BOF
A Rural Bank

Building Homegrown Success

THE 2022 ANNUAL REPORT

A Rural Bank

ABOUT THIS 2022 ANNUAL REPORT: BUILDING HOMEGROWN SUCCESS

BOF highlights its Unique Value Proposition to its clients and the community: shared growth. It connotates the bank's genuine and sincere care for its employees, its clients, the community, and the nation. This report presents how the joint efforts of BOF and its clients contribute to the success of Central Luzon.

This annual report is made following the guidelines of the Bangko Sentral ng Pilipinas (BSP).

All tables presented including the audited financial statements in this report are based on the consolidated figures within the year 2022.

2022 BOF Annual Report

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BOF 2022 at a Glance

In 2022, BOF remains to be a leading rural bank in Central Luzon. During the 2nd quarter of the year, the bank took a leap further to solidify its place in the industry and rebranded as a homegrown bank yet instilling professionalism and stability. BOF deviates away from the traditional corporate image and shows how it uses being based in the countryside to its advantage. Being a local bank depicts how BOF knows its clients better and how it contributes to the development of the region.

Financial Performance

₱ 4.72 B

TOTAL ASSETS

₱ 849 M

TOTAL CAPITAL

₱ 3.73 B

TOTAL DEPOSITS

₱ 3.39 B

TOTAL LOANS

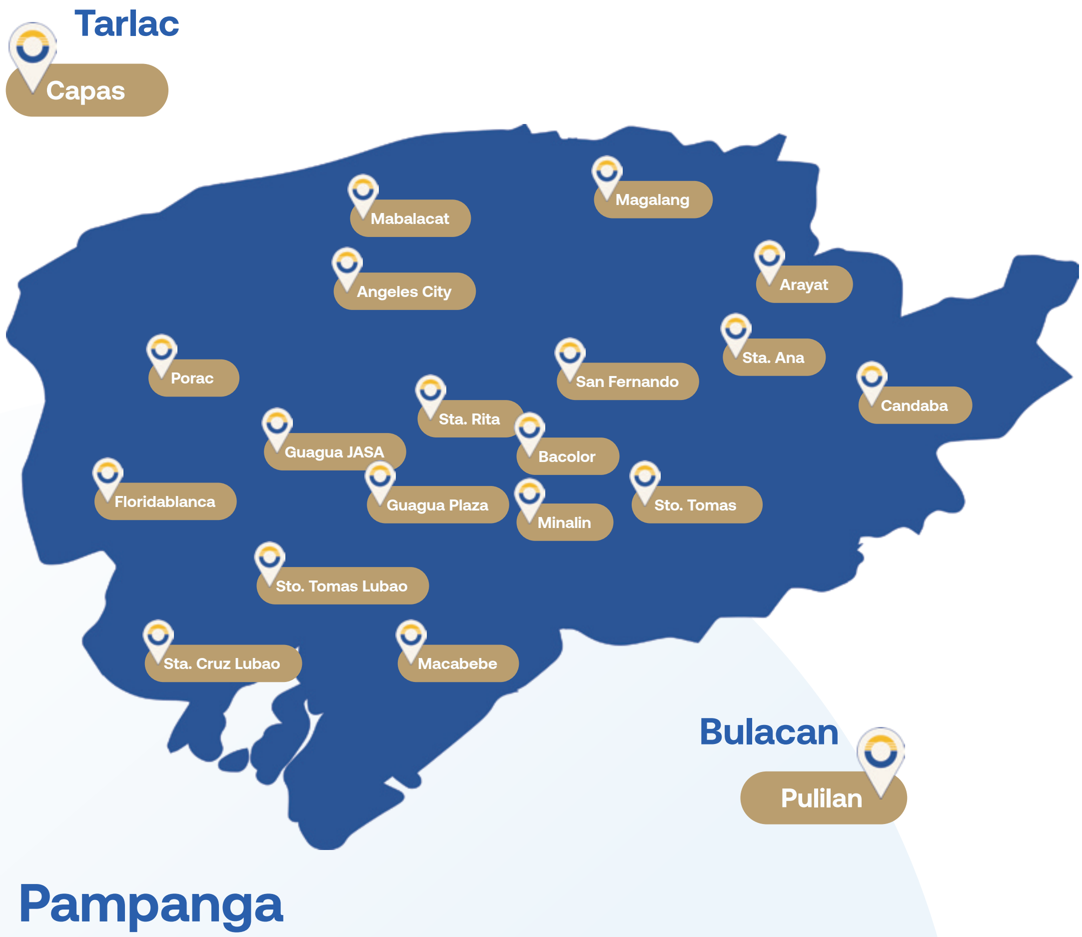
20 Branches in Central Luzon

As the bank continues to expand, it is currently present in three (3) provinces of Region III namely Pampanga with eighteen (18) branches, one (1) branch in Bulacan, and one (1) branch in Tarlac.

Nationwide Rankings

BOF Rankings in the Rural Banking Industry as of December 31, 2022:

TOP 10 as to Total Assets
TOP 10 as to Total Capital
TOP 9 as to Total Deposits
TOP 6 as to Total Loans



Rebranding

BOF overhauls its brown branding to a horizon blue and sun yellow to better represent and relay its new messaging. The BOF Horizon Blue exudes security, professionalism, and trustworthiness. While the Sun Yellow depicts the bank's warmth, and the hope it instills in its clients and the community.

The bank wants to set a new standard in the industry. This rebranding shows how the bank is able to evolve and adapt to the ever-changing market needs.

Here to Guide You

Backed by nearly 60 years of experience, BOF's expertise and mastery played a role in developing Pampanga itself. Today, BOF continues this legacy by bringing banking products and services to MSMEs inside and outside of Pampanga.

Just Like You

BOF's approach is rooted in knowing its clients deeply, coming from the same communities it serves. As a proudly homegrown bank, you can trust BOF to understand your unique needs, and to keep your best interests at heart through sincere and genuine service.

All About You

BOF is driven by a deep dedication to you and your success. At the heart of banking is empowering, supporting, and sustaining the growth of its clients and their businesses. BOF is committed to go the extra mile to ensure the development of your business and that of Central Luzon.

About the Company

BOF is a homegrown rural bank that empowers and supports Micro, Small, and Medium Enterprises (MSMEs) in Central Luzon.

Guided by decades of catalyzing countryside development, BOF expands its unique grassroots approach to businesses in varying stages of growth, from seasoned industry leaders, to hardworking agricultural ventures, to the new generation of business.

As one of the country's leading rural banks, BOF has set itself apart from its competition through an in-depth understanding of the clients' needs, humble customer approach, which stems from its desire to preserve, cultivate, and protect the heritage and rich culture, not just that of Central Luzon, but the Filipino nation as well.

Core Values

C - *Competence*
A - *Accountability*
R - *Responsibility*
I - *Integrity*
N - *Nurturing*
G - *God-driven*

Vision

We will be the bank of choice of MSMEs in Central Luzon delivering excellent and relevant products and services contributing to financial inclusion towards economic progress and development.

Mission

We provide innovative products and personalized services at all times ensuring utmost client satisfaction and in compliance with government regulations.

We develop and empower our people to be highly competent professionals and we shall recognize their excellent performance.

We deliver consistent and satisfactory returns to our shareholders and build lasting partnerships with our key stakeholders advocating social responsibility.

Building Homegrown Success

Unique Value Proposition

BOF's Unique Value Proposition (UVP) is its advocacy for mutual growth among the bank, its Micro, Small, and Medium Enterprise (MSME) clients, the communities it serves, and the whole nation.

BOF highlights its UVP to its clients and the community: shared growth.

As a homegrown rural bank, BOF focuses on helping the development of its countryside areas to uplift its position on a nationwide scale.

Behind the Ring

Ring of Heritage

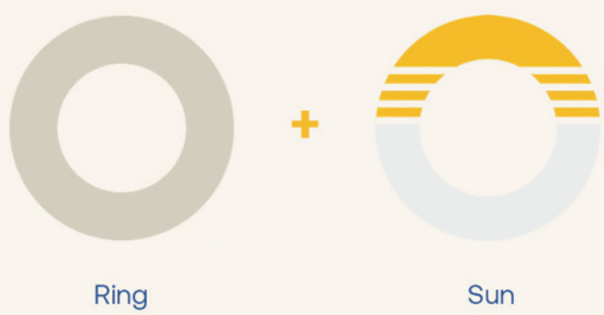
The logo's foundation is the form of the ring, celebrating BOF's roots and inspired by Atin Cu Pung Singing.

Horizon of Hope

The central visual is that of a rising sun, representing the hope, success, and growth that BOF builds with its clients.

Guiding Light

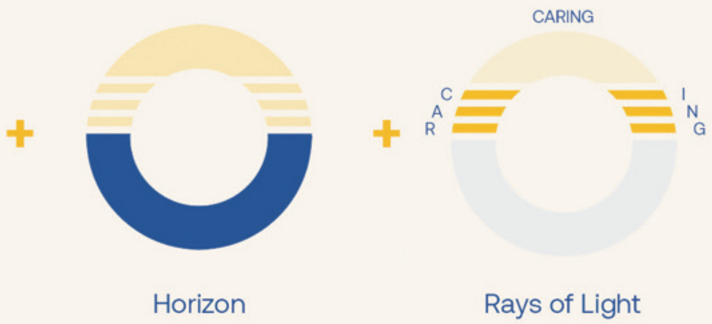
Six streaks of light (C-A-R-I-N-G) with a seventh conjoining ray (CARING) represent BOF's core values that guide all that we do.



BOF commits its unwavering dedication to you and your success.

It's all about you.

You are our number 1 priority. BOF does everything with you in mind—from creating innovative banking products designed for you, to ensuring our service goes beyond your expectations.



A Ring is a *Promise*, a *Vow*, and a *Commitment*.

A **Promise** to be a CARING bank.

A **Vow** to be a Regional Champion.

A **Commitment** to create a Corporate Culture like no other.

