SECURITIES AND EXCHANGE COMMISSION
SEC Headquarters, 7907 Makati Avenue, Salcedo Village, Barangay Bel-Air, Makati City, 1209, Metro Manila Philippines
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Company Information

SEC Registration No.: 0000024827
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Industry Classification: J65940
Company Type: Stock Corporation

Document Information

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C O V E R   S H E E T
for
AUDITED FINANCIAL STATEMENTS

SEC Registration Number

						2	4	8	2	7

C O M P A N Y   N A M E

R U R A L   B A N K   O F   G U I N O B A T A N ,   I N C .

PRINCIPAL OFFICE *(No. Street /Barangay/City/ Town)Province*)

J M H   B U I L D I N G ,   M A B I N I   S T. ,

P O B L A C I O N ,   G U I N O B A T A N ,   A L B A Y

Form Type	Department requiring the report	Secondary License Type, If Applicable
A A F S	C R M D	N / A

C O M P A N Y   I N F O R M A T I O N

Company's Email Address	Company's Telephone Number/s	Mobile Number
compliance@rbgbank.com	(052) 484-6439	

No. of Stockholders	Annual Meeting Month/Day	Fiscal Year Month/Day
15	2nd Monday of May	31-Dec

CONTACT PERSON INFORMATION

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

Name of Contact Person	Email Address	Telephone Number/s	Mobile Number
XERENDA I. ADEL	xiadel@rbgbank.com		0915-959-4321

CONTACT PERSON's ADDRESS

Purok 3, San Rafael, Guinobatan, Albay

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

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

RURAL BANK OF GUINOBATAN, INC.
GUINOBATAN, ALBAY – PHILIPPINES

FINANCIAL STATEMENTS
DECEMBER 31, 2022 AND 2021

C O N T E N T S

RURAL BANK OF GUINOBATAN, INC.
SINCE 1964
Mabini Street, Guinobatan, Albay 4503 * +63-52 204-8888

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The Management of **RURAL BANK OF GUINOBATAN, INC.** (the "Bank"), is responsible for the preparation and fair presentation of 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 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 of the Bank.

Alas, Oplas & Co., CPAs, the independent auditor appointed by the stockholders for the years ended December 31, 2022 and 2021, has audited the financial statements of the Bank in accordance with Philippine Standards on Auditing, and in its report to the stockholders, has expressed its opinion on the fairness of presentation upon completion of such audit.

ATTY. ARMI L. BALLARAN-RABELAS
Chairman of the Board

PAULO R. HONRADO
President

KRISTINE JOYCE M. OROLFO
Treasurer

Signed this 19th day of April, 2023

Alas Oplas & Co., CPAs
Makati Head Office
10/F Philippine AXA Life Centre
1286 Sen. Gil Puyat Avenue
Makati City, Philippines 1200
Phone: (632) 7759-5090 / 92
Email: aocheadoffice@alasoplascpas.com
www.alasoplascpas.com

Independent Member of
BKR International

INDEPENDENT AUDITORS' REPORT TO ACCOMPANY FINANCIAL STATEMENTS FOR FILING WITH THE SECURITIES AND EXCHANGE COMMISSION

To the Stockholders and the Board of Directors
RURAL BANK OF GUINOBATAN, INC.
JMH Building, Mabini St.
Poblacion, Guinobatan, Albay

We have examined the financial statements of **RURAL BANK OF GUINOBATAN, INC.** for the years ended December 31, 2022 and 2021 on which we have rendered the attached report dated April 19, 2023.

In compliance with Revised Securities Regulation Code Rule 68, we are stating that the said Bank has a total number of twelve (12) stockholders owning one hundred (100) or more shares each.

ALAS, OPLAS & CO., CPAs
BOA Registration No. 0190, valid from October 31, 2022, to February 18, 2025
BIR A.N. 08-001026-000-2021, issued on January 11, 2021; effective until January 10, 2024
SEC A.N. (Firm) 0190-SEC, Group A, issued on October 21, 2021; valid for 2021 to 2025 audit period
TIN 002-013-406-000

By:

RYAN A. SABUG
Partner
CPA License No. 0111183
BIR A.N. 08-001026-004-2023, issued on February 9, 2023; effective until February 8, 2026
SEC A.N. (Individual) 111183-SEC, Group A, issued on February 4, 2021; valid for 2020 to 2024 audit period
TIN 232-158-286-000
PTR No. 9565190, issued on January 3, 2023, Makati City

April 19, 2023
Makati City

INDEPENDENT AUDITORS' REPORT

Alas Oplas & Co., CPAs
Makati Head Office
10/F Philippine AXA Life Centre
1286 Sen. Gil Puyat Avenue
Makati City, Philippines 1200
Phone: (632) 7759-5090 / 92
Email: aocheadoffice@alasoplascpas.com
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Independent Member of
BKR International

To the Stockholders and the Board of Directors
RURAL BANK OF GUINOBATAN, INC.
JMH Building, Mabini St.
Poblacion, Guinobatan, Albay

Qualified Opinion

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

In our opinion, except for the effect on the financial statements of the matters described in the basis for qualified opinion paragraph, the financial statements present fairly, in all material respects, the financial position of the Bank as at December 31, 2022 and 2021, and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards (PFRSs).

Basis for Qualified Opinion

As discussed in Note 4 to the financial statements, the Bank recognizes retirement benefit obligation using the accrual approach. Under this approach, the accrued monthly benefit that will be recognized is equivalent to a percentage of monthly basic compensation fixed by the Board of Directors.

Under PAS 19R, *Employee Benefits*, retirement benefit obligations shall be recognized using an actuarial technique, the projected unit credit method, to make a reliable estimate of the ultimate cost to the entity of the benefit that employees have earned in return for their service in the current and prior periods. This method also involves making estimates about demographic and financial variables (actuarial assumptions), and discounting the benefit in order to determine the present value of the defined benefit obligation and the related service costs, both of which were not considered in the approach adopted by the Bank. The effect of the difference in the methods in recognizing retirement benefit obligations has not been determined due to certain limitations.

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

Emphasis of Matter

We draw attention to Note 4 to the financial statements which describes the basis used by the Bank in setting up allowance for credit losses. As stated in Bangko Sentral ng Pilipinas (BSP) Circular No. 1011, BSP-supervised financial institutions with credit operations that may not economically justify adoption of a simple loan loss estimation methodology that is compliant with PFRS 9, shall, at a minimum, be subject to regulatory guidelines in setting up allowance for credit losses prescribed under Appendix 15 of the BSP Manual of Regulations for Banks (MORB). Following the guidance of BSP Circular No. 1011 and Appendix 100 of the BSP MORB in adopting PFRS 9 impairment requirements, the Bank assessed the ECL in accordance with the said standard and based on management judgement, it was determined that the amount recognized as allowance based on Appendix 15 of the BSP MORB is reasonable. Our opinion is not modified in respect of this matter.

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

Management is responsible for the preparation of the financial statements in accordance with Philippine Financial Reporting Standards, 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 PSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they 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 PSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

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

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

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

Our audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary Information required under BSP Circular No. 1074 in Note 30, and Revenue Regulations Nos. 15-2010 on taxes, duties and license fees paid or accrued during the taxable year, taxable income, and deductions in Note 29 to the financial statements, are presented for purposes of filing with the BSP and Bureau of Internal Revenue, respectively, and is not a required part of the basic financial statements. Such information is the responsibility of the management of **RURAL BANK OF GUINOBATAN, INC.** The information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

ALAS, OPLAS & CO., CPAs
BOA Registration No. 0190, valid from October 31, 2022, to February 18, 2025
BIR A.N. 08-001026-000-2021, issued on January 11, 2021; effective until January 10, 2024
SEC A.N. (Firm) 0190-SEC, Group A, issued on October 21, 2021; valid for 2021 to 2025 audit period
TIN 002-013-406-000

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RYAN A. SABUG
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SEC A.N. (Individual) 111183-SEC, Group A, issued on February 4, 2021; valid for 2020 to 2024 audit period
TIN 232-158-286-000
PTR No. 9565190, issued on January 3, 2023, Makati City

April 19, 2023
Makati City, Philippines

RURAL BANK OF GUINOBATAN, INC.
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2022 AND 2021
In Philippine Peso

	Notes	2022	2021
ASSETS			
Cash and other cash items	8	**18,473,688**	12,530,471
Due from Bangko Sentral ng Pilipinas	8	**103,198,567**	168,140,237
Due from other banks	8	**126,411,190**	78,755,913
Investment securities at amortized cost	9	**36,971,995**	35,866,881
Loans receivables – net	10	**679,556,963**	585,612,022
Bank premises, furniture, fixtures and equipment – net	11	**84,205,608**	65,637,414
Assets held for sale – net	12	**2,079,015**	2,419,277
Deferred tax assets	23	**5,517,196**	6,233,944
Other assets	13	**26,322,788**	16,500,870
TOTAL ASSETS		**1,082,737,010**	971,697,029
LIABILITIES AND EQUITY			
Liabilities			
Deposit liabilities	14	**731,496,657**	639,872,490
Bills payable	15	**42,982,403**	69,389,473
Accrued taxes, interest and other expenses	16	**5,311,756**	6,793,383
Income tax payable		**922,199**	–
Retirement benefit obligation	17	**9,515,994**	7,543,533
Other liabilities	18	**112,229,157**	87,272,658
Total Liabilities		**902,458,166**	810,871,537
Equity			
Capital stock – common	19	**154,000,000**	120,000,000
Stock dividends distributable	20	**–**	9,000,000
Surplus reserves	20	**1,000**	1,000
Surplus free	20	**26,277,844**	31,824,492
Total Equity		**180,278,844**	160,825,492
TOTAL LIABILITIES AND EQUITY		**1,082,737,010**	971,697,029

See Notes to Financial Statements.

RURAL BANK OF GUINOBATAN, INC.
STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021
In Philippine Peso

	Notes	2022	2021
INTEREST INCOME			
Due from other banks	8	**455,304**	419,848
Investment securities at amortized cost	9	**2,085,114**	980,000
Loans receivables	10	**98,840,545**	100,697,357
		101,380,963	102,097,205
INTEREST EXPENSE			
Deposit liabilities	14	**(14,341,536)**	(10,653,983)
Bills payable	15	**(1,618,090)**	(3,378,171)
Lease liabilities	18	**(236,877)**	(234,058)
		(16,196,503)	(14,266,212)
NET INTEREST INCOME		**85,184,460**	87,830,993
OTHER OPERATING INCOME	21	**76,558,904**	66,779,815
TOTAL OPERATING INCOME		**161,743,364**	154,610,808
OPERATING EXPENSES	22	**(117,957,183)**	(117,087,364)
NET OPERATING INCOME BEFORE PROVISIONS		**43,786,181**	37,523,444
PROVISION FOR CREDIT LOSSES	10	**(9,445,088)**	(4,225,014)
PROFIT BEFORE TAX		**34,341,093**	33,298,430
INCOME TAX EXPENSE	23	**(8,629,741)**	(8,422,224)
PROFIT		**25,711,352**	24,876,206
OTHER COMPREHENSIVE INCOME		**–**	–
TOTAL COMPREHENSIVE INCOME		**25,711,352**	24,876,206

See Notes to Financial Statements.

RURAL BANK OF GUINOBATAN, INC.
STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021
In Philippine Peso

	Common Stock (Note 19)	**Stock dividends distributable** (Note 20)	**Surplus Reserves** (Note 20)	**Surplus Free** (Note 20)	**Total**
Balance at December 31, 2020	**95,429,800**	**–**	**1,000**	**44,525,495**	**139,956,295**
Transaction with owners					
Stock dividends declared (Note 20)	24,570,200	9,000,000	–	(33,570,200)	–
Cash dividends declared (Note 20)	–	–	–	(4,007,009)	(4,007,009)
Total	24,570,200	9,000,000	–	(37,577,209)	(4,007,009)
Profit	–	–	–	24,876,206	24,876,206
Balance at December 31, 2021	**120,000,000**	**9,000,000**	**1,000**	**31,824,492**	**160,825,492**
Transaction with owners					
Issuance of share capital	9,000,000	(9,000,000)	–	–	–
Stock dividends declared (Note 20)	25,000,000	–	–	(25,000,000)	–
Cash dividends declared (Note 20)	–	–	–	(6,258,000)	(6,258,000)
Total	34,000,000	(9,000,000)	–	(31,258,000)	(6,258,000)
Profit	–	–	–	25,711,352	25,711,352
Balance at December 31, 2022	**154,000,000**	**–**	**1,000**	**26,277,844**	**180,278,844**

See Notes to Financial Statements.

RURAL BANK OF GUINOBATAN, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021
In Philippine Peso

	Notes	**2022**	2021
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**34,341,093**	33,298,430
Adjustments for:			
Depreciation	11,22	**9,741,117**	7,676,679
Provision for credit losses	10	**9,445,088**	4,225,014
Retirement benefit expense	17	**3,600,000**	3,600,000
Interest income	8,9	**(2,540,418)**	(1,399,848)
Interest expense on bills payable	15	**1,618,090**	3,378,171
Interest expense on lease liability	18	**236,877**	234,058
Gain on sale of non-financial assets	21	**(104,899)**	(437,884)
Loss on sale of assets held for sale	12	**–**	776,244
Operating income before working capital changes		**56,336,948**	51,350,864
Increase in operating assets:			
Loans and other receivables		**(103,460,879)**	(52,130,655)
Other assets		**(11,065,027)**	(5,874,334)
Increase (Decrease) in operating liabilities:			
Deposit liabilities		**91,624,167**	169,869,603
Accrued taxes, interest and other expenses		**(1,665,168)**	2,037,146
Other liabilities		**24,668,152**	(1,847,979)
Cash generated from operations		**56,438,193**	163,404,644
Income tax paid		**(5,747,686)**	(12,506,733)
Retirement benefits paid	17	**(1,627,539)**	(714,150)
Interest received		**1,435,304**	1,399,848
Interest paid		**(1,434,549)**	(4,624,386)
Net cash generated from operating activities		**49,063,723**	146,959,223
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of bank premises, furniture, fixtures and equipment	11	**(26,591,328)**	(22,894,354)
Proceeds from disposal of assets held for sale	12	**669,464**	47,392
Acquisition of assets held for sale	12	**(239,485)**	–
Proceeds from sale of bank premises, furniture, fixtures and equipment	11	**86,802**	494,082
Net cash used in investing activities		**(26,074,547)**	(22,352,880)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from bills payable	15	**41,607,000**	60,033,985
Payments of bills payable	15	**(68,014,070)**	(131,900,201)
Dividends paid	18	**(6,258,000)**	(4,007,009)
Payment of lease liabilities	18	**(1,667,282)**	(1,820,877)
Net cash used in financing activities		**(34,332,352)**	(77,694,102)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**(11,343,176)**	46,912,241
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR			
Cash and other cash items		**12,530,471**	8,285,387
Due from Bangko Sentral ng Pilipinas		**168,140,237**	113,056,953
Due from other banks		**78,755,913**	91,172,040
		259,426,621	212,514,380
CASH AND CASH EQUIVALENTS AT END OF YEAR			
Cash and other cash items		**18,473,688**	12,530,471
Due from Bangko Sentral ng Pilipinas		**103,198,567**	168,140,237
Due from other banks		**126,411,190**	78,755,913
	8	**248,083,445**	259,426,621

See Notes to Financial Statements.

1. CORPORATE INFORMATION

RURAL BANK OF GUINOBATAN, INC. (the "Bank") was incorporated and registered with the Philippine Securities and Exchange Commission (SEC) on March 25, 1964 with Registration No. 24827.

The Bank was formed to carry and engage in the business of extending rural credits 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 authorities and powers; to do and perform all acts; to transact all business which may legally be had or done by rural banks organized under and in accordance with the Rural Banks' Act, as it exists or may be amended; and to do all other things incident thereto and necessary and proper in connection with said purposes within such territory, as may be determined by the Monetary Board of the BSP.

