CANTILAN BANK, INC.
(A RURAL BANK)

FINANCIAL STATEMENTS
AND
MANAGEMENT LETTER

For the Years Ended December 31, 2022 and 2021

Contents

MOORE Roxas Cruz Tagle and Co.

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of **CANTILAN BANK, INC. (A RURAL BANK)** is responsible for the preparation and fair presentation of the financial statements including the schedules attached therein, for the years ended December 31, 2022 and 2021, in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the 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.

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

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

ROXAS CRUZ TAGLE & CO., the independent auditor appointed by the stockholders, has audited the financial statements of the company in accordance with the Philippine Standards on Auditing, and in its report to the stockholders or members, has expressed its opinion on the fairness of presentation upon completion of such audit.

Lt. Gen. William K. Hotchkiss, III (AFP,Ret.)
Chairman of the Board

Brig. Gen. Charles Y. Hotchkiss (AFP,Ret.)
President

Sheryl G. Asio
Treasurer

Signed this on the 31st day of August, 2023.

MOORE Roxas Cruz Tagle and Co.

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INDEPENDENT AUDITOR'S REPORT

The Board of Directors and Stockholders
Cantilan Bank, Inc. (A Rural Bank)
Orozco St., Magosilom, Cantilan, Surigao del Sur

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of **Cantilan Bank, Inc.** (A Rural Bank) (the "Bank") which comprise the statements of financial position as at December 31, 2022 and 2021, and the statements of income, statements of comprehensive income, statements of changes in equity and statements of cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information.

In our opinion, except for the effects of the matter described in the Basis for Qualified Opinion paragraph, the financial statements have been prepared in accordance with Philippine Financial Reporting Standards (PFRS), as modified by the application of the staggered booking of allowance for credit losses over a maximum period of five years, a financial reporting relief issued by the Bangko Sentral ng Pilipinas (BSP) and approved by the Securities and Exchange Commission (SEC).

Basis for Qualified Opinion

Based on the Bank's existing expected credit loss (ECL) model, the Bank had initially determined that the level of ECL relative to its outstanding loans and receivables as at December 31, 2022 amounted to ₱378.4 million, excluding the remaining unrecorded allowance of ₱64.9 million from the total allowance of ₱108.2 million that was approved for staggered booking by the BSP in 2020. However, the Bank had only recognized ₱276.6 million allowance while it is in the process of recalibrating its ECL model to factor the effects of the pandemic and other qualitative factors to its loan portfolio. Pending the results of the recalibration and recognition of the additional amount of ECL, we were unable to satisfy ourselves as to the fairness of the reported allowance of ECL and, consequentially, the net carrying amount of the Bank's loans and receivables as at December 31, 2022.

Emphasis of Matter

We also draw attention to Note 2, which indicates that the financial statements have been prepared in accordance with PFRS, as modified by the application of a financial reporting relief issued by the BSP and approved by the SEC in response to COVID-19 pandemic. The impact 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.

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 qualified opinion.

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, as modified by the application of the staggered booking of allowance for credit losses over a maximum period of five years, a financial reporting relief issued by the BSP and approved by the SEC, as described in Note 2 to the financial statements, 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, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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 audits.

Report on the Supplementary Information Required by the BSP and Bureau of Internal Revenue (BIR)

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information as disclosed in Notes 29 and 30 are presented for purposes of filing with the BSP and BIR, respectively, and is not a required part of the basic financial statements. Such information are the responsibility of management. The information have been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

ROXAS CRUZ TAGLE AND CO.

Aljuver R. Gamao
Partner
CPA Certificate No. 0126931
Tax Identification No. 944-910-315
BIR Accreditation No. 08-001682-015-2022, issued on January 5, 2022,
effective until January 4, 2025
SEC Accreditation No. 126931-SEC, Group A, issued on November 8, 2022,
effective for the audit of 2022 to 2026 financial statements of SEC covered institutions
BSP Accreditation No. 126931-BSP, Group A, issued on May 4, 2020,
effective for the audit of 2019 to 2023 financial statements of BSP covered institutions
PTR No. 2296856, issued on January 5, 2023, Cebu City

August 31, 2023
Cagayan de Oro City

CANTILAN BANK, INC. (A RURAL BANK)

STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2022 AND 2021

	Note	**2022**	2021
ASSETS			
Cash and other cash items	*5*	**₱339,144,121**	₱281,591,114
Due from Bangko Sentral ng Pilipinas (BSP)	*6*	**208,375,809**	68,596,056
Due from other banks	*7*	**140,815,994**	206,827,699
Loans and receivables – net	*8*	**1,333,230,459**	1,358,007,659
Financial assets at amortized cost	*9*	**43,915,207**	63,915,207
Bank premises, furniture, fixtures and equipment – net	*10*	**106,860,466**	91,339,341
Right-of-use assets – net	*11*	**15,527,947**	13,428,233
Investment properties – net	*12*	**27,685,635**	23,524,385
Intangible assets – net	*13*	**24,055,055**	22,992,719
Retirement plan asset	*18*	**2,464,775**	3,151,049
Deferred tax assets	*22*	**81,755,204**	80,711,681
Other assets – net	*14*	**48,322,841**	48,771,371
		₱2,372,153,513	₱2,262,856,514

LIABILITIES AND EQUITY			
Liabilities			
Deposit liabilities	*15*	**₱1,613,860,802**	₱1,677,064,313
Bills payable	*16*	**316,723,448**	134,760,755
Accrued expenses and other liabilities	*17*	**54,764,081**	75,953,869
Lease liabilities	*11*	**16,805,245**	15,128,411
Total Liabilities		**2,002,153,576**	1,902,907,348
Equity			
Capital stock	*19*	**281,897,832**	276,138,735
Additional paid-in capital	*19*	**2,585,357**	2,585,357
Retained earnings	*19*	**52,472,171**	48,914,685
Cumulative remeasurements on defined benefit obligation	*18*	**33,044,577**	32,310,389
Total Equity		**369,999,937**	359,949,166
		₱2,372,153,513	₱2,262,856,514

See Notes to the Financial Statements.

CANTILAN BANK, INC. (A RURAL BANK)

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

	Note	**2022**	2021
Interest income on			
Loans receivable	*8*	**₱239,233,617**	₱238,267,235
Financial assets at amortized cost	*9*	**2,178,000**	2,422,019
Due from other banks	*7*	**146,548**	226,889
		241,558,165	240,916,143
Interest expense on			
Deposit liabilities	*15*	**18,976,045**	20,378,728
Bills payable	*16*	**5,320,405**	920,326
Lease liabilities	*11*	**1,012,890**	1,310,744
		25,309,340	22,609,798
Net interest income		**216,248,825**	218,306,345
Provision for expected credit losses	*8*	**29,840,940**	24,535,691
Net interest income after provision for expected credit losses		**186,407,885**	193,770,654
Other operating income	*20*	**83,380,067**	114,368,380
Operating expenses			
Compensation and staff benefits	*21*	**107,487,332**	103,332,980
Depreciation and amortization	*10*	**34,403,257**	34,789,983
Security, messengerial and janitorial services		**21,265,051**	18,780,416
Taxes and licenses		**20,680,121**	20,679,588
Power, light and water		**9,543,805**	7,644,080
Communications		**6,822,682**	8,397,606
Stationery and supplies used	*14*	**5,240,995**	4,464,960
Travel and transportation		**5,085,774**	2,810,221
Insurance		**4,998,489**	5,005,993
Repairs and maintenance		**4,108,787**	3,444,618
Rent	*11*	**1,444,532**	1,681,189
Events and promotions		**1,385,058**	831,148
Trainings and seminars		**1,082,663**	374,916
Other operating expense	*21*	**42,077,228**	47,678,556
		265,625,774	259,916,254
Income before tax expense		**4,162,178**	48,222,780
Income tax expense	*22*	**604,692**	31,291,506
Net income		**₱3,557,486**	₱16,931,274
Earnings per share	*19*	**₱6.43**	₱32.34

See Notes to the Financial Statements.

CANTILAN BANK, INC. (A RURAL BANK)

STATEMENTS OF COMPREHENSIVE INCOME

FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

	Note	**2022**	2021
Net income		**₱3,557,486**	₱16,931,274
Other comprehensive income			
Items that will not be reclassified to profit or loss			
Actuarial gains on retirement benefits	*18*	**978,917**	5,809,032
Deferred tax effect	*22*	**(244,729)**	(1,452,258)
Effect of change in the effective tax rate	*22*	**-**	1,863,574
Other comprehensive income - net of tax		**734,188**	6,220,348
Total comprehensive income		**₱4,291,674**	₱23,151,622

See Notes to the Financial Statements.

CANTILAN BANK, INC. (A RURAL BANK)

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

	Note	Capital stock	Additional paid-in capital	Cumulative remeasurements on defined benefit obligation	Retained earnings	Total
Balance at January 1, 2022		**₱276,138,735**	**₱2,585,357**	**₱32,310,389**	**₱48,914,685**	**₱359,949,166**
Total comprehensive income						
Net income for the year		**-**	**-**	**-**	**3,557,486**	**3,557,486**
Other comprehensive income	*18*	**-**	**-**	**734,188**	**-**	**734,188**
Total comprehensive income		**-**	**-**	**734,188**	**3,557,486**	**4,291,674**
Issuance of shares	*19*	**5,759,097**	**-**	**-**	**-**	**5,759,097**
Balance at December 31, 2022		**₱281,897,832**	**₱2,585,357**	**₱33,044,577**	**₱52,472,171**	**₱369,999,937**
Balance at January 1, 2021		₱258,888,735	₱2,039,392	₱26,090,041	₱31,983,411	₱319,001,579
Total comprehensive income						
Net income for the year		-	-	-	16,931,274	16,931,274
Other comprehensive income	*18*	-	-	6,220,348	-	6,220,348
Total comprehensive income		-	-	6,220,348	16,931,274	23,151,622
Issuance of shares	*19*	17,250,000	545,965	-	-	17,795,965
Balance at December 31, 2021		₱276,138,735	₱2,585,357	₱32,310,389	₱48,914,685	₱359,949,166

See Notes to the Financial Statements.

CANTILAN BANK, INC. (A RURAL BANK)

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

	Notes	**2022**	2021
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before tax		**₱4,162,178**	₱48,222,780
Adjustments for:			
Depreciation and amortization	*10*	**34,403,257**	34,789,983
Provision for expected credit losses	*8*	**29,840,940**	24,535,691
Interest expense	*11,15,16*	**25,309,340**	22,609,798
Provision for retirement benefits	*18*	**1,665,191**	2,587,240
Provision for impairment losses on investment properties	*12*	**46,839**	26,303
Gain on lease modification	*11,20*	**(106,042)**	-
Gain from sale of investment properties	*12,20*	**(3,402,166)**	(1,631,445)
Reversal of provision for ECL	*8*	**-**	(48,317,435)
Amortization of discount on financial assets at amortized cost	*9*	**-**	(31,384)
Operating income before working capital changes		**91,919,537**	82,791,531
Changes in operating assets and liabilities			
Decrease (increase) in:			
Loans and receivables		**(14,043,708)**	(58,364,195)
Other assets		**2,784,515**	(4,239,635)
Decrease in:			
Deposit liabilities		**(63,203,511)**	(62,297,094)
Accrued expenses and other liabilities		**(17,836,778)**	(17,068,376)
Cash used for operating activities		**(379,945)**	(59,177,769)
Interest expense paid		**(27,649,460)**	(29,365,972)
Income taxes paid	*22*	**(4,228,922)**	(4,926,418)
Contribution to the plan asset	*18*	**-**	(134,232)
Net cash used in operating activities		**(32,258,327)**	(93,604,391)
CASH FLOWS FROM INVESTING ACTIVITIES			
Maturity of financial assets at amortized cost	*9*	**20,000,000**	60,156,000
Additions to financial asset at amortized cost	*9*	**-**	(40,123,000)
Acquisitions of BPFFE	*10*	**(33,299,755)**	(11,305,275)
Acquisitions of intangible assets	*13*	**(9,874,476)**	(7,300,885)
Proceeds from sale of investment properties	*12*	**7,853,848**	3,177,216
Net cash provided by (used in) investing activities		**(15,320,383)**	4,604,056
CASH FLOWS FROM FINANCING ACTIVITIES			
Payment of bills payable	*16*	**(149,971,983)**	(65,571,338)
Payment for lease liabilities	*11*	**(8,822,025)**	(7,967,590)
Proceeds from availments of bills payable	*16*	**331,934,676**	147,205,000
Collection of stock subscriptions	*19*	**5,759,097**	17,795,965
Net cash provided by financing activities		**178,899,765**	91,462,037
NET INCREASE IN CASH AND CASH EQUIVALENTS		**131,321,055**	2,461,702
CASH AND CASH EQUIVALENTS, JANUARY 1	*5,6,7*	**557,014,869**	554,553,167
CASH AND CASH EQUIVALENTS, DECEMBER 31*	*5,6,7*	**₱688,335,924**	₱557,014,869

Forward

	Notes	2022	2021
SUPPLEMENTAL INFORMATION ON SIGNIFICANT NONCASH FINANCING AND INVESTING ACTIVITIES			
Increase in 'Investment properties' due to foreclosures of real properties in settlement of loans	*12*	**₱8,979,968**	₱3,034,439
Decrease in 'Loans and receivables' due to foreclosures of real properties in settlement of loans		**(8,979,968)**	(3,034,439)
Increase in 'Right-of-use assets' due to new leases during the year	*11*	**8,202,705**	-
Increase in 'Lease liabilities' due to new leases during the year	*11*	**(8,202,705)**	-
		₱-	₱-

See Notes to the Financial Statements.

**Cash and cash equivalents consists of cash and other cash items, due from BSP and due from other banks.*

NOTES TO THE FINANCIAL STATEMENTS
AS AT AND FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

1. **Reporting Entity**

Corporate Information
Cantilan Bank, Inc. (A Rural Bank), ("the Bank"), is organized under the laws and regulations governing the establishments and regulations of Rural Banks in the Philippines under Republic Act (R.A.) No. 720, as amended by R.A. No. 7353 *(Rural Act of 1992)*.

Its 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; to sell, solicit or market insurance products and services as an insurance agent especially for microinsurance products issued by life and non-life insurance companies, authorized by the Insurance Commission, in accordance with Bangko Sentral ng Pilipinas (BSP) rules and regulations; to have and exercise all authority and powers, to do and perform all acts, and to transmit all businesses which may legally be had or done by rural banks organized under and in accordance with the Rural Bank 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 such territory, as may be determined by the Monetary Board of the BSP.

The Bank is registered with the Securities and Exchange Commission (SEC) on March 20, 1980.

The Bank's registered principal place of business is Orozco Street, Magosilom, Cantilan, Surigao del Sur. As at December 31, 2022, the Bank has 25 branches and 22 branch lite units (BLUs) dispersed in the provinces of Surigao del Sur, Surigao del Norte, Agusan del Sur, Agusan del Norte, Southern Leyte, Misamis Oriental, Davao Oriental, Davao del Norte, Davao del Sur, Davao de Oro and also in the cities of Bayugan, Butuan, Tandag, Surigao, Davao, Tagum, Gingoog, Malaybalay, and Ormoc.

Approval of the Release of the Financial Statements
The accompanying financial statements of the Bank as at and for the years ended December 31, 2022 and 2021 were approved and authorized for issue by the BOD on August 31, 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 staggered booking of provision for expected credit losses for a maximum period of five (5) years, a financial reporting relief issued by the BSP and approved by the SEC in response to the COVID-19 pandemic. The relief affects the 2022 and 2021 financial statements.