Message from the Chairperson

"We can continue to move forward with our clients and help them grow. – Atty. Ma. Fides Andin-Balili"

People go to banks hoping for the best. They seek hope that will give them the courage to start anew, hope that their businesses will recover from the effects of the lockdown, and hope that they can continue moving forward. At BOF, we hope that, TOGETHER, we can continue to move forward with our clients and help them grow.

Today, we are learning to live with the COVID-19 virus as the world gradually opens up its borders and the economy slowly recovers. Both the public and private sectors are in the midst of resuming their plans and projects. Conferences and classes are being held face to face. Revenge travel is on the up and up. We are optimistic about the future but remain alert and conscious to the challenges not only in the Philippines but all across the globe.

As of December 31, 2022, the Philippines' headline inflation increased to 8.1% amid of rising food prices and shortages. President Ferdinand R. Marcos Jr.'s economic team predicts slow growth in the coming year. The war in Ukraine continues; the geopolitics surrounding it are worrisome, and there are concerns of a global recession.

To say that these are challenging times is an understatement. But every challenge is an opportunity.

In 2022, we launched our Unique Value Proposition—Building Homegrown Success—as a testament to BOF's commitment to assisting Micro, Small, and Medium Enterprises (MSMEs) in Central Luzon. Despite numerous challenges and setbacks, the bank has remained dependable and a pillar of support for its clients and the community.

The bank continues to embody what it means to be a Competent, Accountable, Responsible, Nurturing, and God-driven financial institution. Undeterred by the many obstacles that the bank faced, BOF continues to empower MSMEs and provide excellent financial products and services to our clients and their businesses. As MSMEs make up more than 99.51% of business establishments in the Philippines, BOF strives to constantly improve, evolve, and adapt to the changing demands of the economy and industry.

Being a local bank, BOF has demonstrated, and continues to demonstrate, how well we know our clients and how we can help build a better future for our region. Our year-end results indicate that we did reasonably well in 2022, as we assisted our clients pursue business and financial recovery efforts, and for others, expansion plans even. BOF's commitment and contributions to countryside development is beyond question.

On behalf of the Board of Directors, I would like to thank you, our clients, our people, our suppliers, and other stakeholders for your unwavering support and loyalty. I would also like to thank you, our shareholders, for your continuing trust and faith in the Board, the Management, and staff of BOF. I congratulate each and every member of the BOF Family for a commendable performance which is supported by this annual report. Your dedication, determination, motivation, and willingness to go above and beyond are truly inspiring.

To the readers of this annual report, I invite you to learn more about the bank's products and services. As a local rural bank, BOF understands your unique needs and designs its offerings to meet them.

As the world begins to open its borders towards the end of the pandemic, BOF humbly welcomes you through its doors and see the opportunities that await you. Hope is where you will find banking with us. Together, we can continue building homegrown success in Central Luzon.

Atty. Ma. Fides Andin-Balili
Chairperson of the Board

Message from the President and CEO

"Great things in business are never done by one person, they're done by a team of people. -Steve Jobs"

Our success is not only ours, but yours as well. As we look back on the obstacles and hurdles we encountered in 2022, it is truly inspiring that we have reached greater heights amidst the economic decline brought by the COVID-19 pandemic.

As the saying goes, "sharing is caring". Our Competence, Accountability, Responsibility, Integrity, Nurturing, and God-driven values have always been our foundation. Rooted in our brand essence, "building homegrown success with you", our achievements are meant to be shared as we built this together. We do not only owe it to ourselves but to our clients, the Micro, Small, and Medium Enterprises (MSMEs). BOF's achievements are more than giving hope and inspiration to the local businesses. We show their potential to progress, and how they contribute to the countryside development. Our success is due to our employees and clients who we have continuously treated as family.

To our BOF Family, I would like to express my immeasurable gratitude for living and epitomizing the brand's pillars and core values. Through your hard work and sincere dedication, you made it possible for us to go above and beyond serving our communities and the whole Central Luzon.

To our esteemed Board of Directors, I humbly thank you for your unrelenting support and guidance, and endlessly motivating us to aim to be the best rural bank in Central Luzon.

To our dearest clients, I would like to convey my greatest appreciation for your continued patronage and for trusting us to know your needs best. Thank you for choosing BOF as the bank you can count on.

The COVID-19 pandemic has reshaped and redefined our whole livelihood. In the vast extent of the financial industry, it has pushed us more to adapt to the immense fast-paced environment. The unanticipated crisis made us face major setbacks, yet we stand strong establishing our adaptability and stability. This propelled us to evolve as a bank, a business, and as a countryside community advocate. From this time forward, various technological progresses have helped us cope with digital advancements. It is time for BOF to take part in these initiatives. BOF continuously develops new products and services to fulfill your unique banking needs.

With all the achievements of the bank, I cannot take full credit for it. I strongly believe in the statement, "A good leader does not pull from the front but pushes from the back." Success relies on the people and not just the president. Optimistic and certain of our employees' capabilities, BOF will continue to strive to work towards our Vision, Mission, and Values (VMV).

For the year 2022, let us look at how the bank performed and how we used our resources to serve you, help your businesses, and contribute to the development of the rural communities in Central Luzon.

Slowly but steadily recuperating from the pandemic, BOF strives to continue to be a bank of hope. Promising to serve with the excellence you need, the warmth and understanding you look for, towards the growth and future you deserve. As the world gradually open its doors, BOF also welcomes you to its branches.

On behalf of BOF, we are eternally grateful for your support and patronage. Together, let us seize the opportunities that await us in 2023. We look forward to continuing building homegrown success with you.

Once again, thank you very much and may God bless us all.

Susan Jesusa David-Nunga
President and CEO

Bank Performance and Review of Operations

Proceeding with BOF's 2022 President's Report, I am glad to present this year's outstanding performance. With the imminent ease of the global crisis, we were able to recover and surpass expectations. This then shows the stability of BOF through its steadfast ranking as one of the leading rural banks in Central Luzon.

We continue to remain optimistic as safety regulations ease and the world's borders slowly open. The industry looks forward to the rebound of the economy pre-pandemic or perhaps better. Notwithstanding, the bank should always be prepared for unanticipated events and adapt to new circumstances especially in this field.

Persevering through the near end of the adversity, the bank showcased favorable outcomes as shown below.

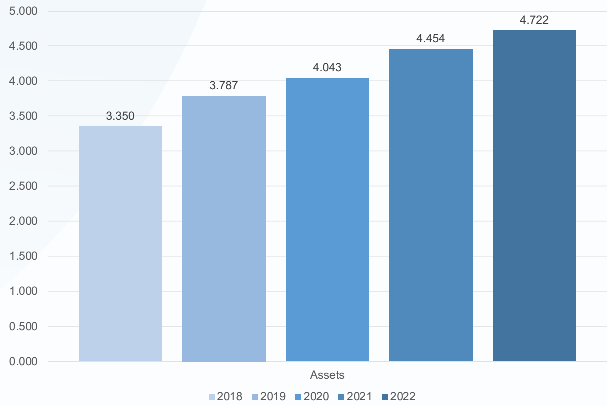
Financial Highlights
IN MILLIONS PHP

Particulars	2020	2021	2022
Net Income	44	90	109
Capital	678	756	849
Return on Equity	6.76%	12.58%	13.70%
Total Resources	4,043	4,454	4,722
Return on Assets	1.13%	2.12%	2.35%
Loan Portfolio	2,763	3,219	3,392
Deposit Liabilities	3,227	3,478	3,726
Past Due	166	241	385
Past Due Ratio	6.09%	7.56%	11.45%
NPL	134	170	275
NPL Ratio	4.91%	5.33%	8.17%

Due to the pandemic, we experienced a significant decline in our economic performance that began in March 2020. However, through our collective efforts, we were able to recover and continue to prove our resiliency amidst challenges.

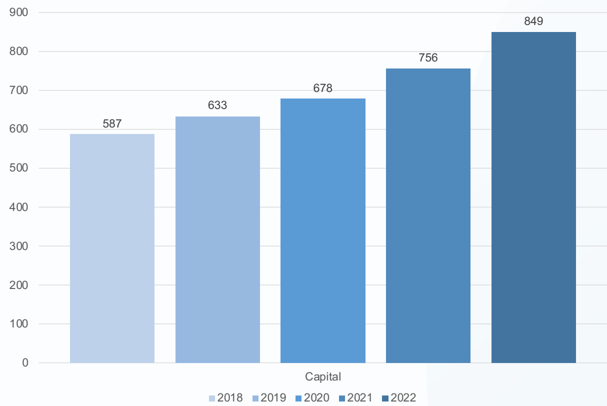
Corroborating this, the bank has garnered above standard numbers based on our performance indicators. The data proved that BOF financial performance remained to be strong and flourishing in 2022.

Assets



Through the years, we have been consistent in boosting our assets and as the year ended, our total assets stood at PhP 4.722 billion as of December 31, 2022. This shows an increase of PhP 268 million, or a 6.03% growth compared to our total assets in 2021 of 4.454 billion.

Capital

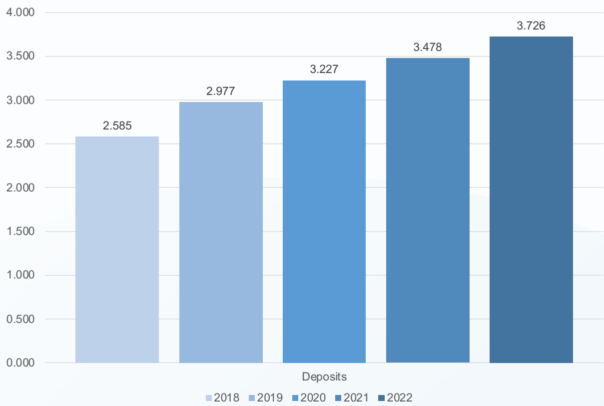


BOF's total capital remained strong in 2022. Our total net worth stood at PhP 849 million by the end of 2022. This presents a growth of PhP 93 million or a 12.27% increase compared to our total capital in 2021 of PhP 756 million.