The Bank's product and services are traditional deposits such as regular and special savings deposits. The Bank also offers various types of loans such as commercial, agricultural, and various consumer loans and microfinance loans.

On May 2020, the Bank was able to secure the Electronic Payment and Financial Services (EPFS) license to offer various electronic financial services.

Geared towards the BSP's National Strategy for Financial Inclusion, the Bank came up and launched the ASENSO Mobile App last February 22, 2021 to support the nation's digital and financial inclusivity. This innovation aims to reach and serve more clients with wide range of financial products and services that are in line with client's needs. Rising to the challenges brought by the pandemic, the ASENSO Mobile App offers a convenient, secure, and elevated banking experience for its clients. The ASENSO Mobile App allows both new and existing clients to have access to their bank accounts with the Bank and facilitate transactions online. This includes, but not limited to, bank transfers, online purchases, remittances, and buying load credits.

The Bank's registered office address and principal place of business is located at JMH Building, Mabini St., Poblacion, Guinobatan, Albay. The Bank is domiciled in the Philippines.

In addition to its Main Branch, the Bank currently has six (7) branches and five (4) branch-lite units (BLUs) located as follows:

Offices	Address
Castilla Branch	Sampaguita Street, Cumadcad, Castilla, Sorsogon
Gubat Branch	Ferreras Bldg., Manook St., Pinontingan (Pob.), Gubat, Sorsogon
Ligao Branch	San Jose St., Dunao, Ligao City, Albay
Tiwi Branch	Purok 8-A, Tigbi (Pob.), Tiwi, Albay
Bacacay Branch	#6 Mora St., Barangay 13 (Pob.), Bacacay, Albay
Tabaco Branch	San Jose St., Quinale, City of Tabaco, Albay
Legazpi Branch	J.P. Rizal St., Legazpi, Albay
Daraga BLU	Ground Flr., Manzihing Bldg, Arboleda St., Ilawod Area Pob. (Dist. 2). Daraga, Albay
Gubat BLU	2nd Flr., GMEMCO Bldg., Manook St., Pinontingan (Pob.), Gubat, Sorsogon
Guinobatan BLU	3rd Flr., JMH Building, Mabini Street, Poblacion, Guinobatan, Albay
Irosin BLU	J.P. Corner C.M. Recto St., San Julian (Pob.), Irosin, Sorsogon

2. BASIS FOR THE PREPARATION AND PRESENTATION OF FINANCIAL STATEMENTS

2.01 Statement of Compliance

The financial statements of the Bank have been prepared in accordance with Philippine Financial Reporting Standards (PFRSs).

PFRSs include all applicable PFRSs, Philippine Accounting Standards (PASs), and Interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) as approved by the Financial Reporting Standards Council (FRSC) and adopted by the SEC, except for the requirements of the following standard:

a. PAS 19R Employee Benefits – The Bank has not adopted the provisions of PAS 19R for the current reporting period and continues to measure and accrue the retirement benefit obligation based on Republic Act No. 7641, otherwise known as *The Philippine Retirement Pay Law.*

2.02 Basis of Preparation

The financial statements are prepared on a going concern basis under the historical cost convention, except where a Financial Reporting Standard requires an alternative treatment (such as fair values) as disclosed where appropriate in these financial statements.

2.03 Presentation and Functional Currency

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

2.04 Use of Judgments and Estimates

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

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

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

Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

2.05 Going Concern Assumption

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

3. ADOPTION OF NEW AND REVISED ACCOUNTING STANDARDS

3.01 New and Amended Standards and Interpretations Effective on January 1, 2022

The Bank applied for the first-time certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2022. The Bank has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

3.01.01 Annual Improvements to PFRS Standards 2018-2020

PFRS 1 First-time Adoption of International Financial Reporting Standards

The amendment provides additional relief to a subsidiary which becomes a first-time adopter later than its parent in respect of accounting for cumulative translation differences. A subsidiary can elect to measure cumulative translation differences for all foreign operations at the carrying amount that would be included in the parent's consolidated financial statements.

A similar election is available to an associate or joint venture that uses the exemption in PFRS 1:D16(a).

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

PFRS 9 Financial Instruments
The amendment clarifies that in applying the '10 per cent' test to assess whether to derecognize a financial liability, an entity includes only fees paid or received between the entity (the borrower) and the lender, including fees paid or received by either the entity or the lender on the other's behalf.

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

PFRS 16 Leases
The amendment removes the illustration of the reimbursement of leasehold improvements.

PAS 41 Agriculture
The amendment removes the requirement in PAS 41 for entities to exclude cash flows for taxation when measuring fair value.

3.01.02 Amendments to PAS 37: Onerous Contracts – Costs of Fulfilling a Contract
The amendment specify that the 'cost of fulfilling' a contract comprises the 'costs that relate directly to the contract'. Costs that relate directly to a contract can either be incremental costs of fulfilling that contract (examples would be direct labor, materials) or an allocation of other costs that relate directly to fulfilling contracts (an example would be the allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract).

The amendments published today are effective for annual periods beginning on or after 1 January 2022.

3.01.03 Amendments to PAS 16, Property, Plant and Equipment - Proceeds before Intended Use
Property, Plant and Equipment — Proceeds before Intended Use (Amendments to PAS 16) amends the standard to prohibit deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognizes the proceeds from selling such items, and the cost of producing those items, in profit or loss.

The amendments published today are effective for annual periods beginning on or after 1 January 2022.

3.01.04 Amendments to PFRS 3, Reference to the Conceptual Framework
The changes include:
- update PFRS 3 so that it refers to the 2018 Conceptual Framework instead of the 1989 Framework;
- add to PFRS 3 a requirement that, for transactions and other events within the scope of PAS 37 or Philippine IFRIC 21, an acquirer applies PAS 37 or Philippine IFRIC 21 (instead of the Conceptual Framework) to identify the liabilities it has assumed in a business combination; and
- add to IFRS 3 an explicit statement that an acquirer does not recognize contingent assets acquired in a business combination.

The amendments published today are effective for annual periods beginning on or after 1 January 2022.

3.02 Standards Issued but Not Yet Effective (Effective Beginning on or After January 1, 2023)

The new and amended standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Bank's financial statements are disclosed below. The Bank intends to adopt these new and amended standards and interpretations, if applicable, when they become effective.

3.02.01 Amendments to PAS 1, Classification of Liabilities as Current or Non-current
The amendments affect only the presentation of liabilities in the statement of financial position — not the amount or timing of recognition of any asset, liability income or expenses, or the information that entities disclose about those items. They:

- clarify that the classification of liabilities as current or non-current should be based on rights that are in existence at the end of the reporting period and align the wording in all affected paragraphs to refer to the "right" to defer settlement by at least twelve months and make explicit that only rights in place "at the end of the reporting period" should affect the classification of a liability;
- clarify that classification is unaffected by expectations about whether an entity will exercise its right to defer settlement of a liability; and
- make clear that settlement refers to the transfer to the counterparty of cash, equity instruments, other assets or services.

The amendments are effective for annual periods beginning on or after 1 January 2024.

The management of the Bank is still evaluating the impact of the new standard.

3.02.02 Amendments to PAS 8, Definition of Accounting Estimates
The changes focus entirely on accounting estimates and clarify the following:

- Under the new definition, accounting estimates are "monetary amounts in financial statements that are subject to measurement uncertainty".
- Entities develop accounting estimates if accounting policies require items in financial statements to be measured in a way that involves measurement uncertainty.
- Clarified that a change in accounting estimate that results from new information or new developments is not the correction of an error. In addition, the effects of a change in an input or a measurement technique used to develop an accounting estimate are changes in accounting estimates if they do not result from the correction of prior period errors.
- A change in an accounting estimate may affect only the current period's profit or loss, or the profit or loss of both the current period and future periods. The effect of the change relating to the current period is recognized as income or expense in the current period. The effect, if any, on future periods is recognized as income or expense in those future periods.

The amendments are effective for annual periods beginning on or after 1 January 2023.

The management of the Bank is still evaluating the impact of the new standard.

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

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

Guidance and examples are added to explain and demonstrate the application of the 'four-step materiality process' to accounting policy information.

The amendments are effective for annual periods beginning on or after 1 January 2023.

The management of the Bank is still evaluating the impact of the new standard.

3.02.04 Amendments to PAS 12, Deferred Tax related to Assets and Liabilities from a Single Transaction
The main change is an exemption from the initial recognition exemption provided in PAS 12.15(b) and PAS 12.24. Accordingly, the initial recognition exemption does not apply to transactions in which equal amounts of deductible and taxable temporary differences arise on initial recognition. This is also explained in the newly inserted paragraph PAS 12.22A.

The amendments are effective for annual periods beginning on or after 1 January 2023.

The management of the Bank is still evaluating the impact of the new standard.

3.02.05 Amendments to PFRS 17, Insurance Contracts
The new standard requires insurance liabilities to be measured at a current fulfilment value and provides a more uniform measurement and presentation approach for all insurance contracts. These requirements are designed to achieve the goal of a consistent, principle-based accounting for insurance contracts.

PFRS 17 supersedes PFRS 4 'Insurance Contracts' and related interpretations.

The FRSC amended the mandatory effective date of PFRS 17 to January 1, 2025. This is consistent with Circular Letter No. 2020-62 issued by the Insurance Commission which deferred the implementation of IFRS 17 by two (2) years after its effective date as decided by the IASB.

The standard is not applicable to the Bank.

Deferred Effectivity

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

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

4. SIGNIFICANT ACCOUNTING POLICIES

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

4.01 Financial Assets

The Bank recognizes financial assets when the Bank becomes a party to the contractual provision of the financial instruments.

4.01.01 Initial Recognition and Measurement
Financial assets are recognized initially at fair value, which is the fair value of the consideration given. The initial measurement of financial assets, except for those designated at FVPL, includes transaction cost.

4.01.02 Classification
The Bank classifies its financial assets at initial recognition under the following categories: (a) financial assets at amortized cost, (b) financial assets at FVOCI, and (c) financial assets at FVPL. The classification of a financial asset at initial recognition largely depends on the Bank's business model for managing the asset and its contractual cash flow characteristics.

Financial Assets at Amortized Cost
Financial assets are 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 impairment in value. 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 of December 31, 2022, the Bank's cash and cash equivalents, due from BSP, due from other banks, investment securities and loans and receivables are classified under this category as disclosed in Notes 8, 9 and 10.

Cash and cash equivalents include cash on hand, cash in bank, and short-term placements. These are highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Financial assets at FVOCI
Financial assets at FVOCI include debt and equity securities.

Debt Instruments at FVOCI
For debt instruments that are not designated at FVPL under the fair value option, the financial assets are measured at FVOCI if both of the following conditions are met: (1) the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets; and (2) 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, interest income (calculated using the effective interest rate method), foreign currency gains or losses and impairment gains or 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.

As of December 31, 2022, the Bank does not have debt instruments at FVOCI.

Equity Instruments at FVOCI
For equity instruments that are not held for trading, the Bank may irrevocably designate, at initial recognition, a financial asset to be measured at FVOCI when it meets the definition of equity instrument under PAS 32, *Financial Instruments: Presentation*. This option is available and made on an instrument by instrument basis.

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. All other 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, instead, these are transferred directly to retained earnings. Equity securities at FVOCI are not subject to impairment assessment.

As of December 31, 2022, the Bank does not have equity securities at FVOCI.

Financial Assets at FVPL
Financial assets that do not meet the criteria for being measured at amortized cost or FVOCI are classified under this category. Specifically, financial assets at FVPL include financial assets that are (a) held for trading, (b) designated upon initial recognition at FVPL, or (c) mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term.

This category includes debt instruments whose cash flows, based on the assessment at initial recognition of the assets, are not "solely for payment of principal and interest", and 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 debt instrument meeting the criteria to be classified at amortized cost or at FVOCI, as a financial asset at FVPL, if doing so eliminates or significantly reduces accounting mismatch that would arise from measuring these assets.

This category also includes equity instruments which the Bank had not irrevocably elected to classify at FVOCI at initial recognition.

After initial recognition, financial assets at FVPL are subsequently measured at fair value. Gains or losses arising from the fair valuation of financial assets at FVPL are recognized in profit or loss.

As of December 31, 2022, the Bank does not have equity securities at FVPL.

4.01.03 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 OCI is reclassified from equity to profit or loss as a reclassification adjustment at the re-classification date.

4.01.04 Derecognition

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 that the Bank could be required to repay.

4.01.05 Impairment of Financial Assets

At the end of the reporting period, the Bank assess its expected credit losses (ECL). The Bank recognizes an allowance for ECLs for all debt instruments not held at fair value through profit or loss. The Bank being categorized as having simple and non-complex operations adopted the basic guidelines in setting up of allowance for credit losses provided for in Appendix 15 of the Manual of Regulations for Banks in recognizing ECL for its loans and other receivables. The Bank looks beyond the past due/missed amortizations in classifying exposures and in providing allowance for credit losses.

The Bank considers a financial asset in default when contractual payments, i.e. last amortization paid are more than 30 days past due. However, in certain cases, the Bank may also consider a financial asset to be in default when internal or external information indicates that the Bank is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Bank. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

In Philippine Peso

Moreover, the Bank has established a threshold for segmentation of loans subject to individual and collective assessment. For individual assessment, the amount of threshold is ₱1,000,000 and above, and credit grading system or post-evaluation process is used in the evaluation of borrowers' financial condition, risk rating, collateral and business status. Accordingly, allowance for credit losses for individually assessed loans shall be based on the following matrix:

Category of risk	Provision	Rating	Definition
No credit risk	1%	95 – 100	Highest degree of safety with regard to timely payment of financial obligations
Low credit risk	2%	90 – 94	Very good – high degree of safety with regard to timely payment of financial obligations. They differ only marginally in safety from excellent issues
Good credit risk	3%	85 – 89	Good – an adequate degree of safety with regard to timely payment of financial obligations. However, changes in circumstances can adversely affect such issues more than those in the higher rating categories
Moderate credit risk	5%	80 – 84	Moderate safety with regard to timely payment of financial obligations for the present; however, changing circumstances are more likely to lead to a weakened capacity to pay interest and repay principal than in higher rating categories
Acceptable credit risk	7%	75 – 79	Inadequate safety with regard to timely payment of financial obligations; they are less likely to default in the immediate future than in lower rating categories, but an adverse change in circumstances could lead to inadequate capacity to make payment on financial obligations
Borderline/Watchlist	10%	70 – 74	High risk – this have a high likelihood of default; while current financial obligations are met, adverse business or financial obligations would lead to lack of ability or willingness to pay interest or principal
Especially mentioned	20%	65 – 69	Substantial – have factors present that make them vulnerable to default; timely payment of financial obligations is possible only if favorable circumstances continue
Substandard	30%	60 – 64	Default – are expected to default on scheduled payment dates. Collateral realization has to be seriously considered
Doubtful	50%	55 – 59	Doubtful in terms of risk quality. Repayment of loan is in doubt and possibility of default is exceptionally high. Collateral realization has to be seriously considered. The objective of the Bank is to minimize losses.
Loss	100%	Below 54	With poor prospect and recovery and will be considered as loss.

4.02 Bank Premises, Furniture, Fixtures and Equipment

Bank premises, furniture, fixtures and equipment (BPFFE) are measured at cost less any accumulated depreciation and impairment losses. Cost consists of purchase price and costs directly attributable to bringing the asset to its working condition for its intended use.

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

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

Building	–	1 – 25 years
Furniture, fixtures and equipment	–	1 – 10 years
Transportation equipment	–	5 years

Land is not depreciated. Leasehold improvements are depreciated over the shorter between the improvements' useful life of 5 years or the lease term.

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

Fully depreciated assets still in use are retained in the financial statements. When assets are retired or otherwise disposed of, the cost and the related accumulated depreciation and any impairment in value are removed from the financial statements and any resulting gain or loss is credited or charged to statement of comprehensive income. Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized in statement of comprehensive income.

4.03 Assets Held For Sale

Assets held for sale include real and other properties (chattels) acquired through repossession or foreclosure that the Bank intends to sell within one year from the date of classification as held for sale.