The relevant information related to the availment of the relief as at and for the years ended December 31, 2022 and 2021, as approved by the BSP in its letter dated May 31, 2021, follows:

a. The impact on the affected financial statement line items as at and for the years ended December 31, 2022 and 2021 if the provision for expected credit losses was measured and recorded in accordance with PFRS follows:

	Impact if the Relief is not Adopted	
Financial statement line item	**2022**	**2021**
Loans and receivables – net	Decrease by ₱64,926,086	Decrease by ₱86,568,115
Allowance for expected credit losses (ECL)	Increase by ₱64,926,086	Increase by ₱86,568,115
Deferred tax asset	Increase by ₱16,231,522	Increase by ₱21,642,029
Retained earnings	Decrease by ₱48,694,564	Decrease by ₱64,926,086
Provision for ECL	Increase by ₱64,926,086	Increase by ₱86,568,115
Income tax benefit	Increase by ₱16,231,522	Increase by ₱21,642,029

b. The allowance recognized pertaining to the amount approved for staggered booking amounted to ₱21,642,029 both in 2022 and 2021. Based on the approval from the BSP, the amount approved for staggered booking shall be immediately reflected in the month-end supplementary report following the receipt of approval of the BSP.

c. Balance of unrecognized ECL amounted to ₱64,926,086 and ₱86,568,115 as at December 31, 2022 and 2021, respectively.

d. Excess provision was reversed in 2021 after the Bank complied with the minimum loan loss provision required by PFRS 9 (see Note 8).

e. As at December 31, 2022, the Bank did not record the related provision for the year pending the results of the recalibration and recognition of the additional amount of ECL.

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 also the functional currency of the Bank. All values are rounded off to the nearest Peso, except when otherwise indicated.

3. Significant Accounting Policies

Adoption of New and 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. This amendment is applied retrospectively.

- 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.

New and Amended PFRS Issued but Not Yet Effective
Relevant new and 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:

- PFRS 17, *Insurance Contracts*. This standard will replace PFRS 4, *Insurance Contracts.* It requires insurance liabilities to be measured at current fulfillment value and provides a more uniform measurement and presentation approach to achieve consistent, principle-based accounting for all insurance contracts. It also requires similar principles to be applied to reinsurance contracts held and investment contracts with discretionary participation features issued. In June 2020, the IASB issued amendments to the standard, including a deferral of its effective date to 1 January 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.

<u>Financial Assets and Financial Liabilities</u>

Date of Recognition. The Bank recognizes a financial asset or a financial liability in the statements 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 and 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 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" 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 solely payments of principal and interest 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 impairment, 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. Gains and losses are recognized in profit or loss when the financial assets are derecognized and through amortization process.

As at December 31, 2022 and 2021, the Bank's cash and other cash items, due from BSP, due from other banks, loans and receivables - net, financial assets at amortized cost and refundable deposits are included under this category (see Notes 5, 6, 7, 8, 9 and 14).

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 solely payments of principal and interest on the principal amount outstanding.

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 effective interest rate. 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 liabilities arising from its deposit liabilities, bills payable, lease liabilities, accrued expenses and other liabilities (excluding government liabilities) are included under this category (see Notes 11, 15, 16 and 17).

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

Overview of the Expected Credit Losses (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 of the financial asset since origination. Otherwise if a significant increase in credit risk 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, treasury accounts, 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 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 a specified day 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 significant increase in credit risks since initial recognition, the Bank shall revert to recognizing a 12-month ECL.

Staging assessment

For non-credit-impaired financial assets:

- Stage 1 is comprised of all non-impaired financial assets which have not experienced a significant increase in credit risk since initial recognition. The Bank recognizes a 12-month ECL for Stage 1 financial assets.
- Stage 2 is comprised of all non-impaired financial assets which have experienced a significant increase in credit risk 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 assets. These are recorded at fair value at original recognition and interest income is subsequently recognized based on a credit-adjusted effective interest rate (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, 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.

Debt investment securities measured at FVOCI

The ECL for debt securities at FVOCI do not reduce the carrying amount of these financial assets in the statement of financial position, which remains at fair value. Instead, an amount equal to the allowance that would arise if the assets were measured at amortized cost is recognized in OCI as an accumulated impairment amount, with a corresponding charge to profit or loss. The accumulated loss recognized in OCI is recycled to profit or loss upon derecognition of these financial assets.

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 statements 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 effective interest rate, 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 statements 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 statements 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 statements 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.

Bank premises, furniture, fixtures and equipment

Land is stated at cost less any impairment in value and all other depreciable bank premises, furniture, fixtures and equipment are stated at cost less accumulated depreciation and amortization and any impairment losses. Costs comprise its construction cost or purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditures incurred after the fixed assets have been put into operation, such as repairs and maintenance, are normally charged to operations in the period in which costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of the asset beyond its originally assessed standard of performance, the expenditures are capitalized as an additional cost of the asset.

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

Category	Estimated useful life
Buildings	15 years
Furniture and fixtures	2 to 5 years
Transportation equipment	5 to 10 years
Leasehold rights and improvements	5 to 10 years
Information technology	5 to 20 years

Leasehold improvements are amortized over the term of the lease or the life of the improvements, whichever is shorter.

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

An item of bank premises, furniture, fixtures and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in profit or loss in the period the item is derecognized.

Fully depreciated assets are retained in the accounts until they are no longer in use and no further depreciation is charged to profit or loss.

Leases

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 if 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.

This policy is applied to contracts entered into, or changed, on or after January 1, 2019.

At the inception or on reassessment of a contract that contains a lease component, the Bank allocates the consideration in the contract to each lease component on the basis of their relative stand-alone prices (*or* has not elected to separate non-lease components and account for the lease and non-lease components as a single lease component).

For contracts entered into before January 1, 2019, the Bank determines whether an arrangement is or contains a lease based on whether of:

- fulfillment of the arrangement was dependent on the use of a specific asset or assets;
- the arrangement had conveyed a right to use the asset. An arrangement conveyed the right to use the asset if one of the following was met;
- the purchaser had the ability or right to operate the asset while obtaining or controlling more than an insignificant amount of output;
- the purchaser had the ability or right to control physical access to the asset while obtaining or controlling more than an insignificant amount of the output; or
- facts and circumstances indicated that it was remote that other parties would take more than an insignificant amount of output.

Bank as a lessee. The Bank recognizes a right-of-use asset and lease liability at the date of initial application for leases previously classified as an operating lease under PAS 17.

The right-of-use asset is initially measured at cost, which comprises the initial amount of lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method over the shorter of the estimated useful life of 5 to 10 years or the lease term.

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's 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 and leases of low-value assets. The Bank applies the short-term lease recognition exemption to its short-term leases of buildings (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). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered to be low value. Lease payments on short-term leases and leases of low-value assets are recognized as expense on a straight-line basis over the lease term.

The Bank presents its right-of-use assets and lease liabilities as a separate line item in the statements of financial position.

In the comparative period, leases which do not transfer to the Bank substantially all the risks and rewards of ownership of the asset are classified as operating leases and were not recognized in the Bank's statements of financial position. Payments made under operating leases were recognized in profit or loss on a straight-line basis over the lease term. Lease incentives received were recognized as an integral part of the total lease expense over the lease term.

The Bank as a lessor. Leases where the Bank does not transfer substantially all the risks and rewards of ownership of the assets are classified as operating leases. Rent income from operating leases is recognized as income on a straight-line basis over the lease term.

<u>Investment Properties</u>
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 of 10 years 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>Intangible assets</u>
An intangible asset is measured initially at cost. An intangible asset is recognized if, and only if: (a) it is probable that the expected future economic benefits that are attributable to the asset will flow to the Bank; and (b) the cost of the asset can be measured reliably.

Intangible assets consist of the Bank's computer software and other licenses which were separately acquired. The cost of a separately acquired intangible asset comprises: (a) its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates; and (b) any directly attributable cost of preparing the asset for its intended use.

After initial recognition, intangible assets are carried at its cost less any accumulated amortization and any accumulated impairment losses. The depreciable amount of an intangible asset with a finite useful life is allocated on a systematic basis over its useful life. Amortization begins when the asset is available for use (i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by management). The Bank assesses the probability of expected future economic benefits using reasonable and supportable assumptions that represent management's best estimate of the set of economic conditions that will exist over the useful life of the asset.

Amortization is computed using the straight-line method over the estimated useful life of the asset as follows:

Category	Estimated useful life
Computer software	15 years
Other licenses	3-5 years

The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each financial year-end. If the expected useful life of the asset is different from previous estimates, the amortization period will be changed accordingly. If there has been a change in the expected pattern of consumption of the future economic benefits embodied in the asset, the amortization method will be changed to reflect the changed pattern. Such changes are accounted for as changes in accounting estimates in accordance with PAS 8.

An intangible asset is derecognized: (a) on disposal; or (b) when no future economic benefits are expected from its use or disposal. The gain or loss arising from the derecognition of an intangible asset is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the asset, which is recognized in profit or loss when the asset is derecognized.

Impairment of non-financial assets
The carrying amounts of the Bank's non-financial assets such as bank premises, right-of-use assets, furniture, fixtures and equipment, investment properties and intangible 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. If any such indication exists, the asset's recoverable amount is estimated.

An impairment loss is recognized in profit or loss whenever the carrying amount of an asset or its cash generating unit exceeds its recoverable amount.

The recoverable amount of a non-financial asset is the greater of the asset's fair value less costs to sell and its value in use. The fair value less costs to sell is the amount obtainable from the sale of 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. For an asset that does not generate cash flows largely independent of those assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized. Reversals of impairment are recognized in profit or loss.

Fair Value Measurements
The Bank measures a number of financial and non-financial assets and liabilities at fair value at each reporting date.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either: (a) in the principal market for the asset or liability; or (b) in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or most advantageous market must be accessible to the Bank.

The fair value of an asset or liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their best economic interest.

The Bank uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

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

- Level 1: quoted prices (unadjusted) in active market for identical assets or liabilities;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and
- Level 3: inputs for the asset or liability that are not based on observable market data.

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Bank determines whether transfers have occurred between levels in the hierarchy by re-assessing the categorization at the end of each reporting period.

For the purpose of fair value disclosures, the Bank has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy.

Other assets

Other assets include prepaid expenses, stationery and supplies, advances to suppliers, prepaid income tax, restricted funds, refundable deposits, petty cash fund, and others.

Refundable deposits. Refundable deposits are classified as financial asset at amortized costs.

Stationery and supplies. Stationery and supplies represent items of various supplies already purchased but not yet used/consumed. These are recorded as asset and measured at the amount or cash paid. Subsequently, these are charged to profit or loss as they are consumed.

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

Restricted funds. Restricted funds represent funds which are restricted for a specific purpose. These are recorded as asset and measured equal to the corresponding liability.

Provisions

Provisions are recognized when the Bank has a present obligation (legal or constructive) as a result of past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and reliable estimate can be made of the amount of the obligation. A present obligation arises from the presence of a legal or constructive commitment that has resulted from past events. The amount recognized is the best estimate of the expenditure required to settle the present obligation at financial reporting date, that is, the amount the Bank would rationally pay to settle the obligation to a third party.

Contingencies

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

Revenue recognition

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 be met before revenue is recognized:

Interest income on loan receivables and sales contract receivable (SCR). For all financial instruments measured at amortized cost, interest income is recorded at the EIR, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options), including any fees or incremental costs that are directly attributable to the instrument and are an integral part of the EIR. The adjusted carrying amount is calculated based on the original EIR. The change in carrying amount is recorded as 'Interest income'. Loan commitment fees that are likely to be drawn down are deferred (together with any incremental costs) and recognized as an adjustment to the EIR of the loan.

When a financial asset becomes credit-impaired, the Bank calculates interest income by applying the EIR to the net amortized cost of the financial asset. If the financial asset cures and is no longer credit-impaired, the Bank reverts to calculating interest income on a gross basis.

Interest income on bank deposits and investment. Interest income on bank deposits and investments is recognized as the interest accrues usually on a time proportion basis taking into account the effective yield on the asset or EIR. Interest income earned from investments, deposits and placements is presented net of applicable tax withheld by banks.

Service charges and fees from loans. Service charges and fees that are directly related to the acquisition and origination of loans are included in the cost of the receivable and are recognized as income over the term of the loan.

Service charges and fees from providing transaction services. Service charges and fees other than those directly related to acquisition and origination of loans or those arising from other transaction services – such as western union money transfer, conditional cash transfer and others - are recognized as income when services have been rendered.

Gains (losses) from sale/derecognition of non-financial assets. Gains (losses) on sale/derecognition of non-financial assets are determined as the difference between the net selling price and the carrying amount of the asset, which are recognized in profit or loss in the period of the retirement or disposal.

Recovery on charged-off assets. Income arising from collections on accounts or recoveries from impairment of items previously written off are recognized in the year of recovery. Reversals of previously recognized allowance for ECL are also presented as part of recovery on charged-off assets.

Miscellaneous income. This includes inspection and filing fees collected relative to the loans released and penalties on past due loans and other income, which are normally recorded at the time these are earned.

<u>Interest expense</u>
Interest expense on deposit liabilities is recognized in profit or loss when incurred. It is calculated using the effective interest method and is credited to the depositors' account regularly.

Interest incurred on bills payable and other borrowings is recognized in profit or loss when incurred.

<u>Cost and expense recognition</u>
Costs and expenses are recognized in profit or loss: (a) when a decrease in future economic benefits related to a decrease in an asset or an increase in a liability has arisen that can be measured reliably; (b) on the basis of a direct association between the costs incurred and the earning of specific items of income; (c) 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 (d) 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 statements of financial position as an asset. Operating expenses are costs attributable to the general and administrative activities of the Bank.

<u>Employee benefits</u>

Short-term employee benefits. Short-term employee benefits are recognized as expense in the period when the economic benefits are given. Unpaid benefits at the end of the accounting period are recognized as accrued expense while benefits paid in advance are recognized as prepayment to the extent that it will lead to a reduction in future payments.

Retirement benefits. The Bank has a non-contributory and of the final salary defined benefit pension plan provided based on specific level of benefit for every year of service, which comply with the minimum requirement of RA No. 7641.

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

Defined benefit costs comprise the following: a) service cost; b) net interest on the net defined benefit liability or asset; and c) remeasurements of net defined benefit liability or asset.

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

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

Remeasurements comprising actuarial gains and losses, return on plan assets and any change in the effect of the asset ceiling (excluding net interest on defined benefit liability) are recognized immediately in OCI in the period in which they arise. Remeasurements are not reclassified to profit or loss in subsequent periods.

Termination benefits. Termination benefits are payable when employment is terminated by the Bank before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Bank recognizes termination benefits when it is demonstrably committed to either: (a) terminate the employments of current employees according to a detailed formal plan without possibility of withdrawal; or (b) provide termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after the financial reporting date are discounted to present value.

Compensated absences. Compensated absences are recognized for the number of paid leave days (including holiday entitlement) remaining at the financial reporting date.

<u>Income taxes</u>

Current income tax. Current income tax assets and liabilities for the current and the prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are substantively enacted at the financial reporting date.

Deferred income tax. Deferred income tax is provided on all temporary differences at the financial reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognized 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.