Despite facing a new circular which states the higher capitalization requirements for rural banks, BOF remains unfazed. BOF has more than the required capital from BSP to operate as a rural bank boosting the company's position.

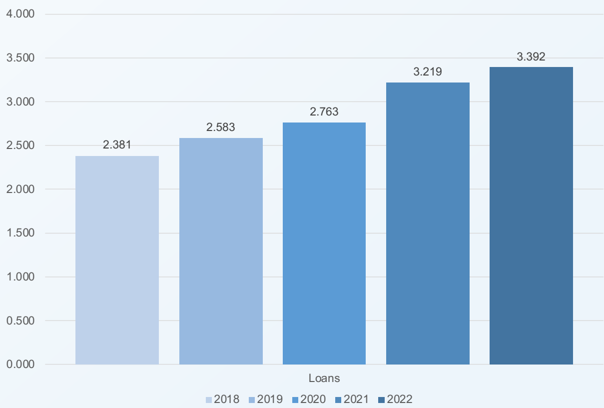
Moreover, the bank's numbers show how well BOF is recuperating in the midst of the economic decline brought by the COVID-19 pandemic over the last few years.

Deposits



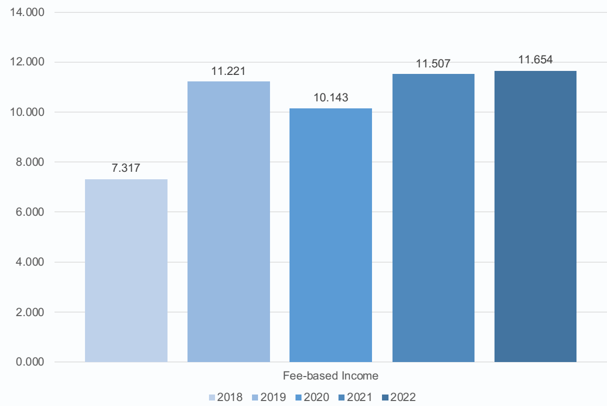
The total deposits of BOF as of December 31, 2022, stood at PhP 3.726 billion. This shows an increase of PhP 248 million or a 7.13% growth compared to our total deposits in 2021 of PhP 3.478 billion.

Loans



The bank's gross loan portfolio closed at PhP 3.392 billion by the end of December 2022. This presents a growth of PhP 173 million or 5.37% increase compared to our gross loan portfolio in 2021 of PhP 3.219 billion.

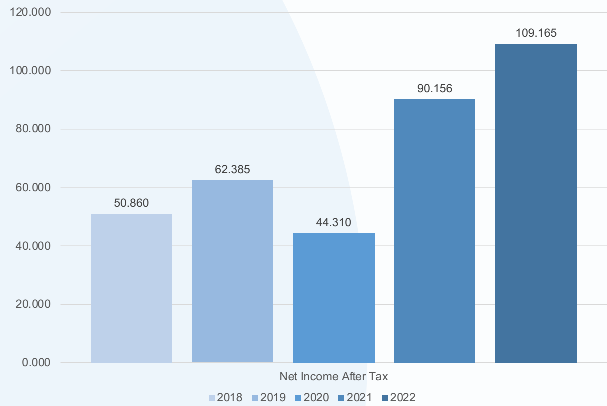
Fee-based Income



For the year 2022, our fee-based income increased to PhP 11.654 million, equivalent to 1.28% growth rate as compared to our fee-based income in 2021 amounting to PhP 11.507 million.

Fee-based income comprises of bank commissions from PeraHub, Moneygram, BDO Remit, Insurance, ECPay, PESONet, and Automated Teller Machines (ATMs). Other contributors to this fee-based income are the service charges on Checking Accounts, Branch Transactions, and Loans.

Net Income After Tax



Our Net Income After Tax (NIAT) increased to PhP 109.165 million in 2022 as compared to PhP 90.156 million in 2021. This increase of PhP 19 million resulted in a growth of 21.08% and is largely due to the the one-time income of PhP 25.8 million from the sale of our Malayan Plaza Commercial Unit.

Bangko Sentral ng Pilipinas Rankings

	Nationwide (out of 403 RCBs)	Regional (out of 66 RCBs)
Assets	10	2
Capital	10	2
Deposits	9	2
Loans	6	2

BOF remains to be one of the top-performing rural banks in the country in 2022. As the bank continues to grow and further stabilizes its position in the industry, BOF is optimistic in seeing itself rise beyond its current rankings in the future.

With the company's progressive run in 2022, as of December 31, 2022, the bank has been ranked 10th in total assets, 10th in total capital, 9th in total deposits, and 6th in total loans out of 403 Rural and Cooperative Banks (RCBs) nationwide. On the regional aspect, the bank consistently ranked 2nd out of 66 RCBs in all aspects.

BOF's Ongoing Projects

SmartSavings

BOF is continuously working on its branded Automated Teller Machine (ATM) and debit card, SmartSavings.

We have partnered with BancNet, the Philippines' single ATM switch operator. BancNet is a multi-Bank, multi-channel electronic payments network that enables its members' customers to transact not only at ATMs but also at Point-of-Sale (POS) terminals, and mobile phones.

On June 29, 2022, BOF visited the BancNet headquarters to hold the Key Injection Ceremony. BOF officers and representatives from BancNet successfully executed the Hardware Security Module (HSM) Key-in. The process was carried out to ensure data security, cryptographic processing, and key management during interbank and intrabank ATM transactions.

Aside from the traditional cash withdrawal service at the ATM, the ATM project provides a wide range of services through different channels, such as balance inquiry, checkbook reorder, statement request, interbank fund transfer, and payment of bills.

This milestone will be advantageous to the rural communities as their money becomes more accessible to them.

Core Banking System

On September 13, 2022, the bank marks its first year on cloud with our Core Banking System (CBS) provider, Nucleus Software Exports Limited (NSEL). Initially onboarding with FinnOne, BOF subscribed to cloud computing to provide users with access via the internet and engaged with FinnOne Neo Corporate.

FinnOne Neo Corporate is an end-to-end digital lending solution that delivers the business agility required in lending to small to medium enterprises. The technologically advanced solution enriched with Nucleus Software's deep domain experience helped the bank manage the complete loan lifecycle from origination to servicing and delinquency management.

More so, with this initiative, BOF will be able to provide the latest banking services to our clients such as ATMs, Mobile Banking System, InstaPay, and PESONet.

Human Resources Information System

Part of the continual improvement of our systems to enable the adoption of smart digital solutions in BOF is the use of a Human Resources Information System (HRIS) through BOF's accredited provider, Hurey Software Technologies, Inc. (HSTI).

Through the use of a web-based module, the said system could be easily accessed through mobile phones, tablets, and computers. It also is programmed to maintain, manage, and process detailed employee information and human resources-related policies and procedures not limited to attendance and timekeeping, payroll processing systems, etc.

Microsoft 365

With privacy and security being the utmost priority of the bank, BOF migrated to the Microsoft 365 software in March 2022. This allows employees to save and access their files securely and backed up on the cloud. From Outlook for emails, to OneDrive and SharePoint for documents, to Teams for instant collaborative messaging, everything is correlated to the Microsoft eco-system making it convenient and secure for the company to run its operations.

BOF Corporate Center

In 2023, one of the bank's milestone projects, the BOF Corporate Center (CorCen), will be the new home to its flagship branch and executive office.

Boasting a prime location, the CorCen sits along Jose Abad Santos Avenue corner the North Luzon Expressway (NLEX) exit.

Embodying BOF's rebranding, the bank kept its intention to deviate from the traditional corporate banking environment and brought a whole new modern familial banking experience incorporating Filipino elements in the branch and office. In line with our theme, building homegrown success with our clients, we worked with Nestor S. Mangio & Associates (NSMA) for the interiors. Led by our Rebranding Project Head and Assistant Vice President for Corporate Support Group, Zabrina D. Nunga, they were able to modernize and redefine the homey ambiance BOF is known for. Together, they conceptualized ideas that would make the branch more welcoming and professional while still staying true to our iconic home-like design and differentiating ourselves from the norms in the industry.

It is our utmost priority to make everyone feel at home. At BOF, clients and employees are not only bounded by business matters but treated as family.

Employee Engagements

Behind the success of every company is its workforce. Yet in BOF, employees are more than that. At the heart of the company lies the journey of each employee from their humble beginnings to their progress towards promotions. Through BOF's Seminars, Trainings, and Workshops (STWs) each of them has the opportunity to hone their skills and learn from the industry experts. The company recognizes the importance of investing on its employees and rewarding them for their hard work.

In 2022, BOF conducted the following employee engagement activities:

1. State of the Bank Address (SOBA)

   BOF conducts the SOBA annually to present the bank's performance and announce the targets for the following year. The 2022 SOBA was conducted on February 5, 2022, at Ephatha Development Center.

2. Sales Jumpstart

   The 2022 Sales Jumpstart took place at Gerly's Place Hotel & Resort on March 5, 2022, facilitated by spouses, Mr. Mike and Mrs. Jenny Ortega. This program aims to support, motivate, and coach BOF's salespeople on achieving their annual targets.

3. Splash Time in July

   For the 2022 company-wide outing, BOF had it in Clearwater Resort & Country Club last July 23, 2022.

4. Foreign Incentive Trip (FIT)

   This trip is contingent on the bank's annual performance and is awarded to officers who had outstanding performances and top-performing salespeople. For 2022, the chosen destination for the FIT was Bangkok, Thailand.

5. Strategic Planning (StratPlan)

   The three-day annual StratPlan was conducted in Hotel Gracelane and Greene Manor last September 30, October 1, and October 8, 2022, facilitated by Spiderhook, Inc.