The Bank classifies an asset as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. In the event that the sale of the asset is extended beyond one year, the extension of the period required to complete the sale does not preclude an asset from being classified as held for sale if the delay is caused by events or circumstances beyond the Bank's control and there is sufficient evidence that the Bank remains committed to sell the asset.

Assets classified as held for sale are measured at the lower of their carrying amounts immediately prior to their classification as assets held for sale and their fair value less costs to sell. The Bank shall recognize an impairment loss for any initial and subsequent write-down of the asset to fair value less cost to sell. Gain for any subsequent increase in fair value less cost to sell of an asset is recognized to the extent of the cumulative impairment loss previously recognized. Assets classified as held for sale are not subject to depreciation or amortization.

If the Bank has classified an asset as held for sale, but the criteria for it to be recognized as held for sale are no longer satisfied, the Bank shall cease to classify the asset as held for sale and will reclassify it as investment properties for land and building, or other properties for chattel and other assets. For building under investment properties or other properties, this would be subject to depreciation.

The profit or loss arising from the sale of assets held for sale is included as part of Income from assets sold or exchanged under Other Operating Income account in the statement of comprehensive income.

4.04 Other Assets

Other assets not classified as financial assets, bank premises, furniture, fixtures and equipment and assets held for sale include prepaid assets, deferred charges, supplies and the likes. These other assets qualifying into the definition of assets under PAS 1, Presentation of Financial Statements are resources controlled by the Bank as a result of past events and from which future economic benefits are expected to flow to the entity. Other assets are recognized on an accrual basis of accounting.

4.05 Impairment of Non-financial Assets

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

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

If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. An impairment loss is recognized as an expense.

4.06 Financial Liabilities and Equity Instruments

A financial liability is any liability that is:

a. a contractual obligation to deliver cash or another financial asset to another entity or to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavourable to the entity; or
b. a contract that will or may be settled in the entity’s own equity instruments and is
   (i) a non-derivative for which the entity is or may be obliged to deliver a variable number of the entity’s own equity instruments; or
   (ii) a derivative that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the entity’s own equity instruments.

4.06.01 Classification as Financial Liability or Equity Instrument
Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements.

4.06.02 Equity Instruments
An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Bank are recognized at the proceeds received, net of direct issue costs.

- Capital stock

  Capital stock represents the nominal value of shares that have been issued and are classified as equity instruments. Capital stock is classified as equity instruments.

- Surplus reserves

  Surplus reserve is a portion of earnings that are appropriated for specific purposes as approved by the Board of Directors.

- Surplus free

  Surplus free represents all current and prior period results of operations as reported in the profit or loss section of the statement of comprehensive income, reduced by the amounts of dividend declared if any.

  Dividends on equity are recognized when they are declared and approved by BSP.

4.06.03 Financial Liabilities
Financial liabilities of the Bank include deposit liabilities, bills payable, accrued interest and other expenses, and other liabilities (excluding government-related payables and non-financial liabilities).

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

Financial liabilities are initially recognized at fair value, except for financial liabilities at FVTPL, plus transaction costs, and subsequently measured at amortized cost less payments. Amortized cost is calculated by taking into account any discount or premium, if any, on the issue and fees that are an integral part of the effective interest rate.

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

4.07 Related Party Relationships and Transactions

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

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

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

Further, Section 131 of the MORB states that related parties shall cover the BSFI's subsidiaries as well as affiliates and any party (including their subsidiaries, affiliates and special purpose entities) that the BSFI exerts direct/indirect control over or that exerts direct/indirect control over the BSFI; the BSFI's DOSRI, and their close family members, as well as corresponding persons in affiliated companies. These shall also include such other person/juridical entity whose interests may pose potential conflict with the interest of the BSFI, hence, is identified as a related party.

The above definition shall also include direct or indirect linkages to a BSFI identified as follows:

(1) Ownership, control or power to vote, of ten percent (10%) to less than twenty percent (20%) of the outstanding voting stock of the borrowing entity, or vice versa;
(2) Interlocking directorship or officership, except in cases involving independent directors as defined under existing regulations or directors holding nominal share in the borrowing corporation;
(3) Common stockholders owning at least ten percent (10%) of the outstanding voting stock of the BSFI and ten percent (10%) to less than twenty percent (20%) of the outstanding voting stock of the borrowing entity; or
(4) Permanent proxy or voting trusts in favor of the BSFI constituting ten percent (10%) to less than twenty percent (20%) of the outstanding voting stock of the borrowing entity, or vice versa.

Related party transactions (RPTs) shall refer to transactions or dealings with related parties of the BSFI, including its trust department regardless of whether or not a price is charged. These shall include, but not limited to the following:

(1) On- and off-balance sheet credit exposures and claims and write-offs;
(2) Investments and/or subscriptions for debt/equity issuances;
(3) Consulting, professional, agency and other service arrangements/contracts;
(4) Purchases and sales of assets, including transfer of technology and intangible items (e.g., research and development, trademarks and license agreements);
(5) Construction arrangements/contracts;
(6) Lease arrangements/contracts;
(7) Trading and derivative transactions;
(8) Borrowings, commitments, fund transfers and guarantees;
(9) Sale, purchase or supply of any goods or materials; and
(10) Establishment of joint venture entities.

RPTs shall be interpreted broadly to include not only transactions that are entered into with related parties but also outstanding transactions that were entered into with an unrelated party that subsequently becomes a related party.

4.08 Revenue Recognition

4.08.01 Revenue Recognition for Revenues within the scope of PFRS 15
Prior to January 1, 2018, under PAS 18, Revenue, revenue is recognized to the extent that it is probable that the economic benefits will flow to the Bank and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is recognized to the extent that it is probable that the economic benefit will flow to the Bank and the revenue can be measured reliably. Revenue is measured at the fair value of the consideration received or receivable by the Bank for services provided in the normal course of business.

Upon adoption of PFRS 15 beginning January 1, 2018, revenue from contracts with customers is recognized upon transfer of services to the customer at an amount that reflects the consideration to which the Bank expects to be entitled in exchange for those services.

The Bank assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Bank has assessed that it is acting as principal in all arrangements.

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

Income from Assets Sold or Exchanged
Income from assets sold or exchanged is recognized when the title to the assets is transferred to the buyer or when the collectability of the entire sales price is reasonably assured. This is included as part of “other operating income” account in the statement of profit or loss.

Fees, Commissions, and Other Income
Fees, commissions and other income are generally recognized on an accrual basis when the service has been provided. Penalties are recognized only upon collection or where there is a reasonable degree of certainty as to their collectability.

4.08.02 Revenue Recognition for Revenues outside the scope of PFRS 15
For revenues outside the scope of PFRS 15, the following specific recognition criteria must also be met before revenue is recognized:

Interest income on loans receivables
Interest income on loans and discount with advanced interest are recognized periodically using the effective interest method of amortization. On the other hand, interest income on loans and discount with no advanced interest are recognized on cash basis.

The Bank shall only charge interest based on the outstanding balance of a loan. For a loan where the principal is payable in installments, interest per instalment shall be calculated based on the outstanding balance of the loan.

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

Interest income on due from other banks and investment securities at amortized cost
Interest on due from other banks and investment securities at amortized cost are recognized in the statement of comprehensive income using the effective interest method.

4.09 Cost and Expense Recognition

Costs and expenses are recognized in profit or loss when a decrease in future economic benefit related to a decrease in an asset or an increase in a liability has arisen that can be measured reliably. Costs and expenses are recognized in profit or loss in the following manner:

- On the basis of a direct association between costs incurred and the earning of specific items of income;
- On the basis of a systematic and rational allocation procedures when economic benefits are expected to arise over several accounting periods and association with income can only be broadly or indirectly determined; or
- Immediately when an expenditure produces no future economic benefits or when, and to the extent that, future economic benefits do not qualify, or cease to qualify, for recognition in the statement of financial position as an asset.

4.10 Leases

4.10.01 The Bank as Lessee
For any new contracts entered into on or after 1 January 2020, the Bank considers whether a contract is, or contains a lease. A lease is defined as 'a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration'. which are whether:

- the contract contains an identified asset, which is either explicitly identified in the contract or implicitly specified by being identified at the time the asset is made available to the Bank;
- the Bank has the right to obtain substantially all of the economic benefits from use of the identified asset throughout the period of use, considering its rights within the defined scope of the contract; or
- the Bank has the right to direct the use of the identified asset throughout the period of use. The Bank assess whether it has the right to direct 'how and for what purpose' the asset is used throughout the period of use.

Recognition and Initial Measurement
At lease commencement date, the Bank recognizes a right-of-use asset and a lease liability on the balance sheet. The right-of-use asset is measured at cost, which is made up of the initial measurement of the lease liability, any initial direct costs incurred by the Bank, an estimate of any costs to dismantle and remove the asset at the end of the lease, and any lease payments made in advance of the lease commencement date (net of any incentives received).

At the commencement date, the Bank measures the lease liability at the present value of the lease payments unpaid at that date, discounted using the interest rate implicit in the lease if that rate is readily available or the Bank's incremental borrowing rate.

Lease payments included in the measurement of the lease liability are made up of fixed payments (including in substance fixed), variable payments based on an index or rate, amounts expected to be payable under a residual value guarantee and payments arising from options reasonably certain to be exercised.

The Bank has elected to account for short-term leases and leases of low-value assets using the practical expedients. Instead of recognizing a right-of-use asset and lease liability, the payments in relation to these are recognized as an expense in profit or loss on a straight-line basis over the lease term.

Subsequent Measurement
The Bank depreciates the right-of-use assets on a straight-line basis from the lease commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The Bank also assesses the right-of-use asset for impairment when such indicators exist.

Useful life considered in depreciating the right-of-use assets is the life of the asset or remaining term of the lease, whichever is shorter.

Subsequent to initial measurement, the liability will be reduced for payments made and increased for interest. It is remeasured to reflect any reassessment or modification, or if there are changes in in-substance fixed payments. When the lease liability is remeasured, the corresponding adjustment is reflected in the right-of-use asset, or profit and loss if the right-of-use asset is already reduced to zero.

4.11 Employee Benefits

Employee benefits are all forms of consideration given by the Bank in exchange for services rendered by employees, including trustees and management.

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

4.11.02 Retirement Benefits
The Bank has a funded, noncontributory, defined benefit retirement plan covering all qualified employees. Employees' normal retirement benefits will be computed equal to 100% of plan salary for every year of credited service. Retirement from service of the Bank shall be compulsory upon employees' attainment of the age of sixty (60) years with completion of at least five (5) years of service.

The Bank recognizes its retirement benefit obligation using the accrual approach. Under the accrual approach, the accrued monthly benefit that will be recognized is equivalent to a percentage of monthly basic compensation fixed by the Board of Directors.

4.12 Borrowing Costs

Borrowing costs are generally expensed when incurred. Borrowing costs are capitalized if they are directly attributable to the acquisition, construction or production of a qualifying asset.

Capitalization of borrowing costs commences when the activities to prepare the asset are in progress and expenditures and borrowing costs are being incurred, and ceases when the assets are ready for their intended use.

4.13 Income Tax

The tax expense for the period comprises current and deferred tax. Tax is recognized in the profit or loss, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively.

4.13.01 Current Income Tax
The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the statements of comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Bank's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

4.13.02 Deferred Income Tax
Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences, carry-forward of unused tax credits from excess Minimum Corporate Income Tax (MCIT) over Regular Corporate Income Tax (RCIT) and unused Net Operating Loss Carry-over (NOLCO), to the extent that it is probable that taxable profits will be available against which those deductible temporary differences and carry forward of unused MCIT and unused NOLCO can be utilized. Deferred income tax, however, is not recognized when it arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction that affects neither the accounting profit nor taxable profit or loss.

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Bank expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

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

4.14 Provisions, Contingent Liabilities and Contingent Assets

4.14.01 Provisions
Provisions are recognized when the Bank has a present obligation, whether legal or constructive, as a result of a past event, it is probable that the Bank will be required to settle the obligation, and a reliable estimate can be made for the amount of the obligation.
The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

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

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

4.14.02 Contingent Assets and Contingent Liabilities
Contingent assets and liabilities are not recognized because their existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Bank. Contingent liabilities are disclosed, unless the possibility of an outflow of resources embodying economic benefits is remote.

Contingent assets are disclosed only when an inflow of economic benefits is probable.

4.15 Fair Value Measurement

The Bank measures financial instruments 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:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal and the most advantageous market must be accessible to the Bank.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

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

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:
- Level 1 – Quoted (unadjusted) market price in active markets for identical assets or liabilities. This level includes listed equity securities and debt instruments on exchanges. (For example, Philippine Stock Exchange, Inc., Philippine Dealing and Exchange Corp., etc.);
- Level 2 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable; and
- Level 3 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable. This level includes equity investments and debt instruments with significant unobservable components. This hierarchy requires the use of observable market prices in its valuations where possible.

Basis of fair value measurements are further discussed in Note 7.

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

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 categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) 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.

4.16 Events after the Reporting Date

The Bank identifies events after the reporting date as events that occurred after the reporting date but before the date the financial statements were authorized for issue. Any event that provides additional information about the Bank's financial position at the reporting date is reflected in the financial statements. Non-adjusting events are disclosed in the notes to the financial statements when material.

5. SIGNIFICANT ACCOUNTING ESTIMATES, ASSUMPTIONS AND JUDGMENTS USED

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

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

5.01 Critical Judgments in Applying Accounting Policies

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

5.01.01 Determination of Functional Currency
Based on the economic substance of the underlying circumstances relevant to the Bank, the functional currency has been determined to be the Philippine peso. It is the currency that mainly influences the normal operations of the Bank.

5.01.02 Classification of Financial Assets
The Bank follows the guidance of PFRS 9 starting January 1, 2021 in classifying financial assets at initial recognition whether it will be subsequently measured at fair value through other comprehensive income, at amortized cost, or at fair value through profit or loss.

The Bank determines the classification based on the contractual cash flow characteristics of the financial assets and on the business model it uses to manage these financial assets. The Bank determines whether the contractual cash flows associated with the financial asset are solely payments of principal and interest (the "SPPI"). If the instrument fails the SPPI test, it will be measured at fair value through profit or loss.

Management assessed that there is no change in the objective of holding the investments. The carrying amounts of investment securities at amortized cost are ₱36,971,995 and ₱35,866,881 as of December 31, 2022, as disclosed in Note 9.

5.01.03 Determining Whether or Not a Contract Contains a Lease
At inception of a contract, the Bank assesses whether the 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.

Identified Asset
An asset is typically identified by being explicitly specified in a contract. However, an asset can also be identified by being implicitly specified at the time that the asset is made available for use by the customer.

Substantive Substitution Rights
Even if the asset is specified, the Bank does not have the right to use an identified asset, if, at inception of the contract, a supplier has the substantive right to a substitute the asset throughout the period of use (i.e., the total period of time that an asset is used to fulfill a contract with the Bank, including the sum of any non-consecutive periods of time).

A supplier's right to substitute an asset is substantive when both of the following conditions are met:

- The supplier has the practical ability to substitute alternative assets throughout the period of use (e.g., the Bank cannot prevent the supplier from substituting an asset and alternative assets are readily available to the supplier or could be sourced by the supplier within a reasonable period of time); and
- The supplier would benefit economically from the exercise of its right to substitute the asset (i.e., the economic benefits associated with substituting the asset is expected to exceed the costs associated with substituting the asset).

The Bank's evaluation of whether a supplier's substitution right is substantive is based on facts and circumstances at inception of the contract. At inception of the contract, the Bank does not consider future events that are not likely to occur.

Right to Obtain Substantially all of the Economic Benefits from the Use of the Identified Asset
To control the use of an identified asset, the Bank is required to have the right to obtain substantially all of the economic benefits from use of the identified asset throughout the period of use (e.g., by having exclusive use of the asset throughout that period).