- In respect of taxable temporary differences associated with investments in 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 liabilities are recognized for all taxable temporary differences. Deferred tax assets are recognized for all deductible temporary differences, carryforward of unused tax credits from excess minimum corporate income tax (MCIT) over the regular corporate income tax (RCIT) and unused net operating loss carryover (NOLCO), to the extent that it is probable that sufficient taxable profit will be available against which the deductible temporary differences and carryforward of unused tax credits from MCIT and unused NOLCO can be utilized.

The carrying amounts of deferred tax assets are reviewed at each financial 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 assets to be utilized. Unrecognized deferred tax assets 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 asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period 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 financial reporting date.

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 deferred taxes relate to the same taxable entity and the same taxation authority.

Equity

Capital stock. Capital stock is determined using the nominal value of shares that have been issued. When the Bank issues more than one class of stock, a separate account is maintained for each class of stock and the number of shares issued.

Additional paid-in capital. When the shares are sold at premium, the difference between the proceeds and the par value is credited to the "additional paid-in capital" account. When shares are issued for a consideration other than cash, the proceeds are measured by the fair value of the consideration received. In case the shares are issued to extinguish or settle the liability of the Bank, the shares are measured either at the fair value of the shares issued or fair value of the liability settled, whichever is more reliably determinable.

Retained earnings. Retained earnings include all current and prior period results less any dividend declaration/distribution and prior period correction/adjustment, if any.

Other comprehensive income (loss). Other comprehensive income (loss) comprises items of income and expense, including items previously presented under the statements of changes in equity, that are not recognized in profit or loss for the year. Other comprehensive income (loss) of the Bank pertains to remeasurement gains (losses) on retirement benefits.

Dividends on common shares

Cash dividends on common shares are recognized as a liability and deducted from the equity when approved by the BOD and the BSP. Stock dividends are deducted from equity when approved by the BOD, the stockholders and the BSP. Dividends declared during the year but are approved by the BSP after the financial reporting period is dealt with as events after the financial reporting period.

Related parties

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 the financial and operating decisions. Parties are also considered to be related if they are subject to common control. Key management personnel and post-employment benefit plan are considered related parties.

Events after the reporting period

Post year-end events up to the date of authorization for issue of the financial statements that provide additional information about the Bank's position at the financial 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 financial statements when material.

4. **Use of Judgments, Estimates and Assumptions**

The preparation of the financial statements in accordance with PFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the amounts of assets, liabilities, income and expenses reported in the financial statements at the reporting date. However, uncertainty about these judgments, estimates and assumptions could result in an outcome that could require a material adjustment to the carrying amount of the affected asset or liability in the future.

Judgments and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Revisions are recognized in the period in which the judgments and estimates are revised and in any future period affected.

Judgments

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

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. On adoption of PFRS 16, the Bank elected to apply the practical expedient to grandfather the assessment of which transactions are leases. It applied PFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under PAS 17 and IFRC 4 were not reassessed for whether there is a lease. Therefore, the definition of lease under PFRS 16 was applied only to contracts entered into or changed on or after January 1, 2019.

Bank as Lessee. The Bank has entered into lease agreements as a lessee. Depreciation of right-of-use of asset and interest expense on lease liability recognized in profit or loss are disclosed in Note 11.

Bank as Lessor. The Bank has entered into lease agreements as a lessor. The Bank has determined that it retains all the significant risks and rewards of ownership of the property leased out on operating leases.

Rental income recognized in the statements of income amounted to ₱92,367 and ₱167,712 in 2022 and 2021, respectively (see Notes 11 and 20).

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 (e.g., construction of significant leasehold improvements or significant customization to the leased asset).

As a practical expedient in applying PFRS 16 to leases previously classified as operating leases under PAS 17, the Bank included the renewal period as part of the lease term for leases of buildings with shorter non-cancellable period (i.e., one to five years). The Bank typically exercises its option to renew for these leases because these are used as its branches and other offices.

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.

Classifying Financial Instruments. The Bank bases its business model in classifying a financial instrument, or its component parts, on initial recognition as a financial asset, a financial liability, or an equity instrument in accordance with the substance of the contractual arrangement and the definitions of a financial asset or liability. The substance of a financial instrument, rather than its legal form, governs its classification in the statements of financial position.

The classification of financial assets and financial liabilities is presented in Note 26.

Fair value of financial instruments. Where the fair values of financial assets and liabilities recorded in the financial reporting date cannot be derived from active markets, they are determined using internal valuation techniques using generally accepted market valuation models. The inputs to these models are taken from observable markets where possible, but where this is not feasible, estimates are used in establishing fair values. These estimates may include considerations of liquidity, volatility, and correlation.

Disclosures of fair values of the Bank's financial assets and financial liabilities in a way that permit it to be compared with its carrying amounts are shown in Note 26.

Financial assets not quoted in an active market. The Bank classifies financial assets by evaluating, among others, whether the asset is quoted or not in an active market. Included in the evaluation on whether a financial asset is quoted in an active market is the determination on whether quoted prices are readily and regularly available, and whether those prices represent actual and regularly occurring market transactions on an arm's length basis.

Fair value of ROPA classified as investment properties. The Bank determines the fair value of ROPA classified as investment properties through independent and/or in-house appraisers on the basis of recent sales of similar properties in the same area as the investment properties. It also takes into account the economic conditions prevailing at the time the valuations were made as well as the physical condition of the properties.

The carrying amounts and appraised values of investment properties as at December 31, 2022 and 2021 are disclosed in Notes 12. and 26

Classification of properties acquired in settlement of loans. 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, as investment properties if intended to be held for capital appreciation or as financial assets if qualified as such in accordance with PFRS 9.

<u>Estimates and Assumptions</u>
The key estimates and assumptions used in the financial statements are based upon the Bank's evaluation of relevant facts and circumstances as at the date of the financial statements. Actual results could differ from such estimates.

Estimation of ECL on Financial Assets. The Bank reviews its debt financial assets subject to credit losses periodically with updating provisions made during the intervals as necessary based on the continuing analysis and monitoring of individual accounts by credit officers. The measurement of credit losses under PFRS 9 across all categories of such financial assets requires judgment, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining credit losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances.

The Bank's ECL calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgments and estimates include, among others:

- Segmentation of the portfolio, where the appropriate model or ECL approach is used
- Criteria for assessing if there has been a significant increase in credit risk and so allowances for debt financial assets should be measured on a lifetime ECL basis and the qualitative assessment
- Segmentation of debt financial assets when their ECL is assessed on a collective basis
- Development of ECL models, including the various formulas and the choice of inputs
- Determination of associations between macroeconomic scenarios and economic inputs, such as unemployment levels and collateral values, and the effect on PDs, EADs and LGDs
- Selection of forward-looking macroeconomics scenarios and their probability weightings, to derive the economic inputs into the ECL models

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.

The carrying values and total allowance for ECL on loans and other receivables are disclosed in Note 8.

The carrying values of loans receivable, net of allowance for ECL and loan discount, amounted to ₱1,250,265,556 and ₱1,287,137,489 as at December 31, 2022 and 2021, respectively. Total allowance for ECL on loans receivable amounted to ₱267,239,701 and ₱286,800,690 as at December 31, 2022 and 2021, respectively (see Note 8).

The carrying values of other receivables, net of allowance for ECL, amounted to ₱82,964,903 and ₱70,870,170 as at December 31, 2022 and 2021, respectively. Total allowance for ECL on other receivables amounted to ₱8,821,503 and ₱10,454,979 as at December 31, 2022 and 2021, respectively (see Note 8).

Estimation of useful lives of bank premises, furniture, fixtures and equipment, right-of-use assets, investment properties and intangible assets. The Bank estimates the useful lives of bank premises, furniture, fixtures and equipment, investment properties and intangible assets based on the period over which the assets are expected to be available for use. The estimated useful lives of bank premises, furniture, fixtures and equipment, investment properties and intangible assets are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets. In addition, estimation of the useful lives of bank premises, furniture, fixtures and equipment is based on collective assessment of industry practice, internal technical evaluation and experience with similar assets. It is possible, however, that future results of operations could be materially affected by changes in estimates brought by changes in factors mentioned above. 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, right-of-use assets, investment properties and intangible assets would increase recorded operating expenses and decrease non-current assets. The estimated useful lives of bank premises, furniture, fixtures and equipment, investment properties and intangible assets are discussed in Note 3, which showed no changes in 2022 and 2021.

The carrying values of bank premises, furniture, fixtures and equipment amounted to ₱106,860,466 and ₱91,339,341 as at December 31, 2022 and 2021, respectively (see Note 10).

The carrying values of right-of-use assets amounted to ₱15,527,947 and ₱13,428,233 as at December 31, 2022 and 2021, respectively (see Note 11).

The carrying values of investment properties amounted to ₱27,685,635 and ₱23,524,385 as at December 31, 2022 and 2021, respectively (see Note 12).

The carrying values of intangible assets amounted to ₱24,055,055 and ₱22,992,719 as at December 31, 2022 and 2021, respectively (see Note 13).

Impairment of non-financial assets. The Bank assesses at each financial reporting date whether there is an indication that the carrying amount of all non-financial assets may be impaired. If any such indications exist, or when annual impairment testing for an asset is required, the Bank makes an estimate of the asset's recoverable amount. At the financial reporting date, the Bank assesses whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated.

Total allowance for impairment losses on investment properties amounted to ₱227,954 and ₱225,280 as at December 31, 2022 and 2021, respectively (see Note 12). Based on management's assessment, the net carrying amount of its other non-financial assets are recoverable as of the financial reporting date.

The net book values of bank premises, furniture, fixtures and equipment, right-of-use assets, investment properties, intangible assets and other assets are disclosed in Notes 10, 11, 12, 13, and 14 respectively.

Recognition of deferred tax assets. The Bank reviews the carrying amounts of deferred income taxes at each financial reporting date and reduces deferred tax assets to the extent that it is no longer probable that sufficient taxable income will be available 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 profits together with future tax planning strategies.

Estimates of future taxable income indicate that temporary differences will be realized in the future. Deferred tax assets amounted to ₱81,755,204 and ₱80,711,681 as at December 31, 2022 and 2021, respectively (see Note 22).

Estimation of retirement liability. The cost of defined retirement pension plan and other post-employment benefits is determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates and future pension increases. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty. The assumed discount rates were determined using the market yields on Philippine government bonds with terms consistent with the expected employee benefit payout as of the financial reporting date.

Retirement plan asset amounted to ₱2,464,775 and ₱3,151,049 as at December 31, 2022 and 2021, respectively (see Note 18).

Contingencies. The estimate of the probable costs for the resolution of possible claims has been developed in consultation with outside counsel handling the Bank's defense in these matters and is based upon an analysis of potential results. The Bank is a party to certain lawsuits or claims involving recoveries of sum of money arising from the ordinary course of business. However, the Bank's management and legal counsel believe that the eventual liabilities under these lawsuits or claims, if any, will not have a material impact on the Bank's financial statements. These are recognized in the books only when the claims are finally settled or when judgment is rendered.

Leases - 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.

5. Cash and Other Cash Items

This account consists of:

	2022	2021
Cash on hand	**₱333,251,839**	₱276,619,936
Checks and other cash items (COCI)	**5,892,282**	4,971,178
	₱339,144,121	₱281,591,114

Cash on hand represents cash kept inside the Bank's vault and those kept in automated teller machines (ATM) as at December 31, 2022 and 2021.

6. Due from BSP

The details of this accounts follow:

	Note	**2022**	2021
Mandatory reserves	*15*	**₱32,277,216**	₱33,541,286
Other than mandatory reserves		**176,098,593**	35,054,770
		₱208,375,809	₱68,596,056

The account consists of Demand Deposit Accounts (DDA) maintained with BSP to meet the reserve requirements against deposit and deposit substitute liabilities in accordance with Section 252, *Composition of Reserves*, of the Manual of Regulations for Banks (MORB) which states that the required reserves shall be kept in the form of deposits placed in the Bank's DDA with the BSP. As at December 31, 2022 and 2021, the Bank had satisfactorily complied with this BSP requirement (see Note 15).

In 2022, the Bank opened new accounts with BSP: (1) Settlement Savings Account (SSA) to comply with the InstaPay facility requirement and (2) Demand Deposit Account 3 (DDA-3) for PESONet transactions, of ₱104,299,027 and ₱4,544,282 respectively as at December 31, 2022.

7. Due from Other Banks

The details of this account follow:

	2022	2021
Savings deposit	**₱86,063,912**	₱138,643,027
Demand deposit	**53,711,532**	67,148,356
Time deposit	**1,040,550**	1,036,316
	₱140,815,994	₱206,827,699

This pertains to funds and other deposits in local currency maintained with other local banks, primarily to facilitate checks or drafts or other similar payment order collections and other banking services.

Due from other banks earn interest at the respective deposit rates ranging from 0.01% to 0.50% in 2022 and 0.25% to 0.50% in 2021. Interest earned amounted to ₱146,548 and ₱226,889 (net of 20% final withholding tax) in 2022 and 2021, respectively.

8. Loans and Receivables - Net

This account consists of:

	2022	2021
Loans receivable – net	**₱1,250,265,556**	₱1,287,137,489
Other receivables – net	**82,964,903**	70,870,170
	₱1,333,230,459	₱1,358,007,659

Loans receivable - net. The details of this account follow:

	2022	2021
Loans to individual for other purposes	**₱905,169,768**	₱936,523,650
Agrarian reform and other agricultural credit loans	**234,065,223**	252,526,446
Small and medium enterprise loans	**273,514,936**	272,058,260
Microfinance loans	**154,416,196**	148,380,825
	1,567,166,123	1,609,489,181
Unearned discounts	**(49,660,866)**	(35,551,002)
Net loans receivable	**1,517,505,257**	1,573,938,179
General loan loss provision	**(111,609,788)**	(113,289,973)
Specific loan loss provision	**(155,629,913)**	(173,510,717)
Total allowance for ECL	**(267,239,701)**	(286,800,690)
	₱1,250,265,556	₱1,287,137,489

The Bank grants loans with terms ranging from one year to thirty years. These loan receivables carry nominal interest rates ranging from 2.25% to 24% in 2022 and 2021. Interest earned amounted to ₱239,233,617 and ₱238,267,235 in 2022 and 2021, respectively.

Moreover, loans with carrying amounts of ₱386,615,821 and ₱158,542,065 as at December 31, 2022 and 2021, respectively, were pledged as collateral to secure the bills payable (see Note 16).

There were no loans to directors, officers, stockholders, and related interests (DOSRI) as at December 31, 2022 and 2021.

The contractual maturity dates as at December 31, 2022 and 2021 of the loan receivables follows:

	2022	**Percent to Total**	2021	Percent to Total
Due within 1 year	**₱711,805,935**	**45.42%**	₱828,178,965	51.46%
Due more than 1 year	**855,360,188**	**54.58%**	781,310,216	48.54%
	₱1,567,166,123	**100.00%**	₱1,609,489,181	100.00%

The reconciliation of allowance for ECL on loans receivable follows:

	Note	**2022**	2021
Balance, January 1		**₱286,800,690**	₱349,795,369
Provision for ECL on loans receivable		**29,800,912**	21,642,029
Write off		**(49,361,901)**	(36,319,273)
Reversal of provision for ECL	20	**-**	(48,317,435)
Balance, December 31		**₱267,239,701**	₱286,800,690

The reversal of previously recognized ECL is presented in the statements of income as part of "recovery on charged-off assets" under other operating income (see Note 20).

