bank's belief that serving the Micro and SME segments of society is in itself a fulfilment of corporate social responsibility.

s. Consumer Protection Practices

- To ensure the Bank's proper monitoring of accounts and to avoid payment delinquencies, the Accounting Unit, in coordination with Internal Audit, shall generate quarterly loan and savings account balances to be issued to each client.



- **Consumer Protection Oversight Function**

1. Roles and Responsibilities of the Board and Senior Management

The Board of Directors is responsible for approving and overseeing the implementation of policies inclined with the Bank's Financial Consumer Protection Framework and develop strategies establishing an effective oversight of Bank's consumer protection programs and as described herein:

1. Approve of Financial Consumer Protection Framework policies

2. Review of mechanism to ensure compliance with the policies periodically.

The Senior Management team is responsible for developing strategies for the Bank's consumer protection framework.

2. Consumer Protection Risk Management System (CPRMS)

The Consumer Protection Risk Management System of Bangko ng Kabuhayan (BnK) aims to address and prevent risks that may threaten the Bank and cause financial harm or loss to consumers.

a. Board and Senior Management Oversight

The Board and the Senior Management are responsible for periodically assessing the effectiveness of the CPRMS.

b. Compliance Program

The Compliance Office is responsible for the over-all compliance system that should prevent or reduce regulatory violations and protect the Bank's consumers.

c. Policies and Procedures

The BnK's policies and procedures are in accordance with the following:

a) consistent with Consumer Protection Policies approved by the Board;
b) ensure that consumer protection practices support the business operations;
c) address compliance with consumer protection laws, rules and regulations; and
d) periodically reviewed as they serve as reference for Bank's employees.

d. Internal Audit Function

The BnK's Internal Audit is responsible for the assessment on the effectiveness of implementation of the internal policies and procedures of Consumer Protection Framework.

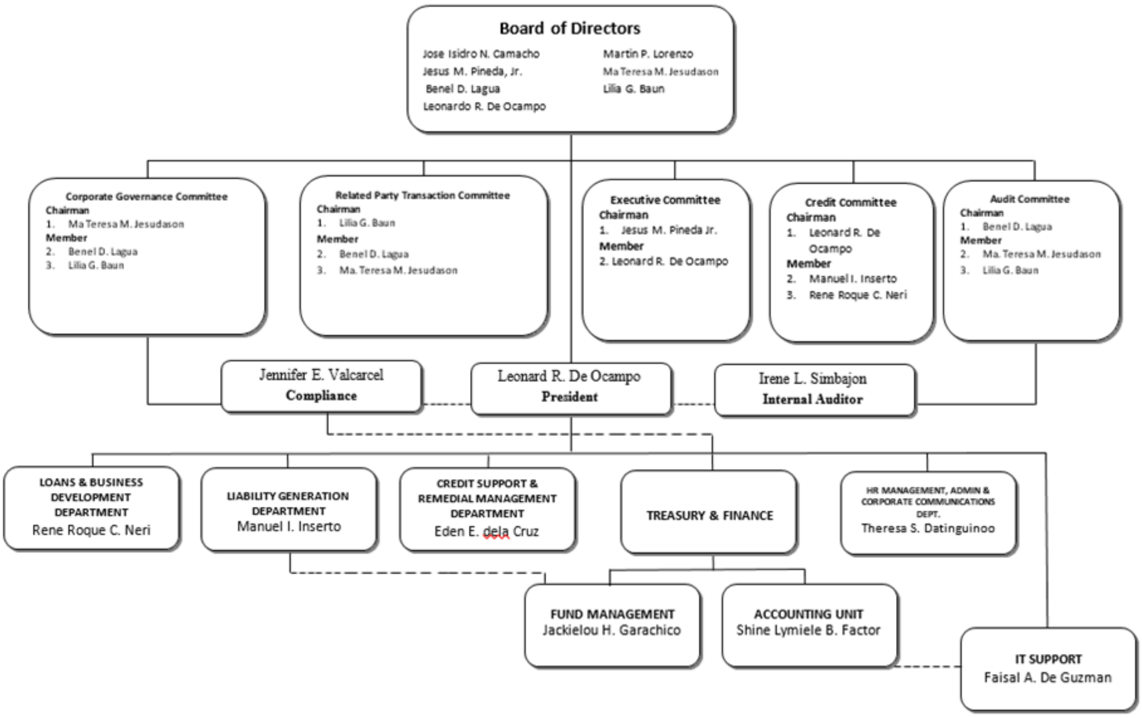
e. Training

- The BnK shall provide training to its personnel in line with the Consumer Protection Framework rules and regulations.

- Capital Adequacy Ratio – The Bank has exceeded the minimum risk-based capital adequacy ratio, expressed as a percentage of qualifying capital to risk-weighted assets, of not less than 10% as required by the BSP; its CAR being 29.05% as of December 31, 2022.

VI. Corporate Information

a. Present the organizational structure as of December 2022, including the name and position of key officers



b. List of major stockholders of the Bank, including nationality, percentage of stockholdings and voting status

Stockholders	**Nationality**	**Percentage of Stockholdings**	**Voting Status**
Amang Rodriguez Holdings, Inc.	Filipino	34.37%	Voting
First Lucky Holdings Corp	Filipino	27.25%	Voting
Compania de Maria Clara	Filipino	27.25%	Voting
MMP Investments, Inc.	Filipino	9.05%	Voting
LandBank of the Philippines	Filipino	2.07%	Voting

c. List and description of products and services offered:

BANGKO NG KABUHAYAN

PRODUCTS

REGULAR / MICRO /AMANG SAVINGS ACCOUNT

- Opening Balance -Php 200.00
- Maintaining Balance of Php 200.00
- Interest Bearing Balance of Php 500.00
- 0.50% Interest per annum

A. TIME DEPOSIT

Effective October 31, 2022

Amount	Interest rate / Terms /Per Annum			
	30 days	60 days	90 days	365 days (1yr)
100,001.00 to 500,000.00	2.375%	2.625%	2.875%	3.125%
500,001.00 to 1,000,000.00	3.625%	3.750%	3.875%	4.00%

Amount	2 YEARS	3 YEARS	4 YEARS
500,000.00 to 1,000,000.00	4.125%	4.250%	4.625%

B. ALAY SA KABUHAYAN

Minimum Placement 500,000.00	5.125%	5 yrs and 1 day

NOTES:

1. Interest Rates may change from time to time.
2. Deposit is insured with PDIC up to maximum amount of P 500,000.00 per depositor.
3. All future state laws that disallows tax exemption on ALAY SA KABUHAYAN, a special time deposit for 5years and 1 day must be followed and implemented and that all withholding taxes shall be charged to the respective depositor.
4. In case of Pre-Termination of all Regular Time Deposits and Alay sa Kabuhayan, the interest rate of Savings Deposit shall be applied.
5. The amount of P100,001.00 up to P499,999.00 have been presented in order to accommodate some c bank's valued clients.

A. <u>AMANG Microfinance Loan</u> - these loans are up to PhP 150,000.

PURPOSE	: Loans can be provided to any entrepreneur for additional working capital.
Loan Amount	: (subject to repayment capacity evaluation)
Minimum	: Php 30,000.00

Maximum : Php 150,000.00
Loan Term : (subject to repayment capacity evaluation)
Minimum of 3 months
Maximum of 6 months

NOTE:
- All borrowers are covered with Loan Insurance.
- The account officers should do re-cash flow evaluation every renewal.
- Turn-around time is five (5) working days for new borrower; within 2 days for repeat borrower.

INTEREST RATE AND OTHER CHARGES
- Interest rate and other charges must account for competition and the bank's own financial objectives.
- Penalty charge should be high enough to discourage late payment and to cover additional collection expenses

Interest rate:
- 3.95% per month, diminishing balance
- Client will issue post-dated checks
- Payments are auto-debited from savings account with Banco Rodriguez
- Client will bring payments directly to the bank (over the counter payment
- Client will deposit payment thru Deposit Reference (Dep.Ref.) Facility e.g. Bank of the Philippine Islands (BPI) and Banco de Oro (BDO).

Processing Fee:
- 3.0% for every loan availment (deducted upfront) for all repeat accounts more than 3 months

Other Charges: (deducted upfront)
- Documentary Stamp Tax : Php1.50 for every Php 200 of loan principal
- Mortgage Redemption Insurance/Other Risk Mitigation Insurance : Php1.25 for every Php1,000 of loan principal, every month
- Notarial fee : Php200

Penalties:
- 5% per month of loan amortization (principal and interest)
- 10% of principal and interest when loan becomes past due maturity (based on outstanding loan balance)
- Php500 for bouncing checks and for checks that are put on hold that are not replaced with cash on the same day
- Reduction in amount of repeat loan / no loan
- Client's name will be included in the negative list that the bank will regularly submit to the Negative File Information System of the BAP Credit Bureau.

FREQUENCY OF PAYMENT

The more frequent and smaller the amortization payments, the easier they are for the clients to make. This should be balanced against costs.
- Equal weekly payments
- For loans with weekly amortization, loan term (number of days) must be divisible by 7.

Payments will start as follows:

Loan with WEEKLY payments: First installment shall be due the following week, which is on the 7th day after the release of the loan. (For example, if a loan is released on a Monday, the collection or anniversary day falls on a Monday)

MODE OF COLLECTION OR PAYMENT
1. Client will deposit payment thru Dep. Ref. (BDO and BPI)

2. Remitted by the client to the bank
3. Auto-debit from savings account with the Bank
    - Issuance of post-dated checks

B. AMANG Microfinance Loan Plus - these loans are from PhP 150,001.00 to PhP 300,000.00

PURPOSE: Loans can be provided to any entrepreneur for additional working capital.
Loan Amount : (subject to repayment capacity evaluation)
Minimum : Php 150,001.00
Maximum : Php 300,000.00
Minimum of 3 months
Maximum of 6 months

NOTE:
- All borrowers are covered with Loan Insurance.
- The account officers should do re-cash flow evaluation every renewal.
- Turn-around time is five (5) working days for new borrower; within 2 days for repeat borrower.

INTEREST RATE AND OTHER CHARGES

- Interest rate and other charges must account for competition and the bank's own financial objectives.
- Penalty charge should be high enough to discourage late payment and to cover additional collection expenses

Interest rate:
- 3.95% per month, diminishing balance:
- Client will issue post-dated checks
- Payments are auto-debited from savings account with Bangko ng Kabuhayan
- Client will bring payments directly to the bank (over the counter payment)

Processing fee:
- 3.0% for every loan availment (deducted upfront) for all repeat accounts more than 3 months

Other Charges: (deducted upfront)
- Documentary Stamp Tax : Php1.50 for every Php200 of loan principal
- Mortgage Redemption Insurance/Other Risk Mitigation Insurance : Php1.25 for every Php1,000 of loan principal, every month
- Notarial fee : Php200

Penalties:
- 5% per month of loan amortization (principal and interest)
- 10% of principal and interest when loan becomes past due maturity (based on outstanding loan balance)
- Php500 for bouncing checks and for checks that are put on hold that are not replaced with cash on the same day
- Reduction in amount of repeat loan / no loan
- Client's name will be included in the negative list that the bank will regularly submit to the Negative File Information System of the BAP Credit Bureau.

FREQUENCY OF PAYMENT

The more frequent and smaller the amortization payments, the easier they are for the clients to make. This should be balanced against costs.

- Equal weekly payments
- For loans with weekly amortization, loan term (number of days) must be divisible by 7.

Payments will start as follows:

Loan with WEEKLY payments: First installment shall be due the following week, which is on the 7th day after the release of the loan. (For example, if a loan is released on a Monday, the collection or anniversary day falls on a Monday)

MODE OF COLLECTION OR PAYMENT

- Remitted by the client to the bank
- Auto-debit from savings account with the Bank
  - ➢ Issuance of post-dated checks

C. **Micro+-to Small Entrepreneur Business Loan**

Loan Type	: CLASSIFIED AS SME
Interest Rate	: Maximum of 3.95% per month, diminishing balance.
Term of Payment	: Maximum of 12 months, equal monthly payment. With 10% deposit component.
Acceptable Security	: Real Estate/Vehicle/Equipment and other valuable assets (unregistered but with pre-signed security document, registration will be implemented if current account turned past due or for recommendation of the Loans Head).
Maximum Loan	: 1.0 M
Purpose	: Capital expenditures (acquisition of Equipment/renovation/construction). Working capital (specific purchase of inventory/stocks).
Past Due Recognition	: Based on SME policy on past due account.
Lending Approach/Measurement	: Financial Report (Audited optional) or reconstructed Financial status, using the Banks Client Financial Data Form (CFDF) format, of the business supported by business receipts/documents.
Years in Business	: At least 3 profitable years of operation.
Business Set-up	: Single proprietorship/partnership/corporation. In case of single proprietorship spouse of the married registered owner of the business shall also sign as borrower.
Other Terms	: Insurable collateral shall be covered by appropriate Insurance policy. Maximum of handling fee of 3% on principal. Payment shall be covered by PDC.
Other Bus. Requirements	: DTI, Mayor's permit, SEC docs. (barangay permit if loan is not more than 300,000.00).

D. Micro+S Unsecured / Clean Term Loan

PURPOSE : The loan can be granted under unsecured / clean term loan provided the followings are met,

- At least 2 months bank statements (latest) are submitted (or up to 6 months depending on the assessment on the latest 3 months statements)
- The submitted statements will show an ADB of at least 200,000.00 net of all other term loan from other banks/financial institutions.
- That the said statements will show very satisfactory cash movement with no single returned checks regardless of amount.
- That the cash inflow will at least show the pattern of the business sales movement.

ON LOANABLE AMOUNT UNDER UNSECURED / CLEAN TERM LOAN

- 300,000.00 – if the deposit amount has a net ADB of 150,000.00
- 400,000.00 – If the deposit amount has a net ADB of 200,000.00
- 500,000.00 – if the deposit amount has a net ADB of 250,000.00

INTEREST RATE – ADD-ON RATE MONTHLY

- 6 mos. Pay term – 1.5%
- 12 - 1.8%
- 18 - 2.0 %
- 24 - 2.2%

BANK STATEMENT AND ADB VALIDATION

- Bank statement submitted shall be directly by the credit support via bank checking (using the duly signed Letter of Authority & Waiver of Confidentiality).
- No account shall be proposed / approved without the CI report on bank statement validation.
- The report should specifically state the account ADB and return check transaction.

OTHER REQUIREMENTS

- The account shall be covered with the Statement of Assets and Liabilities notarized by the borrower and Joint and Solidary Signature (JSS).
- Income Tax Return (with audited financial statement – at least latest year.
- Business registration.

E. Micro+S Equipment Loan

PURPOSE : The loan is for acquisition, refinancing, reimbursement of business equipment (vehicle-trucks, passenger cars/vans, machine, tools) to be used/being used in the day-to-day business operation of Micro+S clients.

MAXIMUM AMOUNT OF LOAN : Php 1,000,000.00

LOANABLE AMOUNT AND TERMS OF PAYMENT

On Passenger Vehicles

AGE	LOANABLE RATE	TERM OF PAY	INTEREST RATE
Brand New to 3 years old	80%	Max of 3 years	Max of 1.2% add-on
4 – 6 years old	70%	Max of 2 years	Max of 1.5% add-on
7 – 10 years old	60%	Max of 1 year	Max of 1.8% add-on

On Trucks / Machines / Tools

AGE	LOANABLE RATE	TERM OF PAY	INTEREST RATE
Brand New/Recon to 3 years old	80%	Max of 3 years	Max of 1.5% add-on
4 – 6 years old	70%	Max of 2 years	Max of 1.8% add-on
7 – 10 years old	60%	Max of 1 year	Max of 2.0% add-on

OTHER TERMS:

- Valuation is based on the appraised value of the Bank
- Service charge is at maximum of 3% plus annotation fee and comprehensive insurance
- Chattel is subject to mortgage annotation upon documentary requirement completion.
- Vehicle should be registered under the name of the borrower and shall be subject to validation of Credit Support Department.
- Machine should have a proof of purchase under the name of the borrower.
- Proceeds of the loan shall be paid directly to the supplier in case of acquisition. In case of refinancing, the bank will pay the balance of the loan directly to the existing financing firm and the excess is released to the borrower.
- For loan reimbursement, the proceeds shall be released to the borrowers account provided however that equipment/vehicle purchased is not more than 6 months from the date of acquisition.
- Any changes in the terms and conditions for the proposed account, shall be subject to credit committee approval.

* Small Medium Enterprise Loan (SME)
* Rediscounting Line for Existing Micro+S and SME Loan Clients

F. <u>REDISCOUNTING LINE FOR EXISTING MICRO+S AND SME LOAN CLIENTS</u>

PURPOSE : To extend credit line to loan borrowers via rediscounting of PDC collections from the borrowers' trade clients.

CREDIT POLICY:

* The product is only available to existing clients of the bank, Micro+ and SME with good credit outstanding.
* Only for clients with existing loans and with good collateral where the loans are backed up with cross-default provision document.
* Term – One year credit line available via maximum 90 days PN.
* Interest Rate – Thirty-six percent (36%) per annum diminishing, deducted in advance.
* Maximum credit line – 500,000.00

Acceptable PDCs:

* The checks to be rediscounted should only be up to 90days post dated
* No personal check is accepted for rediscounting. Checks should be under company name.

- Maximum loanable amount of PDC is 80%.
- The borrower has to pay off within 24 hours any returned check. PDCs with history of return can no longer be rediscounted on the next credit availment.
- The PDCs shall be deposited to the borrower's savings account with the bank, restricted, and amount of cleared checks shall be automatically applied to the loan principal.
- Excess from rediscounted checks credited to the savings account can only be withdrawn by the borrowers upon full settlement of the availed credit line.
- The Credit Support department shall conduct a trade check validation after seeking the borrowers' concurrence to allow the Bank to verify with their trade client (who issued the check) regarding check issued.

d. Bank website

- The BANGKO NG KABUHAYAN WEBSITE (www.bangkongkabuhayan.com) was launched in May 2019 in time for the formal launch of our new corporate name: Bangko Ng Kabuhayan (A Rural Bank), Inc. It serves as the window of the public about relevant information concerning the Bank, with the following sections:

  - HOME PAGE – snapshot of the basic information about the Bank such as company history, products and services, and contact information. It also provides links to the Bank Website's Terms of Use and Privacy Policy
  - ABOUT US – tells the visitors about the Bank's milestones and what the business is all about
  - PRODUCTS AND SERVICES – details the Bank's loan products and deposits
  - HAPPENINGS – important events and developments about the Bank, its employees, programs, and relevant events and feature articles concerning the industry and those that may benefit our clients
  - CLIENT TESTIMONIALS – monthly feature on loyal clients
  - CONTACT US – contact information about the Bank's offices as well as job opportunities. It also provides the venue for visitors to send us a message
  - WIDGETS – Link to our Facebook page
  - PRIVACY POLICY

e. List of Banking units (such as branches, extension offices, other Banking offices, and representative offices) domestic and abroad including address and contact details (optional for Banks that disclose these kinds of information in their websites).