When assessing whether the Bank has the right to obtain substantially all of the economic benefits from the use of an asset, the Bank considers the economic benefits that result from use of the asset within the defined scope of the customer's right to use the asset. A right that solely protects the supplier's interest in the underlying asset (e.g., limits on the number of miles a customer can drive a supplier's vehicle) does not, in and of itself, prevent the Bank from obtaining substantially all of the economic benefits from use of the asset and, therefore, are not considered when assessing whether the Bank has he right to obtain substantially all of the economic benefits.

If a contract requires the Bank to pay the supplier or another party a portion of the cash flows derived from the use of an asset as consideration (e.g., a percentage of sales from the use of retail space), those cash flows are considered to be economic benefits that the Bank derives from the use of the asset.

Right to Direct the Use of the Identified Asset
The Bank has the right to direct the use of an identified asset throughout the period of use when either the Bank has the right to direct how and for what purpose the asset is used throughout the period of use. The Bank has the right to direct the use of an identified asset whenever it has the right to direct how and for what purpose the asset is used throughout the period of use (i.e., it can change how and for what purpose the asset is used throughout the period of use). When evaluating whether the Bank has the right to change how and for what purpose the asset is used throughout the period of use, its focus is on whether the Bank has the decision-making rights that will most affect the economic benefits that will be derived from the use of the asset. The decision-making rights that are most relevant are likely to depend on the nature of the asset and the terms and conditions of the contract.

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

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

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

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

Management has determined that the Bank's BPFFE and assets held for sale are not impaired, hence, no additional impairment loss were recognized in both 2022 and 2021.

5.01.08 Determining Method of Computing ECL
As stated in BSP Circular No. 1011, BSP-supervised financial institutions with credit operations that may not economically justify the adoption of simple loan loss estimation methodology that is compliant with PFRS 9, shall, at a minimum, be subject to regulatory guidelines in setting up allowance for credit losses prescribed under Appendix 15 of the BSP MORB.

Following the guidance of BSP Circular No. 1011 and Appendix 100 of the BSP MORB, in adopting PFRS 9 impairment requirements, the Bank assessed the ECL in accordance with the said standard and based on management judgement it was determined that the amount recognized as allowance based on Appendix 15 of BSP MORB is reasonable.

5.02 Key Sources of Estimation Uncertainty

5.02.01 Estimating Allowances for Credit Losses
The Bank estimates the allowance for credit losses related to its loans and receivables based on assessment of specific accounts where the Bank has information that certain customers are unable to meet their financial obligations. In these cases, judgment used was based on the best available facts and circumstances including but not limited to, the length of relationship with the customer and the customer's current credit status based on third party credit reports and known market factors. The Bank used judgment to record specific reserves for customers against amounts due to reduce the expected collectible amounts. These specific reserves are re-evaluated and adjusted as additional information received impacts the amounts estimated, notwithstanding the provisioning requirements under Manual of Regulations for Banks (MORB).

The amounts and timing of recorded expenses for any period would differ if different judgments were made or different estimates were utilized. An increase in the allowance for credit losses would increase the recognized operating expenses and decrease current assets.

As of December 31, 2022 and 2021, loans and other receivables amounted to ₱679,556,963 and ₱585,612,022, respectively, net of allowance for credit losses amounting to ₱24,294,596 and ₱29,314,583, respectively, as disclosed in Note 10.

In Philippine Peso

5.02.02 Estimating Useful Lives of Assets
The Bank estimates the useful lives of bank premises, furniture, fixtures and equipment (BPFFE) based on the period over which the assets are expected to be available for use. The estimate useful lives of BPFFE 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 BPFFE is based on collective assessment of industry practice, internal technical evaluation and experience with similar assets. It is possible, however, that future results operations could be materially affected by changes in estimates brought about by changes in factors and circumstances. A reduction in the estimated useful lives of property and equipment would increase recorded operating expenses and decrease non-current assets.

The Bank has BPFFE stated at carrying value of ₱84,205,608 and ₱65,637,414 as of December 31, 2022 and 2021, respectively, as disclosed in Note 11.

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

The Management believes that it is highly probable they will generate taxable profit to allow part of the deferred tax assets to be utilized. Thus, they decided to recognize deferred tax asset for temporary differences starting the year ended December 31, 2019. The Bank's deferred tax assets amounted to ₱5,517,196 and ₱6,233,944 as of December 31, 2022 and 2021, respectively, as disclosed in Note 23.

6. RISK MANAGEMENT OBJECTIVES AND POLICIES

6.01 General Risk Management Principles

The Bank's financial instruments comprise cash and cash equivalents, investment securities at amortized cost, loans and receivables, other assets, and other financial liabilities such as savings deposit liabilities, bills payable and accrued interest and expenses and other financial liabilities to finance the Bank's operations.
The following table summarizes the carrying amount of financial assets and liabilities recorded by category:

	Notes		2022		2021
Financial assets					
Cash and other cash items	8	₱	**18,473,688**	₱	12,530,471
Due from Bangko Sentral ng Pilipinas	8		**103,198,567**		168,140,237
Due from other banks	8		**126,411,190**		78,755,913
Investment securities at amortized cost	9		**36,971,995**		35,866,881
Loans and other receivables – net	10		**679,556,963**		585,612,022
Other assets*	13		**12,602,360**		9,201,288
		₱	**977,214,763**	₱	890,106,812
Financial liabilities					
Deposit liabilities	14		**731,496,657**		639,872,490
Bills payable	15		**42,982,403**		69,389,473
Accrued taxes, interest and other expenses**	16		**2,980,038**		3,165,666
Other liabilities***	18		**109,602,569**		85,886,555
		₱	**887,061,667**	₱	798,314,184

**excluding non-financial assets amounting to ₱13,720,428 and ₱7,299,582 in 2022 and 2021, respectively, as disclosed in Note 13.*
***excluding accrued taxes amounting to ₱2,331,718 and ₱3,627,717 in 2022 and 2021, respectively, as disclosed in Note 16.*
****excluding non-financial liabilities amounting to ₱2,626,588 and ₱1,386,102 in 2022 and 2021, respectively, as disclosed in Note 18.*

In Philippine Peso

6.01.01 Credit Risk and Concentration of Assets and Liabilities and Off-balance Sheet Items
Credit risk is the risk to earnings or capital arising from a counterparty failure to perform and meet the terms of its contract with the Bank subjecting the latter to a financial loss. Credit risk may last for the entire tenor and may approximate to the full amount of a transaction and in some cases may exceed the original principal exposure.

Credit risk inherent in the lending activities and the Bank manages it in accordance with a credit risk management framework that spans for identification, measurement, control, monitoring and reporting.

To manage credit risk, the Bank conducts credit investigation and background checking and follows written manuals and procedures for loan disbursements, monitoring and collection. Policies of loan diversification like maximum loan size, types of loans, loan structures are instituted to avoid concentration in a particular sector or area to lessen portfolio risk.

The Management closely monitors the overall credit operations and acts on the identified existing and potential risks appropriately for reporting during regular meetings of the BOD.

6.01.02 Maximum Exposure to Credit Risk before Collateral Held or Other Credit Enhancements
An analysis of the maximum exposure to credit risk relating to on-balance sheet assets without taking into account of any collateral held or other credit enhancements is shown below:

	Notes		**2022**		2021
Checks and other cash items	8	₱	**34,497**	₱	1,740,423
Due from BSP	8		**103,198,567**		168,140,237
Due from other banks	8		**126,411,190**		78,755,913
Investment securities at amortized cost	9		**36,971,995**		35,866,881
Loans and other receivables*	10		**715,685,946**		622,865,425
Other assets**	13		**12,602,360**		9,201,288
		₱	**994,904,555**	₱	916,570,167

**gross of allowance for credit losses and unamortized discount amounting to ₱36,128,983 and ₱37,253,403 in 2022 and 2021, respectively, as disclosed in Note 10.*
***excluding non-financial assets amounting to ₱13,720,428 and ₱7,299,582 in 2022 and 2021, respectively, as disclosed in Note 13.*

Where financial instruments are recorded at fair value, the amounts represent the current credit risk exposure but not the maximum risk exposure that could arise in the future as a result of changes in values.

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Bank's performance to developments affecting a particular industry or geographic location.

In Philippine Peso

6.01.03 Credit Quality of Financial Assets

The following tables show the credit quality of financial assets other than loans and other receivables as of December 31, 2022 and 2021.

2022	**Neither past due nor impaired**	**Past due but not impaired**	**Nonperforming individually impaired**	**Total**
Cash and other cash items	18,473,688	–	–	18,473,688
Due from BSP	103,198,567	–	–	103,198,567
Due from other banks	126,411,190	–	–	126,411,190
Investment securities at amortized cost	36,971,995	–	–	36,971,995
Other assets*	12,602,360	–	–	12,602,360
	297,657,800	–	–	**297,657,800**

******excluding non-financial assets amounting to ₱13,720,428 in 2022, as disclosed in Note 13.*

2021	Neither past due nor impaired	Past due but not impaired	Nonperforming individually impaired	Total
Cash and other cash items	12,530,471	–	–	12,530,471
Due from BSP	168,140,237	–	–	168,140,237
Due from other banks	78,755,913	–	–	78,755,913
HTM financial assets	35,866,881	–	–	35,866,881
Other assets*	9,201,288	–	–	9,201,288
	304,494,790	–	–	304,494,790

******excluding non-financial assets amounting to ₱7,299,582 in 2021, as disclosed in Note 13.*

In Philippine Peso

The credit quality of loans and other receivables gross of unamortized discount and allowance for credit losses, as of December 31, 2021 follow:

2022	Stage 1	Stage 2	Stage 3	Total
Agri-Agra loans				
High grade	130,597,744	–	–	130,597,744
Standard grade	–	808,894	–	808,894
Substandard grade	–	753,496	–	753,496
Past due but not impaired	–	888,243	–	888,243
Non-performing individually impaired	–	–	17,372,801	17,372,801
MSME loans				
High grade	201,064,628	–	–	201,064,628
Standard grade	–	3,955,000	–	3,955,000
Substandard grade	–	–	–	–
Past due but not impaired	–	–	–	–
Non-performing individually impaired	–	–	9,681,966	9,681,966
Microfinance loans				
High grade	103,414,436	–	–	103,414,436
Standard grade	–	25,304	–	25,304
Substandard grade	–	–	–	–
Past due but not impaired	–	–	–	–
Non-performing individually impaired	–	–	6,793,078	6,793,078
Other loans				
High grade	220,501,337	–	–	220,501,337
Standard grade	–	–	–	–
Substandard grade	–	–	–	–
Past due but not impaired	–	1,997,199	–	1,997,199
Non-performing individually impaired	–	–	8,368,849	8,368,849
Other receivables*				
High grade	–	–	–	–
Standard grade	9,462,971	–	–	9,462,971
Substandard grade	–	–	–	–
Past due but not impaired	–	–	–	–
Non-performing individually impaired	–	–	–	–
	665,041,116	**8,428,136**	**42,216,694**	**715,685,946**

**other receivables include sales contract receivable, accrued interest receivable, and loans receivable arising from repurchase agreement*

In Philippine Peso

2021	Stage 1	Stage 2	Stage 3	Total
Agri-Agra loans				
High grade	147,246,300	–	–	147,246,300
Standard grade	–	–	–	–
Substandard grade	–	–	–	–
Past due but not impaired	–	3,983,063	–	3,983,063
Non-performing individually impaired	–	–	11,489,152	11,489,152
MSME loans				
High grade	115,084,522	–	–	115,084,522
Standard grade	32,225,930	–	–	32,225,930
Substandard grade	17,093,149	–	–	17,093,149
Past due but not impaired	–	–	–	–
Non-performing individually impaired	–	–	11,997,726	11,997,726
Microfinance loans				
High grade	102,685,647	–	–	102,685,647
Standard grade	–	–	–	–
Substandard grade	–	–	–	–
Past due but not impaired	–	–	–	–
Non-performing individually impaired	–	–	2,037,289	2,037,289
Other loans				
High grade	153,951,139	–	–	153,951,139
Standard grade	5,122,817	–	–	5,122,817
Substandard grade	43,617	–	–	43,617
Past due but not impaired	–	1,682,118	–	1,682,118
Non-performing individually impaired	–	–	10,842,053	10,842,053
Other receivables*				
High grade	–	–	–	–
Standard grade	7,380,803	–	–	7,380,803
Substandard grade	–	–	–	–
Past due but not impaired	–	–	–	–
Non-performing individually impaired	–	–	–	–
	580,833,924	5,665,181	36,366,220	622,865,325

**other receivables include sales contract receivable, accrued interest receivable, and loans receivable arising from repurchase agreement*

Neither past due nor impaired cash on hand and in banks are working capital cash fund placed, invested, or deposited in local commercial and universal banks which are considered top tier banks in terms of capitalization as categorized by the BSP. Other neither past due mor impaired accounts are financial assets that have a very remote likelihood of default and have consistently exhibited good paying habits. Overall credit risk, if any, is not assessed to be significant.

Past due but not impaired Loans and receivables and Investment securities are loans and receivables and investment securities where contractual interest or principal payments are past due but the Bank believes that impairment is not appropriate on the basis of the level of collateral available or status of collection of amounts owed to the Bank.

Loans with negotiated terms are loans that have been restructured due to deterioration in the borrower's financial position. In respect of some of these loans, the Bank has made concessions that it would not otherwise consider. Once the loan is restructured, it remains in this category independent of satisfactory performance after restructuring.

Impaired loans and receivables and investment securities are loans and receivables and investment securities for which the Bank determines that it is probable that it will be unable to collect all principal and interest due based on the contractual terms of the promissory notes and securities agreements. Loans and receivables that have been provided with 100% allowance for credit losses and those under litigation are considered impaired.

In Philippine Peso

6.01.04 Aging Analysis

An aging analysis of the Bank's loans receivables, gross of allowance for credit losses and unamortized discount, as of December 31, 2022 and 2021 are as follows:

		2022		2021
Outstanding receivables:				
Current accounts	₱	**655,578,145**	₱	573,453,120
Past due accounts:				
1 – 30 days past due		**3,571,093**		8,959,443
31 – 60 days past due		**5,109,542**		1,247,998
61 – 90 days past due		**7,047,043**		1,320,713
over 90 days past due		**34,917,152**		30,503,348
	₱	**706,222,975**	₱	615,484,622

6.02 Liquidity Risk

Ultimate responsibility for liquidity risk management rests with the board of directors, which has established an appropriate liquidity risk management framework for the management of the Bank's short-, medium- and long-term funding and liquidity management requirements. The Bank manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows, and by matching the maturity profiles of financial assets and liabilities.

The Bank seeks to manage its liquidity profile to be able to finance its capital expenditures and cover its operating costs. The Bank's objective is to maintain a balance between continuity of funding and flexibility through valuation of projected and actual cash flow information.

As of December 31, 2022 and 2021, the Bank's minimum liquidity ratio are 41.48% and 49.64%, respectively.