Other receivables – net. The details of this account follow:

	2022	2021
Accrued interest receivable (AIR)	**₱73,705,777**	₱62,298,255
Account receivables	**17,585,629**	18,526,894
Sales contract receivable (SCR)	**495,000**	500,000
	91,786,406	81,325,149
Allowance for ECL on AIR	**(8,489,511)**	(10,163,015)
Allowance for ECL on account receivables	**(206,992)**	(166,964)
Allowance for ECL on SCR	**(125,000)**	(125,000)
	(8,821,503)	(10,454,979)
	₱82,964,903	₱70,870,170

AIR pertains to interest income accrued on lump-sum loans. These are collectible upon maturity of the lump-sum loans receivable.

Accounts receivable include amounts due from customers, employees and other parties, including staff salary and miscellaneous advances, payable in 30 days or less (those payable in more than 30 days are considered as loans). Receivables from employees include those amounts pertaining to the Conditional Cash Transfer project of the government being carried out by certain branches. These amounts are treated as receivable from responsible employees and are subject to liquidation.

SCR represents the balance of the selling price of ROPA, whereby the title will be transferred to buyer upon full payment of the selling price. Interest earned on SCR amounted to nil in 2022 and 2021, respectively.

The reconciliation of allowance for ECL on other receivables follows:

	2022	2021
Balance, January 1	**₱10,454,979**	₱7,746,908
Provision for ECL on other receivables	**40,028**	2,893,662
Write off	**(1,673,504)**	(185,591)
Balance, December 31	**₱8,821,503**	₱10,454,979

Provision for ECL. Provision for ECL in 2022 and 2021 follows:

	2022	2021
Loans receivable	**₱29,800,912**	₱21,642,029
Other receivables	**40,028**	2,893,662
Balance, December 31	**₱29,840,940**	₱24,535,691

As at December 31, 2022 the Bank had only recognized ₱276.6 million out of the ₱378.4 million calculated total allowance based on its ECL model, excluding the remaining unrecorded allowance of ₱64.9 million from the ₱108.2 million that was approved for staggered booking by the BSP in 2020. The Bank is in the midst of recalibrating its ECL model to account for the effects of the pandemic and other qualitative factors on its loan portfolio.

9. Financial Assets at Amortized Cost

The movements of this account follow:

	2022	2021
Balance, January 1	**₱64,000,000**	₱84,033,000
Investments during the year	**-**	40,123,000
Matured during the year	**(20,000,000)**	(60,156,000)
Balance, December 31	**44,000,000**	64,000,000
Unamortized discount	**(84,793)**	(84,793)
Carrying amount, December 31	**₱43,915,207**	₱63,915,207

Financial assets at amortized cost represent investment in Retail Treasury Bonds through various commercial banks (including government bank) which earns interest at a coupon rate and yield-to-maturity (YTM) of 2.38% to 6.25% both in 2022 and 2021.

Investment income earned from the investments amounted to ₱2,178,000 and ₱2,422,019 in 2022 and 2021, respectively, and are presented as interest income on financial assets at amortized cost in the statements of income.

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

The details of bank premises, furniture, fixtures and equipment (BPFFE) follow:

2022	**Land**	**Building**	**Furniture and fixtures**	**Transportation equipment**	**Information technology**	**Leasehold rights and improvements**	**Construction in progress**	**Total**
Costs								
At January 1	**₱29,896,420**	**₱89,532,335**	**₱114,005,633**	**₱45,421,122**	**₱42,992,494**	**₱34,338,020**	**₱-**	**₱356,186,024**
Additions	**5,840,921**	**628,910**	**4,530,993**	**4,957,018**	**15,745,048**	**1,469,563**	**127,302**	**33,299,755**
Disposals	**-**	**-**	**-**	**(697,930)**	**-**	**-**	**-**	**(697,930)**
Reclassification	**-**	**31,446**	**(713,523)**	**-**	**1,560,854**	**(878,777)**	**-**	**-**
At December 31	**35,737,341**	**90,192,691**	**117,823,103**	**49,680,210**	**60,298,396**	**34,928,806**	**127,302**	**388,787,849**
Accumulated depreciation								
At January 1	**-**	**63,482,765**	**99,063,960**	**42,665,246**	**34,283,912**	**25,350,800**	**-**	**264,846,683**
Depreciation	**-**	**4,831,092**	**3,790,290**	**1,988,552**	**4,020,674**	**3,148,015**	**-**	**17,778,623**
Disposals	**-**	**-**	**-**	**(697,923)**	**-**	**-**	**-**	**(697,923)**
At December 31	**-**	**68,313,857**	**102,854,250**	**43,955,875**	**38,304,586**	**28,498,815**	**-**	**281,927,383**
Net book values								
At December 31	**₱35,737,341**	**₱21,878,834**	**₱14,968,853**	**₱5,724,335**	**₱21,993,810**	**₱6,429,991**	**₱127,302**	**₱106,860,466**

2021	**Land**	**Building**	**Furniture and fixtures**	**Transportation equipment**	**Information technology**	**Leasehold rights and improvements**	**Construction in progress**	**Total**
Costs								
At January 1	₱29,896,420	₱85,195,310	₱106,196,264	₱46,703,122	₱41,063,078	₱32,149,798	₱5,020,257	₱346,224,249
Additions	-	628,362	7,809,369	61,500	1,929,416	876,628	-	11,305,275
Disposals	-	-	-	(1,343,500)	-	-	-	(1,343,500)
Reclassification	-	3,708,663	-	-	-	1,311,594	(5,020,257)	-
At December 31	29,896,420	89,532,335	114,005,633	45,421,122	42,992,494	34,338,020	-	356,186,024
Accumulated depreciation								
At January 1	-	58,244,429	94,201,285	41,503,269	30,911,902	21,853,818	-	246,714,703
Depreciation	-	5,238,336	4,862,675	2,505,472	3,372,010	3,496,982	-	19,475,475
Disposals	-	-	-	(1,343,495)	-	-	-	(1,343,495)
At December 31	-	63,482,765	99,063,960	42,665,246	34,283,912	25,350,800	-	264,846,683
Net book values								
At December 31	₱29,896,420	₱26,049,570	₱14,941,673	₱2,755,876	₱8,708,582	₱8,987,220	₱-	₱91,339,341

The Bank had no contractual commitments for the acquisition of BPFFE in 2022 and 2021.

As at December 31, 2022 and 2021, no BPFFE were pledged as security for any liability.

Under BSP rules, investments in real estate and improvements thereon, including equipment, should not exceed 50% of the Bank's net worth. As at December 31, 2022 and 2021 the total investments of the Bank to its BPFFE were 41.87% and 36.99% respectively, of its net worth.

Depreciation and amortization is composed of the following:

	Note	**2022**	2021
BPFFE	*10*	**₱17,778,623**	₱19,475,475
Intangible assets	*13*	**8,812,140**	8,322,767
Right-of-use asset	*11*	**7,492,297**	6,552,322
Investment properties	*12*	**320,197**	439,419
		₱34,403,257	₱34,789,983

Based on management's assessment, there are no indications of impairment on bank premises, furniture, fixtures and equipment and that their net carrying amount can be recovered through use in operations.

11. Leases

The Bank as a Lessee

The Bank leases the premises for some of its branches and other offices from various lessors at escalating or fixed rentals with terms ranging from 2 to 5 years. These are renewable upon mutual agreement of the parties and do not contain any purchase options.

Beginning January 1, 2019, the Bank recognized right-of-use (ROU) assets and lease liabilities for its lease agreements on office spaces.

ROU assets. Set out below are the carrying amounts of right-of-use assets recognized and its movements:

	Note	**2022**	2021
Balance, January 1		**₱13,428,233**	₱19,489,304
Depreciation	*10*	**(7,492,297)**	(6,552,322)
New lease contracts		**8,202,705**	-
Remeasurement		**1,389,306**	491,251
Balance, December 31		**₱15,527,947**	₱13,428,233

Lease liabilities. Set out below are the carrying amounts of lease liabilities and its movements:

	2022	2021
Balance, January 1	**₱15,128,411**	₱21,294,006
Accretion of interest	**1,012,890**	1,310,744
New lease contracts	**8,202,705**	-
Payments	**(8,822,025)**	(7,967,590)
Remeasurement	**1,283,264**	491,251
Balance, December 31	**₱16,805,245**	₱15,128,411

When measuring the lease liabilities, the Bank discounted lease payments at IBR ranging from 7.037% to 7.50% as at January 1, 2019.

Remeasurements in ROU assets and lease liabilities pertain to lease modifications, particularly due to changes in lease term. The resulting net gain on lease modification amounted to ₱106,402 and nil in 2022 and 2021, respectively (see Note 20).

Analysis of the contractual undiscounted cash flows of the leases are shown below:

	2022	2021
Due not later than 1 year	**₱7,130,497**	₱6,590,114
Due later than 1 year but not later than 5 years	**9,674,748**	8,538,297
Due later than 5 years	**-**	-
	₱16,805,245	₱15,128,411

Refundable deposits related to leases amounted to ₱1,531,235 and ₱1,613,335 as at December 31, 2022 and 2021, respectively (see Note 14).

Short-term leases. Rent expense arising from short-term leases amounted to ₱1,444,532 and ₱1,681,189 in 2022 and 2021, respectively.

The Bank as lessor

Rental income on investment properties, included in 'other operating income' in the statements of income, amounted to ₱92,367 and ₱167,712 in 2022 and 2021, respectively (see Notes 12 and 20). No direct operating expenses were incurred for the rental of these investment properties.

12. Investment Properties - Net

The details of this account follow:

2022	*Note*	**Land**	**Building**	**Total**
Costs				
At January 1		**₱22,557,685**	**₱2,454,052**	**₱25,011,737**
Additions		**4,683,874**	**4,296,094**	**8,979,968**
Disposals		**(4,416,413)**	**(223,000)**	**(4,639,413)**
At December 31		**22,825,146**	**6,527,146**	**29,352,292**
Accumulated depreciation				
At January 1		**-**	**1,262,072**	**1,262,072**
Depreciation	*10*	**-**	**320,197**	**320,197**
Disposals		**-**	**(143,566)**	**(143,566)**
At December 31		**-**	**1,438,703**	**1,438,703**
Accumulated impairment				
At January 1		**-**	**225,280**	**225,280**
Provision for impairment	*21*	**-**	**46,839**	**46,839**
Disposals		**-**	**(44,165)**	**(44,165)**
At December 31		**-**	**227,954**	**227,954**
Net book values				
At December 31		**₱22,825,146**	**₱4,860,489**	**₱27,685,635**

2021	*Note*	Land	Building	Total
Costs				
At January 1		₱21,217,857	₱2,462,569	₱23,680,426
Additions		2,659,956	374,483	3,034,439
Disposals		(1,320,128)	(383,000)	(1,703,128)
At December 31		22,557,685	2,454,052	25,011,737
Accumulated depreciation				
At January 1		-	966,809	966,809
Depreciation	*10*	-	439,419	439,419
Disposals		-	(144,156)	(144,156)
At December 31		-	1,262,072	1,262,072
Accumulated impairment				
At January 1		-	212,178	212,178
Provision for impairment	*21*	-	26,303	26,303
Disposals		-	(13,201)	(13,201)
At December 31		-	225,280	225,280
Net book values				
At December 31		₱22,557,685	₱966,700	₱23,524,385

Provision for impairment losses on investment properties is recognized as part of "other operating expenses" recognized in miscellaneous expense in the statements of income (see Note 21).

Appraised values of investment properties as at December 31, 2022 and 2021 amounted to ₱57,712,957 and ₱48,684,586, respectively, as determined by in-house appraisers on the basis of recent sales of similar properties in the same area as the investment properties and taking into account the economic conditions prevailing at the time the valuations were made.

In accordance with Section 382 of the MORB, if the carrying amount of Real Properties Acquired (ROPA) exceeds ₱5.0 million, the appraisal of the foreclosed/purchased asset shall be conducted by an independent appraiser acceptable to the BSP. As at December 31, 2022 and 2021, the Bank did not have any ROPA with carrying amounts in excess of ₱5.0 million.

Rental income on investment properties, included in 'other operating income' in the statements of income, amounted to ₱92,367 and ₱167,712 in 2022 and 2021, respectively (see Notes 11 and 20). No direct operating expenses were incurred for the rental of these investment properties.

Gain from sale of investment properties amounted to ₱3,402,166 and ₱1,631,445 in 2022 and 2021, respectively (see Note 20). On the other hand, proceeds on the sale of investment properties amounted to ₱7,853,848 and ₱3,177,216 in 2022 and 2021, respectively.

Real property taxes and other taxes paid related to maintaining these investments amounted to ₱983,001 and ₱200,896 in 2022 and 2021, respectively, which were recognized under 'taxes and licenses' account.

13. **Intangible Assets - Net**

Intangible assets consist of the Bank's computer and core banking software and other licenses. The details and the movement of the account follow:

	Note	**2022**	2021
Cost			
Balance, January 1		**₱57,037,219**	₱49,736,334
Additions		**9,874,476**	7,300,885
Balance, December 31		**66,911,695**	57,037,219
Accumulated amortization			
Balance, January 1		**34,044,500**	25,721,733
Amortization	*10*	**8,812,140**	8,322,767
Balance, December 31		**42,856,640**	34,044,500
Net carrying values		**₱24,055,055**	₱22,992,719

14. **Other Assets - Net**

This account consists of:

	Note	**2022**	2021
Prepaid expenses		**₱10,832,420**	₱6,235,738
Stationery and supplies		**10,052,481**	12,680,945
Advances to suppliers		**5,755,813**	-
Prepaid income tax	*22*	**5,315,207**	2,979,229
Restricted fund	*17*	**4,202,546**	16,800,500
Refundable deposits	*11*	**1,531,235**	1,613,335
Petty cash fund		**130,500**	123,500
Others		**10,502,639**	8,338,124
		₱48,322,841	₱48,771,371

Prepaid expenses include prepayments on annual subscription for core banking software, mobile banking project, insurance, and other taxes. These are amortized over the period of less than one year.

Stationery and supplies include office supplies, certificates of time deposit, official receipts, among others. Total amount of supplies used and charged to profit or loss amounted to ₱5,240,995 and ₱4,464,960 in 2022 and 2021, respectively.

Advances to suppliers refer to payments made up front to suppliers for the purchase of equipment, subject to complete delivery.

Restricted fund represents funds received from Agricultural Credit Policy Council (ACPC) for the implementation of various lending facilities. The Bank has entered into a Memorandum of Agreement with the ACPC to act as a lending conduit of various special credit facilities designed to address the financial needs of marginalized, small farmers and fisherfolk and their household. The role of the Bank as a conduit is to screen loan applicants, disburse the available loanable funds and act as the collecting agent for ACPC. The proceeds are accounted for as "funds held in trust" recognized under Other Liabilities.

Refundable deposits pertain to deposits that will be reimbursed by the lessor upon the termination of the lease contracts (see Note 11).

Others include cash bond to certain filed cases, advance payments made for the acquisition of supplies and other assets.

15. Deposit Liabilities

This account consists of:

	2022	2021
Savings deposit	**₱1,204,885,266**	₱1,258,232,844
Time deposit	**316,056,993**	296,957,991
Demand deposit	**92,918,543**	121,873,478
	₱1,613,860,802	₱1,677,064,313

The interest earning deposit liabilities of the Bank earn annual fixed interest rates ranging from 0.5% to 7.25% in 2022 and 0.5% to 8.0% in 2021. While demand deposits do not earn interest, the total interest expense on interest earning deposit liabilities amounted to ₱18,976,045 and ₱20,378,728 in 2022 and 2021, respectively.