6. Employee Excellence Awarding Ceremony (EEAC)

   BOF recognizes the importance of acknowledging the hard work and contribution of its employees. This leads to the quarterly EEAC which serves as a platform to award the bank's remarkable employees.

7. First Friday Masses

   BOF has been conducting First Friday Masses for almost two (2) decades. The virtue of faith and spirituality is deeply etched at the bank's core values.

8. Christmas Party

   The first face-to-face Christmas Party in three (3) years was conducted at Otel Pampanga last December 3, 2022, with the theme Wild, Wild, West!

Corporate Social Responsibility

BOF is a rural banking institution that is deeply rooted in the communities it serves. Connected to its Unique Value Proposition (UVP) of shared growth and epitomizing its core values, C-A-R-I-N-G or Competence, Accountability, Responsibility, Integrity, Nurturing, and God-driven, the bank acts on its key role in helping the development of the region by giving back and sharing its resources to the community through its Corporate Social Responsibility (CSR) projects.

Financial Report

Financial Highlights

	2022	2021
Profitability		
Total Net Interest Income	**265,382,271**	268,891,490
Total Non-Interest Income	**134,258,578**	76,373,867
Total Non-Interest Expenses	**214,750,594**	175,838,259
Pre-Provision Profit	**184,890,255**	169,427,098
Allowance for Credit Losses	**42,371,286**	59,574,123
Net Income	**109,164,712**	90,156,203
Selected Balance Sheet Data		
Liquid Assets	**1,069,419,876**	1,025,388,362
Gross Loans	**3,391,607,152**	3,218,774,940
Total Assets	**4,722,315,679**	4,453,819,336
Deposits	**3,726,485,325**	3,478,348,163
Total Equity	**848,683,883**	755,947,263
Selected Ratios		
Return on Equity	**13.70%**	12.58%
Return on Assets	**2.35%**	2.12%
Capital Adequacy Ratio	**17.17%**	16.21%
Others		
Cash Dividends Declared	**20,000,000**	12,000,000
Headcount		
Officers	**44**	49
Staff	**138**	136
Total	**182**	185

Financial Report

Capital Structure and Adequacy

	2022		2021	
	Reported to BSP	Audited Financial Statements	Reported by BSP	Audited Financial Statements
Tier 1 Capital	795,779,805	790,348,258	710,784,917	701,241,895
Tier 2 Capital	35,707,783	36,729,176	34,056,266	34,056,266
TOTAL QUALIFYING CAPITAL	**831,487,589**	**827,077,434**	**744,841,183**	**735,298,161**
Credit Risk-Weighted Assets	4,424,222,921	4,423,954,466	4,206,160,048	4,188,101,879
Operational Risk-Weighted Assets	393,097,252	393,097,252	349,185,756	349,185,756
Market Risk-Weighted Assets	-	-	-	-
TOTAL RISK-WEIGHTED ASSETS	**4,817,320,173**	**4,817,051,718**	**4,555,345,804**	**4,537,287,635**
CAPITAL REQUIREMENTS FOR CREDIT RISK	**442,422,292**	**442,395,447**	**420,616,005**	**418,810,188**
CAPITAL REQUIREMENTS FOR OPERATIONAL RISK	**39,309,725**	**39,309,725**	**34,918,576**	**34,918,576**
CAPITAL REQUIREMENTS FOR MARKET RISK	**-**	**-**	**-**	**-**
TIER 1 CAPITAL ADEQUACY RATIO	**16.52%**	**16.41%**	**15.60%**	**15.46%**
TOTAL CAPITAL ADEQUACY RATIO	**17.26%**	**17.17%**	**16.35%**	**16.21%**

Total Tier 1 Capital				
Paid-up Common Stock	386,732,320	386,732,320	386,732,320	386,732,320
Additional Paid-up Capital	33,166,673	33,166,673	33,166,673	33,166,673
Retained Earnings	303,866,000	303,865,999	233,534,887	233,534,887
Undivided Profits	114,437,963	109,164,712	88,285,369	90,156,203
GROSS AMOUNT	**838,202,956**	**832,929,704**	**741,719,249**	**743,590,083**
Deductions:				
Deferred Tax Asset Net of Deferred Tax Liabilities	42,423,150	42,581,446	30,934,332	42,348,188
TOTAL TIER 1 CAPITAL	**795,779,805**	**790,348,258**	**710,784,917**	**701,241,895**

Total Tier 2 Capital				
Appraisal Increment Reserve-Bank Premises	14,299,510	15,320,903	14,474,419	14,474,419
General Loan Loss Provision	21,408,274	21,408,274	19,581,847	19,581,847
TOTAL TIER 2 CAPITAL	**35,707,783**	**36,729,176**	**34,056,266**	**34,056,266**

Notes:

Under the existing banking regulations, the Capital Adequacy Ratio (CAR) for stand-alone rural banks shall not be less than 10% of the qualifying capital to the risk-weighted assets which includes the credit risks, operational risks, and market risks.

Computed Risk-Based CAR Report submitted to the BSP is slightly different against the Audited Financial Statements due to the adjusting Journal Entries made relative to the Retirement Benefit Obligation, Revaluation Surplus, and related Deferred Taxes as the result of external audit engagement.

Statement of Management's Responsibility for Financial Statements

The Management of BOF, Inc. (A Rural Bank) (the "Bank') is responsible for the preparation and fair presentation of the financial statements including the schedules attached therein, for the years ended December 31, 2022 and 2021, in accordance with the 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 going concern, disclosing, as applicable matters related to going concern and using the going concern basis of accounting unless Management 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.

R.S. Bernaldo & Associates, the independent auditor appointed by the stockholders for the years ended December 31, 2022 and 2021, have audited the financial statements of the Bank in accordance with Philippine Standards on Auditing, and in their reports to the stockholders, have expressed their opinions on the fairness of presentation upon completion of such audit.

Atty. Ma. Fides Andin-Balili
Chairperson of the Board

Susan Jesusa David-Nunga
President and CEO

Rona Q. Binuya
Treasurer

Independent Auditors' Report (1/4)

PKF R.S. Bernaldo & Associates

INDEPENDENT AUDITORS' REPORT

The Board of Directors and the Stockholders
BOF, INC. (A RURAL BANK)
Mc Arthur Hi-way, Dolores
City of San Fernando, Pampanga

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of **BOF, INC. (A RURAL BANK)** (the "Bank"), which comprise the statements of financial condition as at 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 statement, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial condition 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 Opinion

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

BOA /PRC No. 0300 • BIR Accredited • SEC Group A Accredited • BSP Group B Accredited • IC Accredited
18/F Cityland Condominium 10 Tower 1, 156 H.V. dela Costa Street, Ayala North , Makati City, Philippines 1226
Tel: +632 8812-1718 to 22 **Email:** rsbassoc@pkfrsbernaldo.com **www.pkfrsbernaldo.com**

Independent Auditors' Report (2/4)

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

Management is responsible for the preparation and fair presentation of the financial statement in accordance with PFRSs, 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.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with PSAs will always detect a material misstatement when it exists. Misstatement 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.

Independent Auditors' Report (3/4)

- 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 auditors' 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 auditors' report. However, future events or conditions may cause the Bank to cease to continue as a going concern.

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

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

Report on Other Legal and Regulatory Requirements

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information required by BSP Circular No. 1074 and Revenue Regulations No. 15-2010 and 19-2011 in Notes 37, 38, and 39, respectively, to the financial statements, is presented for purposes of filing with Bangko Sentral ng Pilipinas and Bureau of Internal Revenue and is not a required part of the basic financial statements. Such information is the responsibility of the Management of **BOF, INC. (A RURAL BANK)**. The information has been subjected to the auditing procedures applied in our audits of the basic financial statements. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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Independent Auditors' Report (4/4)

R.S. BERNALDO & ASSOCIATES
BOA/PRC No. 0300
Valid until May 28, 2024
SEC Group A Accredited
Accreditation No. 0300-SEC
Valid until 2024 audit period
BSP Group B Accredited
Accreditation No. 0300-BSP
Valid until 2026 audit period
BIR Accreditation No. 08-007679-000-2023
Valid from January 31, 2023 until January 30, 2026
IC Group A Accredited
Accreditation No. 0300-IC
Valid until 2026 audit period

ANTHONY D. PAÑO
Partner
CPA Certificate No.141730
SEC Group A Accredited
Accreditation No. 141730-SEC
Valid until 2025 audit period
BSP Group C Accredited
Accreditation No. 141730-BSP
Valid until 2025 audit period
BIR Accreditation No. 08-007679-000-2022
Valid from March 30, 2022 until March 29, 2025
Tax Identification No. 415-160-393
PTR No. 9567818
Issued on January 4, 2023 at Makati City

March 21, 2023

Statements of Financial Condition

	Notes	2022	2021
ASSETS			
Cash and other cash items	6	**44,752,107**	54,339,237
Due from Bangko Sentral ng Pilipinas	6	**103,312,265**	134,741,006
Due from other banks	6	**740,934,445**	744,673,671
Financial assets at fair value through profit or loss	7	**10,331,059**	16,292,678
Other financial assets at amortized cost	8	**170,090,000**	75,341,770
Loans and Receivables - Net	9	**3,198,387,194**	3,034,187,452
Bank Premises, Furniture, Fixtures, and Equipment - Net	10	**175,354,863**	114,324,964
Right-of-use Assets - Net	11	**94,611,459**	94,107,164
Investment Properties - Net	12	**50,024,161**	108,511,348
Assets Held for Sale	13	**57,089,722**	-
Retirement Asset - Net	26	**1,304,893**	-
Deferred Taxes - Net	30	**42,581,445**	42,348,188
Other Assets - Net	14	**33,542,066**	34,951,858
TOTAL ASSETS		**4,722,315,679**	4,453,819,336
LIABILITIES AND STOCKHOLDERS' EQUITY			
LIABILITIES			
Deposit Liabilities	16	**3,726,485,325**	3,478,348,163
Bills Payable	17	**-**	70,000,000
Dividends Payable	23	**3,919,285**	3,389,013
Income Tax Payable		**10,146,969**	13,810,691
Lease Liabilities	18	**103,998,831**	100,555,734
Retirement Liabilities - Net	26	**-**	903,350
Other Liabilities	19	**29,081,386**	30,865,122
TOTAL LIABILITIES		**3,873,631,796**	3,697,872,073
STOCKHOLDERS' EQUITY			
Common Stock	21	**386,732,320**	386,732,320
Additional Paid-in Capital	21	**33,166,673**	33,166,673
Revaluation Surplus	22	**15,320,903**	14,474,419
Remeasurement losses on retirement liabilities - Net	26	**(241,477)**	(2,717,031)
Surplus Free		**413,705,464**	324,290,882
TOTAL STOCKHOLDERS' EQUITY		**848,683,883**	755,947,263
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY		**4,722,315,679**	4,453,819,336