Head Office

San Mateo Branch

Antipolo Branch

BRANCH	ADDRESS	CONTACT NO.
Head Office	G/F, Rayle Bldg., #52 Dr. Sixto Antonio Avenue, Kapasigan, Pasig City	028643-4381 / 83
Antipolo Branch	83 Circumferential Road, Antipolo City	028571-1284
San Mateo Branch	Unit 2 RNC Gen. Luna St., Ampid I, San Mateo, Rizal	0917-505-5298

VII. 2022 Audited Financial Statements (AFS) with Auditor's Opinion:

MOORE Roxas Cruz Tagle and Co.

Roxas Cruz Tagle and Co.
2F Multinational Bancorporation Centre
6805 Ayala Avenue, Makati City 1226,
Philippines

T: +632 8844 2016
F: +632 8844 2045
E: info@roxascruztagle.com
www.roxascruztagle.com

INDEPENDENT AUDITOR'S REPORT

The Shareholders and the Board of Directors
Bangko ng Kabuhayan, (A Rural Bank) Inc.
(formerly Rodriguez Rural Bank, Inc.)
Ground Floor Rayle Building
No. 52, Dr. Sixto Antonio Avenue
Kapasigan, Pasig City

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of **Bangko ng Kabuhayan, (A Rural Bank) Inc.** *(formerly Rodriguez Rural Bank, Inc.)* (the "Bank"), which comprise the statements of financial position as at December 31, 2022 and 2021, and the statements of comprehensive income (loss), 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 accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at December 31, 2022 and 2021, and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards (PFRS), as modified by the application of the financial reporting relief issued by the Bangko Sentral ng Pilipinas (BSP) and approved by the Securities and Exchange Commission (SEC) in response to the COVID-19 pandemic, as described in Note 2 to the financial statements.

Basis for Opinion

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

Emphasis of Matter

We draw attention to Note 2 to the financial statements, which indicate that the financial statements have been prepared in accordance with PFRS, as modified by the application of the financial reporting relief issued by the BSP and approved by the SEC in response to the COVID-19 pandemic. The relief covers transactions/events for the year ended December 31, 2022 and 2021. The impacts of the application of the financial reporting relief on the 2022 and 2021 financial statements are discussed in detail in Note 2. Our opinion is not modified in respect of this matter.

MOORE Roxas Cruz Tagle and Co.

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

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

In preparing the financial statements, management is responsible for assessing the 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 misstatement, 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 PSA will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, these could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank'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 Bank'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 statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with 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.

Report on the Other Legal and Regulatory Requirements

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. As disclosed in Note 29 to the financial statements, the Bank presented the supplementary information required by the Bureau of Internal Revenue (BIR) under Revenue Regulations (RR) No. 15-2010 and RR No. 34-2020 in a supplementary schedule filed separately from the basic financial statements. The supplementary information for the years ended December 31, 2022 and 2021, as disclosed in Note 30 to the financial statements, is required by the Bangko Sentral ng Pilipinas (BSP) under Appendix 55 of Section 174 of the Manual Regulations for Banks, amended by BSP Circular No. 1074. Such supplementary information required by the BIR and the BSP is the responsibility of management and is not required part of the basic financial statements prepared in accordance with PFRS; it is neither a required disclosure under the Revised Securities Regulation Code Rule 68 of the SEC. The supplementary information has been subjected to the auditing procedures applied in our audits 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.

ROXAS CRUZ TAGLE AND CO.

Jarred D. Pereña

Jarred D. Pereña
Partner
CPA Certificate No. 0109297
Tax Identification No. 243-146-342
BIR Accreditation No. 08-001682-015-2022, issued on October 14, 2022,
effective until October 13, 2025
SEC Accreditation No. 109297-SEC, Group A, issued on February 27, 2020,
effective for the audit of 2019 to 2023 financial statements of SEC covered institutions
BSP Accreditation No. 109297-BSP, Group A, issued on February 28, 2020,
effective for the audit of 2019 to 2023 financial statements of BSP covered institutions
PTR No. 9565744, issued on January 3, 2023, Makati City

April 27, 2023
Makati City

BANGKO NG KABUHAYAN, (A RURAL BANK) INC.

(formerly Rodriguez Rural Bank, Inc.)

STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2022 AND 2021

	Note	2022	2021
ASSETS			
Cash and other cash items	5	**₱4,979,648**	₱2,682,394
Due from Bangko Sentral ng Pilipinas	6	**5,190,872**	388,225
Due from other banks	7	**50,314,477**	64,067,073
Investments at amortized cost	8	**1,445,798**	1,445,798
Loans and other receivables, net	9	**172,943,664**	154,056,848
Bank premises, furniture, fixtures and equipment, net	10	**4,655,262**	5,349,974
Investment properties, net	11	**477,816**	92,007
Right-of-use assets, net	23	**4,329,155**	3,903,746
Retirement asset, net	22	**845,966**	-
Other assets	12	**2,073,871**	1,519,439
		₱247,256,529	₱233,505,504
LIABILITIES AND EQUITY			
Liabilities			
Deposit liabilities	14	**₱145,841,648**	₱149,241,249
Bills payable	15	**5,000,000**	-
Accounts payable and other liabilities	16	**8,186,724**	5,534,493
Retirement liability	22	**-**	1,712,790
Lease liabilities	23	**4,951,841**	4,039,405
Redeemable preferred shares	17	**3,478,800**	3,478,800
Income tax payable	21	**-**	43,157
Total Liabilities		**₱167,459,013**	164,049,894
Equity			
Share capital	18	**160,082,208**	153,556,108
Deficit		**(80,987,075)**	(83,419,471)
Accumulated other comprehensive income (loss)	22	**702,383**	(681,027)
Total Equity		**₱79,797,516**	69,455,610
		₱247,256,529	₱233,505,504

See Notes to the Financial Statements.

BANGKO NG KABUHAYAN, (A RURAL BANK) INC.
(formerly Rodriguez Rural Bank, Inc.)

STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

	Note	**2022**	2021
INTEREST INCOME			
On loans and other receivables	*9*	**₱38,908,817**	₱34,089,259
On bank deposits and investment securities	*7*	**177,239**	374,400
		39,086,056	34,463,659
INTEREST EXPENSE			
On deposit liabilities	*14*	**(5,056,825)**	(3,693,191)
On lease liabilities	*23*	**(705,700)**	(407,231)
On bills payable	*15*	**-**	(206,167)
		(5,762,525)	(4,306,589)
NET INTEREST INCOME		**33,323,531**	30,157,070
Provision for impairment and expected credit losses	*13*	**(3,491,271)**	(8,705,221)
NET INTEREST INCOME AFTER PROVISION FOR IMPAIRMENT AND EXPECTED CREDIT LOSSES		**₱29,832,260**	21,451,849
Other operating income	*19*	**11,449,895**	9,480,148
Other operating expenses	*20*	**(38,713,583)**	(36,284,623)
INCOME (LOSS) BEFORE TAX		**2,568,572**	(5,352,626)
INCOME TAX EXPENSE	*21*	**(136,176)**	(150,819)
NET INCOME (LOSS) FOR THE YEAR		**2,432,396**	(5,503,445)
OTHER COMPREHENSIVE INCOME			
Item that will not be subsequently reclassified to profit or loss			
Remeasurement gain on retirement liability	*22*	**1,383,410**	-
Effect of change in effective tax rate on cumulative remeasurement loss	*22*	**-**	(45,402)
		₱3,815,806	(₱5,548,847)

See Notes to the Financial Statements.

BANGKO NG KABUHAYAN, (A RURAL BANK) INC.
(formerly Rodriguez Rural Bank, Inc.)

STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

	Note	**2022**	2021
SHARE CAPITAL	*18*		
As at January 1		**₱153,556,108**	₱148,956,008
Shares issued during the year		**6,526,100**	4,600,100
As at December 31		**160,082,208**	153,556,108
DEFICIT			
As at January 1		**(83,419,471)**	(77,916,026)
Net income (loss) for the year		**2,432,396**	(5,503,445)
As at December 31		**(80,987,075)**	(83,419,471)
ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)			
As at January 1		**(681,027)**	(635,625)
Remeasurement gain on retirement liability	*22*	**1,383,410**	-
Effect of change in effective tax rate on cumulative remeasurement loss	*22*	**-**	(45,402)
As at December 31		**702,383**	(681,027)
		₱79,797,516	₱69,455,610

See Notes to the Financial Statements.

BANGKO NG KABUHAYAN, (A RURAL BANK) INC.
(formerly Rodriguez Rural Bank, Inc.)

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

	Notes	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES			
Income (loss) before tax		**₱2,568,572**	(₱5,352,626)
Adjustments for:			
Depreciation and amortization	10, 20, 23	**4,394,175**	4,492,347
Provision for impairment and expected credit losses	13	**3,491,271**	8,705,221
Gain on sale of investment properties	9, 19	**(1,984,225)**	-
Interest expense on lease liabilities	23	**705,700**	407,231
Retirement benefit cost	20, 22	**431,251**	583,921
Other income from lease modification	19, 23	**-**	(663,059)
Effect of change in effective tax rate on cumulative remeasurement loss	22	**-**	(45,402)
Operating income before changes in operating assets and liabilities		**9,606,744**	8,127,633
Decrease (increase) in:			
Loans and other receivables		**(20,829,671)**	(37,467,341)
Other assets		**216,019**	(95,035)
Increase (decrease) in:			
Deposit liabilities		**(3,399,601)**	66,869,920
Accounts payable and other liabilities		**2,652,231**	1,404,960
Cash generated from (used for) operations		**(11,754,278)**	38,840,137
Increase in retirement asset	22	**(1,606,597)**	(4,304)
Income taxes paid	21	**(755,631)**	(264,897)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES		**(14,116,506)**	38,570,936
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of bank premises, furniture, fixtures and equipment	10	**(985,096)**	(1,868,636)
Proceeds from sale of investment properties	9	**50,000**	-
Proceeds from disposal of transportation equipment	10	**-**	292,559
NET CASH USED IN INVESTING ACTIVITIES		**(935,096)**	(1,576,077)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issuance of shares	18	**6,526,100**	4,600,100
Proceeds from bills payable	15	**5,000,000**	-
Payments of lease liabilities	23	**(3,127,193)**	(3,083,731)
Payments of bills payable	15	**-**	(4,971,578)
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES		**8,398,907**	(3,455,209)
NET INCREASE (DECREASE) IN CASH		**(6,652,695)**	33,539,650
CASH AT JANUARY 1		**67,137,692**	33,598,042
CASH AT DECEMBER 31		**₱60,484,997**	₱67,137,692
CASH CONSIST OF:			
Cash and other cash items	5	**₱4,979,648**	₱2,682,394
Due from Bangko Sentral ng Pilipinas	6	**5,190,872**	388,225
Due from other banks	7	**50,314,477**	64,067,073
		₱60,484,997	₱67,137,692
OPERATIONAL CASH FLOWS FROM INTEREST			
Interest received		**₱38,413,476**	₱28,634,424
Interest paid		**₱5,399,478**	₱3,123,050

See Notes to the Financial Statements.

NOTES TO THE FINANCIAL STATEMENTS

1. Reporting Entity

Bangko ng Kabuhayan, (A Rural Bank) Inc. *(formerly Rodriguez Rural Bank, Inc.)* (the "Bank") was registered with the Securities and Exchange Commission (SEC) on November 12, 1952 per SEC Registration No. 7275 to operate as a rural bank. The Bank's primary purpose is to carry and engage in the business of extending rural credit to small farmers and tenants and to deserving rural industries or enterprises; and to have and exercise all authority and power, and to do and perform all acts and to transact and conduct all business which may legally be had or done by rural banks organized under and in accordance with the "Rural Banks Act", as it exists or may be amended, and to do all other things incident thereto and necessary and proper in connection with said purpose within which such territory as may be determined by the Monetary Board of the Central Bank of the Philippines.

The Bank operates as a rural bank and provides services such as deposit taking, lending, and microfinance services through a network of three (3) banking units - San Mateo and Antipolo, Rizal and Pasig City as the head office.

The registered office address and primary place of business of the Bank is at Ground Floor Rayle Building, No. 52 Dr. Sixto Antonio Avenue, Kapasigan, Pasig City.

The Bank is 35.76% owned by Amang Rodriguez Holdings, Inc., an entity incorporated in the Philippines. Its registered address is at 3rd Floor Pancake House Center, Pasong Tamo Extension, Makati City. Its ultimate parent is First Lucky Holdings Corp., also an entity incorporated in the Philippines, located at 2259 Pasong Tamo Extension, Makati City.

On September 28, 2001, by a majority vote of the Board of Directors (BOD) and by the vote of the shareholders owning or representing at least two-thirds of the outstanding capital stock, the amendment of the Article IV of the Bank's Articles of Incorporation was approved to extend the corporate life of the Bank, which expired on November 12, 2002, for another 50 years or up to November 12, 2051. The Amended Articles of Incorporation was approved by the SEC and the Certificate of Filing of Amended Articles of Incorporation was issued on July 23, 2013.

On April 28, 2015, the Bank's shareholders resolved to change the Bank's name from Rodriguez Rural Bank, Inc. to Bangko ng Kabuhayan, (A Rural Bank), Inc. The amendment to the Articles of Incorporation and By-Laws in relation to the change of Bank's name was approved by Bangko Sentral ng Pilipinas (BSP) on March 6, 2018.

On October 7, 2018, SEC approved the Bank's application for change in name from Rodriguez Rural Bank, Inc. to Bangko ng Kabuhayan, (A Rural Bank), Inc.

The accompanying financial statements of the Bank were approved and authorized for issuance by the Bank's BOD on April 27, 2023.

2. Basis of Preparation

Statement of Compliance
The accompanying financial statements have been prepared in compliance with Philippine Financial Reporting Standards (PFRS), as modified by the application of the financial reporting relief issued by the BSP and approved by the SEC in response to the COVID-19 pandemic. PFRS are based on International Financial Reporting Standards issued by the International Accounting Standards Board (IASB). PFRS consist of PFRS, Philippine Accounting Standards (PAS) and Philippine Interpretations issued by the Philippine Financial Reporting Standards Council (FRSC).

On March 14, 2020, Bangko Sentral ng Pilipinas (BSP), issued Memorandum No. 2020-008 Regulatory Relief for BSFIs affected by the Corona Virus Disease 2019 (COVID-19). Among the regulatory relief issued in the memorandum, the Bank applied for staggered booking of allowance for credit losses over a maximum period of five (5) years in 2021. On April 20, 2021, the BSP approved the Bank's application to avail the financial reporting relief of staggered booking of allowance for credit losses of certain loan accounts over a maximum period of three (3) years.

a. The impact on the affected financial statement line items as at and for the year ended December 31, 2022 and 2021 are as follow:

	2022		
	Amount without relief	Impact of relief	Amount with relief
Loans and other receivables, net	₱172,207,346	₱736,318	₱172,943,664
Allowance for credit losses	24,088,820	(736,318)	23,352,502
Provision for credit losses	4,227,589	(736,318)	3,491,271
Deficit	(80,250,757)	(736,318)	(80,987,075)
Unrecognized deferred tax assets, net	7,078,577	(184,081)	6,894,496

	2021		
	Amount without relief	Impact of relief	Amount with relief
Loans and other receivables, net	₱152,452,167	₱1,604,681	₱154,056,848
Allowance for credit losses	21,464,327	(1,604,681)	19,859,646
Provision for credit losses	10,309,902	(1,604,681)	8,705,221
Deficit	85,024,152	(1,604,681)	83,419,471
Unrecognized deferred tax assets, net	8,587,812	(401,170)	8,186,642

b. Balance of allowance recognized or amortized for the year and balance of unrecognized allowance as at December 31, 2022 and 2021 are as follow:

	2022	2021
Unrecognized allowance	**₱1,604,681**	₱2,683,455
Recognized for the year	**(868,363)**	(1,078,774)
At December 31	**₱736,318**	₱1,604,681

Basis of Measurement
The financial statements of the Bank have been prepared on the historical cost basis, except as disclosed in the accounting policies that follow.

Functional and Presentation Currency
The financial statements are presented in Philippine Peso (₱), which is the functional currency of the Bank. All values are rounded off to the nearest Peso.

3. Significant Accounting Policies

Adoption of Amended PFRS
The accounting policies adopted are consistent with those of the previous financial year, except for the adoption of the following new and amended PFRS which the Bank adopted effective for annual periods beginning on or after January 1, 2022:

- Amendments to PAS 16, *Property, Plant and Equipment – Proceeds before Intended Use*. The amendments prohibit the entities from deducting from the cost of an item of property, plant and equipment, any proceeds of the sale items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by the Management. Instead, the entity recognizes such sales proceeds and any related costs in the profit or loss.

  These amendments had no impact on the financial statements of the Bank.

- Annual Improvements to PFRS Standards 2018 – 2020 Cycle

    - Amendments to PFRS 9, *Financial Instruments - Fees in the '10 Per Cent' Test for Derecognition of Financial Liabilities*. The amendment clarifies which fees an entity includes when it applies the '10 percent' test in paragraph B3.3.6 of PFRS 9 in assessing whether to derecognize a financial liability. An entity includes only fees paid or received between the entity (the borrower) and the lender, including fees paid or received by either the entity or the lender on the other's behalf.

    - Amendments to PFRS 16, *Leases - Lease Incentives*. The amendment to Illustrative Example 13 accompanying PFRS 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.

Amended PFRS Issued but Not Yet Effective
Relevant amended PFRS which are not yet effective for the year ended December 31, 2022 and have not been applied in preparing the financial statements are summarized below.

Effective for annual periods beginning on or after January 1, 2023:

- Amendments to PAS 1, *Presentation of Financial Statements - Classification of Liabilities as Current or Non-current*. The amendments to PAS 1 specify the requirements for classifying current and noncurrent liabilities. The amendments will clarify that a right to defer must exist at the end of reporting period and the classification is unaffected by the likelihood that an entity will exercise its deferral right. The issuance of amendments was deferred until January 1, 2023, as a result of COVID-19 pandemic.