The savings and demand accounts include dormant accounts of ₱119,583,053 and ₱119,250,367 as at December 31, 2022 and 2021, respectively.

Maturity profile of time deposit follows:

	2022	2021
Matures within 1 year	**₱218,349,468**	₱140,683,634
Matures beyond 1 year	**97,707,525**	156,274,357
	₱316,056,993	₱296,957,991

In July 2020, the BSP issued Circular No. 1092 further reducing the required reserves against deposit and deposit substitute liabilities to 2% for savings, demand, and time deposits.

Total statutory/legal reserves as reported to the BSP follows:

	Note	2022	2021
Total deposit liabilities		**₱1,613,860,802**	₱1,677,064,313
Reserve rate		**2%**	2%
Total required statutory/legal reserve	*6*	**₱32,277,216**	₱33,541,286

The Bank is compliant with the reserve requirement as at December 31, 2022 and 2021.

16. Bills Payable

The movements of this account follow:

	2022	2021
Balance, January 1	**₱134,760,755**	₱53,127,093
Availments	**331,934,676**	147,205,000
Payments	**(149,971,983)**	(65,571,338)
Balance, December 31	**₱316,723,448**	₱134,760,755

This pertains to loans obtained from Land Bank of the Philippines, Philippine Business for Social Progress, and Small Business Corporation.

The bills payable are secured by deed of continuing assignment of loans receivables with carrying amounts of ₱386,615,821 and ₱158,542,065 as at December 31, 2022 and 2021, respectively (see Note 8).

Interest rates per annum for these loans ranges from 2.00% to 6.2% in 2022 and 2.0% to 4.5% in 2021. Interest expense on bills payable amounted to ₱5,320,405 and ₱920,326 in 2022 and 2021, respectively. There were no defaults or breaches in the repayment of the bills payable in 2022 and 2021.

The contractual maturities of the Bank's bills payable follow:

	2022	2021
Due within 1 year	**₱196,104,212**	₱36,941,852
Due beyond 1 year	**120,619,236**	97,818,903
	₱316,723,448	₱134,760,755

17. Accrued Expenses and Other Liabilities

This account consists of:

	Note	**2022**	2021
Accrued interest		**₱25,675,711**	₱29,028,721
Accounts payable		**12,834,871**	18,965,687
Accrued other expenses		**8,192,162**	7,994,580
Fund held in trust	*14*	**4,202,546**	16,910,836
SSS, BIR, Philhealth, Employer's Compensation Premiums and Pag-IBIG contributions payable		**3,571,789**	2,871,099
Other payables		**287,002**	182,946
		₱54,764,081	₱75,953,869

Accrued interest represents amounts of interest expense accrued for savings deposits, time deposits, and bills payable.

Accounts payable are payable to customers, employees, and other parties. The account includes funds received for the CCT program not yet distributed to qualified beneficiaries and ATM replenishments payable to other banks. These are payable within one year.

Accrued other expenses include accrued taxes and licenses (gross receipts tax), and others (e.g. power, light and water, communications, etc.) that are payable on the following period.

Funds held in trust represent funds received from ACPC as lending conduit for the implementation of various lending programs.

18. Retirement Benefits

The Bank's retirement plan is non-contributory and of the final salary defined benefit type. The plan provides a retirement benefit ranging from one hundred twenty-five percent (125%) to one hundred seventy-five percent (175%) of plan salary for every year of credited service. Benefits are paid in a lump sum upon retirement or separation in accordance with the terms of the plan.

The actuarial valuation of the fair value of plan assets and the present value of defined benefit obligation as at December 31, 2022 and 2021 were computed by an independent licensed actuary as shown on its released report dated on March 9, 2023 and June 23, 2022, respectively.

The principal actuarial assumptions used to determine retirement benefits obligation of the Bank follows:

	2022	2021
Discount rate	**7.22%**	5.08%
Salary increase rate	**2.00%**	2.00%

There are no unusual or significant risks to which the plan exposes the Bank. However, in the event a benefit claim arises under the retirement plan and the retirement fund is not sufficient to pay the benefit, the unfunded portion of the claim shall immediately be due and payable from the Bank to the retirement fund.

The retirement benefit liability (plan asset) recognized in the statements of financial position is represented as follows:

	2022	2021
Present value of DBO	**₱20,488,988**	₱20,369,637
Fair value of plan asset	**23,185,389**	(23,756,241)
	(2,696,401)	(3,386,604)
Effect of the asset ceiling	**231,626**	235,555
	(₱2,464,775)	(₱3,151,049)

Below is the reconciliation of balances:

	Defined benefit obligation		Fair value of plan assets		Retirement liability (plan asset)	
	2022	2021	**2022**	2021	**2022**	2021
Balance, January 1	**₱20,369,637**	₱27,556,294	**₱23,756,241**	₱27,351,319	**(₱3,151,049)**	₱204,975
Contributions	**-**	-	**-**	134,232	**-**	(134,232)
Benefits paid:						
(a) Plan assets	**-**	(3,986,139)	**-**	(3,986,139)	**-**	-
(b) Book reserves	**-**	-	**-**		**-**	-
	-	(3,986,139)	**-**	(3,986,139)	**-**	-
Service cost – current	**1,825,264**	2,500,511	**-**	-	**1,825,264**	2,500,511
Interest cost/income	**1,034,778**	1,121,541	**1,194,851**	1,034,812	**(160,073)**	86,729
Included in profit or loss	**2,860,042**	3,622,052	**1,194,851**	1,034,812	**1,665,191**	2,587,240
Actuarial loss (gain) from:						
- Financial assumptions	**(6,310,875)**	(2,984,478)	**-**	-	**(6,310,875)**	(2,984,478)
- Demographic assumptions	**2,231,220**	(1,334,249)	**-**	-	**2,231,220**	(1,334,249)
- Adjustments due to experience	**1,338,964**	(2,503,843)	**-**	-	**1,338,964**	(2,503,843)
Remeasurement loss from:						
- Plan asset	**-**	-	**(1,765,703)**	(777,983)	**1,765,703**	777,983
- Changes in the effect of the asset ceiling	**-**	-	**-**	-	**(3,929)**	235,555
Included in OCI	**(2,740,691)**	(6,822,570)	**(1,765,703)**	(777,983)	**(978,917)**	(5,809,032)
Balance, December 31	**₱20,488,988**	₱20,369,637	**₱23,185,389**	₱23,756,241	**(₱2,464,775)**	(₱3,151,049)

The remeasurement gain recognized in OCI as at and for the years ended December 31 follows:

	Note	2022	2021
Accumulated remeasurement gains, beginning**		**₱32,310,389**	₱26,090,041
Effect of change in the effective tax rate	*22*	**-**	1,863,574
Remeasurement gain recognized for the year		**734,188**	4,356,774
Cumulative remeasurement gains, ending**		**₱33,044,577**	₱32,310,389

***Amounts of remeasurement gains (losses) presented in the statements of changes in equity are net of tax*

Sensitivity analysis of year-end defined benefit obligation follow:

	2022	2021
a. Decrease in DBO due to 100 bps, increase in discount rate	**(2,281,469) ; (11.1%)**	(2,487,859) ; (12.2%)
b. Increase in DBO due to 100 bps, decrease in discount rate	**2,674,961 ; 13.1%**	2,952,274 ; 14.5%
c. Increase in DBO due to 100 bps, increase in salary increase rate	**2,794,091 ; 13.6%**	3,017,356 ; 14.8%
d. Decrease in DBO due to 100 bps, decrease in salary increase rate	**(2,410,677) ; (11.8%)**	(2,579,849) ; (12.7%)
e. Increase in DBO, no attrition rates	**8,187,605 ; 40.0%**	16,435,660 ; 80.7%

Allocation of plan assets follow:

	2022	2021
Unit Investment Trust Funds	**29.60%**	40.03%
Equity Instruments	**4.10%**	31.41%
Cash & Cash Equivalents	**46.52%**	22.91%
Debt Instruments - Government Bonds	**5.32%**	5.50%
Others	**14.46%**	0.15%
	100.00%	100.00%

The retirement plan trustee has no specific matching strategy between the plan assets and the plan liabilities.

Shown below is the maturity analysis of the expected future benefit payments:

	2022	2021
Year 1	**₱645,150**	₱608,905
Year 2	**283,293**	214,435
Year 3	**431,184**	243,785
Year 4	**596,707**	313,442
Year 5	**2,064,333**	477,900
Year 6-Year 10	**12,727,362**	9,863,177

19. Equity

This account consists of:

	Note	2022	2021
Authorized capital stock			
Preferred – 10,000 shares (₱500 par value)		**₱5,000,000**	₱5,000,000
Common – 590,000 shares (₱500 par value)		**295,000,000**	295,000,000
		₱300,000,000	₱300,000,000
Common - issued and outstanding – 563,796 in 2022 and 552,277 in 2021		**₱281,897,832**	₱276,138,735
Additional paid-in capital		**2,585,357**	2,585,357
Total capital funds		**284,483,189**	278,724,092
Remeasurement gains on retirement benefits	*18*	**33,044,577**	32,310,389
Retained earnings		**52,472,171**	48,914,685
		₱369,999,937	₱359,949,166

Preferred shares are available only for subscription by the government and, in case of sale to private shareholders, shall automatically become convertible to common shares as provided under R.A. No. 720, as amended. Preferred shares are non-voting and preferred only as to assets upon liquidation and share in dividend distribution up to a maximum of 2% without preference.

The details of movement of the total capital funds as follow:

	2022	2021
Balance, January 1	**₱278,724,092**	₱260,928,127
Collection of stock subscriptions		
Shares at par value	**5,759,097**	17,250,000
Additional paid in capital	**-**	545,965
	5,759,097	17,795,965
Balance, December 31	**₱284,483,189**	₱278,724,092

The reconciliation of the common stock for the period follows:

	2022	2021
Balance, January 1	**₱276,138,735**	₱258,888,735
Issuance of shares	**5,759,097**	17,250,000
Balance, December 31	**₱281,897,832**	₱276,138,735

There were no declaration of dividends during 2022 and 2021.

Presented as part of the common stocks are fractional shares aggregating to ₱67,832 and ₱69,235 as at December 31, 2022 and 2021. These fractional shares which were temporarily issued with scrip certificates arose from the reverse share split in 2011, stock dividend declarations in 2015, and the additional subscriptions in 2019 and 2018. The scrip certificates may be redeemed in cash or the stockholders holding such scrip certificates may negotiate with other stockholders for the purchase or sale of such shares to convert them into full shares.

The movement and the reconciliation of the number of issued and outstanding shares (including fractional shares) as at December 31, 2022 and 2021 follow:

	Number of whole shares issued	Equivalent amount (a)	Number of fractional shares	Equivalent amount (b)	Total (a + b)
Balance, December 31, 2021 and 2020	552,139	₱276,069,500	138.47	₱69,235	₱276,138,735
Additional subscriptions for 2022	11,517	5,758,500	1.194	597	5,759,097
Fractional shares converted to full shares	4	2,000	(4)	(2,000)	-
Balance, December 31, 2022	**563,660**	**₱281,830,000**	**135.664**	**₱67,832**	**₱281,897,832**

After December 31, 2022, the Bank had significant equity transactions regarding (a) increase in par value per share and (b) increase in authorized capital (see Note 28).

Earnings Per Share

The following table presents information necessary to calculate the earnings per share:

	2022	2021
Total profit for the year	**₱3,557,486**	₱16,931,274
Weighted average number of common shares outstanding	**553,237**	523,527
	₱6.43	₱32.34

There were no dilutive potential ordinary shares for the years ended December 31, 2022 and 2021. Therefore, the Bank's basic and diluted earnings per share are equal for the years ended December 31, 2022 and 2021.

The weighted average number of ordinary shares used as the denominator in the calculating of basic and diluted earnings per share as of December 31, 2022 and 2021 follows:

	2022		
Date	**Number of shares issued**	**Number of shares outstanding**	**Weighted average number of shares**
January 1, 2022	**552,277**	**552,277**	**506,254**
December 2, 2022	**11,518**	**563,796**	**46,983**
	563,796		**553,237**

	2021		
Date	Number of shares issued	Number of shares outstanding	Weighted average number of shares
January 1, 2021	517,777	517,777	431,481
October 30, 2021	34,500	552,277	92,046
	552,277		523,527

20. Other Operating Income

The details of this account follow:

	Notes	**2022**	2021
Service charges, fees and commissions		**₱38,262,458**	₱27,311,753
Penalties on past due loans		**21,254,636**	16,529,594
Commission on insurance		**7,686,916**	8,445,509
Recovery on charged-off assets	*8*	**4,438,713**	49,790,944
Gain on sale of investment properties	*12*	**3,402,166**	1,631,445
Gain on lease modification	*11*	**106,042**	-
Rental income on investment properties	*11,12*	**92,367**	167,712
Other income		**8,136,769**	10,491,423
		₱83,380,067	₱114,368,380

Recovery on charged-off assets refers to the collections of accounts previously written-off. The reversal of the previously recognized ECL in 2021 is reported as part of this account (see Note 8).

Service charges, fees and commission income are from services offered by the Bank such as for utility and other bills (e.g. ATM, telecommunication, electric and water companies) and taxes. These also include fees and commissions income from intermediation services such as those relating to deposit and lending services.

Other income includes ATM, dormancy, fund transfers, Western Union fees, and appraisal fees and other fees collected relative to the loans released and others, which are normally recorded at the time these are collected.

21. Compensation and Staff Benefits and Other Operating Expenses

The breakdown of compensation and staff benefits follows:

	Note	**2022**	2021
Salaries and wages		**₱68,651,690**	₱63,234,464
Staff benefits		**26,024,294**	27,885,166
SSS, Medicare and Pag-ibig premium		**8,323,283**	7,363,334
Directors' and committee fees		**2,701,750**	2,136,900
Retirement expense	*18*	**1,665,191**	2,587,240
Mutual relief contribution		**121,124**	125,876
		₱107,487,332	₱103,332,980

The breakdown of other operating expenses follows:

	2022	2021
Information and technology expenses	**₱19,761,037**	₱28,436,385
Fuel and lubricants	**8,193,891**	4,951,627
Fees and commission expense	**2,731,959**	2,673,308
Litigation expense	**1,663,333**	1,252,510
Management and other professional fees	**1,269,816**	1,471,609
Advertising expense	**451,386**	1,444,951
Representation expense	**390,573**	265,283
Membership fees and dues	**130,347**	97,357
Provision for impairment losses on investment properties	**46,839**	26,303
Others	**7,438,047**	7,059,223
	₱42,077,228	₱47,678,556

Information and technology expenses include payments made for annual subscription of core banking software and mobile banking project.

Other expenses pertain to expenses not classified as those above which include fines, penalties, donations, notarial fees, supervision fees, and other expenses.

22. Income Taxes

Corporate Recovery and Tax Incentives for Enterprises or "CREATE" Act
On March 26, 2021, Republic Act No. 11534 or the CREATE Act was enacted into law. The law, which became effective on April 11, 2021, introduced 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 income tax rate from 30% to 25% (or 20%) (if taxpayer 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 were recognized only in the 2021 financial statements.