Statements of Comprehensive Income

	Notes	2022	2021
INTEREST INCOME			
Loans and Receivables	9	**288,401,556**	286,435,121
Due from other banks	6	**12,714,910**	11,270,668
Financial assets at fair value through profit or loss	7	**465,020**	706,562
Other financial assets at amortized cost	8	**4,858,005**	3,144,250
		306,439,491	301,556,601
INTEREST EXPENSE			
Deposit Liabilities	16	**38,368,620**	30,729,254
Bills Payable	17	**205,208**	88,125
Lease Liabilities	18	**2,483,392**	1,847,732
		41,057,220	32,665,111
NET INTEREST INCOME		**265,382,271**	268,891,490
PROVISION FOR CREDIT AND IMPAIRMENT LOSSES	15	**42,371,286**	59,574,123
NET INTEREST INCOME AFTER PROVISION FOR CREDIT AND IMPAIRMENT LOSSES		**223,010,985**	209,317,367
OTHER INCOME - NET	24	**134,258,578**	76,373,867
TOTAL OPERATING INCOME		**357,269,563**	285,691,234
OPERATING EXPENSES	25	**214,750,594**	175,838,259
INCOME BEFORE TAX		**142,518,969**	109,852,975
INCOME TAX EXPENSE	29	**33,354,257**	19,696,772
NET INCOME		**109,164,712**	90,156,203
OTHER COMPREHENSIVE INCOME			
Item that will not be reclassified subsequently to profit or loss:			
Remeasurement - Net	26	**2,475,554**	-
Revaluation Surplus - Net	30	**1,096,354**	74,961
TOTAL COMPREHENSIVE INCOME		**112,736,620**	90,231,164

Statements of Changes in Equity

	Notes	Common Stock	Additional Paid-in Capital	Revaluation Surplus	Remeasurement Losses on Retirement Liabilities - Net	Surplus Free	Total
Balance, January 1, 2021		386,732,320	33,166,673	14,649,328	(2,717,031)	245,884,809	**677,716,099**
Net Income						90,156,203	**90,156,203**
Cash Dividends Declared	23					(12,000,000)	**(12,000,000)**
Piecemeal realization of revaluation surplus	10			(249,870)		249,870	-
Revaluation Surplus - Net	10, 30			74,961			**74,961**
Balance, December 31, 2021	10, 23, 30	**386,732,320**	**33,166,673**	**14,474,419**	**(2,717,031)**	**324,290,882**	**755,947,263**
Net Income						109,164,712	**109,164,712**
Cash Dividends Declared	23					(20,000,000)	**(20,000,000)**
Piecemeal realization of revaluation surplus	10			(249,870)		249,870	-
Revaluation Surplus - Net	10, 30			1,096,354			**1,096,354**
Remeasurement - Net	26				2,475,554		**2,475,554**
Balance, December 31, 2022		**386,732,320**	**33,166,673**	**15,320,903**	**(241,477)**	**413,705,464**	**848,683,883**

Statements of Cash Flows

	Notes	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit Before Tax		142,518,969	109,852,975
Adjustments for:			
Provision for credit and impairment losses	15	42,371,286	59,574,123
Depreciation	28	28,251,883	27,164,199
Write-off of bad debts	9, 25	9,534,630	1,255,809
Retirement Benefit Expense	25, 26	9,301,268	3,962,205
Interest Expense	17, 18	2,688,600	1,935,857
Unrealized loss (gain) on financial assets at FVTPL and due from other banks	6, 7, 24	973,930	919,814
Write-off of investment	7, 25	3,000	-
Interest income from financial assets at FVTPL	7	(465,020)	(706,562)
Recovery on Charged-off Assets	9, 24	(2,718,676)	(1,254,863)
Interest income from financial assets at amortized cost	8	(4,858,005)	(3,144,250)
Gain on Reversal of Impairment Loss	10, 12, 24	(9,414,551)	-
Interest income from due from other banks	6	(12,714,910)	(11,270,668)
Loss (Gain) on sale of bank premises, furniture, fixtures, and equipment	10, 24	(31,761,021)	4,493
Gain on sale of investment properties	12, 24	(58,655,496)	(41,593,522)
Operating cash flows before changes in working capital		115,055,887	146,699,610
Decrease (Increase) in Operating Assets:			
Loans and Receivables		(230,412,178)	(494,790,102)
Other Assets		1,293,580	(13,338,437)
Increase (Decrease) in Operating Liabilities:			
Deposit Liabilities		248,137,162	251,624,578
Other Liabilities		(1,755,611)	(8,574,881)
Net cash generated from (used in) from operations		132,318,840	(118,379,232)
Interest Received	6, 7, 8	18,037,935	15,121,480
Contributions to Plan Assets	26	(8,208,772)	(2,595,264)
Income Tax Paid		(36,980,067)	(29,958,681)
Net cash (used in) from operating activities		105,167,936	(135,811,697)
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from disposal of investment properties	12	73,768,843	56,701,778
Proceeds from disposal of bank premises, furnitures, fixtures, and equipment	10	50,000,001	9,858
Matured investment in FA at amortized cost	8	5,251,770	45,000,000
Matured investment in FA at FVTPL	7	5,000,000	-
Acquisition of bank premises, furnitures, fixtures, and equipment	10	(85,398,211)	(36,487,183)
Additional investments at FA at amortized cost	8	(100,000,000)	-
Net cash from (used in) investing activities		(51,377,597)	65,224,453
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from availment of bills payable	17	10,000,000	70,000,000
Interest paid on bills payable	17	(233,333)	(60,000)
Final Tax Paid	23	(1,191,099)	(718,704)
Interest paid on lease liabilities	18	(2,483,392)	(1,847,732)
Payment of Lease Liabilities	18	(6,343,672)	(6,218,993)
Dividends Paid	23	(18,278,629)	(10,920,043)
Payment of Bills Payable	17	(80,000,000)	(30,000,000)
Net cash from (used in) financing activities		(98,530,125)	20,234,528
NET EFFECTS OF FOREIGN EXCHANGE RATE CHANGES ON CASH	6	(15,311)	468,451
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENT		(44,755,097)	(49,884,265)
CASH AND CASH EQUIVALENT AT BEGINNING OF YEAR		933,753,914	983,638,179
CASH AND CASH EQUIVALENT AT END OF YEAR		888,998,817	933,753,914

Risk Management Framework

Risk Management Culture and Philosophy

BOF recognizes the existence of risk in the banking sector, that if disregarded it could bring adverse impact on the capital, earnings, or viability of the bank which may result to imposition of constraints on the bank's ability to meet its goal. As a growing institution, we may face challenges associated with risks, but with our Board of Directors (BOD) who oversees the plans and strategies of the bank as well as the management of risk, and the Executive Management who effectively implements policies, guidelines, and procedures related to risk management, we can identify, monitor, and mitigate potential risks.

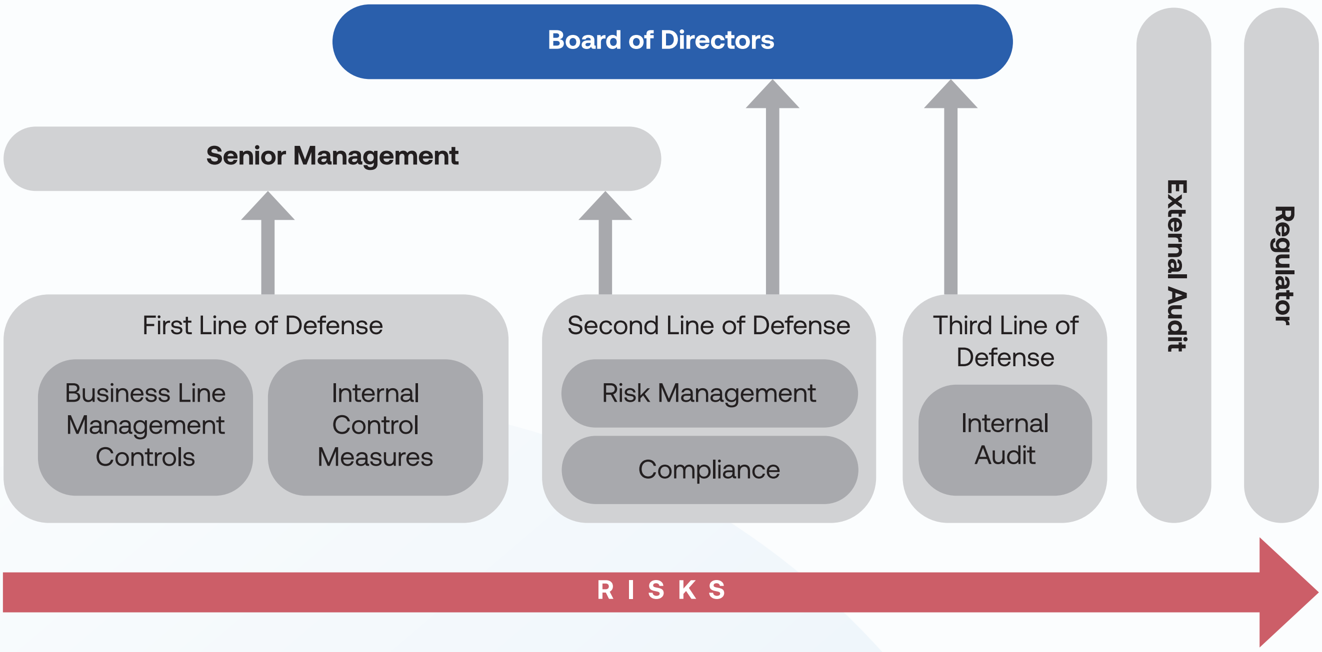
Risk Appetite Strategy

BOF acknowledges the risk associated in the conduct of business. It shall aggressively pursue its business goals within the moderate risk appetite to support its vision of being the bank of choice of Micro, Small, and Medium Enterprises (MSMEs) in Central Luzon. BOF has identified its top five (5) potential risks together with their respective risk champions and designates to ensure that such are being monitored and mitigated and enable the bank to continue business operations.