- Amendments to PAS 1, *Presentation of Financial Statements* and PFRS Practice Statement 2, *Making Materiality Judgements - Disclosure Initiative - Accounting Policies*. The amendments aim to help entities provide accounting policy disclosures that are more useful by (a) replacing the requirement for entities to disclose their 'significant' accounting policies with a requirement to disclose their 'material' accounting policies, and (b) Adding guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures.

- Amendments to PAS 12, *Income Taxes – Deferred Tax Related to Assets and Liabilities from a Single Transaction*. The amendments require companies to recognize deferred tax on transactions that, on initial recognition, give rise to equal amounts of taxable and deductible temporary differences. The amendments will typically apply to transactions such as leases for the lessee and decommissioning obligations. According to the amended guidance, a temporary difference that arises on initial recognition of an asset or liability is not subject to the initial recognition exemption if that transaction gave rise to equal amounts of taxable and deductible temporary differences.

- Amendments to PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors - Definition of Accounting Estimates*. The amendments clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors. The amended standard also clarifies that the effects on an accounting estimate of a change in an input or a change in a measurement technique are changes in accounting estimates if they do not result from the correction of prior period errors. The previous definition of a change in accounting estimate specified that changes in accounting estimates may result from new information or new developments. Therefore, such changes are not corrections of errors.

Under prevailing circumstances, the adoption of the foregoing new and amended PFRS is not expected to have any material effect on the financial statements of the Bank.

Financial Assets and Financial Liabilities

Date of Recognition. The Bank recognizes a financial asset or a financial liability in the statement of financial position when it becomes a party to the contractual provisions of a financial instrument. In the case of a regular way purchase or sale of financial assets, recognition and derecognition, as applicable, is done using settlement date accounting.

Initial Recognition and Measurement. Financial instruments are recognized initially at fair value, which is the fair value of the consideration given (in case of an asset) or received (in case of a liability). The initial measurement of financial instruments, except for those designated at fair value through profit or loss (FVPL), includes transaction cost.

"Day 1" Difference. Where the transaction in a non-active market is different from the fair value of other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Bank recognizes the difference between the transaction price and fair value (a "Day 1" difference) in profit or loss. In cases where there is no observable data on inception, the Bank deems the transaction price as the best estimate of fair value and recognizes "Day 1" difference in profit or loss when the inputs become observable or when the instrument is derecognized. For each transaction, the Bank determines the appropriate method of recognizing the "Day 1" difference.

Classification. The Bank classifies its financial assets at initial recognition under the following categories: (a) financial assets at FVPL, (b) financial assets at amortized cost and (c) financial assets at fair value through other comprehensive income (FVOCI). Financial liabilities, on the other hand, are classified as either financial liabilities at FVPL or financial liabilities at amortized cost. The classification of a financial instrument largely depends on the Bank's business model and its contractual cash flow characteristics.

Financial Assets and Liabilities at FVPL. Financial assets and liabilities at FVPL are either classified as held for trading or designated at FVPL. A financial instrument is classified as held for trading if it meets either of the following conditions:

- it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term;
- on initial recognition, it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking; or
- it is a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument).

This category includes equity instruments which the Bank had not irrevocably elected to classify at FVOCI at initial recognition. This category includes debt instruments whose cash flows are not "solely for payment of principal and interest" (SPPI) assessed at initial recognition of the assets, or which are not held within a business model whose objective is either to collect contractual cash flows, or to both collect contractual cash flows and sell.

The Bank may, at initial recognition, designate a financial asset or financial liability meeting the criteria to be classified at amortized cost or at FVOCI, as a financial asset or financial liability at FVPL, if doing so eliminates or significantly reduces accounting mismatch that would arise from measuring these assets or liabilities.

After initial recognition, financial assets at FVPL and held for trading financial liabilities are subsequently measured at fair value. Unrealized gains or losses arising from the fair valuation of financial assets at FVPL and held for trading financial liabilities are recognized in profit or loss.

For financial liabilities designated at FVPL under the fair value option, the amount of change in fair value that is attributable to changes in the credit risk of that liability is recognized in other comprehensive income (rather than in profit or loss), unless this creates an accounting mismatch. Amounts presented in other comprehensive income are not subsequently transferred to profit or loss.

As at December 31, 2022 and 2021, the Bank does not have financial assets and liabilities at FVPL.

Financial Assets at Amortized Cost. Financial assets shall be measured at amortized cost if both of the following conditions are met:

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

After initial recognition, financial assets at amortized cost are subsequently measured at amortized cost using the effective interest method, less allowance for ECL, if any. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate (EIR). Gains and losses are recognized in profit or loss when the financial assets are derecognized and through amortization process. Financial assets at amortized cost are included under current assets if realizability or collectability is within 12 months after the reporting period. Otherwise, these are classified as noncurrent assets.

As at December 31, 2022 and 2021, the Bank's cash and other cash items, due from BSP, due from other banks, investments at amortized cost, loans and other receivables, petty cash fund and deposits are included under this category (see Notes 5, 6, 7, 8, 9 and 12).

Financial Assets at FVOCI. For debt instruments that meet the contractual cash flow characteristic and are not designated at FVPL under the fair value option, the financial assets shall be measured at FVOCI if both of the following conditions are met:

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

For equity instruments, the Bank may irrevocably designate the financial asset to be measured at FVOCI in case the above conditions are not met.

Financial assets at FVOCI are initially measured at fair value plus transaction costs. After initial recognition, interest income (calculated using the effective interest rate method), foreign currency gains or losses and impairment losses of debt instruments measured at FVOCI are recognized directly in profit or loss. When the financial asset is derecognized, the cumulative gains or losses previously recognized in OCI are reclassified from equity to profit or loss as a reclassification adjustment.

Dividends from equity instruments held at FVOCI are recognized in profit or loss when the right to receive payment is established, unless the dividend clearly represents a recovery of part of the cost of the investment. Foreign currency gains or losses and unrealized gains or losses from equity instruments are recognized in OCI and presented in the equity section of the statements of financial position. These fair value changes are recognized in equity and are not reclassified to profit or loss in subsequent periods.

As at December 31, 2022 and 2021, the Bank does not have financial assets at FVOCI.

Financial Liabilities at Amortized Cost. Financial liabilities are categorized as financial liabilities at amortized cost 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 settle the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of its own equity instruments.

These financial liabilities are initially recognized at fair value less any directly attributable transaction costs. After initial recognition, these financial 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 EIR. Gains and losses are recognized in profit or loss when the liabilities are derecognized or through the amortization process.

As at December 31, 2022 and 2021, the Bank's deposit liabilities, accounts payable and other liabilities (excluding statutory liabilities), bills payable and redeemable preferred shares are included under this category (see Notes 14, 15, 16 and 17).

Deposit liabilities are recognized initially at fair value and subsequently measured at amortized cost less settlement payments.

Preferred share is classified as equity if it is non-redeemable, or redeemable only at the Bank's option and any dividends thereon are discretionary. Dividends thereon are recognized as distributions within equity.

Preferred share is classified as a liability if it is redeemable on a specific date or at the option of the shareholder, or if the dividend payments are not discretionary. Dividends thereon are recognized as financing expense in profit or loss as received.

Reclassification. The Bank reclassifies its financial assets when, and only when, it changes its business model for managing those financial assets. The reclassification is applied prospectively from the first day of the first reporting period following the change in the business model (reclassification date).

For a financial asset reclassified out of the financial assets at amortized cost category to financial assets at FVPL, any gain or loss arising from the difference between the previous amortized cost of the financial asset and fair value is recognized in profit or loss.

For a financial asset reclassified out of the financial assets at amortized cost category to financial assets at FVOCI, any gain or loss arising from a difference between the previous amortized cost of the financial asset and fair value is recognized in OCI.

For a financial asset reclassified out of the financial assets at FVPL category to financial assets at amortized cost, its fair value at the reclassification date becomes its new gross carrying amount.

For a financial asset reclassified out of the financial assets at FVOCI category to financial assets at amortized cost, any gain or loss previously recognized in OCI, and any difference between the new amortized cost and maturity amount, are amortized to profit or loss over the remaining life of the investment using the effective interest method. If the financial asset is subsequently impaired, any gain or loss that has been recognized in OCI is reclassified from equity to profit or loss.

In the case of a financial asset that does not have a fixed maturity, the gain or loss shall be recognized in profit or loss when the financial asset is sold or disposed. If the financial asset is subsequently impaired, any previous gain or loss that has been recognized in OCI is reclassified from equity to profit or loss.

For a financial asset reclassified out of the financial assets at FVPL category to financial assets at FVOCI, its fair value at the reclassification date becomes its new gross carrying amount. Meanwhile, for a financial asset reclassified out of the financial assets at FVOCI category to financial assets at FVPL, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment at the reclassification date.

Impairment of Financial Assets at Amortized Cost. The adoption of PFRS 9 has changed the Bank's loss impairment method on financial assets by replacing PAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach which covers all loans and other debt financial assets not held at FVPL, together with loan commitments and financial guarantee contracts.

Overview of the ECL principles
The ECL allowance is based on the credit losses expected to arise on a 12-month duration if there has been no significant increase in credit risk (SICR) of the financial asset since origination. Otherwise, if a SICR is observed then the ECL estimation is extended until the end of the life of the financial asset. The 12-month ECL represents the losses that result from default events on a financial asset which may happen within 12 months after the reporting date. The Lifetime ECL on the other hand represents the losses that result from default events on a financial asset which may happen over its life. Both Lifetime ECLs and 12-month ECLs are calculated on either an individual basis or a collective basis, depending on the nature of the underlying portfolio of financial instruments.

The major portfolios of financial assets identified upon initial analysis of the Bank's credit exposure are loan receivables and other receivables. Loan receivables may be availed by specific individuals, corporations or organizations. Hence, these portfolios can be further segmented to commercial and consumer portfolios. After segmentation, financial assets are grouped into Stage 1, Stage 2, and Stage 3 as described below.

Definition of "default" and "cure"
The Bank defines a financial instrument as in default, which is fully aligned with the definition of credit impaired, in all cases when the borrower becomes 31 days past due on its contractual payments. As a part of a qualitative assessment of whether a customer is in default, the Bank also considers a variety of instances that may indicate unlikeliness to pay. When such events occur, the Bank carefully considers whether the event should result in treating the customer as defaulted. An instrument is considered to be no longer in default (i.e. to have cured) when it no longer meets any of the default criteria and has exhibited a satisfactory track record.

Treasury exposures are considered in default upon occurrence of a credit event such as but not limited to bankruptcy of counterparty, restructuring, failure to pay on agreed settlement date, or request for moratorium.

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 quantitative changes in probabilities of default and qualitative factors, including a backstop based on delinquency. The credit risk of a particular exposure is deemed to have increased significantly since initial recognition if, based on the Bank's internal credit assessment, the borrower or counterparty is determined to have well-defined credit weaknesses. 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. For exposures without internal credit grades, if contractual payments are more than specified days past due threshold, the credit risk is deemed to have increased significantly since initial recognition. Days past due are determined by counting the number of days since the earliest elapsed due date in respect of which full payment has not been received. In subsequent reporting periods, if the credit risk of the financial asset improves such that there is no longer a SICR since initial recognition, the Bank shall revert to recognizing a 12-month ECL.

Staging assessment
For non-credit-impaired financial assets:

- Stage 1 comprises of all non-impaired financial assets which have not experienced a SICR since initial recognition. The Bank recognizes a 12-month ECL for Stage 1 financial assets.
- Stage 2 comprises of all non-impaired financial assets which have experienced a SICR since initial recognition. The Bank recognizes a lifetime ECL for Stage 2 financial assets.

For credit-impaired financial assets:
Financial assets are classified as Stage 3 when there is objective evidence of impairment as a result of one or more loss events that have occurred after initial recognition with a negative impact on the estimated future cash flows of a financial asset or a portfolio of financial assets. The ECL model requires a lifetime ECL for impaired financial assets.

Financial assets that are credit-impaired on initial recognition are classified as purchased or originated credit-impaired (POCI) assets. These are recorded at fair value at original recognition and interest income is subsequently recognized based on a credit adjusted EIR. ECL is only recognized or released to the extent that there is a subsequent change in the ECLs.

Assessment of ECL on a collective basis
The Bank calculates ECL either on an individual or a collective basis. The Bank performs collective impairment by grouping exposures into smaller homogenous portfolios based on a combination of borrower and account characteristics. Accounts with similar risk attributes (i.e. facility, security, credit rating, months-on-books, utilization and collateral type, etc.) are pooled together for calculating provisions based on the ECL models.

ECL parameters and methodologies
ECL is a function of the probability of default (PD), exposure-at-default (EAD), and loss-given default (LGD), with the timing of the loss also considered, and is estimated by incorporating forward-looking economic information and through the use of experienced credit judgement.

The PD represents the likelihood that a credit exposure will not be repaid and will go into default in either a 12-month horizon for Stage 1 or lifetime horizon for Stage 2. The PD for each individual financial asset is modelled based on historical data and is estimated based on current market conditions and reasonable and supportable information about future economic conditions. The Bank segmented its credit exposures based on homogenous risk characteristics and developed a corresponding PD methodology for each portfolio. The PD methodology for each relevant portfolio is determined based on the underlying nature or characteristic of the portfolio, behavior of the accounts and materiality of the segment as compared to the total portfolio.

EAD consists of the amortized cost and any accrued interest receivable. For off-balance sheet and undrawn committed amounts, EAD includes a credit conversion factor which is an estimate of any further amount to be drawn at the time of default.

LGD is the amount that may not be recovered in the event of default and is modelled based on historical cash flow recovery and reasonable and supportable information about future economic conditions, where appropriate. LGD takes into consideration the amount and quality of any collateral held. The Bank applies a simplified ECL approach for its accounts receivables wherein the Bank uses a provisioning matrix that considers historical changes in the behavior of the portfolio to predict conditions over the span of a given observation period.

Forward-looking information
The Bank incorporates forward-looking information into both its assessment of whether the credit risk of a financial asset has increased significantly since its initial recognition and its measurement of ECL. A broad range of forward-looking information are considered as economic inputs, such as growth of the gross domestic product, inflation rates, unemployment rates, interest rates and BSP statistical indicators. The inputs and models used for calculating ECL may not always capture all characteristics of the market at the date of the financial statements. To reflect this, qualitative adjustments or overlays are occasionally made as temporary adjustments when such differences are significantly material.

Derecognition of Financial Assets and Liabilities

Financial Assets. A financial asset (or where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognized when:

- the right to receive cash flows from the asset has expired;
- the Bank retains the right to receive cash flows from the financial asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or
- the Bank has transferred its right to receive cash flows from the financial asset and either
  (a) has transferred substantially all the risks and rewards of the asset; or
  (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Bank has transferred its right to receive cash flows from a financial asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of ownership of the financial asset nor transferred control of the financial asset, the financial asset is recognized to the extent of the Bank's continuing involvement in the financial asset. Continuing involvement that takes the form of a guarantee over the transferred financial asset is measured at the lower of the original carrying amount of the financial asset and the maximum amount of consideration that the Bank could be required to repay.

Financial Liabilities. A financial liability is derecognized when the obligation under the liability is discharged, cancelled or has expired. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the statement of comprehensive income.

A modification is considered substantial if the present value of the cash flows under the new terms, including net fees paid or received and discounted using the original EIR, is different by at least 10% from the discounted present value of remaining cash flows of the original liability.

The fair value of the modified financial liability is determined based on its expected cash flows, discounted using the interest rate at which the Bank could raise debt with similar terms and conditions in the market. The difference between the carrying value of the original liability and fair value of the new liability is recognized in the statement of comprehensive income.

On the other hand, if the difference does not meet the 10% threshold, the original debt is not extinguished but merely modified. In such case, the carrying amount is adjusted by the costs or fees paid or received in the restructuring.

Offsetting of Financial Assets and Liabilities. Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is intention 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 statement of financial position.

Classification of Financial Instrument between Liability and Equity

A financial instrument is classified as liability if it provides for a contractual obligation to:

- Deliver cash or another financial asset to another entity;
- Exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the Bank; or
- 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.

If the Bank does not have an unconditional right to avoid delivering cash or another financial asset to settle its contractual obligation, the obligation meets the definition of a financial liability.

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

<u>Deposits</u>
Deposits represent payments to lessors and other service providers which the Bank expects to realize or consume beyond twelve (12) months after the end of the financial reporting period.

<u>Bank Premises, Furniture, Fixtures and Equipment</u>
Bank premises, furniture, fixtures and equipment are stated at cost less accumulated depreciation and amortization, and any impairment in value. The initial cost of bank premises, furniture, fixtures and equipment consists of the purchase price and costs directly attributable to bringing the asset to its working condition and location for its intended use.

Subsequent expenditures incurred after the asset has been put into operation are capitalized as additional cost of the asset when the resulting future economic benefit exceeds the originally assessed standard of performance of the asset. All other subsequent expenditures, such as repairs and maintenance, are recognized in profit or loss in the period the costs are incurred.

Renewals and betterments, which improve the originally assessed standard of performance, of the property, are capitalized to the appropriate property account.

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

Property classification	Estimated useful life
Furniture, fixtures and equipment	2 to 10 years
Transportation equipment	3 to 5 years

Leasehold improvements are amortized over the shorter of the lease term and the estimated useful lives of the improvements of 8 to 15 years.

An asset is depreciated or amortized when it is available for use until it is derecognized even if during that period the item is idle. Fully depreciated/amortized assets still in use are retained in the financial statements.

The estimated useful lives, and depreciation and amortization methods are reviewed periodically to ensure that the periods and methods of depreciation and amortization are consistent with the expected pattern of economic benefits from items of bank premises, furniture, fixtures and equipment.

If there is an indication that there has been a significant change in the estimated useful life of an asset, the depreciation or amortization of the asset is revised prospectively to reflect the new expectation.

An asset's carrying amount is written down immediately to its recoverable amount if it is greater than its estimated recoverable amount.

When assets are retired or otherwise disposed of, the cost and related accumulated depreciation or amortization and any impairment in value are removed from the accounts and any resulting gain or loss arising from the disposal, determined as the difference between the sales proceeds and the carrying amount of the asset, or retirement of an asset, is recognized in profit or loss.

Software Equipment

Software equipment is measured on initial recognition at cost. Subsequently, software is carried at cost less accumulated amortization and any accumulated impairment losses. Costs incurred during research or development phase are recognized as expense when incurred.