(a) The provision for income tax expense consists of:

	2022	2021
Current	**₱1,892,944**	₱1,040,410
Deferred	**(1,288,252)**	30,251,096
	₱604,692	₱31,291,506

The current provision income tax in 2022 and 2021 represents the Bank's obligations under the MCIT. The deferred provision for income tax pertains to the origination and reversal of temporary differences.

Current provision for income tax in 2021 includes adjustment amounting to ₱751,557 representing the effect of change in the effective tax rate due to the effectivity of CREATE Act.

The amount of provision for deferred income tax in 2021 related to change in the effective tax rate recognized in profit or loss, and OCI amounted to ₱20,484,038 and (₱1,863,574), respectively.

(b) The reconciliation of the accounting profit multiplied by the statutory tax rate to the income tax expense as shown in profit or loss follows:

The reconciliation of the provision for income tax computed at the statutory tax rate to the provision for income tax shown in the statements of income follow:

	2022	2021
Income before income tax expense	**₱4,162,178**	₱48,222,780
Statutory tax rate	**25%**	25%
Tax computed at statutory rate	**1,040,545**	12,055,695
Tax effects of:		
Effect of change in the effective tax rate	**-**	19,732,481
Income subjected to final tax	**(581,137)**	(662,227)
Non-deductible items	**145,284**	165,557
	₱604,692	₱31,291,506

The effect of change in the effective tax rate in 2021 represents the following:

Current	(₱751,557)
Deferred	20,484,038
	₱19,732,481

(c) The reconciliation of the prepaid income tax is as follows:

	Note	**2022**	2021
Balance, January 1		**₱2,979,229**	(₱906,779)
Effect of change in the effective tax rate		**-**	751,557
Provisions		**(1,892,944)**	(1,791,967)
Payments		**4,228,922**	4,926,418
Balance, December 31	*14*	**₱5,315,207**	₱2,979,229

(d) The components of the Bank's deferred tax assets follow:

	2022	2021
Allowance for ECL on loans receivable	**₱67,710,400**	₱71,700,173
Excess of MCIT over RCIT	**5,699,780**	3,806,836
NOLCO	**6,377,924**	2,922,231
Allowance for ECL on AIR	**2,122,378**	2,540,754
Excess of lease expenses over payments	**320,929**	400,138
Allowance for ECL on account receivables	**51,748**	41,741
Allowance for impairment losses on investment properties	**56,989**	56,320
Allowance for ECL on SCR	**31,250**	31,250
Retirement benefit liability	**(616,194)**	(787,762)
	₱81,755,204	₱80,711,681

The Bank believes that it is reasonably probable that the tax benefits of these temporary differences will be realized in the future.

(e) The movements of net deferred tax assets are accounted for as follows:

	2022	2021
Balance at January 1	**₱80,711,681**	₱110,551,461
Deferred income tax benefit (expense):		
Amount recognized in profit or loss	**1,288,252**	(30,251,096)
Amount recognized in OCI	**(244,729)**	411,316
Balance at December 31	**₱81,755,204**	₱80,711,681

23. Related Party Transactions

The Bank, in the normal course of business, has various transactions with its related parties, as described below.

Related Party	Account	Balance, 2020	Net transactions during the year	Balance, 2021	**Net transactions during the year**	**Balance, 2022**
BOD and officers	Deposit liabilities (Note 15)	₱52,330,305	(₱45,148,718)	₱7,181,587	**₱1,224,812**	**₱8,406,399**

<u>Key management personnel compensation</u>
Key management personnel are those persons having the authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director of that entity.

Compensation includes all benefits constituting all forms of consideration paid, payable or provided by the entity, or on behalf of the entity, in exchange for services rendered to the entity. Short-term employee benefits include wages, salaries and social security contributions, and non-monetary benefits for current employees.

Compensation of key management personnel included in the statements of income under compensation and staff benefits account amounted to ₱24,954,748 and ₱22,127,733 for the years ended December 31, 2022 and 2021, respectively.

24. Financial Risk Management Objectives and Policies

Risk is inherent in the Bank's activities but it is managed through process of ongoing identification, measurement and monitoring subject to risk limits and other controls. This process of risk management is critical to the Bank's continuing profitability and each individual within the Bank is accountable for the risk exposures relating to his or her responsibilities. The Bank is exposed to credit risk, liquidity risk and market risk.

The independent risk control process does not include business risks such as changes in the environment, technology and industry. They are monitored through the Bank's strategic planning process.

Risk management structure
The BOD is ultimately responsible for the formulation of written policies and procedures relating to the management of risks throughout the Bank. The risk management policy includes: a comprehensive risk management approach; a detailed structure of limits; guidelines and other parameters used to govern risk-taking; a clear delineation of lines of responsibilities for managing risks; an adequate system for measuring risks; and effective internal controls and a comprehensive risk-reporting process.

Within the Bank's overall risk management system is the Asset and Liabilities Committee (ALCO), which is composed of senior officers of the Bank, and is responsible to provide the framework to strategically manage the Bank's overall assets and liabilities. This is for the long term and short term. It shall specifically oversee the asset/liability position, liquidity, and funds management, and investment portfolio functions of the Bank.

Risk management
The Bank's risk-taking activities are governed by an overarching policy framework with a scope that covers the following: balance risks with the Bank's sustainable growth, profitability, and capital adequacy objectives, align the Bank's risk management processes and internal controls with best practices and banking standards and regulations, and develop bank-wide risk awareness.

While the BOD provides general oversight on the relevant risks, such risks are managed in the Bank's respective committees.

Bank treasury
Bank Treasury is responsible for managing the Bank's assets and liabilities and the overall financial structure. It is also responsible for the funding and liquidity risks of the Bank.

Internal audit
Risk management processes throughout the Bank are audited regularly by the internal audit function that examines both the adequacy of the procedures and the Bank's compliance with the procedures, adequacy of the Bank's internal control and compliance with existing laws, rules and regulations. Internal Audit discusses the results of all assessments with management and reports its findings and recommendations to the Audit Committee.

Credit risk
Credit risk refers to the risk that counterparty will default and/or fail to honor its financial or contractual obligations, resulting in financial loss to the Bank.

The Bank drives credit risk 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, and credit evaluation, administration, monitoring and collection guidelines. Moreover, the Bank monitors credit exposures, and continually assesses the creditworthiness of borrowers. It also obtains sufficient security, enters into collateral arrangements, and limits the duration of exposures, where appropriate.

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

	Note	**2022**	2021
Financial assets at amortized costs			
COCI	*5*	**₱5,892,282**	₱4,971,178
Due from BSP	*6*	**208,375,809**	68,596,056
Due from other banks	*7*	**140,815,994**	206,827,699
Loans receivable - net	*8*	**1,250,265,556**	1,287,137,489
Other receivables – net	*8*	**82,964,903**	70,870,170
Financial assets at amortized costs	*9*	**43,915,207**	63,915,207
Refundable deposits	*14*	**1,531,235**	1,613,335
		₱1,733,760,986	₱1,703,931,134

Excessive risk concentration
Credit risk concentrations can arise whenever a significant number of borrowers have similar characteristics and are affected similarly by changes in economic or other conditions. The Bank analyzes the credit risk concentration to an individual borrower, related group of accounts, industry, internal rating buckets, and security. For risk concentration monitoring purposes, the financial assets are broadly categorized as loans and receivables. To mitigate risk concentration, the Bank constantly checks for breaches in regulatory and internal limits.

Concentration of risks of financial assets with credit risk exposure

An analysis of concentrations of credit risk by industry at the reporting date based on the carrying amount (gross of allowance for credit losses and unearned interest and discounts) is shown below:

December 31, 2022

Concentration by industry	**Loans and receivables (Note 8)**	**Due from BSP and other banks (Notes 6 & 7)**	**COCI (Note 5)**	**Financial assets at amortized cost (Note 9)**	**Other assets (Note 14)**	**Total**
Salary based - general purpose consumption loans	**₱709,123,718**	**₱-**	**₱-**	**₱-**	**₱-**	**₱709,123,718**
Agriculture, forestry and fishing	**217,009,439**	**-**	**-**	**-**	**-**	**217,009,439**
Wholesale & retail trade, repair of motor vehicles	**254,666,447**	**-**	**-**	**-**	**-**	**254,666,447**
Construction, mining and quarrying	**65,002,083**	**-**	**-**	**-**	**-**	**65,002,083**
Real estate activities	**74,028,506**	**-**	**-**	**-**	**-**	**74,028,506**
Accommodation and food service activities	**22,499,279**	**-**	**-**	**-**	**-**	**22,499,279**
Manufacturing	**27,495,688**	**-**	**-**	**-**	**-**	**27,495,688**
Transport, storage and communications	**7,304,768**	**-**	**-**	**-**	**-**	**7,304,768**
Other community, social and personal service activities	**190,036,195**	**-**	**-**	**-**	**-**	**190,036,195**
Financial intermediaries	**-**	**349,191,803**	**5,892,282**	**43,915,207**		**398,999,292**
Others	**91,786,406**	**-**	**-**	**-**	**1,531,235**	**93,317,641**
	₱1,658,952,529	**₱349,191,803**	**₱5,892,282**	**₱43,915,207**	**₱1,531,235**	**₱2,059,483,056**

December 31, 2021

Concentration by industry	**Loans and receivables (Note 8)**	**Due from BSP and other banks (Notes 6 & 7)**	**COCI (Note 5)**	**Financial assets at amortized cost (Note 9)**	**Other assets (Note 14)**	**Total**
Salary based - general purpose consumption loans	₱816,888,787	₱-	₱-	₱-	₱-	₱816,888,787
Agriculture, forestry and fishing	249,623,110	-	-	-	-	249,623,110
Wholesale & retail trade, repair of motor vehicles	250,371,129	-	-	-	-	250,371,129
Construction, mining and quarrying	79,069,815	-	-	-	-	79,069,815
Real estate activities	61,046,700	-	-	-	-	61,046,700
Accommodation and food service activities	21,095,826	-	-	-	-	21,095,826
Manufacturing	18,119,553	-	-	-	-	18,119,553
Transport, storage and communications	4,112,608	-	-	-	-	4,112,608
Other community, social and personal service activities	109,161,653	-	-	-	-	109,161,653
Financial intermediaries		275,423,755	4,971,178	63,915,207	-	344,310,140
Others	81,325,149	-	-	-	1,613,335	82,938,484
	₱1,690,814,330	₱275,423,755	₱4,971,178	₱63,915,207	₱1,613,335	₱2,036,737,805

The aging analyses of financial assets follow:

	December 31, 2022						
			Past due but not impaired				
	Total	Neither past due nor impaired	Less than 30 days	30-90 days	90-180 days	180-360 days	Impaired
Financial assets at amortized costs							
COCI (Note 5)	**₱5,892,282**	**₱5,892,282**	**₱-**	**₱-**	**₱-**	**₱-**	**₱-**
Due from BSP (Note 6)	**208,375,809**	**208,375,809**	-	-	-	-	-
Due from other banks (Note 7)	**140,815,994**	**140,815,994**	-	-	-	-	-
Loans receivable (Note 8)	**1,567,166,123**	**1,133,156,931**	**17,297,042**	**13,862,280**	**15,805,778**	**49,901,525**	**337,142,567**
Financial assets at amortized costs (Note 9)	**43,915,207**	**43,915,207**	-	-	-	-	-
Other Receivables (Note 8):			-	-	-	-	-
AIR	**73,705,777**	**38,418,364**	**1,073,072**	**372,517**	**3,808,580**	**10,516,737**	**19,516,507**
Accounts receivables	**17,585,629**	**17,378,637**	-	-	-	-	**206,992**
SCR	**495,000**	**370,000**	-	-	-	-	**125,000**
Refundable deposits (Note 14)	**1,531,235**	**1,531,235**	-	-	-	-	-
	₱2,059,483,056	**₱1,589,854,459**	**₱18,370,114**	**₱14,234,797**	**₱19,614,358**	**₱60,418,262**	**₱356,991,066**

	December 31, 2021						
			Past due but not impaired				
	Total	Neither past due nor impaired	Less than 30 days	30-90 days	90-180 days	180-360 days	Impaired
Financial assets at amortized costs							
COCI (Note 5)	₱4,971,178	₱4,971,178	₱-	₱-	₱-	₱-	₱-
Due from BSP (Note 6)	68,596,056	68,596,056	-	-	-	-	-
Due from other banks (Note 7)	206,827,699	206,827,699	-	-	-	-	-
Loans receivable (Note 8)	1,609,489,181	1,166,903,108	1,476,266	32,280,611	23,427,764	41,585,480	343,815,952
Financial assets at amortized costs (Note 9)	63,915,207	63,915,207	-	-	-	-	-
Other Receivables (Note 8):							
AIR	62,298,255	40,833,871	49,922	401,228	482,335	1,447,457	19,083,442
Accounts receivables	18,526,894	18,359,930	-	-	-	-	166,964
SCR	500,000	375,000					125,000
Refundable deposits (Note 14)	1,613,335	1,613,335	-	-	-	-	-
	₱2,036,737,805	₱1,572,395,384	₱1,526,188	₱32,681,839	₱23,910,099	₱43,032,937	₱363,191,358

With respect to credit risk arising from the other financial assets, such as cash and cash equivalents (excluding cash on hand), 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 credit worthy universal / commercial banks.

Credit quality per class of financial assets
The credit quality of financial assets is determined based on the Bank's historical experience with the corresponding parties as follows:

Due from BSP, due from other banks, cash and cash equivalents, financial assets at amortized costs - based on the nature of the counterparty and the Bank's internal rating system.

Loans receivable – high grade pertains to fully secured loans with least likelihood of default; standard grade consists of fully secured loans with relatively low defaults; and substandard grade pertains to either secured or clean loans with history of default payments.

The tables below show the credit quality by class of neither past due nor impaired financial assets (gross of allowance for credit losses and unearned discounts as at December 31, 2022 and 2021):

		December 31, 2022			
	Note	**High grade**	**Standard grade**	**Substandard grade**	**Total**
Financial assets at amortized costs					
COCI	***5***	**₱-**	**₱5,892,282**	**₱-**	**₱5,892,282**
Due from BSP	***6***	**208,375,809**	**-**	**-**	**208,375,809**
Due from other banks	***7***	**140,815,994**	**-**	**-**	**140,815,994**
Loans receivable	***8***	**-**	**1,133,156,931**	**-**	**1,133,156,931**
Financial assets at amortized costs	***9***	**43,915,207**	**-**	**-**	**43,915,207**
Other receivables:	***8***				
AIR		**-**	**38,418,364**	**-**	**38,418,364**
Accounts receivables		**-**	**17,378,637**	**-**	**17,378,637**
SCR		**-**	**370,000**	**-**	**370,000**
Refundable deposits	***14***	**-**	**1,531,235**	**-**	**1,531,235**
		₱393,107,010	**₱1,196,747,449**	**₱-**	**₱1,589,854,459**

		December 31, 2021			
	Note	**High grade**	**Standard grade**	**Substandard grade**	**Total**
Financial assets at amortized costs					
COCI	*5*	₱-	₱4,971,178	₱-	₱4,971,178
Due from BSP	*6*	68,596,056	-	-	68,596,056
Due from other banks	*7*	206,827,699	-	-	206,827,699
Loans receivable	*8*	-	1,166,903,108	-	1,166,903,108
Financial assets at amortized costs	*9*	63,915,207	-	-	63,915,207
Other receivables:	*8*				
AIR		-	40,833,871	-	40,833,871
Accounts receivables		-	18,359,930	-	18,359,930
SCR		-	375,000	-	375,000
Refundable deposits	*14*	-	1,613,335	-	1,613,335
		₱339,338,962	₱1,233,056,422	₱-	₱1,572,395,384

Liquidity risk

Liquidity risk is the risk from inability to meet obligations when they become due because of inability to liquidate assets or obtain adequate funding. The Bank ensures that sufficient liquid assets are available to meet short-term funding and regulatory requirements.