Risk	Description	Risk Champions	Risk Designates
1. Credit Sales and Credit Process	This risk generally arises from counterparty's failure to meet the terms of any contractor otherwise perform as agreed, all activities where success depends on counterparty, issuer or borrower performance and when funds are extended, committed, invested, or otherwise exposed through actual or implied contractual agreements, whether reflected on or off the balance sheet. Credit risk is not limited to the loan portfolio. It is the inability to review and analyze requests for credit to determine likelihood of repayment, in accordance to BOF's Five (5) Cs (Capacity, Capital, Collateral, Character, and Condition).	Senior Executive Vice President (SEVP) for Lending Group (LG) Senior Executive Vice President (SEVP) for Credit Management Group (CMG)	Lending Group (LG) Head Credit Management Group (CMG) Head
2. Competitiveness	This risk arises from the inability and non-performance of the Bank to identify its brand and/or Unique Value Proposition (UVP), sell, offer, and develop products and services, in relation to the ability and performance of the competitors in the area of operations.	Corporate Support Group (CSG) Head	Marketing Department (MkD) Head
3. Business Continuity Planning (BCP)	This risk arises from the failure to undertake appropriate advanced planning related to critical processes to ensure the ability to recover and maintain business operations in the event of a disruption due to physical or natural circumstance.	Information Technology Group (ITG) Head Accounting and Finance Group (AFG) Head	Branch Banking Group (BBG) Head Treasury (TrD) Head
4. Information Technology Management & Continuity	This risk arises from failure to prioritize technology initiatives and effectively allocate and direct IT resources in order to achieve the strategic corporate goals and objectives.	Information Technology Group (ITG) Head	Solutions Support Department (SSD) Head
5. Human Resources Recruitment & Retention	This is the failure to recruit and retain qualified employees to ensure optimal staffing levels in a balanced workforce environment.	Human Resources (HR) Head	Human Resources (HR) Manager

Risk Governance Structure

The three (3) lines of defense identify, assess, and mitigate risks; implementing corrective actions and maintaining internal controls.



Risk Management Process

Risk Management is inherent to each and every employee of the bank and is being applied in their own respective positions in the bank, guided by the Policies, Guidelines, and Procedures (PGPs) duly approved by the Board of Directors or the Executive Committee.

The Audit, Risk, and Compliance Committee (ARCC) supports the Board in overseeing the risk management of the bank. The Board approves policies related to risk management. To ensure compliance with these policies and to mitigate risk related to business operations, the Internal Audit Department (IAD) and Risk and Compliance Department (RCD) conducts audit and compliance testing, respectively. All risk issues are reported by the IAD and RCD to the ARCC with accompanying recommendations for the improvement and enhancement of risk mitigation and control.

Enhancements on the risk management process can also be recommended by any Group, Department, and Strategic Banking Unit (GDS) through the Board-Level Committees for approval of the Board of Directors.

The Board of Directors approves the enhancements and new risk strategies with the aim to effectively manage risk without sacrificing the bank's profits.

Anti-Money Laundering (AML) Governance and Culture

The Compliance Officer under the oversight of the Audit, Risk, and Compliance Committee (ARCC) and the Board of Directors is responsible for enforcing BOF's Anti-Money Laundering/Combating Financing Terrorism (AML/CFT) Program and Combating Proliferation Financing (CPF) in accordance with the Anti-Money Laundering Act (AMLA), as amended, Terrorism Financing Prevention and Suppression Act (TFPSA) and the Anti-Terrorism Act (ATA), and their Implementing Rules and Regulations (IRR).

BOF has established its risk-based Money Laundering and Terrorist Financing Prevention Program (MTPP) which is geared towards the promotion of high ethical and professional standards to prevent the bank of being used, intentionally or unintentionally, for money laundering and terrorist financing activities. Along with the MTPP are the Policies, Guidelines, and Procedures (PGPs) which shall be the guide of the Executive Management and employees in combating Money Laundering/Terrorist Financing (ML/TF) and to ensure that associated risks such as reputational, operational, and compliance risks are identified, assessed, monitored, mitigated, and controlled.

The program embodied the following detailed procedures on compliance and implementation of the major requirements of the Anti-Money Laundering Act (AMLA):

1. Customer Identification

   BOF has a Board approved Policies, Guidelines, and Procedures (PGPs) in identifying and verifying the true identity of its client including the risk assessment criteria for clients based on the different factors such as the following:

   1.1. Nature of the service or product to be availed by the customers and the purpose of the account or transaction;

   1.2. Background, source of funds and/or nature of business activities;

   1.3. Public or high profile position of the customer or its directors/trustees, stockholders, officers and/or authorized signatory;

   1.4. Country of origin and residence or operations or the fact that a customer came from a high risk jurisdiction;

   1.5. The existence of suspicious transaction indicators;

   1.6. Linked account or services to be availed;

   1.7. Watch list of individuals and entities engaged in illegal activities or terrorist-related activities as circularized by the following:

      1.7.1. Bangko Sentral ng Pilipinas (BSP);

      1.7.2. Anti-Money Laundering Council (AMLC);

      1.7.3. Anti-Terrorism Council (ATC);

      And other international entities or organizations such as the:

      1.7.4. Office of Foreign Assets Control (OFAC) of the U.S. Department of the Treasury;

      1.7.5. United Nations Security Council (UNSC) List; and

   1.8. Such as other factors, e.g., the amount of funds to be deposited by a customer or the size of transactions, and regularity or duration of the transaction, as the covered person may deem reasonable or necessary to consider in assessing the risk of a customer to ML/TF.

2. Record Keeping and Retention

   All identification and transaction records of the clients are maintained and safely stored as long as the account exists, including all unusual or suspicious patterns of account activity whether or not a Suspicious Transactions Report (STR) was filed with the Anti-Money Laundering Council (AMLC). BOF maintains and safely stores as well the identification and transaction records of closed and terminated accounts for five (5) years from the date of transaction.

3. Covered and Suspicious Transaction Reporting

   Concerned Groups, Departments, and Strategic Banking Units (GDS) identify all Covered Transactions (CTs) and Suspicious Transactions (STs) and are reported to the Risk and Compliance Department (RCD) for submission to the AMLC. The bank ensures that the identification, monitoring, and reporting mechanisms are in place to ascertain that reports are submitted within the prescribed period.

4. Targeted Financial Sanctions (TFS)

   The RCD is the designated department primarily responsible for ensuring TFS compliance and timely implementation or necessary actions on identified potential target match and target watch.

   Sanction Screening is done as follows:

   4.1. Upon onboarding of client or prior to first transaction;

   4.2. Whenever there are updates to the client's information such as change of Ultimate Beneficial Owner, authorized signatories, or change in the names of clients; and

   4.3. Whenever new designations or updates are issued.

   Financial Sanctions can be asset freezes and/or prohibition against dealing.

5. Anti-Money Laundering (AML) Seminar and Training Program

   BOF's annual AML Seminars and Training Programs are aimed at providing all its responsible officers and employees with efficient, adequate, and continuous education to enable them to fully and consistently comply with all their obligations in accordance with the AMLA, as amended and its Revised Implementing Rules and Regulations (RIRR).

   BOF employees are required to attend the Seminars, Trainings, and Workshops (STWs) under the Money Laundering/Terrorism Financing Prevention Program (MTPP) particularly on customer identification process, record keeping requirements, and CT/ST reporting and ample understanding of the internal processes including the chain of command for reporting and investigation of suspicious and money laundering activities.

   An annual refresher seminar among the Board of Directors, Executive Management, Senior Management, and employees are conducted to ensure that they are informed of new developments and issuances related to the prevention of money laundering and terrorism financing.

6. Institutional Risk Assessment (IRA)

   The bank conducted its first IRA in 2022 and was approved by the Board of Directors. The IRA aims to understand the inherent AML/CFT and TFS risks of the bank, its existing controls to mitigate the inherent risk and get the residual risk. Though the IRA, the bank was to identify gaps on the existing controls and amendment of policies, guidelines, and procedures for the improvement of the bank's AML compliance. The IRA should be updated every two (2) years and is based on BSP's Anti-Money Laundering Risk Rating System (ARRS).

BOF Clients' Stories

A Homegrown Empire

Mr. Gheric Manaloto of RMM Meatshops and Cold Storages

> *Iba sa BOF. BOF looks after all their clients even if they're just small business owners. – Mr. Gheric Manaloto*

From humble beginnings, entrepreneurial spouses Mr. Gheric and Mrs. Rizalyn Manaloto have expanded their homegrown business to a meatshop and cold storage empire in North and Central Luzon. To date, they have more than twenty (20) meatshop branches in Luzon, four (4) cold storages in Pampanga, and thirty-four (34) trucks for deliveries.

Partners in life and business, the couple first established a simple meat trading business, RMM Meatshop, in 2009 with only PhP 200,000.00 as startup capital in Angeles City, Pampanga. In 2013, they earned their first million in profits.