The table below summarizes maturity profile of the Bank's financial assets and liabilities as of December 31, 2022 and 2021 based on undiscounted contractual cash flows

2022	**On demand**	**Due within one year**	**Due beyond one year**	**Total**
Financial assets				
Cash and other cash items	18,473,688	–	–	18,473,688
Due from BSP	103,727,567	–	–	103,198,567
Due from other banks	126,411,190	–	–	126,411,190
Investment securities at amortized cost	–	–	36,971,995	36,971,995
Loans receivables*	5,924,350	326,462,765	383,298,831	715,685,946
Other assets**	–	12,602,360	–	12,602,360
	254,536,795	**339,065,125**	**420,270,826**	**1,013,343,746**
Financial liabilities				
Deposit liabilities	499,057,906	227,414,275	5,024,476	731,496,657
Bills payable	–	26,854,984	16,127,419	42,982,403
Accrued taxes, interest and other expenses***	2,980,038	–	–	2,980,038
Other liabilities****	28,849,528	–	80,753,041	109,602,569
	530,887,472	**254,269,259**	**101,904,936**	**887,061,667**

**gross of allowance for credit losses and unamortized discount amounting to ₱36,128,983 in 2022, as disclosed in Note 10*
***excluding non-financial assets amounting to ₱13,720,428 in 2022, as disclosed in Note 13.*
****excluding accrued taxes amounting to ₱2,331,718 in 2022, as disclosed in Note 16.*
*****excluding non-financial liabilities amounting to ₱2,626,588 in 2022, as disclosed in Note 18.*

In Philippine Peso

2021	On demand	Due within one year	Due beyond one year	Total
Financial assets				
Cash and other cash items	12,530,471	–	–	12,530,471
Due from BSP	168,140,237	–	–	168,140,237
Due from other banks	78,755,913	–	–	78,755,913
Investment securities at amortized cost	–	–	35,866,881	35,866,881
Loans receivables*	28,087,544	270,234,416	324,543,465	622,865,425
Other assets**	–	9,201,288	–	9,201,288
	287,514,165	279,435,704	360,410,346	927,360,215
Financial liabilities				
Deposit liabilities	356,894,493	255,901,668	27,076,329	639,872,490
Bills payable		64,650,644	4,738,829	69,389,473
Accrued taxes, interest and other expenses***	3,165,666	–	–	3,165,666
Other liabilities****	9,712,617	–	76,173,938	85,886,555
	369,772,776	**320,552,312**	**107,989,096**	**798,314,184**

**gross of allowance for credit losses and unamortized discount amounting to ₱37,253,403 in 2021, as disclosed in Note 10.*
***excluding non-financial assets amounting to ₱7,229,582 in 2021, as disclosed in Note 13.*
****excluding accrued taxes amounting to ₱3,627,717 in 2021, as disclosed in Note 16.*
*****excluding non-financial liabilities amounting to ₱1,386,102 in 2021, as disclosed in Note 18.*

6.03 Interest Rate Risk

Interest rate risk is the risk to the earning or capital resulting from adverse movements in the interest rates. The Bank closely monitors the movements of interest rates in the market and reviews its asset and liability structure to ensure that exposures to fluctuations in interest rates are kept within acceptable limits. The Bank's exposures to interest rates on financial assets and financial liabilities are detailed in the liquidity risk management section of this note.

The Bank follows a prudent policy on managing its assets and liabilities so as to ensure that exposure to fluctuations in interest rates are kept within acceptable limits. The Bank is not exposed to interest rate risk since its financial assets and financial liabilities have fixed rates.

6.04 Operational Risks

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Bank's involvement with financial instruments, including processes, personnel, technology and infrastructure, and from legal and regulatory requirements and generally accepted standards of corporate behavior.

The Bank's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Bank's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

The primary responsibility of the development and implementation of controls to address operational risk is assigned to senior management within each business unit. This responsibility is supported by the development of overall Bank standards for the management of operational risk in the following areas:

a) Requirements for appropriate segregation of duties, including the independent authorization of transactions;
b) Requirements for the reconciliation and monitoring of transactions;
c) Compliance with regulatory and other legal requirements;
d) Documentation of controls and procedures;
e) Requirements for the periodic assessment of operational risks faced, and the adequacy of controls and procedures to address the risks identified;
f) Requirements for the reporting of operational losses and proposed remedial action;
g) Development of contingency plans;
h) Training and professional development;
i) Ethical and business standards; and
j) Risk mitigation, including insurance where this is effective.

Compliance with Bank standards is supported by a programme of periodic reviews undertaken by Internal Audit. The results of Internal Audit reviews are discussed with the management of the business unit to which they relate, with summaries submitted to the Audit Committee and senior management of the Bank.

7. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

The fair values of financial assets and financial liabilities measured at amortized cost approximates their carrying values either because these instruments are short- term in nature or the effect of discounting for those with maturities of more than one year is not material.

7.01 Fair Value Hierarchy

The Bank uses the following hierarchy as guide for determining fair value of financial instruments:

Level 1: Quoted (unadjusted) prices in active markets for identical assets or liabilities. This level includes listed equity securities and debt instruments on exchange;

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 (observable inputs). This level includes equity investment (if any,) and debt instruments with significant unobservable components. This hierarchy requires the use of observable market data when available.

The Bank has no financial instruments that fall under this category.

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

7.02 Fair Value Determination

Basis or assumptions in determining the fair value of financial instruments are disclosed below:

7.02.01 Due from BSP and Other Banks
The estimated fair value of fixed interest-bearing deposits is made based on discounted cash flows using prevailing money-market interest rates for debts with similar credit risk and remaining maturity, which for short-term deposits approximate the nominal value.

In Philippine Peso

7.02.02 Investment Securities at Amortized Cost
The fair value for investment securities at amortized cost is based on market prices. Where this information is not available, the fair value has been estimated using quoted market prices for securities with similar credit, maturity and yield characteristics or through valuation techniques using discounted cash flow analysis.

7.02.03 Loans and Other Receivables
Loans and other receivables are net of provisions for credit losses. The estimated fair value of loans and other receivables represents the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at original rates to determine fair value.

7.02.04 Deposit Liabilities
The estimated fair value of demand deposits with no stated maturity, which includes non-interest-bearing deposits, is the amount repayable on demand. The estimated fair value of other deposits represents the estimated cash flows expected to be paid which are discounted at the current market rates.

7.02.05 Bills Payable, Accrued Interest and Other Expenses, and Other Liabilities
Due to their short duration, the carrying amounts of accrued interest and other expenses and other liabilities in the statement of financial position are considered to be reasonable approximations of their fair values.

Bills payable are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method for those with maturities beyond one year, less settlement payments.

8. CASH AND CASH EQUIVALENTS

The account consists of the following:

		2022		2021
Cash and other cash items:				
Cash on hand	₱	**18,439,191**	₱	10,790,048
Checks and other cash items		**34,497**		1,740,423
		18,473,688		12,530,471
Due from Bangko Sentral ng Pilipinas		**103,198,567**		168,140,237
Due from other banks		**126,411,190**		78,755,913
		229,609,757		246,896,150
	₱	**248,083,445**	₱	259,426,621

Cash and other cash items represent actual cash in vault and those in possession of the cashier and the tellers.

Due from Bangko Sentral ng Pilipinas is the balance of demand deposit maintained in compliance with the BSP requirement for rural bank to maintain reserves on savings and time deposits and on certain deposit and deposit substitute liabilities.

Reserves against deposit liabilities for rural banks shall be 2% for 2022 and 2021 for savings deposits. For December 31, 2022 and 2021, the Bank is compliant with the reserve requirement as set by the BSP.

Due from other banks comprise savings deposits earning interest at prevailing bank deposit rates.

Interest earned on deposits on local banks amounted to ₱455,304 and ₱419,848 in 2022 and 2021, respectively.

In Philippine Peso

9. INVESTMENT SECURITIES AT AMORTIZED COST

This account consists of the following:

		2022		2021
Retail treasury bonds	₱	**20,000,000**	₱	20,000,000
Agrarian reform bonds		**16,971,995**		15,866,881
	₱	**36,971,995**	₱	35,866,881

Total interest earned on these financial assets amounted to ₱2,085,114 and ₱980,000 for the years ended December 31, 2022 and 2021, respectively.

10. LOANS AND OTHER RECEIVABLES – net

The account consists of the following:

		2022		2021
Current loans	₱	**655,578,145**	₱	573,453,120
Past due loans		**50,644,830**		42,031,502
Loans receivable		**706,222,975**		615,484,622
Loans receivable arising from repurchase agreement		**5,000,000**		5,000,000
		711,222,975		620,484,622
Unearned interests and discounts		**(11,834,387)**		(7,938,820)
		699,388,588		612,545,802
Sales contract receivables		**635,315**		1,835,315
Accrued interest receivable		**3,827,656**		545,488
		703,851,559		614,926,605
Specific loan loss provision		**(19,290,133)**		(25,674,235)
General loan loss provision		**(5,004,463)**		(3,640,348)
Allowance for credit losses		**(24,294,596)**		(29,314,583)
	₱	**679,556,963**	₱	585,612,022

The Bank's loan accounts are stated at the outstanding balance, reduced by estimated allowance for credit losses and unearned interest and discounts. Total earned interest on loans amounted to ₱98,840,545 and ₱100,697,357 for the years ended December 31, 2022 and 2021, respectively.

The promissory notes of loans receivables are pledged as security for the related bills payable, amounting to ₱42,982,403 and ₱69,389,473 as of December 31, 2022 and 2021, respectively, as disclosed in Note 15.

In Philippine Peso

The changes in the allowance for credit losses on loans receivables for the years ended December 31, 2022 and 2021:

	Agri-agra loans	MSME loans	Microfinance loans	Other loans	Total
Balance, December 31, 2020	₱ 5,771,099	₱ 13,221,528	₱ 6,636,498	₱ 8,405,479	₱ 34,034,604
Provision for credit losses	422,877	6,521,099	(2,777,304)	58,342	4,225,014
Write-off	(600,364)	(5,200,000)	(2,074,301)	(1,070,370)	(8,945,035)
Balance, December 31, 2021	5,593,612	14,542,627	1,784,893	7,393,451	29,314,583
Provision for (reversal of) credit losses	(1,675,222)	(886,307)	7,337,630	4,668,987	9,445,088
Write-off	(601,973)	(5,753,381)	(3,195,788)	(2,068,115)	(11,619,257)
ACL transferred to ROPA	–	–	–	(2,845,818)	(2,845,818)
Balance, December 31, 2022	**₱ 3,316,417**	**₱ 7,902,939**	**₱ 5,926,735**	**₱ 7,148,505**	**₱ 24,294,596**

Breakdown of the allowance for credit losses on loans and other receivables as to specific and general are disclosed below:

2022	**Agri-agra loans**	**MSME loans**	**Microfinance loans**	**Other loans**	**Total**
Specific loan loss provision	₱ 2,508,730	₱ 6,679,022	₱ 4,907,866	₱ 5,194,515	₱ 19,290,133
General loan loss provision	807,687	1,223,917	1,018,869	1,953,990	5,004,463
Balance, December 31, 2022	**₱ 3,316,417**	**₱ 7,902,939**	**₱ 5,926,735**	**₱ 7,148,505**	**₱ 24,294,596**

2021	Agri-agra loans	MSME loans	Microfinance loans	Other loans	Total
Specific loan loss provision	₱ 4,760,390	₱ 13,946,186	₱ 760,259	₱ 6,207,400	₱ 25,674,235
General loan loss provision	833,222	596,441	1,024,634	1,186,051	3,640,348
Balance, December 31, 2021	₱ **5,593,612**	₱ **14,542,627**	₱ **1,784,893**	₱ **7,393,451**	₱ **29,314,583**

In Philippine Peso

The allowance for credit losses which includes both specific and general loan loss reserves, represents management estimates of credit losses inherent in the portfolio, after consideration of the prevailing and anticipated economic conditions, prior to loss experience, estimated recoverable value based on fair market values of underlying collateral and prospects of support from guarantors, subsequent collections and evaluations made by BSP Supervision and Examination Sector.

The BSP observes certain criteria and guidelines based largely on the classification of loans in establishing specific loss reserves.

In terms of collectively assessed loans, the Bank strictly adheres to the setting up of valuation allowance for risk assets based on BSP Circular No. 1011 and Appendix 15 of the MORB.

10.01 Past Due Loans

Past due loans of a bank shall, as a general rule, refer to all accounts in its loan portfolio, all receivable components of trading account securities and other receivables, which are not paid at maturity.

Section 304 of the MORB defined the classification of past due loans as follows:

As a general rule, loans, investments, receivables, or any financial asset, including restructured loans, shall be considered past due when any principal and/or interest or installment due, or portions thereof, are not paid at their contractual date, in which case, the total outstanding balance thereof shall be considered past due.

Installment refers to principal and/or interest amortizations that are due on several dates as indicated in the loan documents. The allowance for loan losses is the estimated amount of losses in the Bank's loan portfolio, based on evaluation of the collectibility of loans and prior loss experience

Any amounts set aside in respect of losses on loans and advances in addition to those losses that have been specifically identified or potential losses which experience indicates to be present in the portfolio of loans and advances are accounted for as appropriations from retained earnings. Any credits resulting from the reduction of such amounts result in an increase in retained earnings and are not included in the determination of net profit or loss for the period.

The allowance is increased by provisions charged to expenses and reduced by write-offs and reversals.

10.02 Non-Performing Loans

As of December 31, 2022 and 2021, NPLs not fully covered by allowance for credit losses are as follows:

		2022		2021
Total Non-performing loans	₱	**42,216,695**	₱	36,366,320
Less: Non-performing loans covered by allowance for credit losses		**(14,196,238)**		(14,722,809)
	₱	**28,020,457**	₱	21,643,511

Section 304 of the MORB defined non-performing loans (NPLs) as follows:

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

In Philippine Peso

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

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

Information regarding the Bank's non-performing loans are as follows:

	2022	2021
Ratio of gross NPLs to gross TLP (%)	**5.98%**	5.91%
Ratio of net NPLs to gross TLP (%)	**3.97%**	3.52%
Ratio of total allowance for credit losses to gross NPLs (%)	**57.55%**	80.61%
Ratio of specific allowance for credit losses on gross TLP to gross NPLs (%)	**45.69%**	70.60%

In Philippine Peso

11. BANK PREMISES, FURNITURE, FIXTURES AND EQUIPMENT – net

The carrying amounts of the Bank's BPFFE are as follows:

2022	Land	Building	Furniture, Fixtures and Equipment	Transportation Equipment	Leasehold Improvements	Building under Construction	Right of Use Assets	Total
Cost:								
Balance, January 1	₱ 35,484,875	₱ 16,982,098	₱ 30,823,713	₱ 16,116,704	₱ 4,640,354	₱ –	₱ 8,811,761	₱ 112,859,505
Additions	–	9,000,000	9,987,515	2,889,779	4,714,034	–	–	26,591,328
Addition (PFRS 16)	–	–	–	–	–	–	1,718,753	1,718,753
Disposals	–	–	(91,624)	(267,512)	–	–	(958,200)	(1,317,336)
Reclassification	–	–	–	–	–	–	–	–
Disposals	–	–	–	–	–	–	–	–
Balance, December 31	**35,484,875**	**25,982,098**	**40,719,604**	**18,738,971**	**9,354,388**	**–**	**9,572,314**	**139,852,250**
Accumulated depreciation:								
Balance, January 1	–	11,221,069	21,075,698	11,300,158	1,354,268	–	2,270,898	47,222,091
Depreciation	–	727,740	5,801,916	1,103,170	497,354	–	1,610,937	9,741,117
Derecognition	–	–	(91,621)	(266,745)	–	–	(958,200)	(1,316,566)
Reclassification	–	–	–	–	–	–	–	–
Disposals	–	–	–	–	–	–	–	–
Balance, December 31	–	**11,948,809**	**26,785,993**	**12,136,583**	**1,851,622**	–	**2,923,635**	**55,646,642**
Carrying amount	**₱ 35,484,875**	**₱ 14,033,289**	**₱ 13,933,611**	**₱ 6,602,388**	**₱ 7,502,766**	**₱ –**	**₱ 6,648,679**	**₱ 84,205,608**

In Philippine Peso

2021	Land	Building	Furniture, Fixtures and Equipment	Transportation Equipment	Leasehold Improvements	Building under Construction	Right of Use Assets	Total
Cost:								
Balance, January 1	₱ 25,171,750	₱ 16,982,098	₱ 25,993,330	₱ 12,846,090	₱ 3,636,032	₱ –	₱ 9,994,084	₱ 94,623,384
Additions	10,313,125	–	6,632,457	4,944,450	1,004,322	–	–	22,894,354
Addition (PFRS 16)	–	–	–	–	–	–	–	–
Derecognition	–	–	(111,034)	(194,492)	–	–	(1,182,323)	(1,487,849)
Reclassification	–	–	(1,691,040)	–	–	–	–	(1,691,040)
Disposals	–	–	–	(1,479,344)	–	–	–	(1,479,344)
Balance, December 31	35,484,875	16,982,098	30,823,713	16,116,704	4,640,354	–	8,811,761	112,859,505
Accumulated depreciation:								
Balance, January 1	–	10,543,797	18,441,479	12,158,132	976,193	–	1,691,393	43,810,994
Depreciation	–	677,272	4,135,032	724,472	378,075	–	1,761,828	7,676,679
Derecognition	–	–	(96,917)	(168,492)	–	–	(1,182,323)	(1,447,732)
Reclassification	–	–	(1,403,896)	–	–	–	–	(1,403,896)
Disposals	–	–	–	(1,413,954)	–	–	–	(1,413,954)
Balance, December 31	₱ –	₱ 11,221,069	₱ 21,075,698	₱ 11,300,158	₱ 1,354,268	₱ –	₱ 2,270,898	₱ 47,222,091
Carrying amount	₱ 35,484,875	₱ 5,761,029	₱ 9,748,015	₱ 4,816,546	₱ 3,286,086	₱ –	₱ 6,540,863	₱ 65,637,414

In Philippine Peso

Management believes that there are no indications of impairment in the value of its bank premises, furniture, fixtures and equipment as of December 31, 2022 and 2021.