The Bank seeks to manage its liquidity profile to be able to finance its operations, capital expenditures and deposit liability withdrawal requirements. To cover its financing requirements, the Bank intends to use internally generated funds and to maintain credit facility with certain creditors.

Since the Bank's financial liabilities are principally short-term, the Bank manages and matches its financial assets by investing its excess funds in ordinary bank deposits, and granting its loan receivables at short-term periods maturing within 1 year.

The table below summarizes the maturity profile of financial liabilities based on its contractual undiscounted cash flows. The maturity grouping of financial liabilities is based on the remaining period from the end of the reporting period to the contractual maturity date. When counterparty has a choice of when the amount is paid, the liability is allocated to the earliest period in which the Bank can be required to pay.

December 31, 2022	*Note*	**Total**	**On demand**	**Due within 1 year**	**Due within 1 to 5 years**	**Due beyond 5 years**
Deposit liabilities	*15*	**₱1,613,860,802**	**₱1,297,803,809**	**₱218,349,468**	**₱8,340,918**	**₱89,366,607**
Bills payable	*16*	**316,723,448**	**-**	**196,104,212**	**111,854,732**	**8,764,504**
Accrued expenses and other liabilities*	*17*	**51,192,292**	**51,192,292**	**-**	**-**	**-**
Lease liabilities	*11*	**16,805,245**	**-**	**7,130,497**	**9,674,748**	**-**
		₱1,998,581,787	**₱1,348,996,101**	**₱421,584,177**	**₱129,870,398**	**₱98,131,111**

December 31, 2021	Note	Total	On demand	Due within 1 year	Due within 1 to 5 years	Due beyond 5 years
Deposit liabilities	15	₱1,677,064,313	₱1,380,106,322	₱140,683,634	₱19,702,942	₱136,571,415
Bills payable	16	134,760,755	-	72,485,118	62,275,637	-
Accrued expenses and other liabilities*	17	73,082,770	73,082,770	-	-	-
Lease liabilities	11	15,128,411	-	6,590,114	8,538,297	-
		₱1,900,036,249	₱1,453,189,092	₱219,758,866	₱90,516,876	₱136,571,415

**excluding government liabilities*

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

	Note	2022	2021
Minimum liquidity ratio		**52.50%**	40.56%
Basel III Leverage ratio	25	**10.68%**	10.83%
Total exposure measure (in millions)	25	**₱2,389,795**	₱2,280,801

Market risks
Market risk refers to the risk that changes in market prices, such as foreign exchange rates, interest rates and other market prices will affect the Bank's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

The Bank is subject to certain market risks, including risks from changes in interest rates and currency exchange rates. There have been no changes to the Bank's exposure to market risks or the manner in which it manages and measures the risk.

Foreign currency risk
Currency risk arises when transactions are denominated in foreign currencies.

The Bank is not exposed to significant foreign currency risk given that financial assets and liabilities are denominated in the Bank's functional currency.

Interest rate risks
Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the fair value of a financial instrument will fluctuate due to changes in market interest rates.

Cash flow interest rate risk exposure, particularly on the Bank's loan receivables is managed within parameters approved by the management. Currently, loans had been offered at the approved fixed interest rates, ranging from 2.25% to 24% in 2022 and 2021.

The annual interest rates for the interest-bearing financial instruments in 2022 follow:

	Note	Within 1 Year	2 - 5 Years
Due from other banks	7	**0.01% to 0.50%**	**-**
Loans receivable	8	**2.25% to 24.00%**	**2.25% to 19.80%**
Financial assets at amortized cost	9	**4.63%**	**2.38% to 6.25%**
Deposit liabilities	15	**0.50% to 3.75%**	**1.25% to 7.25%**
Bills payable	16	**2.00% to 6.20%**	**2.00% to 6.20%**

The annual interest rates for the interest-bearing financial instruments in 2021 follow:

	Note	Within 1 Year	2 - 5 Years
Due from other banks	7	0.25% to 0.50%	-
Loans receivable	8	2.25% to 24.00%	2.25% to 19.80%
Financial assets at amortized cost	9	4.63%	2.38% to 6.25%
Deposit liabilities	15	0.50% to 3.75%	1.25% to 8.00%
Bills payable	16	2.00% to 4.50%	2.0% to 4.50%

The cash flow interest rate risk of the Bank's financial instruments *(principally composed of loans receivable and deposit liabilities)*, are highly controllable by the Bank. Any changes, thereof, have been subjected to thorough review and approval by the BOD.

The following table demonstrates the sensitivity of net profit before tax for the years ended December 31, 2022 and 2021 to a reasonably possible change in interest rates, with all other variables held constant:

	2022		2021	
Increase/(decrease) in market basis points	**2%**	**(2%)**	2%	(2%)
Effect on income before tax	**₱1,883,956**	**(₱1,883,956)**	₱2,014,403	(₱2,014,403)
Effect on equity	**₱1,412,967**	**(₱1,412,967)**	₱1,510,802	(₱1,510,802)

The maturity profile of the Bank's interest-bearing financial instruments follows:

December 31, 2022	*Note*	**Total**	**On demand**	**Due within 1 year**	**Due within 1 to 5 years**	**Due beyond 5 years**
Financial assets						
Due from other banks	*7*	**₱140,815,994**	**₱140,815,994**	**₱-**	**₱-**	**₱-**
Loan receivables	*8*	**1,567,166,123**	**354,399,297**	**357,406,638**	**760,913,313**	**94,446,875**
Financial assets at amortized cost	*9*	**43,915,207**		**-**	**39,915,207**	**4,000,000**
SCR	*8*	**495,000**	**-**	**495,000**	**-**	**-**
		₱1,752,392,324	**₱495,215,291**	**₱357,901,638**	**₱800,828,520**	**₱98,446,875**
Financial liabilities						
Deposit liabilities	*15*	**₱1,613,860,802**	**₱1,297,803,809**	**₱218,349,468**	**₱8,340,918**	**₱89,366,607**
Bills payable	*16*	**316,723,448**	**-**	**196,104,212**	**111,854,732**	**8,764,504**
Lease liabilities	*11*	**16,805,245**	**-**	**7,130,497**	**9,674,748**	**-**
		₱1,947,389,495	**₱1,297,803,809**	**₱421,584,177**	**₱129,870,398**	**₱98,131,111**

December 31, 2021	*Note*	**Total**	**On demand**	**Due within 1 year**	**Due within 1 to 5 years**	**Due beyond 5 years**
Financial assets						
Due from other banks	*7*	₱206,827,699	₱206,827,699	₱-	₱-	₱-
Loan receivables	*8*	1,609,489,181	321,633,168	506,545,797	753,139,889	28,170,327
Financial assets at amortized cost	*9*	63,915,207	-	9,915,207	50,000,000	4,000,000
SCR	*8*	500,000	-	500,000	-	-
		₱1,880,732,087	₱528,460,867	₱516,961,004	₱803,139,889	₱32,170,327
Financial liabilities						
Deposit liabilities	*15*	₱1,677,064,313	₱1,380,106,322	₱140,683,634	₱19,702,942	₱136,571,415
Bills payable	*16*	134,760,755	-	72,485,118	62,275,637	-
Lease liabilities	*11*	15,128,411	-	6,590,114	8,538,297	-
		₱1,826,953,479	₱1,380,106,322	₱219,758,866	₱90,516,876	₱136,571,415

25. Capital Risk Management

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

The Bank manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Bank may adjust the amount of dividend payment to shareholders, return capital structure, or issue capital securities. No changes were made in the objectives, policies and processes from the previous years.

Regulatory capital consists of Tier 1 capital, which comprises share capital, retained earnings including current year profit and deferred income tax. Certain adjustments are made in PFRS-based results and reserves, as prescribed by the BSP to come up with the Tier 1 capital. The other component of regulatory capital is Tier 2 capital, which includes general loan loss provision (limited to 1.00% of credit risk weighted assets) and preferred shares.

The following table shows the required regulatory capital analysis as at December 31, 2022 and 2021 (in millions):

	2022	2021
Tier 1 capital	**₱255.200**	₱246.927
Tier 2 capital	**17.642**	17.944
Total qualifying capital	**₱272.842**	₱264.871
Risk-weighted assets	**₱2,143.268**	₱2,176.372
Common equity tier 1 (CET1) capital ratio	**15.72%**	15.05%
Tier 1 capital ratio	**11.91%**	11.35%
Total capital ratio	**12.73%**	12.17%

Regulatory capital consists of Tier 1 capital and Total qualifying capital which comprises the following (in millions):

	Note	**2022**	2021
Share capital	*19*	**₱281.898**	₱276.139
Additional paid-in capital	*19*	**2.585**	2.585
Retained earnings	*19*	**52.472**	48.915
CET1 capital		**336.955**	327.639
Deferred tax asset	*22*	**(81.755)**	(80.712)
Tier 1 capital		**255.200**	246.927
Tier 2 capital:			
General loan loss provision		**17.642**	17.944
Total qualifying capital		**₱272.842**	₱264.871

Total risk-weighted assets are comprised of the following (in millions):

	2022	2021
Total credit risk-weighted assets	**₱1,764.152**	₱1,699.085
Total operational risk-weighted assets	**473.083**	477.287
	₱2,237.236	₱2,176.372

Regulatory capital consists of Tier 1 capital, which comprises share capital, retained earnings including current year net income and deferred income tax. Certain adjustments are made in PFRS based results and reserves, as prescribed by the BSP. The other component of regulatory capital is Tier 2 capital, which includes general loan loss provision (limited to 1% of credit risk weighted assets) and preferred shares.

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 which differ from PFRS in some aspects.

Under existing banking regulations, the combined capital accounts of each rural bank should not be less than an amount equal to 10% of its risk assets. Risk weighted assets are defined as total assets less cash on hand, due form BSP, loans covered by hold-out on or assignment of deposits, loans or acceptances under letters of credit to the extent covered by margin deposits and other non-risk items determined by the Monetary Board of the BSP.

Minimum capitalization
Pursuant to the BSP Circular No. 854 series of 2015 dated October 29, 2015, the required minimum capitalization for a rural bank whose head office is located in "all cities up to 3rd class municipalities with 11 to 50 branches" is ₱40M.

The Bank and its individually regulated operations have complied with all externally imposed capital requirements throughout the period.

Basel III Leverage Ratio
BSP also requires the Basel III Leverage Ratio (BLR), which is designed to act as a supplementary measure to the risk-based capital requirements. BLR intends to restrict the build-up of leverage in the banking sector to avoid destabilizing deleveraging processes, which can damage the broader financial system and the economy. Likewise, it reinforces the risk-based requirements with a simple, non-risk based "backstop" measure.

Exposure measure is the sum of on-balance sheet exposures, derivative exposures, and off-balance sheet items. Items that are deducted completely from capital (regulatory deductions) do not contribute to leverage, hence, deducted from the exposure measure. BLR is computed as the capital measure (Tier 1 capital) divided by the total exposure measure.

As at December 31, 2022 and 2021, the BLR of the Bank, is shown in the table below (in millions):

	2022	2021
Tier 1 Capital	**₱255.200**	₱246.927
Total exposure measure	**₱2,389.795**	₱2,280.801
BLR	**10.68%**	10.83%

26. Fair Value Measurement

Categories of financial assets and financial liabilities

The following table summarizes the carrying values and fair values of the Bank's financial assets and financial liabilities by class:

		December 31, 2022		December 31, 2021	
	Note	**Carrying values**	**Fair values**	Carrying values	Fair values
Financial assets at amortized cost					
Cash and other cash items	*5*	**₱339,144,121**	**₱339,144,121**	₱281,591,114	₱281,591,114
Due from BSP	*6*	**208,375,809**	**208,375,809**	68,596,056	68,596,056
Due from other banks	*7*	**140,815,994**	**140,815,994**	206,827,699	206,827,699
Loans receivable - net	*8*	**1,250,265,556**	**1,081,034,066**	1,287,137,489	1,510,235,722
Financial assets at amortized cost	*9*	**43,915,207**	**41,097,939**	63,915,207	64,672,077
Other receivables:	*8*				
AIR-net		**65,216,266**	**65,216,266**	52,135,240	52,135,240
Accounts receivables-net		**17,378,637**	**17,378,637**	18,359,930	18,359,930
SCR-net		**370,000**	**370,000**	375,000	375,000
Refundable deposits	*14*	**1,531,235**	**1,531,235**	1,613,335	1,613,335
		₱2,067,012,825	**₱1,894,964,067**	₱1,980,551,070	₱2,204,406,173
Financial liabilities					
Deposit liabilities	*15*	**₱1,613,860,802**	**₱1,609,188,254**	₱1,677,064,313	₱1,685,395,201
Bills payable	*16*	**316,723,448**	**297,861,115**	134,760,755	135,223,062
Accrued expenses and other liabilities*	*17*	**51,192,292**	**51,192,292**	73,082,770	73,082,770
Lease liabilities	*11*	**16,805,245**	**16,805,245**	15,128,411	15,128,411
		₱1,998,581,787	**₱1,975,046,906**	₱1,900,036,249	₱1,908,829,444

**excluding statutory payables*

The methods and assumptions used by the Bank in estimating the fair value of financial instruments are as follow:

Cash and other cash items, due from BSP and other banks, other assets (accounts receivable, sales contract receivable and refundable deposits), and accrued expenses and other liabilities - Carrying amounts approximate its fair values in view of the relatively short-term maturities of these financial instruments.

Loans receivable, deposit liabilities, bills payable, and lease liabilities - Fair values of the Bank's loan receivables are estimated using the discounted cash flow methodology, using current incremental lending rates for similar types of instruments. Where the instrument re-prices on a quarterly basis or has a relatively short maturity, the carrying amounts approximated fair values.

Financial assets at amortized costs – Fair values of debts securities are generally based on quoted market prices. Where the debt securities are not quoted or market prices not readily available, the Bank applies discounted cash flow methodology.