Mr. Manaloto mentioned how grateful he is for BOF taking a chance on their small business. As the couple was just starting out, they knew it would be difficult to secure a loan. Fortunately, BOF saw their potential and granted them the additional capital they needed to grow.

Since then, the couple continued to expand their business and they ventured into cold storage and trucking seeing how this helped their logistics and how it opened more opportunities for them.

Now a household name in the country, RMM Meatshop and Cold Storages continue to be a valued client of BOF since 2014. Mr. Manaloto said, "Despite having access to commercial banks, *iba sa BOF*." He added, "BOF looks after all their clients even if they're small business owners. Also, their loan process is faster. *BOF ang pinakamabilis*."

Mr. Manaloto commended how BOF serves its clients regardless of their size. One of the reasons why the spouses are loyal to BOF is how the bank stays true to its values, its treatment and dedication to servicing its clients, and its fast processing of loans.

In the midst of the COVID-19 pandemic, Mr. Manaloto shared how BOF was able to help the business. They experienced difficulties and setbacks when the Enhanced Community Quarantine (ECQ) in 2020 was first implemented which later extended for a few months. The spouses were ready to face the repercussions of the lockdowns. However, BOF asked what support they needed and willingly granted their request. The assistance that they received from BOF was of big help and the couple was thankful to have BOF to fall back on. The bank genuinely cares about its clients and gives priority to helping them sustain their growth. "*Malaking gaan sa amin*," said Mr. Manaloto. Building their company from the ground up, the couple showed great resilience and unexpectedly reached new heights after the pandemic lockdowns.

"*Ang BOF ang unang nagtiwala at tumulong sa amin nung nagsisimula kami. Kaya hindi kami aalis ng BOF*," Mr. Manaloto mentioned. He looked back on how BOF initially gave them a loan when they started and how BOF was always there for them.

Mr. Gheric and Mrs. Rizalyn Manaloto also pursue different enterprises under various industries. Other than their cold storages and meatshops, they also manage ZSN Trucking, GPM Realty, 30 Dragon Corporation, among others.

BOF remains to empower and support the business goals of its clients from start to its continuous expansion.

A New Beginning

Mrs. Girlie Gulles of Jaela Cashew Trading

From left to right: Girlie Gulles, Jaela Gulles, Renato Gulles

> *"Mas panatag ako sa BOF. - Mrs. Girlie Gulles"*

BOF witnessed the fast growth of Mr. Renato and Mrs. Girlie Gulles' cashew business. Formerly an Overseas Filipino Worker (OFW) in United Arab Emirates (UAE), Mrs. Gulles took a leap of faith in 2018 and went back to the Philippines to start importing cashews in the country after seeing the demand for it. In 2018, she started the Jaela Cashew Trading: Importer and Wholesaler of All Nuts.

Referred by her aunt, Mrs. Gulles inquired for a loan at BOF. She recalled how BOF first helped them in their business journey. After applying, Mrs. Gulles found out about some lost credit cards and fraud transactions resulting in unpaid dues. "*Hindi ko alam na ginagamit na pala yung credit cards ko nung pumunta akong UAE. Nalaman ko na lang after akong sabihan ng BOF.* Thankfully, *natulungan ako ni BOF patunayan na habang nasa UAE ako, may gumagamit ng cards ko sa Pilipinas,*" said Mrs. Gulles. She added, "*Malaking tulong sa akin yung BOF kasi nagtiwala sila.*" BOF goes the extra mile and ensures that the mutual trust between the bank and its clients are kept.

After only a few years, the couple was able to position themselves as one of the prominent suppliers of cashew in Pampanga. Despite having numerous offers from other banks, she mentioned, "*Mas panatag pa rin ako sa BOF. Nagtiwala sila sa akin mula umpisa, at ako rin nagtitiwala sa kanila*. We're partners in this. Never *pa ako kumuha sa iba*."

Mr. Renato and Mrs. Girlie Gulles' continue to put their trust with BOF for their banking needs. Their experience truly exemplifies how BOF treats their clients.

A Thriving Legacy

Mr. Noel Vicencio

> *Madaling kausap ang BOF. - Mr. Noel Vicencio*

Continuing the legacy of his grandfather, Mr. Noel Vicencio took over the fishpond business. He shared how his ancestors from Malabon said that no one in Pampanga knew how to fish. Soon, they migrated to Pampanga and became fishermen. His family then bought properties around the area then continuously grew and developed their business.

"Since the early 90s *kliyente na ako ng BOF. Madaling kumuha [ng loan] at madali [kayong] kausap.*" Mr. Vicencio first availed a loan from BOF for his previous business ventures such as auto care shop and gasoline station then later on the fishpond operations. During the pandemic, he also utilized his loan to help his son start his business. The bank has been part of his journey for over 26 years. Aside from loans, he also bought some foreclosed properties for sale from BOF to expand his business.

Mr. Vicencio emphasized how important it is for him to have a good relationship with his bank and account officer. "*Hindi ako magtatagal o hindi na ako kukuha kapag hindi ko gusto yung kausap ko.*" The seasoned fisherman values the partnership that BOF built with him for the past decades. Mr. Vicencio stated why he repeatedly returns to BOF, "*Madali kausap ang BOF kaya madali rin ako kausap. Bigayan kami [ng bangko].*"

Corporate Governance

Corporate Governance System

The Corporate Governance System consists of organizations, people, functions, responsibilities, policies, and principles established by BOF that promotes good corporate governance.

Compliance with corporate governance starts with the Board of Directors (BOD) who, collectively, is primarily and ultimately responsible for ensuring the attainment of its goal of good governance.

Selection Process for the Board and Executive Management

Members of the BOD are selected from a broad pool of qualified candidates. Non-Executive Directors (NEDs), which include Independent Directors are comprised of majority of the Board of Directors to promote the independent oversight of the management. Directors and Executive Management are selected in accordance with Section 132 and 138 of the Manual Regulations for Banks (MORB).

The Board of Directors' Overall Responsibility

The Board of Directors (BOD) exercises its corporate powers, conducts its business, and controls all the bank's property.

The BOD has the following expressed powers, subject to the Bangko Sentral ng Pilipinas (BSP) rules and regulations:

1. To elect from among themselves the Chairperson of the Board and such officers, to appoint and, if necessary, define the powers and duties of such other officers as the Board may deem proper and and necessary, all of whom need not be members of the Board;
2. To approve the bank's objectives and strategies and to oversee the implementation thereof;
3. To approve and oversee the implementation of policies governing major areas of banking operations;
4. To approve the risk governance framework and to see the implementation thereof;
5. To appoint/select key members of the Executive Management and heads of control functions and to approve a sound remuneration and other incentive policies for employees;
6. To consistently conduct the affairs of the institution with a high degree of integrity;
7. To constitute committees to increase efficiency and allow deeper focus in specific areas;
8. To purchase or otherwise acquire for the corporation, rights or privileges which the corporation is authorized to acquire at such price and at such terms and conditions and for such consideration as it shall from time to time see fit;
9. To pay for any property or rights to be acquired by the corporation either wholly or partly in money or stocks, bonds, debentures, or other securities of the corporation;
10. To borrow money for the corporation and for such purpose issue mortgage and chattel mortgage certificates, buy and sell them for its own account or for the account of others, or accept and receive them in payment or as amortization of its loan;
11. To define the bank's corporate culture and values;
12. To institutionalize the adoption of sustainability principles, including those covering Environmental and Social (ES) risk areas in the bank, by incorporating the same in the corporate governance and risk management frameworks as well as in the bank's strategic objectives and operations taking into

consideration the bank's risk appetite and ability to manage the risk; and

13. To exercise such other powers as shall be necessary in the performance of its duties.

Chairperson of the Board

The Chairperson of the Board has the following duties:

1. Provides leadership in the Board of Directors;
2. Ensures that the Board takes an informed decision;
3. Maintains liaison among the stockholders, the Board of Directors, and the President and CEO;
4. Presides and opens the Stockholders and the Board meetings at the time at which the Stockholders or Board is to meet, in regular or special meetings calling the members to order;
5. Submits jointly with the President and CEO an annual report of the corporation's operations to the Stockholders at its annual meetings;
6. Exercises such other powers and performs such other duties as prescribed for the Office of the Chairperson in BOF's by-laws; and
7. Other duties as may be delegated by the Board of Directors.

Board of Directors

	Name of Director	Type of Directorship	No. of Years as Director	No. of Shares	Percentage of Shares	MA*	TM*	%
1	Atty. Ma. Fides A. Balili	Non-Executive	5	1	0.000003%	13	13	100%
2	Susan Jesusa D. Nunga	Executive	33	468,961	1.212624%	13	13	100%
3	Teresa D. Carlos	Non-Executive	40	4,345,553	11.236591%	13	13	100%
4	Yolanda D. Aguila	Non-Executive	19	3,113,998	8.052076%	13	13	100%
5	Engr. Jesus S. Nicdao	Non-Executive	7	1	0.000003%	13	13	100%
6	Atty. Elfren P. Hipolito, Jr.	Non-Executive	7	1	0.000003%	13	13	100%
7	Jose Paolo D. Carlos	Executive	6	35,991	0.093064%	13	13	100%
8	Jaime P. Panganiban	Executive	4	1	0.000003%	13	13	100%
9	Rolando A. Rodriguez	Non-Executive	1	1	0.000003%	13	13	100%

*MA – Meetings Attended
*TM – Total Meetings

Executive Committee

The Executive Committee (ExeCom) was formed to be a part of the permanent organization of the corporation. It shall, in the interim between meetings of the Board of Directors, exercise all the powers of that body in the management and direction of the affairs of the corporation to assure prompt and speedy action and solution to important matters without the need for a board meeting except for the following:

1. Approval of any action for which shareholders' approval is also required;
2. Filing of vacancies in the board;
3. The amendment or repeal of by-laws or the adoption of new by-laws;
4. The amendment or repeal of any resolution of the board which by its express terms is not completely amendable or repealable;
5. A declaration of cash dividends to the stockholders; and
6. Any other exception expressly provided by the Corporation Code of the Philippines.