Software is amortized over the estimated useful life of ten (10) years and assessed for impairment whenever there is an indication that the software may be impaired.

The amortization period and the amortization method used are reviewed at least at each reporting date. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimate. The amortization expense on software is recognized in the statement of comprehensive income consistent with the function of the software.

Investment Properties

Investment properties refer to real and other properties acquired (ROPA), other than those used for banking purposes, acquired by the Bank in settlement of loans through foreclosure or dation in payment and/or for other reasons, whose carrying amount will be recovered principally through a sale transaction.

Properties that are held either to earn rental income or for capital appreciation or both, and that are not significantly occupied by the Bank are classified as investment properties.

Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties, except for land, are stated at cost less accumulated depreciation and impairment losses, if any. Land is stated at cost less any impairment in value. Depreciation of building classified as investment property is calculated on a straight-line basis over its estimated useful life from the date of acquisition.

An investment property, which consists of land and building acquired through an exchange transaction is measured at fair value of the asset acquired unless the fair value of such an asset cannot be measured, in which case, the investment property acquired is measured at the carrying amount of asset given up. Foreclosed properties are classified under "Investment properties" upon (a) entry of judgment in case of judicial foreclosure; (b) execution of Sheriff's Certificate of Sale in case of extra-judicial foreclosure; or (c) notarization of the Deed of Dacion in case of dation in payment (dacion en pago).

The difference between the fair value of the asset acquired and the carrying amount of the asset given up is recognized as unrealized gain (loss) on initial recognition of investment properties in profit or loss.

Transfers to, and from, investment property are made when, and only when, there is a change in use, evidenced by:

(a) Commencement of owner-occupation, for a transfer from investment property to owner-occupied property;
(b) Commencement of development with a view of sale, for a transfer from investment property to real properties held for sale and development;
(c) End of owner occupation, for a transfer from owner-occupied property to investment property; or
(d) Commencement of an operating lease to another party, for a transfer from real properties held for sale and development to investment property.

Transfers to and from investment property do not result in gain or loss.

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 resulting gain or loss from the retirement or disposal of an investment property is included in profit or loss in the period of retirement or disposal.

<u>Impairment of Non-Financial Assets</u>
Non-financial assets are reviewed at each financial reporting date to determine whether there is any indication of impairment or an impairment loss previously recognized no longer exists or may have decreased.

Among others, the factors that the Bank considers important which could trigger an impairment review include the following:

- significant or prolonged decline in fair value of the asset;
- market interest rates or other market rates of return on investments have increased during the period, and those increases are likely to affect the discount rate used in calculating the asset's value in use and decrease the asset's recoverable amount materially;
- significant underperformance relative to expected historical or projected future operating results;
- significant changes in the manner of use of the acquired assets or the strategy for overall business; or
- significant negative industry or economic trends.

If any such indication exists or when an annual impairment testing for an asset is required, the Bank makes a formal estimate of the asset's recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. The fair value less costs to sell is the amount obtainable from the sale of the asset in an arm's length transaction. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Whenever the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount and an impairment loss is recognized in profit or loss in the period in which it arises. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount, only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized. Reversals of impairment are recognized in profit or loss. After such reversal, the depreciation or amortization expense is adjusted in future years to allocate the asset's revised carrying amount on a systematic basis over its remaining life.

<u>Equity</u>
Common shares
Common shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction from the proceeds, net of tax.

Deficit
Deficit includes all current and prior period results of operations of the Bank as disclosed in the statements of comprehensive income (loss) and statements of changes in equity.

<u>Revenue Recognition</u>
Revenue from contract with customers is recognized when the performance obligation in the contract has been satisfied, either at a point in time or over time. Revenue is recognized over time if one of the following criteria is met: (a) the customer simultaneously receives and consumes the benefits as the Bank perform its obligations; (b) the Bank's performance creates or enhances an asset that the customer controls as the asset is created or enhanced; or (c) the Bank's performance does not create an asset with an alternative use to the Bank and the Bank has an enforceable right to payment for performance completed to date. Otherwise, revenue is recognized at a point in time.

The Bank also assesses its revenue arrangements to determine if it is acting as a principal or as an agent. The Bank has assessed that it acts as a principal in all of its revenue sources.

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

Interest income on loans and other receivables

Interest income is recognized using the effective interest method. The EIR of a financial instrument is the rate that exactly discounts the estimated future cash receipts and payments through the expected life of the financial asset or financial liability or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. When calculating the EIR, the Bank estimates the future cash flows considering all contractual terms of the financial instrument, but not future credit losses. The calculation of the EIR includes all fees, transaction costs, and all other discounts and premiums that are an integral part of the EIR. Transaction costs are incremental costs that are directly attributable to the acquisition or disposal of a financial asset or financial liability.

Once the recorded value of a financial asset or group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognized using the original EIR used to discount future cash flows.

For past due loans, the Bank does not accrue interest income in compliance with the BSP regulations.

Service charges and fees

The Bank earns fees and commission income from a diverse range of services it provides to its customers. Fees earned for the provision of services over a period of time are accrued over that period. These fees include commission income and credit-related fees. Service fees are collected from borrowers to cover direct and indirect expenses in processing credit applications.

Interest income on investments and deposits

Interest income on investments and deposits is recognized as it accrues on a time proportion basis taking into account the effective yield on the asset and is presented gross of applicable final tax withheld by banks.

Other income

Revenue is recognized when there is an incidental economic benefit, other than from the usual business operations, that will flow to the Bank through an increase in asset or reduction in liability that can be reliably measured.

<u>Expense Recognition</u>
Expenses are recognized in profit or loss when a decrease in future economic benefit related to a decrease in an asset or an increase in a liability has arisen that can be reliably measured. They are recognized (a) on the basis of a direct association between the costs incurred and the earning of specific items of income; (b) on the basis of systematic and rational allocation procedures when economic benefits are expected to arise over several accounting periods and the association with income can only be broadly or indirectly determined; or (c) immediately when an expenditure produces no future economic benefits or when, and to the extent that, future economic benefits do not qualify, or cease to qualify, for recognition in the statement of financial position as an asset. Other operating expenses are costs attributable to the administrative and other business activities of the Bank.

Interest expense

Interest expense is recognized in profit or loss when incurred. It is calculated using the effective interest method and credited to the depositors' accounts regularly.

<u>Employee Benefits</u>

Short-term benefits. The Bank recognizes a liability, net of amounts already paid and an expense for services rendered by employees during the period. Unpaid benefits at the end of the financial reporting period are recognized as accrued expense while benefits paid in advance are recognized as prepayment to the extent that these will lead to a reduction in future payments. Short-term benefits given by the Bank to its employees include salaries and wages, social security contributions, short-term compensated absences, bonuses and non-monetary benefits.

Retirement benefits. The Bank does not have an established retirement plan and only conforms to the minimum regulatory benefit under the Retirement Pay Law (Republic Act (RA) No. 7641), which is of a defined benefit type. RA No. 7641 requires a provision for retirement pay to qualified private sector employees in the absence of any retirement plan in the entity. The regulatory benefit is paid in a lump-sum amount upon retirement. Defined benefit plan defines an amount of retirement benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

Retirement benefit cost is determined using the projected unit credit method. This method reflects the services rendered by the employees up to the date of valuation and incorporates assumptions concerning employees' projected salaries. Actuarial valuations are conducted with sufficient regularity, with option to accelerate when significant changes to underlying assumptions occur. The components of defined benefit cost include service cost, net interest on the net defined benefit liability that is recognized in profit or loss, and remeasurements of the net defined benefit liability that are recognized in OCI. Remeasurements of the net defined benefit liability recognized in OCI shall not be reclassified to profit or loss in a subsequent period.

The retirement liability recognized in the statement of financial position is the present value of the Bank's defined benefit obligation (DBO) at the end of the financial reporting period less the fair value of plan assets. The DBO is calculated by an independent actuary using the projected unit credit method. Under this method, the current service cost is the present value of retirement benefits payable in the future with respect to services rendered in the current year. The present value of the DBO is determined by discounting the estimated future cash outflows using interest rate on government bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related retirement obligation.

Plan assets, if any, are assets that are held by a long-term employee benefit fund. They are neither available to the creditors of the Bank, nor can they be paid directly to the Bank. The fair value of plan assets is based on market price information.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in OCI in the period in which they arise.

Past service costs are recognized immediately in profit or loss.

<u>Leases</u>
At the inception of a contract, the Bank assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Bank assesses whether:

- the contract involves an identified asset – this may be specified explicitly or implicitly and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified;
- the Bank has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and
- the Bank has the right to direct the use of the asset. The Bank when it has the decision making rights that are most relevant to changing how and for what purpose the asset is used. The Bank has the right to direct the use of the asset of either:
    - the Bank has the right to operate the asset; or
    - the Bank designed the asset in a way that predetermines how and for what purpose it will be used.

Bank as a lessee. The Bank applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low value assets. The Bank recognizes right-of-use assets representing the right to use the underlying assets and lease liabilities to make lease payments.

The right-of-use asset is initially measured as if the standard had been applied since the commencement date but discounted using the lessee's IBR at the date of initial application.

The right-of-use asset is subsequently depreciated using the straight-line method over the shorter of the estimated useful life of the asset or the lease term ranging from three to five years.

In addition, the right-of-use is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Bank's IBR. Generally, the Bank uses its IBR as the discount rate.

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

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under residual value guarantee; and
- the exercise price under a purchase option that the Bank is reasonably certain to exercise, lease payments option renewal period if the Bank is reasonably to exercise an extension option, and penalties for early termination of a lease unless the Bank is reasonably certain not to terminate early.

Subsequent to initial measurement lease liabilities increase as a result of interest charged at a constant rate on the balance outstanding and are reduced for lease payments made. It is remeasured when there is a change in future lease payments or rate, if there is a change in the Bank's estimate of the amount expected to be payable under a residual value guarantee, or if the Bank changes its assessment of whether it will exercise a purchase, extension or termination option.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset or is recognized in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

Short-term leases. 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). Lease payments on short-term leases are recognized as expense on a straight-line basis over the lease term.

<u>Taxes</u>

Current Tax. Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Current tax relating to items recognized directly in equity is recognized in equity and not in the statements of comprehensive income. The Bank periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretations and establishes provisions where appropriate.

Deferred Tax. Deferred tax is recognized using the liability method in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax liabilities are recognized using the liability method for all taxable temporary differences, except:

- where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- with respect to taxable temporary differences associated with investments in shares of stock of subsidiaries, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognized for all deductible temporary differences, carryforward benefits of unused tax credits - Minimum Corporate Income Tax (MCIT) and unused tax losses - Net Operating Loss Carry Over (NOLCO), to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward benefits of MCIT and NOLCO can be utilized, except:

- where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- with respect to deductible temporary differences associated with investments in shares of stock of subsidiaries, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced 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. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

The measurement of deferred tax reflects the tax consequences that would follow 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 measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Current tax and deferred tax are recognized in the statements of comprehensive income, except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income.

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

Final tax. Final tax represents the tax paid by the Bank on interest income earned from its bank deposits and investments.

<u>Provisions</u>
Provisions are recognized when: (a) the Bank has a present obligation (legal or constructive) as a result of past events; (b) it is probable (i.e., more likely than not) that an outflow of resources embodying economic benefits will be required to settle the obligation; and (c) a reliable estimate of the amount of the obligation can be made. Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognized as a separate asset only when it is virtually certain that reimbursement will be received. The amount recognized for the reimbursement shall not exceed the amount of the provision. Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessment of the time value of money and the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as interest expense.

<u>Related Parties</u>
Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control and significant influence. Related parties may be individuals or corporate entities.

<u>Contingencies</u>
Contingent liabilities are not recognized in the financial statements. They are disclosed in the notes to the financial statements unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the financial statements but are disclosed in the notes to the financial statements when an inflow of economic benefits is probable.

Events after the Financial Reporting Date
Post year-end events that provide additional information about the Bank's financial position at the reporting date (adjusting events) are reflected in the financial statements. Post year-end events that are not adjusting events are disclosed in the notes to the financial statements when material.

4. Use of Judgments, Estimates and Assumptions

The preparation of the accompanying financial statements in conformity with PFRS requires the Bank's management to make judgments and estimates that affect the application of accounting policies, reported amounts of assets, liabilities, income and expenses, and disclosure of contingent assets and contingent liabilities. Future events may occur which will cause the judgments and assumptions used in arriving at the estimates to change. The effects of any change in judgments and estimates are reflected in the financial statements as they become reasonably determinable.

Judgments and estimates are continually of future events evaluated and are based on historical experience and other factors, including expectations that are believed to be reasonable under the circumstances. Revision to accounting estimate is 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.

Judgments
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:

Classifying Financial Instruments. The Bank classifies its financial assets depending on the business model for managing those financial assets and whether the contractual terms of the financial asset are SPPI on the principal amount outstanding.

The Bank performs the business model assessment based on observable factors. These include 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; and 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.

In performing the SPPI test, the Bank applies judgment and considers relevant factors such as the period for which the interest rate is set, contingent events that would change the amount and timing of cash flows and other features that may modify the consideration for the time value of money.

The classification of financial assets and financial liabilities is set out in Note 27 to the financial statements.

Classifying Investments. The classification under Investments requires significant judgment. In making this judgment, the Bank evaluates its intention and ability to hold such investments to maturity. If the Bank fails to keep these investments to maturity other than in certain specific circumstances – for example, selling an insignificant amount close to maturity – the Bank will be required to reclassify the entire portfolio as financial asset at FVOCI. The investments would therefore be measured at fair value and not at amortized cost.

Investments of the Bank amounted to ₱1,445,798 as at December 31, 2022 and 2021 (see Note 8).

Determining Classification of Acquired Properties. The Bank classifies its acquired properties as bank premises, furniture, fixtures and equipment if used in operations, as assets held for sale if expected that the properties will be recovered through sale rather than use, or as investment properties if intended to be held for capital appreciation.

Determination Whether an Arrangement Contains a Lease. The Bank assesses whether an arrangement contains a lease based on PFRS 16, as disclosed in Note 3. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Bank reassesses whether a contract is, or contains, a lease only if the terms and conditions of the contract are changed.

The details of these lease agreements are disclosed in Note 23.

The Bank has entered into lease agreements as a lessee. Depreciation of right-of-use assets and interest expense on lease liabilities recognized in profit or loss are disclosed in Notes 20 and 23, respectively.

Determining the Lease Term of Contracts with Renewal and Termination Options – Bank as lessee. 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 several lease contracts that include extension and termination options. The Bank applies judgement in evaluating whether it is reasonably certain whether or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination. 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 or to terminate.

Refer to Note 23 for information on potential future rental payments relating to periods following the exercise date of extension and termination options that are not included in the lease term.

Evaluating Deferred Tax. In determining the amount of current and deferred tax, the Bank takes into account the impact of uncertain tax positions and whether additional taxes and interest may be due. The Bank believes that its accruals for tax liabilities are adequate for all open tax years based on its assessment of many factors, including interpretation of tax laws and prior experience. This assessment relies on estimates and assumptions and may involve a series of judgments about future events. New information may become available that causes the Bank to change its judgment regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact tax expense in the period that such a determination is made.

Estimates and Assumptions

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

Estimating Allowance for ECL on Loans and Other Receivables. The Bank reviews its loans and other receivables at each financial reporting date to assess whether an ECL should be recognized in profit or loss or loans and other receivables balance should be written off. 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 for ECL required. Such estimate is based on assumption about a number of factors and actual results may differ resulting in future changes to the allowance for ECL.

Allowance for ECL represents management's estimate for ECL inherent in the loan portfolio after consideration of prevailing and anticipated economic conditions, prior loss experience and evaluations made by the BSP.

The Bank provides allowance for ECL on loans and other receivables equivalent to the estimated losses that may be incurred in the collection of all of its outstanding loans. The losses are estimated after taking into consideration the account's historical collection experience, the collateral position of the Bank, credit documentation, subsequent collections and other factors that may affect the collectability of these accounts.

The adequacy of the allowance for ECL is determined periodically on the basis of qualitative appraisal of loan accounts individually which is grouped according to the exposure to credit risk.

In addition to specific allowance against individually significant loans and other receivables, the Bank also makes a collective ECL 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 since it was granted. This collective allowance is based on changes in factors that are indicative of incurred losses, such as deterioration in payment status and underlying property prices, among others.

Where possible, the Bank seeks to restructure loans rather than to take possession of the collateral. This may involve extending the payment arrangements and the agreement for new loan conditions. Once the terms have been renegotiated, the loan is no longer considered past due. Management continuously reviews restructured loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original EIR. The difference between the recorded value of the original loan and the present value of the restructured cash flows, discounted at the original EIR, is recognized in profit or loss.

The allowance for ECL is established through provision for ECL charged to current operations. Loans are written off against the allowance for ECL when management believes that the collectability of the principal is unlikely.

Allowance for ECL on loans and other receivables amounted to ₱23,352,502 and ₱19,859,646 as at December 31, 2022 and 2021, respectively (see Notes 9 and 13). The carrying value of loans and other receivables amounted to ₱172,943,664 and ₱154,056,848 as at December 31, 2022 and 2021, respectively (see Note 9).

Determining Fair Value of Acquired Assets Classified as Investment Properties. The Bank determines the fair value of the acquired properties through internally or externally-generated appraisal. The appraised value is determined based on the current economic and market conditions as well as the physical condition of the properties.

The fair values of investment properties are disclosed in Note 11.

Estimating Useful Lives of Bank Premises, Furniture, Fixtures and Equipment. The Bank estimates the useful lives of depreciable bank premises, furniture, fixtures and equipment for the purpose of computing depreciation and amortization based on the period over which the assets are expected to be available for use. Their estimated useful lives are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence, and legal or other limits on the use of the assets. The collective assessment of industry practice, internal technical evaluation and experience with similar assets is also considered in the estimation.

It is possible, however, that future results of operations could be materially affected by changes in estimates brought about by changes in factors mentioned. The amounts and timing of recorded expenses for any period would be affected by changes in these factors and circumstances. A reduction in the estimated useful lives of bank premises, furniture, fixtures and equipment would increase recorded other operating expenses and decrease assets.

There were no changes in the estimated useful lives of property and equipment for the years ended December 31, 2022 and 2021.

The carrying value of bank premises, furniture, fixtures and equipment as at December 31, 2022 and 2021 amounted to ₱4,655,262 and ₱5,349,974, respectively (see Note 10).