No bank premises, furniture, fixtures and equipment were used as collateral for liabilities as at December 31, 2022 and 2021. Moreover, the Bank has no commitment to purchase bank premises, furniture, fixtures and equipment as of December 31, 2022 and 2021.

All additions in 2022 and 2021 were paid in cash.

During 2022, the Bank disposed several fixed assets with carrying amount of ₱770 for a cash selling price of ₱86,802, resulting to gain on sale of ₱86,032 as disclosed in Note 21.

During 2021, the Bank disposed several fixed assets with carrying amount of ₱65,390 for a cash selling price of ₱494,082, resulting to gain on sale of ₱428,692, as disclosed in Note 21.

Cost of fully-depreciated assets still in use amounted to ₱28,168,982 and ₱27,469,575 as of December 31, 2022 and 2021, respectively.

Under existing BSP regulations, investments in bank premises, furniture, fixtures and equipment should not exceed 50% of the Bank's unimpaired capital. As of December 31, 2022 and 2021, the Bank has satisfactorily complied with this provision.

During the year, the Bank adopted PFRS 16 in accounting for its leases. The Bank entered into the following various lease contracts:

	Lease Term			
Location of leased property	**Start of term**	**End of term**	**Lease Payment**	**Escalation Clause**
Bacacay, Albay	1/1/2016	12/31/2026	15,000	5% every 2 years starting 5th year
Daraga, Albay	1/9/2020	1/8/2022	18,000	None
Castilla, Sorsogon	3/1/2017	3/1/2022	15,000	None
Gubat, Sorsogon	3/1/2022	2/28/2025	20,900	None
Irosin, Sorsogon	11/5/2020	11/5/2023	6,331.95	5% per annum
Legazpi City	8/1/2020	7/31/2029	60,000	5% annually starting 3rd year
Tabaco City	2/1/2020	1/31/2021	23,028	None
Tiwi, Albay	5/29/2020	5/29/2021	21,000	None

The lease contracts are renewable upon such terms and conditions mutually agreed by the both parties prior to expiration. The leased assets are being depreciated based on useful life of the leased asset or remaining term of the lease, whichever is shorter.

12. ASSETS HELD FOR SALE – net

This account pertains to real and other properties acquired (ROPA) in settlement of loans.

		2022		2021
Balance, January 1	₱	**3,208,923**	₱	4,734,232
Additions		**310,335**		1,524,450
Disposals		**(650,597)**		(3,049,759)
Balance, December 31		**2,868,661**		3,208,923
Allowance for impairment		**(789,646)**		(789,646)
Carrying amount	₱	**2,079,015**	₱	2,419,277

In Philippine Peso

In 2022, the Bank sold assets held for sale with carrying amount of ₱650,597 for a cash selling price of ₱669,464, recognizing a gain amounting to ₱18,867, as disclosed in Note 21.

In 2021, the Bank sold assets held for sale with carrying amount of ₱38,200 for a cash selling price of ₱47,392, recognizing a gain amounting to ₱9,192, as disclosed in Note 21. Also, the Bank sold assets held for sale with carrying amount of ₱3,011,559 through sales contract receivable amounting to ₱2,235,315, resulting to a loss of ₱776,244 included as part of operating expenses under “miscellaneous”, as disclosed in Note 22.

The fair value of the assets held for sale as of December 31, 2022 and 2021 amounted to ₱6,588,300 and ₱5,727,300. Such fair values have been determined by in-house appraisers on the basis of recent sales of similar property in the same area as the assets held for sale, which were adjusted for differences in key attributes such as property size, zoning, and accessibility, and taking into account the economic conditions prevailing at the time the valuations were made.

The Bank carried out a review of the recoverable amounts of its assets held for sale. The Bank has determined that there is no indication that an additional impairment loss has occurred on its assets held for sale.

13. OTHER ASSETS

The account consists of the following:

		2022		2021
Accounts receivable – net	₱	**12,444,360**	₱	9,043,288
Advances to lessor		**5,000,000**		–
Stationery and supplies on hand		**2,120,163**		2,218,814
Prepayments		**898,255**		303,100
Petty cash fund		**158,000**		158,000
Prepaid income tax		**–**		891,046
Miscellaneous assets		**5,702,010**		3,886,622
	₱	**26,322,788**	₱	16,500,870

Miscellaneous assets pertain to other deposits and investments.

Accounts receivable consists of insurance for death claims, advance payment for maternity benefits, unreplenished POS and other transactions which are to be collected for a period of less than one year.

		2022		2021
Accounts receivable – gross	₱	**12,445,052**	₱	9,052,576
Allowance for credit losses		**(692)**		(9,288)
	₱	**12,444,360**	₱	9,043,288

14. DEPOSIT LIABILITIES

This account consists of the following:

		2022		2021
Savings deposits	₱	**377,571,619**	₱	342,549,581
Special savings deposits		**313,969,691**		284,068,365
Demand deposits		**39,955,347**		13,254,544
	₱	**731,496,657**	₱	639,872,490

In Philippine Peso

Savings earn annual interest rate of 1% in 2022 and 2021. Special savings deposits earn annual interest rate of 1.5% to 4.5% in 2022 and 2021, depending on the amount and term of the placement.

Total interest expense on deposit liabilities amounted to ₱14,341,536 and ₱10,653,983 for the years ended December 31, 2022 and 2021, respectively.

Under existing BSP regulations, savings deposits and special savings deposit of the Bank are subject to statutory reserve equivalent to 2.0% for 2022 and 2021, except basic deposit accounts which are subject to 0% reserve requirement. As of December 31, 2022 and 2021, the Bank is compliant with such regulations.

15. BILLS PAYABLE

This account represents borrowings from local financial institutions, as follows:

		2022		2021
Land Bank of the Philippines	₱	**20,000,000**	₱	37,957,920
Small Business Corporation		**16,486,636**		17,264,886
Development Bank of the Philippines		**6,495,767**		14,166,667
	₱	**42,982,403**	₱	69,389,473

Movements of the account are disclosed below:

		2022		2021
Balance, January 1	₱	**69,389,473**	₱	141,255,689
Additional borrowings		**41,607,000**		60,033,985
Payments		**(68,014,070)**		(131,900,201)
Balance, December 31	₱	**42,982,403**	₱	69,389,473

The payment terms of these bills payable is 30 days to 2 years for both 2022 and 2021.

The promissory notes of loans receivables are pledged as security for the related bills payable, amounting to ₱42,983,403 and ₱69,389,473 as of December 31, 2022 and 2021, respectively, as disclosed in Note 10.

Interest rates per annum ranges from 2% to 6.5% for both 2022 and 2021.

Interest expense on bills payable charged to statement of comprehensive income for the years ended December 31, 2022 and 2021 amounted to ₱1,618,090 and ₱3,378,171, respectively.

16. ACCRUED TAXES, INTEREST AND OTHER EXPENSES

Details of this account are disclosed below:

		2022		2021
Accrued interest expense	₱	**2,330,133**	₱	1,934,617
Accrued taxes		**2,331,718**		3,627,717
Accrued other expenses		**649,905**		1,231,049
	₱	**5,311,756**	₱	6,793,383

Accrued other expenses pertain to expenses already incurred but not yet paid as of yearend, such as salaries and other employee benefits, professional fees, rent, utilities, and other expenses.

Accrued taxes pertain to gross receipts tax not yet paid as of year-end.

In Philippine Peso

17. RETIREMENT BENEFIT OBLIGATION

The Bank has a funded, non-contributory, defined benefit retirement plan covering all qualified employees.

Employees' normal retirement benefits will be computed equal to 100% of plan salary for every year of credited service. Retirement from service of the Bank shall be compulsory upon employees' attainment of the age of sixty (60) years with completion of at least five (5) years of service.

As of December 31, 2022 and 2021, the Bank has retirement benefit obligation as shown below:

		2022		2021
Accrued retirement benefit	₱	**11,112,471**	₱	9,140,010
Plan asset		**(1,596,477)**		(1,596,477)
Balance, December 31	₱	**9,515,994**	₱	7,543,533

Movement of accrued retirement benefit is shown below:

	Note		**2022**		2021
Balance, January 1		₱	**9,140,010**	₱	6,254,160
Retirement benefit expense	22		**3,600,000**		3,600,000
Benefits paid from book reserves			**(1,627,539)**		(714,150)
Balance, December 31		₱	**11,112,471**	₱	9,140,010

Details of the Bank's plan asset are disclosed below:

		2022		2021
Balance, January 1	₱	**1,596,477**	₱	1,596,477
Benefits paid from plan assets		**–**		–
Balance, December 31	₱	**1,596,477**	₱	1,596,477

18. OTHER LIABILITIES

This account consists of the following:

		2022		2021
Accounts payable	₱	**102,440,119**	₱	79,012,454
Lease liability		**7,162,450**		6,874,102
Withholding tax payable		**1,465,404**		735,125
Government contribution payables		**734,061**		634,623
Due to the Treasurer of the Philippines		**427,123**		16,354
	₱	**112,229,157**	₱	87,272,658

Accounts payable refers to claims by third parties arising from the purchase of goods and services and advance remittances of borrowers for their loan obligation.

In Philippine Peso

Accounts payable also includes the funds granted by the Agricultural Credit Policy Council (ACPC) to the Bank for the implementation of the following programs:

1. Production Loan Easy Access (PLEA) - special lending facility designed to address the needs of farmers and fisherfolk-borrowers that are classified as poor. The facility seeks to extend credit that is fast, convenient and at a cost affordable to the intended borrowers.
2. AgriNegosyo (ANYO) – designed to finance MSEs and farmer and fisherfolk organizations/associations, capital requirements for acquisition of machinery/equipment, construction of facilities and/or working capital requirements for agri-fishery-based income generating activities.
3. Kapital Access for Young Agripreneurs (KAYA) – designed to finance the capital requirements of start-up or existing farm/fishery business.
4. Survival and Recovery (SURE) – a quick response post-disaster support facility of the Department of Agriculture that provides immediate financial assistance package to small farmers and fisherfolk and their households in calamity-affected areas so that they may immediately regain their capacity to earn a living.

Total accounts payable under these programs amounted to ₱80,753,041 and ₱76,173,939 as of December 31, 2022 and 2021.

Movement of dividends payable is shown below:

	Note	2022	2021
Balance, January 1		₱ **–**	₱ –
Dividends paid		**(6,258,000)**	(4,007,009)
Declaration	20	**6,258,000**	4,007,009
Balance, December 31		₱ **–**	₱ **–**

The details of the Bank's lease liabilities and their carrying amounts are as follows:

	Note	2022	2021
Beginning balance		₱ **6,874,102**	₱ 8,460,921
Additions		**1,718,753**	–
Interest expense		**236,877**	234,058
Payments		**(1,667,282)**	(1,820,877)
Total		₱ **7,162,450**	₱ 6,874,102

The maturity analysis of lease liabilities as at December 31, 2022 is as follows:

	Lease Payments	Finance Charges	Net Present Values
Within 1 year	₱ 1,709,534	₱ 196,638	₱ 1,512,896
1 – 2 years	1,436,250	150,501	1,285,749
2 – 3 years	1,115,862	111,710	1,004,152
3 – 4 years	1,083,537	81,776	1,001,761
4 – 5 years	918,923	54,174	864,749
5 – 10 years	1,527,709	34,566	1,493,143
Total	₱ **7,791,815**	₱ **629,365**	₱ **7,162,450**

In Philippine Peso

The maturity analysis of lease liabilities as at December 31, 2021 is as follows:

	Lease Payments	Finance Charges	Net Present Values
Within 1 year	₱ 1,059,681	₱ 192,018	₱ 867,663
1 – 2 years	1,027,934	165,221	862,713
2 – 3 years	992,250	138,682	853,568
3 – 4 years	1,041,863	111,358	930,505
4 – 5 years	1,083,537	81,776	1,001,761
5 – 10 years	2,446,632	88,740	2,357,892
Total	₱ **7,651,897**	₱ **777,795**	₱ **6,874,102**

19. CAPITAL STOCK

19.01 Common Stock

Shown below are the details on the movement of common stock:

	2022		2021	
	Shares	**Amount**	Shares	Amount
Authorized capital at ₱100 par value	**2,500,000**	₱ **250,000,000**	1,200,000	₱ 120,000,000
Issued and fully paid at ₱100 par value				
Balance, January 1	**1,200,000**	**120,000,000**	954,298	95,429,800
Transfer from stock dividends payable	**90,000**	**9,000,000**	–	–
Stock dividends	**250,000**	**25,000,000**	245,702	24,570,200
Balance, December 31	**1,540,000**	₱ **154,000,000**	1,200,000	₱ 120,000,000

Common stocks carry one vote per share and a right to dividends.

19.02 Capital 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 shareholders' value.

The Bank manages its capital structure, which composed of paid-up capital and surplus reserve, and makes adjustments to these ratios in 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.

Based on MORB Section 121, the Bank qualifies as a rural bank with head office in all other areas outside National Capital Region (up to 3rd class municipalities with 1 to 10 branches). This type is required to meet ₱30,000,000 minimum capitalization. On August 24, 2022, the BSP issued BSP Circular No. 1151 containing the amendments to the minimum capitalization of rural banks. Based on the new requirements, the Bank now qualifies as a rural bank with 6 to 10 branches. This type is required to meet ₱120,000,000 minimum capitalization.

As of December 31, 2022 and 2021, the Bank is compliant with the minimum capitalization requirements.

In Philippine Peso

Under the current banking regulations, the qualifying capital accounts of the Bank should not be less than an amount equal to ten percent (10%) of its risk-weighted assets. The qualifying capital of the Bank for purposes of determining the capital-to-risk assets is total capital funds excluding:

(a) unbooked valuation reserves and other capital adjustments as may be required by the BSP;
(b) total outstanding unsecured credit accommodations to DOSRI;
(c) deferred tax asset;
(d) goodwill, if any;
(e) sinking fund for redemption of redeemable preferred stock; and
(f) other regulatory deductions.

Risk assets consists of total assets after exclusion of cash on hand, due from 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 as determined by the Monetary Board of the BSP.

The regulatory capital is analysed into two tiers which are Tier 1 Capital plus Tier 2 Capital less allowable deductions from the total of Tier 1 and Tier 2 capital.

Tier 1 Capital and Tier 2 are defined as follows:

a. Tier 1 Capital includes the following:
   i. paid up common stock,
   ii. surplus

   Subject to deductions for:
   i. deferred tax asset

b. Tier 2 Capital includes:
   i. general loan loss provision

Under the 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 capital) reported to the BSP, determined on the basis of regulatory accounting policies, which differ from PFRS in some respects.

Information regarding the Bank's "unimpaired capital" as of December 31, 2022 and 2021 is shown below.