Items of income, expense, gains or losses on financial assets and financial liabilities

Items of income, expense, gains or losses recognized with respect to financial assets and financial liabilities in the statements of income were as follow:

	Note	**2022**	2021
Total interest income on financial assets measured at amortized cost			
Loans receivable	*8*	**₱239,233,617**	₱238,267,235
Financial assets at amortized cost	*9*	**2,178,000**	2,422,019
Due from other banks	*7*	**146,548**	226,889
		₱241,558,165	₱240,916,143
Total interest expense on financial liabilities measured at amortized cost			
Deposit liabilities	*15*	**₱18,976,045**	₱20,378,728
Lease liabilities	*11*	**5,320,405**	1,310,744
Bills payable	*16*	**1,012,890**	920,326
		₱25,309,340	₱22,609,798
Fee income and expense arising from financial assets measured at amortized cost			
Service charges, fees and commissions	*20*	**₱38,262,458**	₱27,311,753
Impairment losses			
Loans receivable	*8*	**₱29,800,912**	₱21,642,029
Accounts receivable	*8*	**40,028**	2,893,662
		₱29,840,940	₱24,535,691

Fair value of assets and liabilities

The following tables summarize the carrying values and fair values of the Bank's non-financial assets and liabilities which fair values are disclosed (not measured at fair value):

	December 31, 2022				
		Fair Value			
	Carrying value	**Level 1**	**Level 2**	**Level 3**	**Total Fair Value**
ASSETS FOR WHICH FAIR VALUES ARE DISCLOSED					
Non-financial assets					
Investment properties (Note 12)	**₱27,685,635**	**₱-**	**₱-**	**₱57,712,957**	**₱57,712,957**

	December 31, 2021				
		Fair Value			
	Carrying value	**Level 1**	**Level 2**	**Level 3**	**Total Fair Value**
ASSETS FOR WHICH FAIR VALUES ARE DISCLOSED					
Non-financial assets					
Investment properties (Note 12)	₱23,524,385	₱-	₱-	₱48,684,586	₱48,684,586

Fair value measurement of non-financial assets

Investment properties – Fair value of investment properties was determined by in-house appraisers on the basis of recent sales of similar properties in the same area as the investment properties and taking into account the economic conditions prevailing at the time the valuations were made. The in-house appraisers provide the fair value of the Bank's investment properties at least every other year as required under: provided, that immediate re-appraisal shall be conducted on items which materially decline in value.

The Bank's investment properties with fair values disclosed fall under level 3 category as at December 31, 2022 and 2021. There were no transfers from and out of level 3 to other category levels in both years.

27. Reconciliation of Liabilities Arising from Financing Activities

Changes in the Bank's liabilities arising from financing activities consist of cash and non-cash activities. Liabilities arising from financing activities are those for which cash flows were or future cash flows will be classified in the Bank's statements of cash flows as cash flows from financing activities.

Liabilities arising from financing activities of the Bank are from bills payable from a rediscounting credit line of the Bank's loans receivable and from lease liabilities (see Notes 11 and 16).

Movements of bills payable for the period are as follow:

	2022	2021
Balance, January 1	**₱134,760,755**	₱53,127,093
Changes from cash flow		
Availments	**331,934,676**	147,205,000
Payments	**(149,971,983)**	(65,571,338)
	₱316,723,448	₱134,760,755

Movements of lease liabilities for the period follow:

	2022	2021
Balance, January 1	**₱15,128,411**	₱21,294,006
Remeasurement	**1,283,264**	491,251
New contracts	**8,202,705**	
Changes from cash flow		
Accretion of interest	**1,012,890**	1,310,744
Payments	**(8,822,025)**	(7,967,590)
Balance, December 31	**₱16,805,245**	₱15,128,411

28. Events after the Reporting Period

Increase in par value per share

On February 20, 2023, the Securities and Exchange Commission has approved the application of the Bank to increase its par value of both common and preferred shares of stocks from ₱500 to ₱1,000 each, as approved by the majority of the Board of Directors and the vote of the stockholders owning or representing at least 2/3 of the outstanidng capital stock at a meeting held on April 16, 2021 and April 24, 2021, respestively signed by a majority of the directors of the Bank and countersigned by the Chairman and the Secretary of the stockholder's meeting. The increase in the par value per share resulted in the reduction in the number of authorized shares and in the number of subscribed and outstanding shares of the Bank.

Increase in authorized capital

In its regular meeting held on December 27, 2022, the BOD passed resolution No. 2022-390 Series of 2022 approving the proposed increase in the authorized capital stock of the Bank from ₱300 Million to ₱500 Million. The amendment was presented to and approved by the stockholders owning or representing at least 2/3 of the outstanidng capital stock at the annual stockholders meeting held on April 15, 2023. The proposed increase is in line with the capital build-up program of the Bank. As of August 31, 2023, the Bank is still in the process of complying with the requirements by the BSP and the SEC.

29. Supplementary Information Required Under BSP Circular No. 1074

Basic Quantitative Indicators of Financial Performance

The following basic ratios measure the financial performance of the Bank:

	2022	2021
Return on average equity	**0.97%**	4.99%
Return on average assets	**0.15%**	0.75%
Net interest margin	**13.91%**	13.56%

Description of Capital Instruments Issued

As at December 31, 2022 and 2021, the Bank has issued common stocks. Common stocks give the owner the right to vote, to share in the income, and in the event of liquidation, to share in all assets after satisfying creditors' and preference stockholders' claims.

Significant Credit Exposures as to Industry/Economic Sector

As at December 31, 2022 and 2021, information on the concentration of credit as to industry/economic sector of loan receivables, gross of unearned discount and allowance for credit losses, follows:

	2022	**Percent to Total**	**Percent to Tier-1 Capital**	2021	Percent to Total	Percent to Tier-1 Capital
Salary based - general purpose consumption loans	**₱709,123,718**	**45.25%**	**277.87%**	₱816,888,787	50.75%	330.82%
Agriculture, forestry and fishing	**217,009,439**	**13.85%**	**85.03%**	249,623,110	15.51%	101.09%
Wholesale & retail trade, repair of motor vehicles	**254,666,447**	**16.25%**	**99.79%**	250,371,129	15.56%	101.39%
Construction, mining and quarrying	**65,002,083**	**4.15%**	**25.47%**	79,069,815	4.91%	32.02%
Real estate activities	**74,028,506**	**4.72%**	**29.01%**	61,046,700	3.79%	24.72%
Accommodation and food service activities	**22,499,279**	**1.44%**	**8.82%**	21,095,826	1.31%	8.54%
Manufacturing	**27,495,688**	**1.75%**	**10.77%**	18,119,553	1.13%	7.34%
Transport, storage and communications	**7,304,768**	**0.47%**	**2.86%**	4,112,608	0.26%	1.67%
Other community, social and personal service activities	**190,036,195**	**12.13%**	**74.47%**	109,161,653	6.78%	44.21%
	₱1,567,166,123	**100.00%**		₱1,609,489,181	100.00%	

The BSP considers that the concentration of credit exists when total loan exposure to a particular industry or economic sector exceeds 30% of the total loan portfolio or 10% of the Tier 1 capital.

The Bank analyzes the credit risk concentration to an individual borrower, related group of accounts, industry, geographic, internal rating buckets, currency, term and security. To mitigate risk concentration, the Bank constantly checks for breaches in regulatory and internal limits. The management believes that with its risk management measures, the Bank can manage the risk of credit concentration in these particular industries/economic sectors.

Breakdown of Total Loans as to Security

As at December 31, 2022 and 2021, the Bank's total unsecured and secured loans, including the type of security follows:

	2022	**Percent to Total**	2021	Percent to Total
Loan receivables				
Unsecured	**₱864,138,435**	**55.14%**	₱966,028,556	60.02%
Secured	**703,027,688**	**44.86%**	643,460,625	39.98%
	₱1,567,166,123	**100.00%**	₱1,609,489,181	100.00%
Secured loan receivables				
Real estate mortgage	**₱384,321,265**	**54.67%**	₱378,689,976	58.85%
Chattel mortgage and others	**318,706,423**	**45.33%**	264,770,649	41.15%
	₱703,027,688	**100.00%**	₱643,460,625	100.00%

Secured loans, which are secured by real estate and chattel mortgages and other collaterals, have terms ranging from less than 1 year to 30 years and with annual interest rates ranging from 2.25% to 18% in 2022 and 2021.

Unsecured loans are guaranteed by co-makers, who in the event of default will assume the loan balance. These loans have terms of less than 1 year to 7 years with annual interest rates ranging from 9% to 24% in 2022 and 2021.

The Bank does not hold any collateral which it is permitted to sell or re-pledge in the absence of default by the borrower.

Breakdown of Total Loans as to Status

Under banking regulations, loan accounts shall be considered non-performing when they are considered impaired under existing accounting standards, classified as doubtful or loss, in litigation, and/or there is evidence that full repayment of principal or interest is unlikely without foreclosure of collateral, if any. All other loans, even if not considered impaired, shall be considered non-performing if any principal and/or interest are unpaid for more than ninety (90) days from contractual due date, or accrued interests for more than ninety (90) days have been capitalized, refinanced, or delayed by agreement. Restructured loans shall be considered non-performing. However, if prior restructuring, the loans were categorized as performing, such classification shall be retained. Moreover, NPLs shall remain classified as such until (a) there is sufficient evidence to support that full collection of principal and interests is probable and payments of interest and/or principal are received for at least six (6) months; or (b) written-off. Microfinance and other small loans with similar credit characteristics shall be considered non-performing after contractual due date or after they have become past due.

As at December 31, 2022 and 2021, performing and nonperforming loans of the Bank, classified per product type, are as follows:

	December 31, 2022		
	Performing	**Nonperforming**	**Total**
Loans to individual for other purposes	**₱745,934,906**	**₱159,234,862**	**₱905,169,768**
Small and medium enterprise loans	**223,908,336**	**49,606,600**	**273,514,936**
Agrarian reform and other agricultural credit loans	**101,825,725**	**132,239,498**	**234,065,223**
Microfinance loans	**92,647,288**	**61,768,908**	**154,416,196**
	₱1,164,316,255	**₱402,849,868**	**₱1,567,166,123**

	December 31, 2021		
	Performing	Nonperforming	Total
Loans to individual for other purposes	₱767,034,865	₱169,488,785	₱936,523,650
Small and medium enterprise loans	233,429,106	38,629,154	272,058,260
Agrarian reform and other agricultural credit loans	117,027,628	135,498,818	252,526,446
Microfinance loans	83,168,385	65,212,440	148,380,825
	₱1,200,659,984	₱408,829,197	₱1,609,489,181

Information on Related Party Loans
In the ordinary course of business, the Bank transacts with certain directors, officers, stockholders and other related interests (DOSRI). Under the Bank's existing policies, these transactions are made substantially on the same terms and conditions as transactions with other individuals and businesses of comparable risks. The amount of individual loans to DOSRI, 70.00% of which must be secured, should not exceed the amount of their respective deposits and book value of their investments in the Bank. These limits do not apply to loans secured by assets considered non-risk as defined in the regulations. In the aggregate, loans to DOSRI should not exceed the total capital funds or 15.00% of the total loan portfolio of the Bank, whichever is lower.

As at December 31, 2022 and 2021, the Bank does not have any loans and other credit transactions classified as DOSRI and related party loans.

Aggregate Amount of Secured Liabilities and Assets Pledged as Security
As at December 31, 2022 and 2021, the Bank's bills payable with carrying amounts of ₱316,723,448 and ₱134,760,755, respectively, are secured by deed of continuing assignment of loans receivables with carrying amounts of ₱386,615,821 and ₱158,542,065 as at December 31, 2022 and 2021, respectively.

Contingencies and Commitments Arising from Off-Balance Sheet Items
As at December 31, 2022 and 2021, the Bank had not recognized any contingencies 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 statement of financial position, interest and foreign exchange-rate related items; and other commitments.

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

Revenue Regulations (RR) No. 15-2010

1. Documentary stamp tax (DST)

The DST paid and accrued amounting to ₱5,323,972 and ₱559,658, respectively, pertains to loan instruments, time deposits, and issuance of shares.

2. Withholding taxes

The amount of withholding taxes paid and/or accrued for the year amounted to:

	Paid	Accrued
Final withholding tax	**₱1,599,538**	**₱478,212**
Expanded withholding tax	**1,045,445**	**95,930**
Withholding tax on compensation	**1,078,091**	**76,075**
Total	**₱3,723,074**	**₱650,217**

3. Other taxes and licenses

	2022
Local	
Business permit, etc.	**₱1,851,479**
Real property tax	**1,135,909**
Other local taxes	**184,558**
National	
Gross receipts tax	**16,641,691**
BIR annual registration	**24,000**
Other taxes and licenses	**842,484**
	₱20,680,121

4. Tax assessment and cases

The Bank has no unpaid deficiency tax assessments as of December 31, 2022 nor does it have any pending tax cases, litigation and/or prosecution in courts or bodies outside the BIR.

MOORE Roxas Cruz Tagle and Co.

LETTER OF COMMENTS CANTILAN BANK, INC. (A RURAL BANK)

31 December 2022

MOORE Roxas Cruz Tagle and Co.

Roxas Cruz Tagle and Co.

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August 31, 2023

The Board of Directors and Stockholders
Cantilan Bank, Inc. (A Rural Bank)
Orozco St., Magosilom, Cantilan, Surigao del Sur

Gentlemen:

We have audited the financial statements of **CANTILAN BANK, INC. (A RURAL BANK)** (the Bank) as at and for the year ended December 31, 2022 and have issued our opinion thereon dated August 31, 2023.

We conducted our audit in accordance with the Philippine Standards on Auditing (PSA). Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

Our audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

Our audit that was made for the purpose as explained in the preceding paragraph, would not necessarily disclose all weaknesses in the system because it was based on selective tests of accounting records and related data.

This report is provided solely for the information and use of the management of the Bank and others within the organization. No responsibility is accepted by us to any third parties, and this report cannot be regarded as a comprehensive statement of all weaknesses of the internal control system that may exist, or of all improvements which might be made.

At this point, we would like to emphasize that the observations and recommendations taken up in this report indicate our desire to be of continuing assistance to management and should not be regarded as reflecting on the integrity or capabilities of anyone in your organization.

We hope you will consider our observations and recommendations as proof of our continuing interest in the Bank.

Finally, we wish to thank the officers and staff who in one way or another assisted us and extended their utmost cooperation in our audit.

Very truly yours,

ALJUVER R. GAMAO
Engagement Partner

MOORE Roxas Cruz Tagle and Co.

CANTILAN BANK, INC. (A RURAL BANK)
LETTER OF COMMENTS
As at and for the year ended December 31, 2022

LOANS AND RECEIVABLES

(The management's remarks indicated are unedited and/or uncorrected to retain the original intention on their response to our observations/findings.)

1. Under-recognition of provision for expected credit losses (ECL)

Observation:

The Bank developed its ECL model in 2019 which is currently being used in determining the level of valuation reserves on its loans and receivables. Based on the Bank's existing model, it was initially determined that the ECL relative to its outstanding loans and receivables as at December 31, 2022 amounted to ₱378.4 million, excluding the remaining unrecorded valuation reserves of ₱64.9 million from the ₱108.2 million that was approved for staggered booking by the Bangko Sentral ng Pilipinas (BSP) in 2020. However, the Bank had only recognized ₱276.6 million total allowance for ECL as the Bank is in the process of recalibrating its ECL model to factor in the effects of the pandemic and other qualitative factors to ECL provisioning.

Recommendation:

To be more prudent in reporting the net carrying value of its loans and receivables, we recommend that the Bank recognize the overall computed ECL as at December 31, 2022. While we recognize that the recalibration of the parameters used in the model is currently on-going, the results thereof can be integrated prospectively as how the accounting for changes in accounting estimates is observed under Philippine Accounting Standards (PAS) 8. Regular validation of the model is also encouraged to allow the Bank to timely review the effectiveness and reasonability of its model and introduce any necessary adjustments that would affect the ECL provisioning and the overall valuation reserves.

Moreover, the Bank should ensure that it continues to comply with all the provisions of Section 3 of the BSP Memorandum No. M-2020-061 relative to the recognition and reporting requirements for the staggered booking of ECL.

Management's comment:

The Bank, with the approval of the Board, has decided to recognize the additional loan loss provision in 2023 pending the results of the ECL recalibration and validation and will be reflected in the subsequent prudential reporting.

--- Nothing follows ---

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