Determining Impairment of Non-Financial Assets. PFRS require that an impairment review be performed when certain impairment indicators are present. The Bank's policy on estimating the impairment of non-financial assets is discussed in detail in Note 3. Determining the fair value of non-financial assets, which requires 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 non-financial assets are impaired. Any resulting impairment loss could have a material adverse impact on the financial condition and results of operations of the Bank.

Though management believes that the assumptions used in the estimation of fair values reflected in the financial statements are appropriate and reasonable, significant changes in these assumptions may materially affect the assessment of recoverable values and any resulting impairment loss could have a material adverse effect on the results of operations of the Bank.
Allowance for impairment on investment properties amounted to ₱393,983 and ₱395,568 as at December 31, 2022 and 2021, respectively (see Notes 11 and 13). The carrying value of investment properties amounted to ₱477,816 and ₱92,007 as at December 31, 2022 and 2021, respectively (see Note 11).

There are no indications of impairment on bank premises, furniture, fixtures and equipment. Thus, no provision for impairment losses was recognized by the Bank on these assets for the years ended December 31, 2022 and 2021. The carrying value of bank premises, furniture, fixtures and equipment amounted to ₱4,655,262 and ₱5,349,974 as at December 31, 2022 and 2021, respectively (see Note 10).

Determining Realizable Amount of Deferred Tax Assets. The Bank reviews the carrying amount of deferred tax assets at each financial reporting date and reduces the same to the extent that it is no longer probable that sufficient taxable income will be available in future periods to allow all or part of the deferred tax assets to be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable income together with the future tax planning strategies.

Management believes that it will not generate sufficient taxable income in the future to utilize the benefits of deferred tax assets, thus, no deferred tax assets were recognized in 2022 and 2021 (see Note 21).

Estimating Present Value of Retirement Liability. The present value of the DBO depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost for retirement include, among others the discount rate and salary increase rate. Any changes in the assumptions will have an impact on the carrying amount of the retirement obligation.

The Bank determines the appropriate discount rate at the end of each financial reporting period. This is the interest rate that is used to determine the present value of estimated future cash outflows expected to be required to settle the retirement obligation. In determining the appropriate discount rate, the Bank considers the interest rate on government bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related retirement obligation.

Other key assumptions for retirement obligation are based in part on current market conditions. Additional information is disclosed in Note 22.

While the Bank believes that the assumptions are reasonable and appropriate, significant differences between actual experiences and assumptions may materially affect the cost of employee benefits and related obligations.

Retirement benefit costs recognized in profit or loss for the years ended December 31, 2022 and 2021 amounted to ₱431,251 and ₱583,921, respectively (see Notes 20 and 22).

As at December 31, 2022 and 2021, the net retirement asset (liability) of the Bank amounted to ₱845,966 and (₱1,712,790), respectively (see Note 22).

Estimating the IBR. The Bank cannot readily determine the interest rate implicit in the lease, therefore, it uses its IBR to measure lease liabilities. The IBR is the rate of interest that the Bank would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Bank 'would have to pay', which requires estimation when no observable rates are available or when they need to be adjusted to reflect the terms and conditions of the lease. The Bank estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates.

Cash and Other Cash Items

This account consists of:

	2022	2021
Cash on hand	**₱2,985,897**	₱2,682,394
Checks and other cash items	**1,993,751**	-
	₱4,979,648	₱2,682,394

Cash on hand represents actual cash in vault – local currencies and those in the possession of the cashiers and the tellers as of close of the operations on December 31, 2022 and 2021 whereas checks and other cash items pertain to checks that are still in the possession of the Bank's cashiers and are for deposit the next banking day after year end.

6. Due from Bangko Sentral ng Pilipinas (BSP)

The account consists of local currency deposits maintained with the BSP to meet legal reserve requirements that are not available for use in the Bank's day-to-day operations.

Effective April 6, 2012, through BSP Circular No. 753, deposits in compliance with reserve requirements no longer earn interest. The balance of the account amounted to ₱5,190,872 and ₱388,225 as at December 31, 2022 and 2021, respectively.

7. Due from Other Banks

This account consists of:

	2022	2021
Savings	**₱40,234,490**	₱55,054,231
Time	**10,079,987**	9,012,842
	₱50,314,477	₱64,067,073

Savings deposits are unrestricted and pre-terminable. These deposits earn interest at the prevailing bank deposit rate of ranges from 0.125% to 0.625% in 2022 and 0.02% to 0.26% in 2021.

Time deposits of the Bank with other commercial banks usually have fixed rates and maturity dates. These deposits carry interest rates ranging from 1% to 2.50% in 2022 and 1.50% to 1.75% in 2021.

Interest income earned amounted to ₱177,239 and ₱374,400 for the years ended December 31, 2022 and 2021, respectively.

8. Investments at Amortized Cost

The account consists of Land Bank of the Philippines (LBP) agrarian reform ten (10) year bonds amounting to ₱1,445,798 as at December 31, 2022 and 2021 detail as follows:

	2022	2021
Cost	**₱1,500,000**	₱1,500,000
Unamortized discount	**(54,202)**	(54,202)
	₱1,445,798	₱1,445,798

Interest income earned on investments amounted to nil for the years ended December 31, 2022 and 2021.

9. Loans and Other Receivables, Net

This account consists of:

	Note	**2022**	2021
Loans			
Industrial loans		**₱81,989,006**	₱69,636,813
Commercial loans		**75,756,280**	74,819,017
Agrarian reform and other agricultural credit loans		**16,142,649**	9,713,540
Other loans		**703,350**	702,232
		174,591,285	154,871,602
Accounts receivable		**11,235,238**	10,537,863
Sales contract receivable		**3,967,828**	2,677,794
Accrued interest receivable		**6,501,815**	5,829,235
		196,296,166	173,916,494
Allowance for ECL	*13*	**(23,352,502)**	(19,859,646)
		₱172,943,664	₱154,056,848

Other loans represent government employee loans and commercial real estate loans.

Accounts receivable comprised receivables from sales of real and other properties acquired, SSS benefit claims and advances to officers and employees.

Sales contract receivable refers to assets acquired in settlement of loans through foreclosure or dation in payment and subsequently sold on installment basis whereby the titles to the said properties are transferred to the buyers only upon full payment of the agreed selling price. Interest earned on sales contract receivable, included in interest income on loans and other receivables, amounted to ₱105,016 and ₱137,850 for the years ended December 31, 2022 and 2021, respectively.

During 2022, the Bank sold an investment property with a cost of ₱15,775 (see Note 11) for an agreed selling price of ₱2,000,000 (see Note 11). Downpayment received from the sale amounted to ₱50,000 while the remaining balance is paid through installment reported as part of sales contract receivable. Gain on sale recognized by the Bank amounted to ₱1,984,225 (see Note 19).

Loans earn annual interest rates ranging from 6% to 48% in 2022 and 6.50% to 48% in 2021 and 2021. Interest income earned on loans amounted to ₱38,803,801 and ₱33,951,409 in 2022 and 2021, respectively.

With the foregoing level of allowance for ECL, management believes that the Bank has sufficient allowance to manage any risk from non-collection or non-collateral of the Bank's loans and other receivables.

10. Bank Premises, Furniture, Fixtures and Equipment, Net

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

	Note	Furniture, Fixtures and Equipment	Leasehold Improvements	Transportation Equipment	Software Equipment	Total
Cost						
At January 1, 2021		₱7,687,317	₱2,158,174	₱1,715,198	₱2,576,000	₱14,136,689
Additions		287,036	-	1,581,600		1,868,636
Disposal		-	-	(1,054,998)	-	(1,054,998)
At December 31, 2021		7,974,353	2,158,174	2,241,800	2,576,000	14,950,327
Additions		985,096	-	-	-	985,096
At December 31, 2022		8,959,449	2,158,174	2,241,800	2,576,000	15,935,423
Accumulated Depreciation and Amortization						
At January 1, 2021		6,279,950	809,244	1,411,031	257,600	8,757,825
Depreciation and amortization	*20*	656,908	340,211	264,381	343,467	1,604,967
Disposal		-	-	(762,439)		(762,439)
At December 31, 2021		6,936,858	1,149,455	912,973	601,067	9,600,353
Depreciation and amortization	*20*	730,421	324,587	367,200	257,600	1,679,808
At December 31, 2022		7,667,279	1,474,042	1,280,173	858,667	11,280,161
Net Book Value						
At December 31, 2022		**₱1,292,170**	**₱684,132**	**₱961,627**	**₱1,717,333**	**₱4,655,262**
At December 31, 2021		₱1,037,495	₱1,008,719	₱1,328,827	₱1,974,933	₱5,349,974

In 2021, the Bank sold a transportation equipment with a net book value of ₱292,559. The Bank received proceeds from the sale of transportation equipment amounting to ₱292,559. No gain nor loss was recognized from the sale of said assets in 2022 and 2021.

The Bank assesses at each financial reporting date whether there is an indication that an item of bank premises, furniture, fixtures and equipment may be impaired and believes that there is no such indication as at December 31, 2022 and 2021.

Cost of fully depreciated property and equipment that are still in use by the Bank amounted to ₱7,626,927 and ₱6,448,682 as at December 31, 2022 and 2021, respectively.

Under BSP rules, investments in bank premises, furniture, fixtures and equipment should not exceed 50% of the Bank's net worth. As at December 31, 2022 and 2021, the Bank is in compliance with this BSP requirement.

11. Investment Properties, Net

This account represents parcels of land which are held for capital appreciation, acquired in settlement of loans carried at cost less allowance for impairment.

	Note	Transportation Equipment	Land	Total
Cost				
At January 1, 2022 and December 31, 2021		₱-	₱487,575	₱487,575
Additions		400,000	-	400,000
Disposal		-	(15,776)	(15,776)
At December 31, 2022		400,000	471,799	871,799
Allowance for impairment				
At January 1, 2021		-	229,679	229,679
Provision for impairment	*13*	-	165,889	165,889
At December 31, 2021		-	395,568	395,568
Reversal of impairment	*13*	-	(1,585)	(1,585)
At December 31, 2022		-	393,983	393,983
Net Book Value				
At December 31, 2022		**₱400,000**	**₱77,816**	**₱477,816**
At December 31, 2021		₱-	₱92,007	₱92,007

The Bank has no investment properties that generated rental income for the years ended December 31, 2022 and 2021.

Expenses from these investment properties which do not generate rental income consists of:

	Note	**2022**	2021
Site survey and other expenses	*20*	**₱681,061**	₱-
Real property tax*	*20*	**119,028**	85,398
		₱800,089	₱85,398

**Presented as part of taxes and licenses*

The fair values of the Bank's investment properties have been determined by BSP-accredited appraisers using the market data approach.

In 2021, the Bank acquired the services of a third-party appraiser to determine the fair value of land with cost amounting to ₱249,013. The fair value of said investment properties amounted to ₱23,574,000.

The latest appraisal report of remaining land with cost amounting to ₱222,786 is as at December 31, 2015 while additions to transportation equipment during 2022 was not appraised.

The total fair value of investment properties of the Bank amounted to ₱25,980,200 and ₱30,675,200 as at December 31, 2022 and 2021, respectively.

12. Other Assets

This account consists of:

	Note	**2022**	2021
Deposits		**₱848,888**	₱832,988
Prepaid tax	*21*	**576,298**	-
Prepayments		**371,269**	371,873
Stationery and supplies		**266,416**	303,578
Petty cash fund		**11,000**	11,000
		₱2,073,871	₱1,519,439

Deposits are payments by the Bank to its lessors and other service providers. No indication of impairment was identified by management in 2022 and 2021.

13. Allowance for Impairment and ECL

A reconciliation of the allowance for impairment and ECL is as follows:

	Loans and Other Receivables (see Note 9)	Investment Properties (see Note 11)	Total
Balance as at January 1, 2021	₱19,103,458	₱229,679	₱19,333,137
Provision	8,539,332	165,889	8,705,221
Write-off	(7,783,144)	-	(7,783,144)
Balance as at December 31, 2021	19,859,646	395,568	20,255,214
Provision (reversal)	3,492,856	(1,585)	3,491,271
Balance as at December 31, 2022	**₱23,352,502**	**393,983**	**23,746,485**

In 2021, the BOD approved the write-off of fully provided and long-outstanding loans receivable from default accounts amounting to ₱7,783,144.

Allowance for ECL on loans and other receivables comprised the following:

	2022	2021
Specific allowance		
Loan to individuals for consumption purposes	**₱13,096,768**	₱11,517,881
Accounts receivable	**6,740,306**	5,736,685
Accrued interest receivable	**2,071,446**	2,075,718
	21,908,520	19,330,284
General allowance	**1,443,982**	529,362
	₱23,352,502	₱19,859,646

The nonperforming loans (NPLs) of the Bank amounted to ₱35,334,975 and ₱22,408,066 as at December 31, 2022 and 2021, respectively. The NPLs that are fully covered by allowance for ECL amounted to ₱8,231,804 and ₱5,408,014 as at December 31, 2022 and 2021, respectively. The Bank recognized allowance for ECL on NPLs based on its staging assessment of credit-impaired financial assets.

BSP Memorandum 2020-061 states that BSP Supervised Financial Institutions (BSFIs) are expected to conduct a comprehensive assessment of the quality of its loan portfolio before applying for the relief to book the allowance for credit losses on a staggered basis. BSFIs should assess each loan account in determining allowance for credit losses. If assessment on an individual account basis is not feasible, the assessment should be done on a collective basis or at the portfolio level. Consistent with the provisions of the Guidelines on Credit Risk Management, the propriety and adequacy of allowance for credit losses should be independently reviewed. BSFIs may apply for approval of staggered booking of allowance credit losses until March 8, 2021. Upon receipt of BSP approval, BSFIs are expected to immediately book the amount of allowance for credit losses that should be recognized in the first year.

On April 20, 2021, the BSP approved the Bank's application for staggered booking of allowance of credit losses. Details of the staggered booking are disclosed in Note 2.

With the foregoing level of allowance for ECL, management believes that the Bank has sufficient allowance to manage any risk from non-collection or non-collateral of the Bank's loans and other receivables.

14. Deposit Liabilities

This account consists of:

	2022	2021
Time	**₱113,687,470**	₱117,525,533
Savings	**32,154,178**	31,715,716
	₱145,841,648	₱149,241,249

Annual interest rates on deposit liabilities in 2022 and 2021 follow:

	2022	2021
Time	**1.50% to 7.50%-**	1.75% to 7.50%
Savings	**0.50%**	0.50%

Interest expense on deposit liabilities consists of:

	2022	2021
Time	**₱4,952,137**	₱3,547,116
Savings	**104,688**	146,075
	₱5,056,825	₱3,693,191

Under Section 251 of BSP Manual of Regulations for Banks, as amended by BSP Circular No. 1092, rural banks are required to maintain a reserve of at least 2% of its demand deposits, NOW accounts, savings deposits (excluding basic deposit accounts), and time deposits denominated in local currency, effective July 31, 2020.

Alternatively, under BSP Circular 1100-2020, *Amendments to the Alternative Compliance with the Reserve Requirements of Banks and Non-Bank Financial Institutions with Quasi-Banking Functions (NBQBs)* effective October 8, 2020, alternative modes of compliance with the required reserves against deposit and deposit substitute liabilities may be availed by the Bank.

During 2021, the Bank availed the alternative mode to complied with the required reserve as shown on the required and available reserves as reported to the BSP.

	Note	**2022**	2021
Available reserve			
Due from BSP	*6*	**₱5,190,872**	₱388,225
Alternative compliance		**-**	5,537,495
		₱5,190,872	₱5,925,720
Required reserve		**₱2,916,833**	₱2,984,825

Amount shown in alternative compliance pertain to the peso-denominated loans that are granted to micro-, small-, and medium- enterprises (MSMEs), as defined under Section 332 *Definition of Terms* of the MORB.

The Bank is in compliance with the reserve requirement of the BSP as at December 31, 2022.

See Note 25 for the maturity profile of deposit liabilities as at December 31, 2022 and 2021.

15. Bills Payable

In 2019, the Bank obtained bills payable from Producers Bank, a 3-month credit line with 8% interest per annum on the principal amount of loan. This was fully paid in 2021 wherein payments made amounted to ₱4,971,578. Interest expense incurred by the Bank for this bills payable amounted to ₱206,167 for the year 2021.

In 2022, the Bank obtained another bills payable from Producer's Bank, a 6-month credit line with 8% interest per annum amounting to ₱5,000,000.

16. Accounts Payable and Other Liabilities

This account consists of:

	2022	2021
Accounts payable	**₱4,387,355**	₱2,302,077
Accrued expenses	**1,753,173**	1,483,489
Accrued interest payable	**1,546,586**	1,183,539
Withholding tax and other statutory liabilities	**392,610**	458,388
Miscellaneous liabilities	**107,000**	107,000
	₱8,186,724	₱5,534,493

Accounts payable represents goods or services purchased on credit from various suppliers which are payable within one year.

Accrued expenses are goods or services that have been received or supplied but have not been paid, invoiced or formally agreed with the suppliers. It is necessary to estimate the amount or timing of accruals, however, the uncertainty is generally much less than for provisions.

Miscellaneous liabilities are recognized in the period in which the related money, goods or services are received or when a legally enforced claim against the Bank is established. They are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

17. Redeemable Preferred Shares

The details of the Bank's redeemable preference shares as at December 31, 2022 and 2021 are as follows:

	Amount	**No. of Shares**
Preferred shares at ₱100 par value per share		
Authorized	₱4,000,000	40,000
Issued and outstanding	₱4,000,000	40,000
Redemption at cost	(521,200)	(5,212)
At December 31	₱3,478,800	34,788

Redeemable preferred shares are shares with mandatory redemption feature or a redemption feature outside of the control of the issuer. These are measured at amortized cost using effective interest method.

Preferred shares as at December 31, 2022 and 2021 were issued to LBP. Preferred shares shall have preference over common shares in assets of the Bank in the event of liquidation. Preferred shares shall share in dividend declaration in accordance with the specific investment guidelines, policies and procedures of the LBP.