		2022		2021
		In (000,000's)		In (000,000's)
Tier 1 Capital	₱	**174.762**	₱	154.592
Tier 2 Capital		**5.004**		3.640
Gross qualifying capital		**179.766**		158.232
Total risk-weighted assets	₱	**1,063.356**	₱	855.899
Tier 1 ratio		**16.43%**		18.06%
Total capital adequacy ratio		**16.91%**		18.49%

In addition, Section 127 and Appendix 62 of the MORB discusses the guidelines implementing the risk-based capital adequacy framework for stand-alone thrift banks, rural banks and cooperative banks. The said framework was amended by BSP Circular No. 1079 dated March 9, 2020 and BSP Circular No. 1084 dated April 28, 2020 to strengthen the quality of capital of the covered entities by the introduction of other capital requirements such as the Common Equity Tier (CET) 1 ratio in addition to the existing minimum CAR of 10%. The CET1 ratio is calculated by dividing CET1 capital by total risk-weighted assets.

In Philippine Peso

The implementation of the enhanced capital standards, which include the CET1 ratio, to the aforementioned banks will take effect on January 1, 2023.

The Bank's leverage ratio, computed as total capital over total assets, is 16.14% and 14.98%, as of December 31, 2022 and 2021, respectively.

20. SURPLUS

20.01 Surplus Reserve

Surplus reserves represent funds set aside for unforeseen events that may require immediate cash outflow, such as contingencies and losses. The account has a balance of ₱1,000 as of December 31, 2022 and 2021.

20.02 Surplus Free

Details of the Bank's surplus free are disclosed below:

	2022	2021
Balance, January 1	₱ **31,824,492**	₱ 44,525,495
Dividends declared	**(31,258,000)**	(37,577,209)
Profit	**25,711,352**	24,876,206
Balance, December 31	₱ **26,277,844**	₱ 31,824,492

20.03 Dividends

20.03.01 Cash Dividends
On January 25, 2022, in a regular meeting held by the Board of Directors, a declaration of cash dividend of ₱5.215 per share for common shareholders, or a total of ₱6,258,000, was unanimously approved. The BSP approved such cash dividend declaration on February 11, 2022.

On January 25, 2021, in a regular meeting held by the Board of Directors, a declaration of cash dividend of ₱4.1989 per share for common shareholders, or a total of ₱4,007,009, was unanimously approved. The BSP approved such cash dividend declaration on June 15, 2021.

20.03.02 Stock Dividends
On May 17, 2022, in a special meeting held by the Board of Directors and stockholders, a declaration of stock dividends amounting to ₱25,000,000 representing 20.8333% of the total stockholdings, was unanimously approved by the stockholders representing at least two-thirds (2/3) of the outstanding capital stock. The BSP approved such cash dividend declaration on July 8, 2022.

On May 11, 2021, in a special meeting held by the Board of Directors and stockholders, a declaration of stock dividends amounting to ₱33,570,200, representing 35.1779% of the total stockholdings, was unanimously approved by the stockholders representing at least two-thirds (2/3) of the outstanding capital stock. The BSP approved such cash dividend declaration on July 8, 2021.

Out of the total amount of stock dividends declared, ₱24,570,200 was already issued to the stockholders as disclosed in Note 19, and the remaining amount of ₱9,000,000 was recognized as stock dividends distributable, pending approval of the Bank's amendment of Articles of Incorporation including the increase in its authorized capital stock.

In Philippine Peso

21. OTHER OPERATING INCOME

This account consists of the following:

		2022		2021
Service charges on loans	₱	**60,333,538**	₱	51,388,603
Bank commissions		**10,837,854**		10,505,593
Recovery on charged-off assets		**1,511,060**		2,536,661
Gain on sale of non-financial assets		**104,899**		437,884
Miscellaneous income		**3,771,553**		1,911,074
	₱	**76,558,904**	₱	66,779,815

Details of gain on sale of non-financial assets are shown below:

	Notes		2022		2021
Gain on sale of:					
Bank premises, furniture, fixtures and equipment	11		**86,032**		428,692
Assets held for sale	12	₱	**18,867**	₱	9,192
		₱	**104,899**	₱	437,884

Miscellaneous income pertains to bank charges, overages, passbook replacement fees, bank certification fees and others.

22. OPERATING EXPENSES

Details of other expenses are shown below:

	Notes		2022		2021
Compensation and other employee benefits		₱	**52,294,610**	₱	49,326,356
Taxes and licenses			**11,484,113**		11,359,864
Depreciation	11		**9,741,117**		7,676,679
Information technology expenses			**5,470,933**		7,164,718
Fees and commission			**5,248,789**		8,147,356
Retirement benefit expense	17		**3,600,000**		3,600,000
Government contributions			**3,527,028**		3,227,826
Insurance			**2,899,849**		2,626,551
Postage, telephone and telegraph			**2,846,767**		2,067,137
Security, messengerial and janitorial services			**2,345,539**		2,206,515
Power, light and water			**2,467,730**		1,615,522
Stationery and office supplies			**2,022,364**		1,984,135
Fines, penalties and other charges			**1,856,436**		81,516
Management and other professional fees			**1,660,595**		1,372,498
Fuel and lubricants			**1,568,261**		2,376,018
Repairs and maintenance			**1,205,327**		1,191,751
Directors' fees			**1,145,000**		924,000
Transportation and travel			**1,041,790**		873,048
Rent expense			**944,136**		972,108
Advertising and publicity			**845,528**		4,228,555
Medical, dental and hospitalization			**621,019**		420,000
Supervision fees			**175,236**		166,530
Representation and entertainment			**124,068**		90,755
Membership fees and dues			**103,930**		373,550
Litigation			**18,000**		25,329
Miscellaneous			**2,699,018**		2,989,047
		₱	**117,957,183**	₱	117,087,364

In Philippine Peso

Compensation expense consist of:

		2022		2021
Salaries and wages	₱	**35,040,129**	₱	34,661,349
De-minimis		**17,254,482**		14,665,007
	₱	**52,294,611**	₱	49,326,356

Miscellaneous expenses pertain to meetings and conferences, freight costs, souvenirs and giveaways, and other expenses.

The Bank has elected not to recognize a lease liability for short term leases (leases of expected term of 12 months or less) or for leases of low value assets. Payments made under such leases are expensed on a straight-line basis. The expense related to payments not included in the measurement of the lease liability are short-term and low value leases amounting to ₱944,136 and ₱972,108 in 2022 and 2021, respectively.

23. INCOME TAX

Under Philippine tax laws, the Bank is subject to percentage and other taxes (included in taxes and licenses in the comprehensive income) as well as income taxes. Percentage and other taxes paid consist principally of gross receipts tax (GRT) and documentary stamp tax. The Bank's liability will be based on regulations to be issued by tax authorities.

Income taxes include the corporate income tax, discussed below, and final tax paid which represents the final withholding tax on gross interest income from government securities and other deposit substitutes. These income taxes, as well as the deferred tax benefits and provisions, are presented as provision for income tax in the statements of income.

Under current tax regulations, the applicable income tax rate is twenty-five percent (25%). Interest allowed as a deductible expense is reduced by an amount equivalent to twenty percent (20%) of interest income subjected to final tax. Also, entertainment, amusement and recreation (EAR) expense is limited to one percent (1%) of net revenues, as defined, for sellers of services beginning September 1, 2002. The current regulations also provide for MCIT of 2% on modified gross income and allow a three year NOLCO. Any excess of the MCIT over the regular income tax is deferred and can be used as a tax credit against future income tax liability while NOLCO can be applied against taxable income, both in the next three years from the year of occurrence.

The Bank's liability for income tax is based on existing tax laws and BIR regulations. However, income tax expense as shown on the statement of position comprehensive income is determined under the provision of PAS 12 *Income Taxes*. Under PAS 12, income tax expense is the sum of current tax expense computed under tax laws and deferred tax expense determined through the use of balance sheet liability method.

Deferred tax expense is the sum of changes in deferred tax asset and deferred tax liability. The balance sheet liability method focuses on temporary differences. Temporary differences are differences between the tax base of an asset or liability and its carrying amount in the statement of financial position. The tax base of an asset or liability is the amount attributed to that asset or liability for tax purposes.

In 2020, to address the impact of COVID-19, the Senate and the House of Representatives enacted Republic Act (RA) No. 11494 or the Bayanihan to Recover as One Act (Bayanihan II) effective September 15, 2020 with an original expiry date of December 19, which has since been extended to mid-2021. Bayanihan II provides for COVID-19 response and recovery interventions and mechanisms to accelerate the recovery and to bolster the resiliency of the economy.

Among the response and recovery interventions provided under Bayanihan II are the carry-over of net operating losses incurred by the business or enterprise for taxable years 2020 and 2021 as deductions from gross income (for purposes of computing net taxable income subject to regular corporate income tax) over the next five consecutive taxable years immediately following the year of such loss Section 4 (bbbb) of the Bayanihan II).

In Philippine Peso

Under Bayanihan II, NOLCO would remain in effect even after the expiration of the Act, provided that the deductions are claimed within the next five consecutive taxable years.

23.01 Income Tax Recognized in Profit or Loss

Components of income tax expense are as follows:

		2022		2021
Income tax expense – current	₱	**7,912,993**	₱	6,677,687
Income tax benefit – deferred		**716,748**		1,744,537
	₱	**8,629,741**	₱	8,422,224

A numerical reconciliation between tax expense and the product of accounting profit multiplied by the tax rate in 2022 and 2021 is as follows:

		2022		2021
Accounting profit	₱	**34,341,093**	₱	33,298,430
Tax expense at 25%		**8,585,273**		8,324,607
Tax effect of income that is subject to lower rate:				
Interest income subject to final tax		**(635,104)**		(349,962)
Disallowed interest expense		**158,776**		87,490
Other non-deductible expenses		**520,796**		20,379
CREATE adjustment – current tax		**–**		(990,037)
CREATE adjustment – deferred tax		**–**		1,329,747
	₱	**8,629,741**	₱	8,422,224

23.02 Deferred Tax Assets

Details of the Bank's deferred tax assets are shown below:

		Allowance for credit losses – loans receivable		Retirement benefit obligation		Excess lease liability over ROU Asset		Total
Balance, December 31, 2020	₱	7,391,242	₱	539,770	₱	47,469	₱	7,978,481
Profit or loss								
Origination		1,056,254		900,000		498,972		2,455,226
Reversal		(2,236,259)		(178,538)		(455,219)		(2,870,016)
CREATE adjustment		(1,231,874)		(89,962)		(7,911)		(1,329,747)
Balance, December 31, 2021		4,979,363		1,171,270		83,311		6,233,944
Profit or loss								
Origination		2,361,272		900,000		461,954		3,723,226
Reversal		(3,616,269)		(406,885)		(416,820)		(4,439,974)
CREATE adjustment		–		–		–		–
Balance, December 31, 2022	**₱**	**3,724,366**	**₱**	**1,664,385**	**₱**	**128,445**	**₱**	**5,517,196**

Prior to 2019, the Bank did not recognize deferred tax assets since management believes that future taxable income will not be available to allow such deferred tax assets to be utilized.

The Bank has unrecognized deferred taxes as follows:

		2022		2021
Allowance for credit losses – loans	₱	**2,349,283**	₱	2,349,283
Retirement benefit obligation		**714,613**		714,613
Allowance for impairment loss – Assets held-for-sale		**194,412**		194,412
Allowance for credit losses – accounts receivable		**173**		2,322
	₱	**3,258,481**	₱	3,260,630

23.03 Revenue Regulations (RR) No. 34-2020 – Related Party Transaction (RPT) Form and Transfer Pricing Documentation

The Bureau of Internal Revenue, in its Revenue Regulation No. 34-2020, requires taxpayers to submit BIR Form No. 1709 (RPT Form) to allow the BIR to verify that taxpayers are reporting their related party transactions at arm's length prices. It is also intended to improve and strengthen the Bureau's transfer pricing risk assessment and audit functions. Most importantly, the information that will be gathered from the RPT Form and its attachments will be used by the BIR during the transfer pricing risk assessment to determine whether or not to conduct a thorough review/audit of a particular entity or transaction.

Under the said RR, the following are required to file and submit the RPT Form, together with the Annual Income Tax Return (AITR):

1. Large taxpayers
2. Taxpayers enjoying tax incentives, i.e. Board of Investments (BOI)-registered and economic zone enterprises, those enjoying Income Tax Holiday (ITH) or subject to preferential income tax rate;
3. Taxpayers reporting net operating losses for the current taxable year and the immediately preceding two (2) consecutive taxable years; and
4. A related party, as defined under Section 3 of RR No. 19-2020, which has transactions with (1), (2) or (3) above. For this purpose, key management personnel (KMP), as defined under Section 3(7) of RR No. 19-2020, shall no longer be required to file and submit the RPT Form, nor shall there be any requirement to report any transaction between KMP and the reporting entity/parent company of the latter in the RPT Form.

In addition, the preparation and submission of Transfer Pricing Documentation (TPD) under RR No. 02-2013, otherwise known as "Transfer Pricing Guidelines" and all other relevant issuances, shall be mandatory for taxpayers enumerated above who meet the following materiality thresholds:

a. Annual gross sales/revenue for the subject taxable period exceeds ₱150 million and the total amount of related party transactions with foreign and domestic related parties exceeds ₱90 million; OR
b. Related party transactions meeting the following materiality threshold:
   i. If it involves sale of tangible goods in the aggregate amount exceeding ₱60 million within the taxable year;
   ii. If it involves service transaction, payment of interest, utilization of intangible goods or other related party transaction in the aggregate amount exceeding ₱15 million within the taxable year
   iii. If TPD was required to be prepared during the immediately preceding taxable period for exceeding either (a) or (b) above.

As it does not belong to taxpayers who are required to file and submit the RPT Form under Section 2 of RR 34-2020, the Bank is not covered by the requirements and procedures for related party transactions under the said RR.

23.04 Republic Act No. 11534, otherwise known as the "Corporate Recovery and Tax Incentives for Enterprises (CREATE)" Act

On February 03, 2021, the final provisions of Senate Bill No. 1357 and House Bill No. 4157 or the Corporate Recovery and Tax Incentives for Enterprises (CREATE) Bill, which seeks to reform corporate income taxes and incentives in the country, had been ratified by the Senate and the House of Representatives of the Philippines.

Under the proposed law, effective July 1, 2020, the corporate income tax will be reduced from the current 30% to 20% for domestic corporations with total assets not exceeding P100 million, excluding land, and total net taxable income of not more than P5 million. The corporate income tax of all other corporations (domestic and resident foreign), meanwhile, will be lowered to 25%. The bill would also lower the minimum corporate income tax (MCIT) from 2% to 1% effective July 2020 until June 30, 2023.

Other key provisions of the CREATE bill include:

- Effective January 1, 2021, income tax rate for nonresident foreign corporation is reduced from 30% to 25%.
- Preferential income tax rate for proprietary educational institutions and hospitals which are nonprofit is reduced from 10% to 1% effective July 1, 2020 to June 30, 2023.
- Effective January 1, 2022, regional operating headquarters (ROHQ) currently enjoying 10% preferential income tax rate shall be subject to RCIT.
- Imposition of improperly accumulated earnings tax (IAET) is repealed.
- Foreign-sourced dividends received by domestic corporations are exempt from income tax subject to the following conditions:
  - The funds from such dividends actually received or remitted into the Philippines are reinvested in the business operations of the domestic corporation in the Philippines within the next taxable year from the time the foreign-sourced dividends were received;
  - Shall be limited to funding the working capital requirements, capital expenditures, dividend payments, investment in domestic subsidiaries, and infrastructure project; and
  - The domestic corporation holds directly at least 20% of the outstanding shares of the foreign corporation and has held the shareholdings for a minimum of 2 years at the time of the dividend distribution.
- Qualified export enterprises shall be entitled to 4 to 7 years income tax holiday (ITH) to be followed by 10 years 5% special corporate income tax (SCIT) or enhanced deductions (ED).
- Qualified domestic market enterprises shall be entitled to 4 to 7 years ITH to be followed by 5 years ED.
- For investments prior to effectivity of CREATE:
  - Registered business enterprises (RBEs) granted only an ITH – can continue with the availment of the ITH for the remaining period of the ITH.
  - RBEs granted an ITH followed 5% GIT or are currently enjoying 5% GIT – allowed to avail of the 5% GIT for 10 years.