18. Equity

The details of the Bank's share capital as at December 31, 2022 and 2021 follow:

	2022		2021	
	Amount	No. of shares	Amount	No. of shares
Common shares at ₱100 par value per share				
Authorized	**₱196,000,000**	**1,960,000**	₱196,000,000	1,960,000
Subscribed				
Balance as at January 1	**₱158,434,100**	**1,584,341**	₱153,834,000	1,538,340
Issued during the year	**6,526,100**	**65,261**	4,600,100	46,001
Balance as at December 31	**164,960,200**	**1,649,602**	158,434,100	1,584,341
Subscriptions receivable	**(4,877,992)**		(4,877,992)	
Paid-up capital	**₱160,082,208**		₱153,556,108	

On September 13, 2012, the Bank's BOD and shareholders approved the increase in the Bank's authorized capital stock from ₱50,000,000, divided into 460,000 common shares and 40,000 preferred shares, both with a par value of ₱100 per share, into ₱100,000,000 divided into 960,000 common shares and 40,000 preferred shares, both with a par value of ₱100 per share. The said increase was approved by the BSP on March 25, 2013 and the SEC on March 21, 2014.

On February 27, 2015, the Bank's BOD and shareholders resolved to increase the Bank's authorized capital stock from ₱100,000,000, divided into 960,000 common shares and 40,000 preferred shares, both with a par value of ₱100 per share, into ₱200,000,000 divided into 1,960,000 common shares and 40,000 preferred shares, both with a par value of ₱100 per share.

On March 6, 2018, BSP approved the increase in capitalization with reference to the letter received dated April 2, 2018.

On April 5, 2018, the Monetary Board approved the transfer of 100% of the common shares of the Bank from Pineda family, et al. to Amang Rodriguez Holdings, Inc., First Lucky Holdings Corp., Compania de Maria Clara Holdings and MMP Investments, Inc. and issuance of 270,000 shares of the Bank to First Lucky Holdings Corp. and Compania de Maria Clara Holdings.

Under existing BSP regulations, the determination of the Bank's compliance with regulatory requirements and ratios is based on the amount of the Bank's "unimpaired capital" (regulatory net worth) as reported to the BSP, which is determined on the basis of regulatory accounting policies that differ from PFRS in some respects. The minimum capital required for rural banks with head office located in the National Capital Region with up to 10 branches is ₱100,000,000. On October 29, 2014, the BSP issued Circular No. 854, Series of 2014 requiring minimum capitalization of ₱75,000,000. Banks shall be given five years to comply with the minimum requirement as discussed in Note 26. The details of the Bank's qualifying capital as reported to the BSP are shown in Note 26.

The risk-based capital ratio of a bank, expressed as a percentage of qualifying capital to risk-weighted assets, shall not be less than 10%. See Note 26 for the discussions relating to the Bank's capital management.

In 2021, the Bank issued 46,001 common shares at issuance price of ₱100 per share, for gross proceeds of ₱4,601,100.

In 2022, the Bank issued 65,261 common shares at issuance price of ₱100 per share, for gross proceeds of ₱6,526,100.

19. Other Operating Income

The details of the account follow:

	Note	2022	2021
Service charges and fees		**₱4,266,842**	₱4,964,947
Gain on SCR sale	9	**1,984,225**	-
Recovery from written off loans		**265,865**	1,200,000
Other income from lease modification	23	**-**	663,059
Effect of CREATE Act on the cumulative remeasurement loss	22	**-**	45,402
Penalties and miscellaneous		**4,923,963**	2,606,740
		₱11,449,895	₱9,480,148

20. Other Operating Expenses

The details of the following accounts follow:

	Note	2022	2021
Compensation and fringe benefits		**₱16,589,557**	₱16,855,486
Occupancy and equipment-related		**7,257,554**	6,932,527
Management and professional fees		**4,243,061**	3,869,505
Taxes and licenses		**4,122,992**	3,234,775
Transportation and travel		**1,730,854**	1,778,887
Insurance		**1,124,528**	1,157,903
Training and development expense		**353,735**	159,214
Postage, telephone and telegraph		**273,088**	252,814
Stationery and supplies		**218,215**	265,084
Photocopying machine		**118,446**	118,537
Representation and entertainment	21	**76,694**	105,997
Miscellaneous expenses		**2,604,859**	1,553,894
		₱38,713,583	₱36,284,623

Compensation and fringe benefits

	Note	2022	2021
Salaries and wages		**₱12,207,250**	₱12,417,071
Employee benefits		**2,141,850**	2,201,169
SSS, Philhealth and Pag-ibig contributions		**1,124,762**	1,081,103
Directors' fees		**684,444**	572,222
Retirement benefit cost	22	**431,251**	583,921
		₱16,589,557	₱16,855,486

Occupancy and equipment-related

	Note	2022	2021
Depreciation and amortization	10,23	**₱4,394,175**	₱4,492,347
Rent	23	**1,257,445**	772,229
Power, light and water		**705,755**	606,678
Security and janitorial services		**605,894**	614,098
Repairs and maintenance		**294,285**	447,175
		₱7,257,554	₱6,932,527

Miscellaneous expenses

	2022	2021
Site survey and other expenses	**₱681,061**	₱-
Information and technology	**527,012**	234,813
Advertising	**269,400**	224,851
Fines and penalties	**244,295**	279,790
Supervisory fees	**40,989**	67,741
Membership fees and dues	**16,727**	24,221
Others	**825,375**	722,478
	₱2,604,859	₱1,553,894

Site survey and other expenses pertain to expenses incurred to prepare the investment properties for appraisal.

Other miscellaneous expenses comprise mostly of meal and communication allowance of account officers and team leaders, and other bank's charges.

21. Income Taxes

Under Philippine tax laws, the Bank is subject to percentage and other taxes as well as income taxes. Percentage and other taxes paid consist principally of gross receipts tax and documentary stamp taxes (DST). Income taxes include Regular Corporate Income Tax (RCIT) and 20% final taxes paid, which is a final withholding tax on gross interest income from government securities and other deposit substitutes. Final taxes paid by the Bank amounted to ₱76,694 and ₱105,997 for the years ended December 31, 2022 and 2021, respectively.

Effective July 2008, RA No. 9504 was approved giving corporate taxpayers an option to claim itemized deduction or optional standard deduction equivalent to 40% of gross income. Once the option is made, it shall be irrevocable for the taxable year for which the option was made. The Bank opted to continue claiming itemized deductions for the years ended December 31, 2022 and 2021.

Current tax regulations also provide for the ceiling on the amount of Entertainment, Amusement and Recreation (EAR) expense that can be claimed as a deduction against taxable income. Under the regulations, EAR expense allowed as a deductible expense for a service bank like the Bank is limited to the actual EAR paid or incurred but not to exceed 1% of net income. EAR expense amounted to ₱76,694 and ₱105,997 for the years ended December 31, 2022 and 2021, respectively (see Note 20).

The regulations also provide for Minimum Corporate Income Tax (MCIT) of 1% in accordance with Corporate Recovery and Tax Incentives for Enterprises or "CREATE" Act on modified gross income and allow a NOLCO. MCIT is recognized when it is higher than the RCIT. The MCIT and NOLCO may be applied against the Bank's income tax liability and taxable income, respectively, for the three immediately succeeding taxable years. While any NOLCO incurred in 2022 and 2021 may be applied by the Bank for the five immediately succeeding taxable years.

Corporate Recovery and Tax Incentives for Enterprises or "CREATE" Act

On March 26, 2021, the President signed into law Republic Act No. 11534 or the CREATE Act. The law, which became effective on April 11, 2021, introduces reforms to corporate income taxes and incentive systems in the country by implementing certain changes to the current tax regulations.

The CREATE Act resulted to the reduction of the Bank's tax rate from 30% to 25% (if Bank is subject to MCIT, from 2% to 1% of gross income for 3 years) effective July 1, 2020.

The Philippine Financial Reporting Standards Council, in its Philippine Interpretations Committee Q&A No. 2020-07, clarified that the CREATE Act was not considered substantively enacted as of December 31, 2020, despite that some of its provisions have retroactive effect. Accordingly, for financial reporting purposes, the effect of changes in the income tax rates was recognized in the 2021 financial statements.

The major components of tax expense as reported in the statements of income for the years ended December 31 are as follow:

	2022	2021
Current tax expense	**₱719,463**	₱150,819
Deferred tax benefit	**(583,287)**	-
	₱136,176	₱150,819

The deferred tax benefit pertains to recognized recovery from unrecognized deferred tax assets on MCIT wherein MCIT paid during 2019 is applied against the current tax due of the Bank.

A reconciliation of the income tax expense computed at the statutory income tax rate to the effective income tax expense shown in profit or loss is as follows:

	2022	2021
Income (loss) before tax	**₱2,568,572**	(₱5,352,626)
Income tax at statutory tax rate of 25% in 2022 and 2021	**₱642,143**	(₱1,338,157)
Adjust for tax effects of:		
Change in unrecognized deferred tax assets	**(1,292,146)**	(103,281)
Applied NOLCO	**593,219**	-
Nondeductible expenses	**61,074**	69,947
Interest income subject to final tax	**(44,310)**	(93,600)
Change in tax rate on unrecognized deferred tax assets	-	1,220,044
Expired MCIT	-	546,557
Change in the effective tax rate	-	(80,092)
Adjustments/others	**176,196**	(70,599)
Income tax expense	**₱136,176**	₱150,819

The details of the Bank's NOLCO which can be claimed as a deduction from future taxable income are as follows:

Year	Incurred	Applied	Expired	Balance	Expiry date
2020	2,012,520	(₱2,012,520)	₱-	₱-	2025
2021	3,775,758	(360,354)	-	3,415,404	2026
	₱5,788,278	**(₱2,372,874)**	**₱-**	₱3,415,404	

NOLCO refers to the excess of deductible expenses over gross income resulting to a loss position at a given taxable year. Ordinarily, NOLCO shall be carried over as a special deduction from taxable income for the next three (3) consecutive taxable years, immediately following the year of incurrence of such loss. However, pursuant to Section 4 of Bayanihan to Recover as One Act as implemented under Revenue Regulations (RR) No. 25-2020, any net operating loss incurred by the Bank for the taxable years 2020 and 2021, can be carried over as a special deduction from gross income for the next five (5) consecutive taxable years following the year of incurrence such loss. Taxable years 2020 and 2021 shall include all those corporations with fiscal years ending on or before June 30, 2021 and June 30, 2022, respectively.

The details of the Bank's excess MCIT over RCIT which can be claimed as a tax credit against future RCIT liabilities are as follows:

Year Incurred	**RCIT**	**MCIT**	**Excess MCIT over RCIT**	**Applied**	**Expired**	**Balance**	**Expiry**
2019	₱-	₱583,287	₱583,287	(₱583,287)	₱-	₱-	2022
2020	-	240,278	240,278	-	-	240,278	2023
2021	-	230,911	230,911	-	-	230,911	2024
	₱-	**₱1,054,476**	**₱1,054,476**	**(₱583,287)**	**₱-**	**₱471,189**	

Details of unrecognized deferred tax assets are as follows:

	2022			2021				
	Deferred tax assets			Deferred tax assets		Effect of change in tax rate	Movements	Total Movements
	Base	**Tax effect**	**Movements**	Base	Tax effect			
Allowance for impairment and ECL of trade and other receivables, and investment properties	**₱23,746,485**	**₱5,936,621**	**₱872,817**	₱20,255,214	₱5,063,804	(₱966,657)	₱230,520	(₱736,137)
NOLCO	**3,415,404**	**853,851**	**(593,219)**	5,788,278	1,447,070	(100,626)	943,940	843,314
Excess MCIT over RCIT	**471,189**	**471,189**	**(583,287)**	1,054,476	1,054,476	(80,092)	(315,646)	(395,738)
Provision for retirement benefits	**(143,586)**	**(35,897)**	**(464,095)**	1,712,790	428,198	(56,659)	144,905	88,246
Actuarial gain (loss) on retirement obligation	**(702,383)**	**(175,596)**	**(402,605)**	908,036	227,009	(45,402)	-	(45,402)
PFRS 16 adjustment on leases	**(622,686)**	**(155,672)**	**(121,757)**	(135,659)	(33,915)	29,392	113,044	142,436
Net	**₱26,164,423**	**₱6,894,496**	**(₱1,292,146)**	₱29,583,135	₱8,186,642	(₱1,220,044)	₱1,116,763	(₱103,281)

As discussed in Note 3 to the financial statements, deferred tax assets, if any, are reassessed at each financial reporting date and are recognized to the extent that it has become probable that future taxable income will allow the deferred tax assets to be utilized. As at December 31, 2022 and 2021, management believes that the Bank will not have sufficient future taxable income against which the deferred tax assets can be applied, thus, deferred tax assets are not recognized.

Movements in income tax payable (prepaid tax) follow:

	2022	2021
Balance as at January 1	**₱43,157**	₱157,235
Charged to profit or loss	**136,176**	150,819
Income tax paid	**(755,631)**	(264,897)
Balance as at December 31	**(₱576,298)**	₱43,157

22. Retirement Benefits

As disclosed in Note 3, the Bank does not have an established retirement plan and only conforms to the minimum regulatory benefit under RA No. 7641. Normal retirement is at age 60. The Bank's latest actuarial valuation report is as at and for the year ended December 31, 2020. The Bank used the projected financial figures for year 2022. The actuary used projected unit credit method in determining the annual retirement benefit cost and DBO. The valuation covers 45 employees in 2022.

The Bank is exposed to actuarial risks such as: investment risk, interest rate risk, longevity risk and salary risk.

Investment risk
The present value of the defined benefit plan liability is calculated using a discount rate determined by reference to government bonds; if the return on plan asset is below this rate, it will create a plan deficit.

Interest rate risk
A decrease in the government bond interest rate will increase the plan liability; however, this will be partially offset by an increase in the return on the plan assets.

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

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

The following data summarize the results of the latest actuarial valuation during the year:

(a) Defined benefit cost recognized in profit or loss follows (see Note 20):

	2022	2021
Current service cost	**₱283,074**	₱458,809
Interest cost	**148,177**	125,112
	₱431,251	₱583,921

(b) Defined benefit cost recognized in other comprehensive income as follows:

	2022	2021
Due to changes in financial assumptions	**(₱1,335,835)**	₱-
Due to experience	**(58,223)**	-
Due to demographics assumptions	**10,648**	-
	(₱1,383,410)	₱-

(c) Changes in the present value of the DBO follow:

	2022	2021
Balance at January 1	**₱3,751,317**	₱3,167,396
Current service cost	**283,074**	458,809
Interest cost	**148,177**	125,112
Actuarial loss	**(1,383,410)**	-
Balance at December 31	**₱2,799,158**	₱3,751,317

(d) Changes in the fair market value of plan assets follow:

	2022	2021
Balance at January 1	**₱2,038,527**	₱2,034,223
Contributions to plan assets	**1,600,300**	-
Interest income	**6,297**	4,304
Balance at December 31	**₱3,645,124**	₱2,038,527

(e) Net retirement liability (asset) as at December 31 follows:

	2022	2021
Present value of DBO	**₱2,799,158**	₱3,751,317
Fair value of plan assets	**(3,645,124)**	(2,038,527)
	(₱845,966)	₱1,712,790

(f) The cumulative amount of actuarial losses (gains), net of unrecognized deferred tax assets, are as follows:

	Note	2022	2021
At January 1		**₱681,027**	₱635,625
Actuarial loss, net of tax		**(1,383,410,)**	-
Effect of change in tax rate	*19*	**-**	45,402
At December 31		**(₱702,383)**	₱681,027

(g) The key actuarial assumptions used in the 2022 actuarial valuation are as follows:

Discount rate	3.95%	5.70%
Salary increase rate	1.50%	2.00%

Withdrawal rates	Age	
	19-24	7.50%
	25-29	6.00%
	30-34	4.50%
	35-39	3.00%
	40-44	2.00%
	≥45	0.00%

The discount rate assumption is based on the Philippine Dealing Exchange (PDEx) (PDST-R2) benchmark market yields on government bonds as of the valuation dates (or latest available) considering the average years of remaining working life of the employees as the estimated term of the benefit obligation.

Each sensitivity analysis on the significant actuarial assumptions was prepared by remeasuring the DBO at the financial reporting date after first adjusting one of the current assumptions according to the applicable sensitivity increment or decrement (based on changes in the relevant assumption that were reasonably possible at the valuation date) while all other assumptions remained unchanged. The sensitivities were expressed as the corresponding change in the DBO.

It should be noted that the changes assumed to be reasonably possible at the valuation date are open to subjectivity, and do not consider more complex scenarios in which changes other than those assumed may be deemed to be more reasonable.

(h) The sensitivity of the DBO to changes in the principal actuarial assumptions, assuming all other assumptions were held constant, as at December 31, 2022 follows:

Decrease in DBO due to 100 basis points (bps) increase in discount rate	(₱278,469)	9.90%
Increase in DBO due to 100 bps decrease in discount rate	329,372	11.80%
Increase in DBO due to 100 bps increase in salary increase rate	345,955	12.40%
Decrease in DBO due to 100 bps decrease in salary increase rate	(295,521)	10.60%
Increase in DBO, no attrition rates	168,421	6.00%

(i) Maturity of the expected future benefit payments as at December 31, 2021 follows:

Year 1	₱-
Year 2	-
Year 3	1,148,454
Year 4	-
Year 5	-
Year 6-10	2,584,965

There are no unusual or significant risks to which the retirement obligation exposes the Bank. However, it should be noted that in the event a benefit claim arises under the retirement obligation, the benefit shall immediately be due and payable from the Bank.

There was no plan amendment, curtailment, or settlement recognized for the years ended December 31, 2022 and 2021. The weighted average duration of the DBO is 10.9 years in 2022.

23. Leases

Bank as a Lessee
The Bank entered into several lease agreements for the lease of certain office premises and branch offices. The lease obligations are subject to interest rates ranging from 7.21% to 7.27% per annum and are payable monthly for a period of one to five years.

The maturity analysis of contractual undiscounted cash flows:

	2022	2021
Not later than one year	**₱2,809,226**	₱2,745,330
Later than one year but not later than five years	**2,021,609**	2,764,371
	₱4,830,835	₱5,509,701

During 2021, the Bank, upon mutual agreement with the lessor, has been granted a rent relief to one of its lease contracts in consideration of the COVID-19 pandemic. The said lease contract covers a period of five (5) years commencing on November 15, 2018 until November 2023 which may be renewed upon mutual agreement of the Bank and the lessor. Based on the agreed terms of the lease contract, the lease payments is subject to ten percent (10%) escalation rate starting on the 3rd year and 5th year of the lease term. In consideration of the COVID-19 pandemic, the Bank and the lessor agreed to defer the said escalation due for the third year. This is accounted for as a lease modification due to decrease in lease payments resulting to the adjustment in the carrying amount of lease liabilities and profit or loss.

Set out below are the carrying amounts of lease liabilities and the movements during the year:

	2022	2021
As at January 1	**₱4,039,405**	₱7,378,964
Accretion of interest	**705,700**	407,231
Additions	**3,333,929**	-
Other income from lease modification (see Note 19)	**-**	(663,059)
Payments	**(3,127,193)**	(3,083,731)
As at December 31	**₱4,951,841**	₱4,039,405

Set out below are the carrying amounts of right-of-use assets and the movements during the year:

	Note	**2022**	2021
Balance at January 1		**₱3,903,746**	₱6,791,126
Additions		**3,139,776**	-
Amortization	*20*	**(2,714,367)**	(2,887,380)
Balance at December 31		**₱4,329,155**	₱3,903,746

Short-term leases. Rent expense amounting to ₱1,257,445 and ₱772,229 in 2022 and 2021, respectively, pertains to payments classified as short-term leases (see Note 20).

24. Related Party Transactions and Balances

Significant related party transactions and balances are summarized below:

(a) DOSRI (Directors, officers, shareholders and related interests) loans

Under the Bank's policy, DOSRI transactions, which generally consist of loans and other commercial transactions, are made substantially on the same terms as with other individuals and businesses of comparable risks. Under the Bank's DOSRI policy and current BSP regulations, the amount of any loan to DOSRI, of which 70% must be secured, should not exceed the amount of their respective investment in the Bank. Such limit does not apply to loans secured by assets considered as non-risky as defined in the regulations. In the aggregate, loans to DOSRI should not exceed the Bank's total regulatory capital or 15% of its total loan portfolio, whichever is lower.

The Bank adopts a bidding process to sell its properties to the winning bidders and announces the properties for sale through posting the list in the bank premises and those interested buyer will send an email or Letter of Intent. In 2018, the Bank sold one of its foreclosed properties to a shareholder for a selling price of ₱7,000,000 after soliciting offers to purchase from the public. The outstanding balance of the purchase price is ₱2,000,000 as of December 31, 2022 and 2021. The remaining balance will be settled upon transfer of the legal title to the buyer.

In 2019, another foreclosed property was sold to a shareholder for a selling price of ₱1,438,860. The outstanding balance as of December 31, 2022 and 2021 is amounting to ₱1,038,611. The remaining balance will be settled by issuing bonds.

In 2021, a foreclosed property from previously write-off loans with a selling price of ₱1,200,000 was initially sold to a third-party buyer. Downpayment was received from the third-party buyer in 2022 amounting to ₱600,000 but defaulted on the remaining unpaid amount. Due to the default, the downpayment received by the Bank was returned to the third-party buyer and the property was sold to a shareholder for a selling price of ₱1,200,00. The outstanding balances as of December 31, 2022 amounted to ₱600,000 which will be settle upon transfer of title of the property to the shareholder.

Key management personnel compensation

Key management personnel are persons having authority and responsibility for planning, directing and controlling the activities of the Bank, directly or indirectly, including any of its directors (whether executive or otherwise).

Compensation received by key management personnel includes all benefits constituting all forms of consideration paid, payable or provided by the Bank, or on its behalf, in exchange for services rendered to the Bank.

Details of key management personnel compensation follow:

	2022	2021
Short-term employee benefits	**₱5,788,326**	₱5,872,291

25. Financial Risk Management and Objectives

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

Although risks are inherent in the Bank's activities, these are carefully managed through a process of identification, measurement, and monitoring subject to prudent limits and stringent controls as established in its risk management framework and governance structure. The ability to manage risks effectively is vital for the Bank to sustain its growth and continue to create value for its shareholders.

The BOD is mainly responsible for the overall risk management approach and for the approval of risk strategies, principles, frameworks, policies and limits. It establishes a forum of discussion of the Bank's approach to risk issues in order to make relevant decisions.

Regulatory framework

The operation of the Bank is also subject to the regulatory requirements of the SEC, BSP, Philippine Deposit Insurance Corporation (PDIC), Bureau of Internal Revenue (BIR) and local government. Such regulations not only prescribe approval and monitoring of activities but also impose certain restrictive provisions.

Financial risk management

The Bank neither actively engages in the trading of financial assets for speculative purposes nor does it write options. The most significant risks to which the Bank is exposed to are described below.

(a) Credit risk

Credit risk is the risk that counterparty fails to discharge an obligation to the Bank. The Bank is exposed to this risk for various financial instruments, for example by granting loans and receivable to customers, placing deposits and investments.

Credit risk management

The Bank drives credit risk management fundamentally via its credit policies, which are regularly reviewed and updated to reflect changing risk conditions. The credit policies include the Bank's credit structure, target markets, credit evaluation, administration and monitoring, and collection guidelines. Moreover, the Bank continuously monitors defaults of customers and other counterparties, identified either individually or by group, and incorporate this information into its credit risk controls. The Bank's policy is to deal only with creditworthy counterparties. In addition, for a significant proportion of loans, collaterals are required to mitigate credit risk.

The Bank's exposure to credit risk which arises from possible default of other counterparties with a maximum exposure equal to the carrying amounts of these instruments is addressed by investing its excess funds with various creditworthy universal and commercial banks.

Risk limit control and mitigation policies

The Bank manages limit and controls concentrations of credit risk whenever they are identified, in particular, to individual counterparties and groups, to industries and sovereign.

The Bank structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to a borrower, or groups of borrowers, and to geographical and industry segments. Such risk is monitored on a regular basis and subject to an annual or more frequent review, when considered necessary.

Limits on large exposure and credit concentration are approved by the BOD.

The exposure to credit risk is also managed through regular analysis of the ability of borrower and potential borrowers to meet interest and capital repayment obligations and changing these lending limits, where appropriate.

The Bank employs a range of policies and practices to mitigate credit risk. Some of these specific control and mitigation measures are outlined below.

Collateral and credit risk mitigation techniques

One of the most traditional and common practices in mitigating credit risk is requiring security for loans. The Bank implements guidelines on the acceptability of specific classes of collateral for credit risk mitigation. The principal collateral type for loans is a mortgage over real estate properties and chattels.

Management monitors the market value of collateral, and requests for additional collateral in accordance with the underlying agreement and monitors the market value of collateral obtained during review of the adequacy of the allowance for ECL. For unsecured lending, the Bank performs comprehensive credit evaluation process before a loan is approved.

Impairment and provisioning policies

The Bank's credit quality mapping on loans is based on the standard BSP classifications. Impairment provisions, however, are recognized for financial reporting purposes only for losses that have been incurred at the reporting date based on objective evidence of impairment.

The Bank's maximum exposure to credit risk before collateral held or other credit enhancements (gross of allowance for ECL and unearned discount) as at December 31 follows:

	Note	**2022**	2021
Financial assets at amortized cost			
Due from BSP	*6*	**₱5,190,872**	₱388,225
Due from other banks	*7*	**50,314,477**	64,067,073
Investments at amortized cost	*8*	**1,445,798**	1,445,798
Loans and other receivables	*9*	**196,296,166**	173,916,494
Deposits	*12*	**848,888**	832,988
		₱254,096,201	₱240,650,578

Excessive risk concentration

Credit risk can arise whenever a significant number of borrowers have similar characteristics and are affected similarly by changes in economic or other conditions. Concentrations indicate the relative sensitivity of the Bank's performance to developments affecting a particular industry or geographic location. The Bank analyzes the credit risk concentration to an individual borrower, related group of accounts, industry, geographic, currency, term and security. To mitigate risk concentration, the Bank constantly checks for breaches in regulatory and internal limits. The Bank manages credit risk through a continuing review of credit policies, systems and procedures. The Bank is not exposed to credit concentration risk by geographic location in as much as all of its credit customers are situated across the Philippines.

The analyses of concentrations of credit risk by industry at the financial reporting date based on the carrying amount (gross of allowance for ECL and unearned discount) are shown below:

	2022				
	Due From BSP and Other Banks	**Loans and Other Receivables**	**Investments at Amortized Cost**	**Deposits**	**Total**
Wholesale and retail trade, construction, and personal and household goods	**₱-**	**₱112,534,646**	**₱-**	**₱-**	**₱112,534,646**
Financial intermediaries	**55,505,349**	**23,009,358**	**1,445,798**	**-**	**79,960,505**
Manufacturing	**-**	**14,615,387**	**-**	**-**	**14,615,387**
Real estate, renting and business activities	**-**	**9,875,316**	**-**	**848,888**	**10,724,204**
Agriculture, hunting and forestry	**-**	**12,161,401**	**-**	**-**	**12,161,401**
Hotels and restaurants	**-**	**4,727,916**	**-**	**-**	**4,727,916**
Transportation, storage and communication	**-**	**540,864**	**-**	**-**	**540,864**
Other community, social and personal service activities	**-**	**18,831,278**	**-**	**-**	**18,831,278**
	₱55,505,349	**₱196,296,166**	**₱1,445,798**	**₱848,888**	**₱254,096,201**

	2021				
	Due From BSP and Other Banks	Loans and Other Receivables	Investments at Amortized Cost	Deposits	Total
Wholesale and retail trade, construction, and personal and household goods	₱-	₱99,505,275	₱-	₱-	₱99,505,275
Financial intermediaries	64,455,298	19,188,851	₱1,445,798	-	85,089,947
Manufacturing	-	15,850,101	-	-	15,850,101
Real estate, renting and business activities	-	10,922,870	-	832,988	11,755,858
Agriculture, hunting and forestry	-	9,713,540	-	-	9,713,540
Hotels and restaurants	-	5,394,290	-	-	5,394,290
Transportation, storage and communication	-	119,926	-	-	119,926
Other community, social and personal service activities	-	13,221,641	-	-	13,221,641
	₱64,455,298	₱173,916,494	₱1,445,798	₱832,988	₱240,650,578

The aging analyses of financial assets (gross of allowance for ECL and unearned discount) are as follows:

	2022						
		Neither past due nor	Past due but not impaired				
	Total	impaired	30 days	31-90 days	91-180 days	> 180 days	Impaired
Financial assets at amortized cost							
Due from BSP	₱5,190,872	₱5,190,872	₱-	₱-	₱-	₱-	₱-
Due from other banks	50,314,477	50,314,477	-	-	-	-	-
Loans and other receivables	196,296,166	108,331,031	25,307,032	9,027,743	10,261,438	31,849,648	11,519,274
Deposits	848,888	848,888	-	-	-	-	-
Investments at amortized cost	1,445,798	1,445,798	-	-	-	-	-
	₱254,096,201	₱166,131,066	₱25,307,032	₱9,027,743	₱10,261,438	₱31,849,648	₱11,519,274

	2021						
		Neither past due nor	Past due but not impaired				
	Total	impaired	30 days	31-90 days	91-180 days	> 180 days	Impaired
Financial assets at amortized cost							
Due from BSP	₱388,225	₱388,225	₱-	₱-	₱-	₱-	₱-
Due from other banks	64,067,073	64,067,073	-	-	-	-	-
Loans and other receivables	173,916,494	64,192,823	52,692,693	22,647,328	14,779,431	8,908,953	10,695,266
Deposits	832,988	832,988	-	-	-	-	-
Investments at amortized cost	1,445,798	1,445,798	-	-	-	-	-
	₱240,650,578	₱130,926,907	₱52,692,693	₱22,647,328	₱14,779,431	₱8,908,953	₱10,695,266

Credit quality per class of financial assets

Due from BSP and other banks, Investments and other assets – based on the nature of the counterparty and internal rating system.

Certain loans are secured by real estate.

The credit quality of the Bank's financial assets that are neither past due nor impaired is considered to be of good quality and expected to be collectible without incurring any credit losses. However, the Bank provides for allowance for ECL not only on impaired accounts but also on past due but not impaired and neither past due nor impaired accounts based on its assessment of objective evidence of impairment and provisioning guidelines of the BSP.

The description of loan grades used by the Bank is as follows:

- High grade and low risk accounts are neither past due nor impaired accounts which are fully secured by collateral and with good loan collection status. This category includes credit grades 1-3. High grade accounts are those which have a high probability of collection, as evidenced by counterparties having the ability to meet their obligations and supported by lien on collaterals that is ready enforceable.

- Standard grade and medium risk accounts are neither past due nor impaired accounts and are partially secured. This category includes credit grades 4-5. The category includes loans for which collections are probable due to the reputation and the financial ability to pay of the counterparty but have been outstanding for considerable period of time.

- Substandard grade – accounts under watch list. These accounts warrant greater attention due to conditions affecting the borrower, the industry, or the economic environment. The borrower incurs a loss or repayments routinely fall past due.

The tables below show the credit quality by class of financial assets (gross of allowance for ECL and unearned discount) as at December 31:

	2022			
	Neither Past Due nor Impaired			
	High Grade	Standard Grade	Substandard Grade	Total
Financial assets at amortized cost				
Due from BSP	₱5,190,872	₱-	₱-	5,190,872
Due from other banks	50,314,477	-	-	50,314,477
Loans and other receivables	94,766,569	13,360,158	204,304	108,331,031
Deposits	848,888	-	-	848,888
Investments at amortized cost	1,445,798	-	-	1,445,798
	₱152,566,604	₱13,360,158	₱204,304	₱166,131,066

	2021			
	Neither Past Due nor Impaired			
	High Grade	Standard Grade	Substandard Grade	Total
Financial assets at amortized cost				
Due from BSP	₱388,225	₱-	₱-	₱388,225
Due from other banks	64,067,073	-	-	64,067,073
Loans and other receivables	38,938,401	20,606,881	4,647,541	64,192,823
Deposits	832,988	-	-	832,988
Investments at amortized cost	1,445,798	-	-	1,445,798
	₱105,672,485	₱20,606,881	₱4,647,541	₱130,926,907

With the level of allowance for ECL on loans and other receivables, management believes that the Bank has sufficient allowance to manage any risk from non-collection or non-collateral of the Bank's loans and other receivables.

(b) Market risk

The Bank's market risk exposure arises from adverse movements in interest rates and prices of assets that are either carried in the banking book or held as positions in the trading book (financial instruments), mismatches in the contractual maturity of its assets and liabilities, embedded optionally in the loans and deposit due to pre-terminations, and potential cash run-off arising from changes in overall liquidity and funding conditions in the market. As at December 31, 2022 and 2021, the Bank has not engaged in trading financial instruments.

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

Interest rate risk

Interest rate arises from the possibility that changes in interest rates will affect future cash flows or fair values of financial instruments. The Bank's interest rate exposure originates from its deposit taking, lending and investment activities because the income derived from these activities such as interest income and expense are sensitive to changes in interest rates.

Interest rate risk management comes in the forms of proper matching of asset and liability products in terms of tenor, yield and interest rate sensitivity.

The Bank follows a prudent policy on managing its resources and liabilities so as to ensure that exposure to fluctuations in interest rates is kept within acceptable limits.

The maturity profile of the Bank's interest-bearing financial instruments (gross of allowance for ECL and unearned discount) follows:

	2022			
	Within 1 year	**>1 – 5 years**	**> 5 years**	**Total**
Financial assets				
Due from other banks	**₱50,314,477**	**₱-**	**₱-**	**₱50,314,477**
Investments at amortized cost	**1,445,798**	**-**	**-**	**1,445,798**
Loans and other receivables	**94,094,681**	**102,201,485**	**-**	**196,296,166**
Financial liability				
Deposit liabilities	**119,801,647**	**26,040,001**	**-**	**145,841,648**

	2021			
	Within 1 year	>1 – 5 years	> 5 years	Total
Financial assets				
Due from other banks	₱64,067,073	₱-	₱-	₱64,067,073
Investments at amortized cost	1,445,798	-	-	1,445,798
Loans and other receivables	93,107,402	80,809,092	-	173,916,494
Financial liability				
Deposit liabilities	125,641,247	23,600,002	-	149,241,249

The interest rates for the interest-bearing financial instruments are as follows:

	2022		
	Within 1 year	**>1 - 5 years**	**>5 years**
Due from other banks	**0.125% - 0.625%**	**-**	**-**
Investments at amortized cost	**2.10% - 2.65%**	**-**	**-**
Loans and other receivables	**6% - 48%**	**12% - 48%**	**-**
Deposit liabilities	**.50%**	**1.50% to 7.50%**	**-**

	2021		
	Within 1 year	>1 - 5 years	>5 years
Due from other banks	.02% - 1.75%	-	-
Investments at amortized cost	2.10% - 2.65%	-	-
Loans and other receivables	6.5%-48%	12% - 48%	-
Deposit liabilities	.50%	4% - 7.5%	-

As at December 31, 2022 and 2021, the Bank is not sensitive to significant fluctuations in interest rates since most of the financial instruments have fixed rates.

Foreign currency risk

The Bank does not have financial assets and financial liabilities as at December 31, 2022 and 2021 that are denominated in foreign currency, hence, it is not exposed to foreign currency risk.

Price risk

The Bank has no exposure to market price risk since it has no trading portfolio arising from holding of government and other debt securities as at December 31, 2022 and 2021.

Liquidity risk

Liquidity risk is generally defined as the current and prospective risk to earnings or capital arising from the Bank's inability to meet its obligations when they fall due without incurring unacceptable losses or costs.

The Bank's Management Committee is responsible for the overall management and oversight of the Bank's liquidity profile, while the day-to-day management of liquidity is assumed by the Treasury Department. A cash flow mismatch analysis is used to measure the Bank's liquidity. A maturity profile is maintained to determine the cumulative net excess or deficit of funds at appropriate time bands. Net cumulative outflow limits have been put in place to ensure that the Bank's funding structure requirements are not strained.

The maturity grouping of financial instruments is based on the remaining period from the end of the financial reporting period to the contractual maturity date. For financial liabilities, when the counterparty has a choice of when the amount is to be paid, the liability is allocated to the earliest period in which the Bank can be required to pay.