The said bill was signed into law on March 26, 2021, except for certain provisions that were vetoed, by the President of the Philippines.

As clarified by the Philippine Financial Reporting Standards Council in its Philippine Interpretations Committee Q&A No. 2020-07, the CREATE Act was not considered substantively enacted as of December 31, 2020 even though some of the provisions have retroactive effect to July 1, 2020. The passage of the CREATE Act into law on March 26, 2021 is considered as a non-adjusting subsequent event. Accordingly, current and deferred taxes as of and for the year ended December 31, 2020 continued to be computed and measured using the applicable income tax rates as of December 31, 2020 (i.e., 30% RCIT / 2% MCIT) for financial reporting purposes.

24. RELATED PARTY TRANSACTIONS

In the ordinary course of business, the Bank has loans and other transactions with certain DOSRI. Under the Bank's policy, these loans and other transactions are made substantially on the terms as with other individuals and businesses of comparable risks.

24.01 Loans to DOSRI

The General Banking Act and BSP regulations limit the amount of the loans to each DOSRI as follows:

1) The individual ceiling for credit accommodations of a bank to each of its DOSRI shall be equivalent to his outstanding deposits and book value of his paid-in capital in the lending bank. The unsecured credit accommodations to each of the Bank's DOSRI shall not exceed 30% of his total credit accommodations.

In Philippine Peso

2) The aggregate ceiling for credit accommodations, whether direct or indirect, to DOSRI of a bank shall not exceed 15% of the total loan portfolio of the Bank or its combined capital accounts net of deferred income tax, unbooked valuation reserves and other capital adjustments required by the BSP, whichever is lower. The total unsecured direct and indirect borrowings of DOSRI shall not exceed 30% of the aggregate ceiling or the outstanding direct/indirect credit accommodations thereto, whichever is lower.

Details of the Bank's DOSRI loans and related party loans as of December 31, 2022 are as follows:

2022		**DOSRI Loans**		**Related Party Loans (Inclusive of DOSRI Loans)**
Total outstanding DOSRI/ Related party loans	**₱**	**7,098,389**	**₱**	**7,098,389**
Percent of DOSRI/ Related party accounts to total loans		**1.01%**		**1.01%**
Percent of unsecured DOSRI/ Related party accounts to DOSRI/ Related party accounts		**–**		**–**
Percent of past due DOSRI/ Related party accounts to total DOSRI/ Related party accounts		**–**		**–**
Percent of nonperforming DOSRI/ Related party accounts to total DOSRI/ Related party accounts		**–**		**–**

The Bank has no DOSRI loans and related party loans as of December 31, 2021.

24.02 Remuneration of Key Management Personnel

The key management compensation for the years ended December 31, 2022 and 2021 amounted to ₱9,825,009 and ₱8,531,380, respectively.

25. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The following table shows the reconciliation analysis of liabilities arising from financing activities for the years ended December 31, 2022 and 2021:

	2021	**Cash inflow**	**Cash outflow**	**Non-cash changes**	**2022**
Bills payable	69,389,473	41,607,000	(68,014,070)	–	42,982,403
Lease liabilities*	6,874,102	–	(1,667,282)	1,955,630	7,162,450
Dividends payable	–	–	(6,258,000)	6,258,000	–
	76,263,575	**41,607,000**	**(75,939,352)**	**8,213,630**	**50,144,853**

**pertains to payment of principal amounting to ₱ and interest amounting to ₱*

	2020	Cash inflow	Cash outflow	Non-cash changes	2021
Bills payable	141,255,689	60,033,985	(131,900,201)	–	69,389,473
Lease liabilities*	8,460,921	–	(1,820,877)	234,058	6,874,102
Dividends payable	–	–	(4,007,009)	4,007,009	–
	149,716,610	60,033,985	(137,728,087)	4,241,067	76,263,575

**pertains to payment of principal amounting to ₱1,586,819 and interest amounting to ₱234,058*

In Philippine Peso

26. PROVISIONS, CONTINGENT LIABILITIES AND CONTINGENT ASSETS

The Bank is not aware of any pending or threatened litigation, claims or assessments or unasserted claims of assessments that are required by PAS 37 to be accrued or disclosed in the financial statements and the Bank has not consulted a lawyer concerning litigation, claims or assessments. The Bank has complied with all aspects of contractual agreements that could have a material effect on the accounts in the event of non-compliance.

27. EVENTS AFTER THE REPORTING DATE

No events after the end of the reporting date were identified in these financial statements that provide evidence of conditions that existed at the reporting date (adjusting events after reporting date), and that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).

28. APPROVAL OF FINANCIAL STATEMENTS

These financial statements for the year ended December 31, 2022 was approved and authorized for issue by the Board of Directors (BOD) on April 19, 2023.

29. SUPPLEMENTARY INFORMATION UNDER REVENUE REGULATIONS 15–2010

Revenue Regulations (RR) No. 21-2002 prescribing additional procedural and/or documentary requirements in connection with the preparation and submission of financial statements accompanying income tax returns was amended under RR 15-2010. The amendment that became effective on December 28, 2010 requires the inclusion in the notes to financial statements, information on taxes and license fees paid or accrued during the year in addition to what is required under the Philippine Financial Reporting Standards and such other standards and/or conventions.

Below is the additional information required by RR 15–2010. This information is presented for purposes of filing with the BIR and is not a required part of the basic financial statements.

29.01 Gross Receipts Tax

		2022		2021
Gross receipts tax paid	₱	**7,579,453**	₱	6,180,603
Gross receipts tax payable		**2,331,718**		3,627,717
	₱	**9,911,171**	₱	9,808,320

29.02 All Other National and Local Taxes

All other local and national taxes paid by the Bank and presented as part of operating expenses for the periods ended December 31, 2022 and 2021 consist of:

		2022		2021
National tax:				
Percentage tax	₱	**9,911,171**	₱	9,808,320
Documentary stamp taxes		**115,020**		265,730
Local taxes:				
Business permit and other fees		**510,268**		490,202
Registration		**70,567**		84,556
Others		**877,087**		711,056
	₱	**11,484,113**	₱	11,359,864

In Philippine Peso

29.03 Withholding Taxes

Withholding taxes paid or accrued for the years ended December 31, 2022 and 2021 consist of:

2022		**Paid**		**Accrued**		**Total**
Final withholding tax	₱	2,141,552	₱	650,100	₱	2,791,652
Withholding tax on compensation		670,508		208,471		878,979
Expanded withholding tax		653,534		475,616		1,129,150
	₱	**3,465,594**	₱	**1,334,187**	₱	**4,799,781**

2021		Paid		Accrued		Total
Final withholding tax	₱	1,908,391	₱	221,419	₱	2,129,810
Withholding tax on compensation		639,610		149,054		788,664
Expanded withholding tax		669,817		333,631		1,003,448
	₱	3,217,818	₱	704,104	₱	3,921,922

29.04 Tax Assessments

The Bank has no on-going tax assessments as of December 31, 2022 and 2021.

29.05 Tax Cases

The Bank has no outstanding tax cases in any other court or bodies outside of the BIR as of December 31, 2022 and 2021.

30. SUPPLEMENTARY INFORMATION UNDER BSP CIRCULAR NO. 1074

On January 8, 2020, the Monetary Board (MB), through Resolution No. 48, approved the amendments to the relevant provisions of the MORB. Subsequently, on February 7, 2020, the BSP issued Circular No. 1074 requiring banks to include the following information in their audited financial statements:

30.01 Basic Quantitative Indicators of Financial Performance

	2022	2021
Return on average equity	**15.08%**	16.54%
Return on average assets	**2.50%**	2.72%
Net interest margin	**10.65%**	12.26%

30.02 Description of Capital Instruments Issued

Description of capital instruments issued are disclosed in Note 19.

In Philippine Peso

30.03 Significant Credit Exposures

Disclosures as to industry/economic sector are as follows:

	2022			2021		
	Peso Amount	**% to TLP**	**% to Tier 1**	Peso Amount	% to TLP	% to Tier 1
Household use	**208,301,153**	**29.50**	**119.19**	151,759,029	24.66	98.17
Agriculture, forestry and fishing	**151,000,224**	**21.38**	**86.40**	162,718,515	26.44	105.26
Construction	**108,729,732**	**15.40**	**62.22**	52,440,890	8.52	33.92
Wholesale and retail trade, repair of motor vehicles and motorcycles	**105,347,246**	**14.92**	**60.28**	113,295,991	18.41	73.29
Transportation and storage	**28,869,316**	**4.09**	**16.52**	17,613,859	2.86	11.39
Real estate activities	**22,374,133**	**3.17**	**12.80**	21,634,962	3.51	13.99
Mining and quarrying	**17,591,009**	**2.49**	**10.07**	21,772,680	3.54	14.08
Accommodation and food service activities	**15,659,139**	**2.22**	**8.96**	14,364,619	2.33	9.29
Other service activities	**14,909,330**	**2.11**	**8.53**	12,573,004	2.04	8.13
Professional, scientific and technical activities	**13,016,625**	**1.84**	**7.45**	15,373,493	2.50	9.94
Administrative and support service activities	**9,655,328**	**1.37**	**5.52**	14,858,531	2.41	9.61
Financial and insurance activities	**4,099,969**	**0.58**	**2.35**	11,914,477	1.94	7.71
Manufacturing	**3,929,991**	**0.56**	**2.25**	4,569,386	0.74	2.96
Water supply, sewerage, waste management and remediation activities	**1,806,503**	**0.26**	**1.03**	62,564	0.01	0.04
Human health and social work activities	**663,229**	**0.09**	**0.38**	72,847	0.01	0.05
Electricity, gas, steam and air conditioning supply	**162,210**	**0.02**	**0.09**	227,164	0.04	0.15
Arts, entertainment and recreation	**68,233**	**0.00**	**0.04**	61,276	0.01	0.04
Information and communication	**39,604**	**0.00**	**0.02**	171,335	0.03	0.11
Total	**706,222,975**	**100.00**		615,484,622	100.00	

The BSP considers the concentration of credit exists when the total loan exposure to a particular industry or economic sector exceeds 30% of the total loan portfolio or 10% of Tier 1 Capital, which is equivalent to ₱17.48 million and ₱15.46 million as of December 31, 2022 and 2021, respectively.

In 2022, the Bank is exposed to agriculture, forestry and fishing, household use, wholesale and retail trade, repair of motor vehicles and motorcycles, construction, mining and quarrying, real estate activities and transportation and storage, amounting to more than 10% of Tier 1 Capital.

In 2021, the Bank is exposed to agriculture, forestry and fishing, household use, wholesale and retail trade, repair of motor vehicles and motorcycles, construction, mining and quarrying, real estate activities and transportation and storage, amounting to more than 10% of Tier 1 Capital.

30.04 Breakdown of Total Loans

30.04.01 As to Security

Loan portfolio classification as to security follows:

	2022	2021
Secured by real estate mortgage	₱ **149,767,474**	₱ 113,511,429
Secured by chattel mortgage	**50,250,028**	55,454,361
Secured by others	**21,172,298**	30,906,407
Secured	**221,189,800**	199,872,197
Unsecured	**485,033,175**	415,612,425
	₱ **706,222,975**	₱ 615,484,622

Others include deposit hold-out/back-to-back, jewelries and letter of credit.

In Philippine Peso

30.04.02 As to Status per Product Line

Breakdown of gross loan receivables as to status are disclosed below:

	2022				
Loan Product	**Performing**		**Non-performing**		**Total**
	Current	**Past Due**	**Past Due**	**Under Litigation**	
BOLA	162,888,994	2,200,355	2,680,664	–	167,770,013
FAST	623,846	–	–	–	623,846
FBL	13,935,100	49,416	–	–	13,984,516
GDL	2,470,991	–	59,555	–	2,530,546
GPL	1,110,905	–	1,352,295	–	2,463,200
HUGE	12,212,117	–	4,267,369	–	16,479,486
I-CARE	23,303,116	374,390	1,604,855	–	25,282,361
JWL	64,298	–	–	–	64,298
KBH	57,539,684	–	4,440,134	–	61,979,818
KBT	34,920,052	–	1,756,797	–	36,676,849
KBY	21,058,000	–	–	–	21,058,000
MOVE	12,075,898	–	–	–	12,075,898
ACPC	44,265,626	1,136,866	15,429,308	–	60,831,800
REAL	38,803,224	–	–	–	38,803,224
REG	230,306,294	4,667,109	10,625,717	–	245,599,120
Total	**655,578,145**	**8,428,136**	**42,216,694**	–	**706,222,975**

	2021				
Loan Product	Performing		Non-performing		Total
	Current	Past Due	Past Due	Under Litigation	
BOLA	135,759,573	4,715,182	5,548,562	–	146,023,317
FAST	610,906	–	–	–	610,906
FBL	13,203,954	149,018	–	–	13,352,972
GDL	3,641,112	–	5,356	–	3,646,468
GPL	3,444,279	–	47,960	–	3,492,239
HUGE	24,712,539	–	9,248,767	–	33,961,306
I-CARE	17,378,815	252,015	880,748	–	18,511,578
JWL	261,220	2,900	–	–	264,120
KBH	70,676,162	–	869,938	–	71,546,100
KBT	27,594,431	–	570,107	–	28,164,538
KBY	18,100,000	–	–	–	18,100,000
MOVE	8,607,596	–	–	–	8,607,596
ACPC	56,383,931	349,961	7,196,811	–	63,930,703
REAL	29,100,948	–	2,845,818	–	31,946,766
REG	163,975,062	196,105	9,152,254	–	173,323,421
ASENSO Gadget	2,592	–	–	–	2,592
Total	573,453,120	5,665,181	36,366,321	–	615,484,622

30.05 Information on Related Party Loans

Details of the Bank's DOSRI loans and related party loans as of December 31, 2022 and 2021 are disclosed in Note 24.

30.06 Aggregate Amount of Secured Liabilities and Assets Pledged as Security

As of December 31, 2022 and 2021, bills payable amounting to ₱42,982,403 and ₱69,389,473, respectively, are secured by a pledge of certain assets as follows:

	2022	2021
Loans receivables	₱ **42,982,403**	₱ 69,389,473

30.07 Nature and Amount of Contingencies and Commitments

In the normal course of the Bank's operations, there are various commitments to extend credit which are not reflected in the Banking financial statements. As at December 31, 2022 and 2021, management believes that liabilities or losses, if any, arising from these commitments will not have a material effect on the financial position and results of operations of the Bank.

The following is a summary of the Bank's contingent accounts as of December 31, 2022 and 2021:

	2022	2021
Items held as collateral	**234**	291

ANNEX 68-E

SCHEDULE OF FINANCIAL SOUNDNESS INDICATORS

RURAL BANK OF GUINOBATAN, INC.

As of December 31, 2022

Ratio	Formula	Current Year	Prior Year
Current ratio	$\frac{\text{Current Assets}}{\text{Current Liabilities}}$	112.24%	117.39%
Acid test ratio	$\frac{\text{Quick Assets}}{\text{Current Liabilities}}$	109.14%	115.14%
Solvency ratio	$\frac{\text{Net Income + Depreciation and Amortization}}{\text{Total Liabilities}}$	3.93%	4.01%
Debt-to-equity ratio	$\frac{\text{Total Liabilities}}{\text{Total Equity}}$	500.59%	504.19%
Asset-to-equity ratio	$\frac{\text{Total Assets}}{\text{Total Equity}}$	600.59%	604.19%
Interest rate coverage ratio	$\frac{\text{Earnings before Interest and Taxes}}{\text{Interest Expense}}$	312.03%	333.41%
Return on equity	$\frac{\text{Net Income}}{\text{Average Total Equity}}$	15.08%	16.54%
Return on assets	$\frac{\text{Net Income}}{\text{Average Total Assets}}$	2.50%	2.72%
Net profit margin	$\frac{\text{Net Income}}{\text{Revenue}}$	25.36%	24.37%