The following tables summarize the maturity profile of financial instruments based on contractual undiscounted cash flows (gross of allowance for ECL and unearned discount) as at December 31:

	2022				
	Total	**3 Months and Below**	**> 3 Months to 1 Year**	**> 1 to 5 Years**	**> 5 Years**
Financial assets					
Cash and other cash items	**₱4,979,648**	**₱4,979,648**	**₱-**	**₱-**	**₱-**
Due from BSP	**5,190,872**	**5,190,872**	**-**	**-**	**-**
Due from other banks	**50,314,477**	**50,314,477**	**-**	**-**	**-**
Investments	**1,445,798**	**1,445,798**	**-**	**-**	**-**
Loans and other receivables	**196,296,166**	**41,600,013**	**52,494,668**	**102,201,485**	**-**
Deposits	**848,888**	**848,888**	**-**	**-**	**-**
	259,075,849	**104,379,696**	**52,494,668**	**102,201,485**	**-**
Financial liabilities					
Deposit liabilities	**145,841,648**	**98,182,982**	**21,618,665**	**26,040,001**	**-**
Bills payable	**5,000,000**	**-**	**5,000,000**	**-**	**-**
Accounts payable and other liabilities*	**7,687,114**	**7,687,114**	**-**	**-**	**-**
Redeemable preferred shares	**3,478,800**	**3,478,800**	**-**	**-**	**-**
	162,007,562	**109,348,896**	**26,618,665**	**26,040,001**	**-**
Net financial assets (liabilities)	**₱97,068,287**	**(₱4,969,200)**	**₱25,876,003**	**₱76,161,484**	**₱-**

**Excluding government liabilities and miscellaneous liabilities.*

	2021				
	Total	3 Months and Below	> 3 Months to 1 Year	> 1 to 5 Years	> 5 Years
Financial assets					
Cash and other cash items	₱2,682,394	₱2,682,394	₱-	₱-	₱-
Due from BSP	388,225	388,225	-	-	-
Due from other banks	64,067,073	64,067,073	-	-	-
Investments	1,445,798	1,445,798	-	-	-
Loans and other receivables	173,916,494	50,113,264	42,994,138	80,809,092	-
Other assets	832,988	832,988	-	-	-
	243,332,972	119,529,742	42,994,138	80,809,092	-
Financial liabilities					
Deposit liabilities	149,241,249	71,380,686	54,260,561	23,600,002	-
Accounts payable and other liabilities*	3,975,585	3,975,585	-	-	-
Redeemable preferred shares	3,478,800	3,478,800	-	-	-
	156,695,634	78,835,071	54,260,561	23,600,002	-
Net financial assets (liabilities)	₱86,637,338	₱40,694,671	(₱11,266,423)	₱57,209,090	₱-

**Excluding government liabilities and miscellaneous liabilities.*

The table below shows the actual liquidity metrics of the Bank:

	2022	2021
Leverage ratio	**31.69%**	33%
Minimum liquidity ratio	**34.93%**	41%
Total exposure measure	**₱248,700,511**	₱234,034,866

26. Capital Management

The primary objectives of the Bank's capital management are to ensure that it complies with externally-imposed capital requirements and that it maintains strong credit ratings and healthy capital ratios in order to support its business and to maximize shareholders' value.

The Bank manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of its activities. No changes were made in the objectives, policies and processes of the Bank from previous years.

Regulatory qualifying capital
Under existing BSP regulations, the determination of the Bank's compliance with regulatory requirements and ratios is based on the amount of the Bank's "unimpaired capital" (regulatory net worth) for reporting to the BSP, which is determined on the basis of regulatory accounting policies which differ from PFRSs in some respects.

The BSP sets and monitors compliance with minimum capital requirements by banks. In implementing current capital requirements, the BSP has issued Circular No. 538 which implemented the Revised Risk-Based Capital Adequacy Framework under Basel II effective July 1, 2007. It requires the Bank to maintain a prescribed risk-based capital adequacy ratio (expressed as a percentage of qualifying capital to risk weighted assets) of not less than 10%.

Stand-alone thrift banks, rural banks and cooperative banks are covered by a separate risk-based capital adequacy framework referred to by the BSP as the Basel 1.5 framework which is a simplified version of Basel II in view of the simple operations of these covered banks. The implementing guidelines of Basel 1.5 are contained in Circular Nos. 688 and 740 datedMay 26, 2010 and November 16, 2011, respectively, which took effect on January 1, 2012. Consequently, the new risk-based capital adequacy framework is used to compute the capital-to-risk assets ratio (CAR).

The details of the Bank's CAR as reported to the BSP follow:

	2022	2021
Tier 1 (Core) capital		
Common shares	**₱160,082,208**	₱153,556,108
Deficit	**(81,260,916)**	(77,363,240)
	78,821,292	76,192,868
Tier 2 (Supplementary) capital		
Redeemable preferred shares	**3,478,800**	3,478,800
General loan loss provision	**1,443,982**	529,362
	4,922,782	4,008,162
Total qualifying capital	**₱83,744,074**	₱80,201,030
Risk-weighted assets	**₱288,297,390**	₱283,565,227
CAR	**29.05%**	28.28%

The Bank has exceeded the minimum risk-based capital adequacy ratio, expressed as a percentage of qualifying capital to risk-weighted assets, of not less than 10% as required by the BSP; its CAR being 29.05% and 28.28% as of December 31, 2022 and 2021, respectively.

The details of the Bank's CAR as at December 31 based on the audited financial statements follow:

	2022	2021
Tier 1 (Core) capital		
Common shares	**₱160,082,208**	₱153,556,108
Deficit	**(81,723,393)**	(85,024,152)
	78,358,815	68,531,956
Tier 2 (Supplementary) capital		
Redeemable preferred shares	**3,478,800**	3,478,800
General loan loss provision	**1,443,982**	529,362
	4,922,782	4,008,162
Total qualifying capital	**₱83,281,597**	₱72,540,118
Risk-weighted assets	**₱288,297,390**	₱283,565,227
CAR	**28.89%**	25.58%
Tier 1 ratio	**27.18%**	24.17%
CET 1 ratio	**27.18%**	24.17%

The BSP, in its Circular 854 dated October 29, 2014 and effective on November 13, 2014, increased the minimum capital requirement for all bank categories to ensure that banks stand on a strong capital base to support a threshold scale of operations to operate viably and service effectively the needs of clients. As provided by the Circular, banks shall be allowed five years from the effectivity date to meet the required minimum capital requirements. Banks which are not meeting the minimum capital must submit to the BSP an acceptable capital build-up program for this purpose within one year from the effectivity of the Circular. The new minimum capital requirement for the Bank is ₱75,000,000.

Failure to comply with the new minimum capital requirement by November 19, 2019 may subject the Bank to appropriate actions and/or may be imposed with sanctions by the BSP. In order to ensure that the Bank constantly complies with this requirement, the management has established a capital build up plan (the "Plan") that was approved by the Board. According to the Plan, starting 2018 the Bank will increase marketing efforts on the Microfinance and SME loan products to drive positive income. The Bank will also closely monitor past due accounts to improve collection and continuous disposal of foreclosed assets. In cases where the capital is not sufficient to meet the requirement, the Bank's shareholders have committed to contribute additional capital to cover any deficiencies.

Based on the aforesaid information, the Bank's capital as at December 31, 2022 meet the requirement above of new minimum capital requirement of ₱75,000,000.

27. Financial Assets and Financial Liabilities

The table below presents comparison by category of carrying amounts and fair values of the Bank's financial instruments as at December 31:

	2022		2021	
	Carrying Amount	**Fair Value**	Carrying Amount	Fair Value
Financial assets at amortized cost				
Cash and other cash items	**₱4,979,648**	**₱4,979,648**	₱2,682,394	₱2,682,394
Due from BSP	**5,190,872**	**5,190,872**	388,225	388,225
Due from other banks	**50,314,477**	**50,314,477**	64,067,073	64,067,073
Loans and other receivables, net	**172,943,664**	**172,943,664**	154,056,848	154,056,848
Other assets*	**848,888**	**848,888**	832,988	832,988
Investments	**1,445,798**	**1,445,798**	1,445,798	1,445,798
	235,723,347	**235,723,347**	223,473,326	223,473,326
Financial liabilities at amortized cost				
Deposit liabilities	**145,841,648**	**145,841,648**	149,241,249	149,241,249
Bills payable	**5,000,000**	**5,000,000**	-	-
Accounts payable and other liabilities**	**7,687,114**	**7,687,114**	4,969,105	4,969,105
Redeemable preferred shares	**3,478,800**	**3,478,800**	3,478,800	3,478,800
	162,007,562	**162,007,562**	157,689,154	157,689,154
Net financial assets	**₱73,715,785**	**₱73,715,785**	₱65,784,172	₱65,784,172

**Including deposits and petty cash fund*
***Excluding government liabilities and miscellaneous liabilities*

The carrying amounts of the financial assets and financial liabilities which are carried at amortized cost, are assumed to approximate their fair values due to their relatively short-term maturities and/or their being subject to an insignificant risk of changes in value.

None of the Bank's financial assets has been pledged as collateral for liabilities or contingent liabilities. The Bank has no contingent liabilities arising from off-balance sheet items as at December 31, 2022 and 2021.

28. Basic Quantitative Indicators of Financial Performance

The key financial performance indicators follow (in %):

	2022	2021
Return on average equity	**3.26**	(7.87)
Return on average assets	**1.01**	(2.70)
Net interest margin on average interest earnings assets	**8.28**	14.93

29. **Supplementary Information Required by the Bureau of Internal Revenue (BIR)**

Presented below is the supplementary information which is required by the BIR under its existing Revenue Regulations (RR) to be disclosed as part of the notes to the financial statements in addition to the disclosures mandated under PFRS.

RR NO. 15-2010

In compliance with the requirements of RR No. 15-2010 issued on November 25, 2010, hereunder are the information on taxes, duties and license fees paid or accrued during the taxable year ended December 31, 2022:

(a) Withholding taxes

Expanded withholding tax	**₱482,735**
Withholding taxes on compensation and benefits	**469,918**
Final withholding taxes on interest on deposits	**280,376**
	₱1,233,029

(b) Documentary stamp taxes

Loan instruments passed on to borrowers	**₱1,428,542**

(c) Other taxes and licenses

Gross receipts tax	**₱2,711,281**
Capital gains tax	**969,183**
Municipal license and permit fees	**158,323**
Real property tax	**119,028**
Documentary stamp tax	**93,761**
BIR annual registration	**1,500**
Others	**69,916**
	₱4,122,992

(d) Deficiency tax assessments and tax cases

As at December 31, 2021, the Bank has no pending litigation and tax court cases and has not received any tax assessment notices from the BIR.

RR NO. 34-2020

BIR issued RR No. 34-2020, Prescribing the Guidelines and Procedures for the Submission of BIR Form No. 1709, Transfer Pricing Documentation (TPD) and other Supporting Documents, Amending for this Purpose the Pertinent Provisions of RR Nos. 19-2020 and 21-2002, as amended by RR No. 15-2010, to streamline the guidelines and procedures for the submission of BIR Form No. 1709, TPD and other supporting documents. Section 2 of the RR enumerated the taxpayers required to file and submit the RPT Form, together with the Annual Income Tax Return.

The Bank is not covered by the requirements and procedures for related party transactions provided under RR 34-2020 for the year ended December 31, 2022.

30. Supplementary Information Required by the Bangko Sentral ng Pilipinas (BSP)

Presented below is the supplementary information required by the BSP under Section 174 (Appendix 55) of the BSP Manual of Regulations for Banks (MORB) to be disclosed as part of the financial statements based on BSP Circular No. 1074, *Amendments to Regulations on Financial Audit of Banks*.

a. Basic quantitative indicators of financial performance (see Note 28)

	2022	2021
Return on average equity	**3.26%**	(7.87%)
Net income (loss) after income tax	**2,432,396**	(5,503,445)
Average total equity	**74,626,563**	69,929,984
Return on average assets	**1.01%**	(2.67%)
Net income (loss) after income tax	**2,432,396**	(5,503,445)
Average total assets	**240,381,017**	205,765,237
Net interest margin	**8.28%**	14.93%
Net interest income	**33,323,531**	30,157,070
Average interest earning assets	**402,502,934**	202,002,757

b. Description of capital instruments issued (see Note 17 and 18)

	2022		2021	
	Amount	**No. of shares**	Amount	No. of shares
Common shares at ₱100 par value per share				
Authorized	**₱196,000,000**	**1,960,000**	₱196,000,000	1,960,000
Subscribed				
Balance as at January 1	**₱158,434,100**	**1,584,341**	₱153,834,000	1,538,340
Issued during the year	**6,526,100**	**65,261**	4,600,100	46,001
Balance as at December 31	**164,960,200**	**1,649,602**	158,434,100	1,584,341
Subscriptions receivable	**(4,877,992)**	**-**	(4,877,992)	-
Paid-up capital	**₱160,082,208**	**1,649,602**	₱153,556,108	1,584,341

	2022 and 2021	
	Amount	**No. of Shares**
Preferred shares at ₱100 par value per share		
Authorized	₱4,000,000	40,000
Issued and outstanding	₱4,000,000	40,000
Redemption at cost	(521,200)	(5,212)
At December 31	₱3,478,800	34,788

c. Significant credit exposures on loans to industry/economic sector (see Note 9 and 25)

The BSP considers that concentration of credit exists when the total loan exposure to a particular industry or economic sector exceeds 30% of the total loan portfolio. The Bank has credit concentration on wholesale and retail trade and agriculture, and on wholesale and retail trade, construction and personal and household goods in 2022 and 2021, respectively. Banks are also required by the BSP to set aside at least twenty-five percent (25%) of their total loanable funds for agriculture and agrarian reform credit in general, of which at least ten percent (10%) of the total loanable funds shall be made available for agrarian reform beneficiaries. Excess compliance with the ten percent (10%) agrarian reform credit may be used to offset a deficiency, if any, in the fifteen percent (15%) other agricultural credit, in general, but not vice versa.

In 2022 and 2021, the Bank did not meet the required minimum percentage for the agrarian reform credit, since it complied only 6.97% and 6.27%, respectively, of the total loanable funds made available for agrarian reform beneficiaries.

The information on the concentration of gross loans and advances to customers to industry as at December 31 follows:

	2022		2021	
	Amount	**%**	Amount	%
Wholesale and retail trade, construction, and personal and household goods	**₱112,534,646**	**64**	₱99,505,275	64
Manufacturing	**14,615,387**	**8**	15,850,101	10
Agriculture, hunting and forestry	**12,161,401**	**7**	9,713,540	6
Real estate, renting and business activities	**9,875,316**	**6**	10,922,870	75
Hotels and restaurants	**4,727,916**	**3**	5,394,290	3
Education	**84**	**-**	84	-
Transportation, storage and communication	**540,864**	**-**	119,926	-
Health and social work	**1,304,392**	**1**	143,874	-
Electric, gas and water	**1**	**-**	1	-
Other community, social and personal service activities	**18,831,278**	**11**	13,221,641	9
	₱174,591,285	**100**	₱154,871,602	100

The Bank analyzes the credit risk concentration to an individual borrower, related group of accounts, industry, geographic, currency, term and security. To mitigate risk concentration, the Bank constantly checks for breaches in regulatory and internal limits.

The BSP considers that loan concentration exists when the total loan exposure to a particular industry exceeds 30% of the total loan portfolio plus the outstanding interbank loans receivable or 10% of Tier 1 capital.

d. Breakdown of loans (see Note 9)

As to security

	2022	2021
Secured		
Real estate mortgage	**₱118,994,380**	₱90,691,535
Chattel mortgage	**32,389,314**	34,967,805
	151,383,694	125,659,340
Unsecured	**23,207,591**	29,212,262
	₱174,591,285	₱154,871,602

The amount and type of collateral required depend on the assessment of the credit risk by the Bank. Certain requirements regarding the acceptability of types of collateral and valuation are implemented by the Bank.

Secured loans, which are collateralized by real estate and chattel mortgages, have terms ranging from less than one year to 12 years in 2022 and 2021 with annual interest rates ranging from 6% to 45% and 12% to 42% in 2022 and 2021, respectively.

Unsecured loans are guaranteed by co-makers, who in the event of default will assume the loan balance. These loans have terms of 1 month to 10 years with annual interest rates ranging from 6.5% to 48% in 2022 and 2021.

As to maturity

Existing banking regulations allow banks with no unbooked valuation reserves and capital adjustments to exclude from non-performing classification those loans and advances classified as "Loss" in the latest examination of the BSP which are fully covered by allowance for ECL, provided, that the interest on said loans shall not be accrued.

Under banking regulations in 2018, loans, investments, receivables, or any financial asset shall be considered non-performing, even without any missed contractual payments, when it is considered impaired under existing accounting standards, classified as doubtful or loss, in litigation, and/or there is evidence that full repayment of principal and interest is unlikely without foreclosure of collateral, if any. All other loans, even if not considered impaired, shall be considered non-performing if any principal and/or interest are unpaid for more than ninety (90) days from contractual due date, or accrued interests for more than ninety (90) days have been capitalized, refinanced, or delayed by agreement.

Microfinance and other small loans with similar credit characteristics shall be considered non-performing after contractual due date or after it has become past due.

Restructured loans shall be considered non-performing. However, if prior to restructuring, the loans were categorized as performing, such classification shall be retained.

The performing loans of the Bank as at December 31 are as follows:

	2022	2021
Industrial	**₱67,916,180**	₱60,685,580
Commercial	**59,316,125**	61,362,541
Agrarian reform and other agricultural credit	**11,320,967**	9,713,494
Other	**703,038**	701,921
	₱139,256,310	₱132,463,536

The NPLs of the Bank as at December 31 are as follows:

	2022	2021
Commercial	**₱16,440,155**	₱13,456,476
Industrial	**14,072,826**	8,951,233
Agrarian reform and other agricultural credit	**4,821,682**	46
Other	**312**	311
	₱35,334,975	₱22,408,066

The NPLs of the Bank represent approximately 20% and 14% of the total loan portfolio as at December 31, 2022 and 2021, respectively.

The NPLs that are fully covered by allowance for ECL, as required by BSP, amounted to ₱8,231,804 and ₱5,408,014 as at December 31, 2022 and 2021, respectively.

Restructured receivables by contractual maturity dates are analyzed as follows:

	2022	2021
Due within 1 year	**₱4,144,786**	₱1,816,345
Due beyond 1 year but not beyond 5 years	**10,213,037**	11,600,957
	₱14,357,823	₱13,417,302

Restructured receivables earn annual interest rates ranging from 12% to 48% in 2022 and 2021.

Banks which have no unbooked valuation and capital adjustments as required by the BSP are authorized to exclude from non-performing classification those loans and advances classified as "loss" in the latest examination of the BSP which are fully covered by allowance for ECL, provided, that the interest on said loans shall not be accrued and that such loans shall also be deducted from the total loan portfolio for purposes of computation.

See Note 25 for the disclosure on maturity profile of loans and other receivables as at December 31, 2022 and 2021.

e. Information on related party loans (see Note 24)

None to report.

f. Aggregate amount of secured liabilities and assets pledged as security

None to report.

g. Nature and amount of contingencies and commitments arising from off-balance sheet items, transaction related contingencies, short-term self-liquidating trade-related contingencies arising from the movement of goods, sale and repurchase agreements not recognized in the balance sheet; interest and foreign exchange-rate related items; and other commitments.

None to report.