The ExeCom is composed of three (3) members of the Board of Directors including the elected President who shall automatically sit as the Chairperson.

	Name of ExeCom Member	Position	Period Covered	MA*	TM*	%
1	Teresa D. Carlos	Chairperson	January 1, 2022 to October 30, 2022	42	43	97.67%
2	Susan Jesusa D. Nunga	Chairperson	Effective October 31, 2022	52	52	100%
		Member	January 1, 2022 to October 30, 2022			
3	Jaime P. Panganiban	Member	January 1, 2022 to present	52	52	100%
4	Jose Paolo D. Carlos	Member	Effective October 31, 2022	51	52	98.08%
		Alternate Member	January 1, 2022 to October 30, 2022			

*MA – Meetings Attended
*TM – Total Meetings

Credit Committee

The Credit Committee (CreCom) is composed of three (3) members consisting of the elected President who shall automatically sit as the Chairperson, and the two (2) other members thereof shall be appointed by the Board of Directors, not necessarily from among themselves. The CreCom acts as a loan committee responsible for evaluating, scrutinizing, and approving and/or recommending the loan application for approval or rejection. Loans shall be approved subject to the existing lending policy of the bank.

<table>
<tr><th></th><th>Name of CreCom Member</th><th>Position</th><th>Period Covered</th><th>MA*</th><th>TM*</th><th>%</th></tr>
<tr><td>1</td><td>Teresa D. Carlos</td><td>Chairperson</td><td>January 1, 2022 to October 30, 2022</td><td>85</td><td>86</td><td>98.84%</td></tr>
<tr><td rowspan="2">2</td><td rowspan="2">Susan Jesusa D. Nunga</td><td>Chairperson</td><td>Effective October 31, 2022</td><td rowspan="2">100</td><td rowspan="2">102</td><td rowspan="2">98.04%</td></tr>
<tr><td>Member</td><td>January 1, 2022 to October 30, 2022</td></tr>
<tr><td rowspan="2">3</td><td rowspan="2">Jaime P. Panganiban</td><td>Member</td><td>Effective October 31, 2022</td><td rowspan="2">102</td><td rowspan="2">102</td><td rowspan="2">100%</td></tr>
<tr><td>Alternate Member</td><td>January 1, 2022 to October 30, 2022</td></tr>
<tr><td>4</td><td>Jose Paolo D. Carlos</td><td>Member</td><td>January 1, 2022 to present</td><td>101</td><td>102</td><td>99.02%</td></tr>
<tr><td>5</td><td>Rona Q. Binuya</td><td>Alternate Member</td><td>Effective October 31, 2022</td><td>5</td><td>16</td><td>31.25%</td></tr>
</table>

*MA – Meetings Attended
*TM – Total Meetings

Corporate Governance Committee

A. Authority

1. It shall be responsible for overseeing Executive Management (EM) in establishing the bank's corporate culture and values;
2. It shall have access to the members of the BOD, EM, Senior Management (SM) and staff;
3. It shall also have access to all bank records, documents, books of accounts, and information it needs to properly carry out its responsibilities; and
4. It shall have explicit authority to investigate any matter within its terms of reference, full access and cooperation by the management, and full discretion to invite any director or executive officer to attend its meetings and have full access to adequate resources to enable it to effectively discharge its functions.

B. Duties and Responsibilities

1. Assists the BOD in formulating the governance policies and overseeing the implementation of the governance practices of the bank;
2. Oversees the nomination process for members of the BOD and for positions appointed by the BOD;
3. Oversees the continuing education program for the BOD and recommend relevant trainings for them;
4. Oversees the annual evaluation of contribution and performance of the following for the period of May of the previous year up to April of the current year:
   - 4.1. BOD
   - 4.2. Board-Level Committees including self-evaluation of its performance;
   - 4.3. Chairperson of the Bank; and
   - 4.4. President and CEO
5. Responsible for recommending the remuneration and incentives of the Executive Management (EM) and Senior Management (SM) commensurate with the corporate and individual performance, for approval of the BOD; and
6. Evaluates all Related Party Transaction (RPT) materials as per Policy on Related Party Transactions (PRPT).

	Name of CGC Member	Position	MA*	TM*	%
1	Atty. Ma. Fides. A. Balili	Chairperson/Independent Director	7	7	100%
2	Atty. Elfren P. Hipolito, Jr.	Member/Independent Director	7	7	100%
3	Rolando A. Rodriguez	Member/Independent Director	7	7	100%

*MA – Meetings Attended
*TM – Total Meetings

Audit, Risk, and Compliance Committee

A. Authority

1. It shall be responsible for overseeing the Executive Management in establishing and maintaining an adequate, effective, and efficient internal control framework. It ensures that systems and processes are designed to provide assurance in areas including reporting, monitoring compliance with laws, regulations, internal policies, efficiency, effectiveness of operations, and safeguarding of assets;
2. It shall have the authority to access all bank records, documents, books of accounts, and information it needs to properly carry out its responsibilities; and
3. It shall have the explicit authority to investigate any matter within its terms of reference; full access to and cooperation by the management, full discretion to invite any director or executive officer to attend its meetings, and adequate resources to enable it to effectively discharge its functions.

B. Duties and Responsibilities

1. Establishes and maintains mechanisms by which officers and staff, in confidence, raise concerns about possible improprieties or malpractices in matters of financial reporting, internal control, auditing, or other issues to persons or entities that have the power to take corrective action;
2. Ensures that arrangements are in place for the independent investigation, appropriate follow-up action, and subsequent resolution of complaints;
3. Takes all necessary measures, or ensures that the Executive Management shall take all necessary measures, to provide the appropriate resources and staffing that would enable the Internal Audit Department (IAD) and Risk and Compliance Department (RCD) to achieve their objectives;
4. Monitors, reviews, and evaluates the adequacy and effectiveness of the internal control system;
5. Ensures that the internal audit function maintains an open communication with the Executive Management, the external auditors, and the supervisory authority;
6. Ensures and recommends to the Board of Directors any penalties under Policy on Discipline (POD) and/or for any violation of the Good Corporate Governance;
7. Establishes an Anti-Money Laundering (AML) reporting mechanism to ensure that the Board of Directors and Management are appropriately, comprehensively, and timely appraised of relevant AML issues and concerns, as well as the status of actions taken and adequate discussions thereon; and
8. Oversees the bank's risk management framework and ensures that the current emerging risk exposures are consistent with the bank's strategic direction and overall risk appetite.

	Name of ARCC Member	Position	MA*	TM*	%
1	Atty. Elfren P. Hipolito, Jr.	Chairperson/Independent Director	4	4	100%
2	Atty. Ma. Fides A. Balili	Member/Independent Director	4	4	100%
3	Engr. Jesus S. Nicdao	Member/Non-Executive Director	4	4	100%

*MA – Meetings Attended
*TM – Total Meetings

About the People

“Behind every great company is a team of strong, committed, and dedicated employees, or as we like to refer to as our BOF Family. – Susan Jesusa David-Nunga”

Board of Directors

From left to right: Rolando A. Rodriguez (Independent Director), Teresa David-Carlos (Director), Jaime P. Panganiban (Director), Engr. Jesus S. Nicdao (Director), Atty. Ma. Fides Andin-Balili (Chairperson/Independent Director), Yolanda David-Aguila (Director), Atty. Elfren P. Hipolito, Jr. (Independent Director), Susan Jesusa David-Nunga (President and CEO), Jose Paolo D. Carlos (Director), Atty. Perlita Mateo-Sagmit (Corporate Secretary)

CHAIRPERSON OF THE BOARD

Atty. Ma. Fides Andin-Balili

67, Filipino

Atty. Ma. Fides Andin-Balili was elected as the Chairperson of the Board in January 2022. She has been an Independent Director of BOF since January 2018 and became the Chairperson of the Audit, Risk, and Compliance Committee subsequently on the same year up to December 31, 2022, and then became a Member from January 01, 2022 onwards.

At present, she is the Chairperson of Corporate Governance Committee since January 01, 2022, and was a Member from May 18, 2021 up to December 31, 2022. She is a former Tax Partner of SyCip, Gorres, Velayo (SGV) & Co., where she worked for 36 years until her retirement in June 2016.

Moreover, she is currently a Professor at the De La Salle University College of Law since 2016 and is a Senior Tax Counsel at the Esguerra & Blanco Law Offices. She is also a Fellow of the Institute of Corporate Directors (ICD).

Atty. Balili earned her Bachelor of Law Degree at the University of the Philippines College of Law and has post graduate studies in Management Development Program from the Asian Institute of Management. She graduated with the degree of Bachelor of Science in Education major in English at St. Scholastica's College.

PRESIDENT AND CEO

Susan Jesusa David-Nunga

64, Filipino

Ms. Susan Jesusa David-Nunga was elected as President and CEO of BOF, Inc. (A Rural Bank) effective October 31, 2022.

She was elected to the Board of Directors of Rural Bank of Floridablanca, Inc. (RBFI) in 1989. She sat as the Special Assistant to the President in the same company in 2003, Chief Financial Officer in 2010, Senior Executive Vice President from April 01, 2011 to December 31, 2013. She continued to be a Director and Senior Executive Vice President from January 01, 2014 to October 30, 2022, under BOF, Inc. (A Rural Bank), a consolidation of Bank of Florida and Bank of Lubao.

Earlier on, Ms. Nunga was the Secretary and President of the Pampanga Federation of Rural Banks (PFRB) in 2005 and 2006, respectively, Director/Secretary of Confederation of Central Luzon Rural Banks (CCLRB) for the fiscal year 2006 to 2007, and Director of Rural Bankers Association of the Philippines (RBAP) for the fiscal year 2015 to 2016. Today, she is the Chairperson of House of David Realty and Development Corporation (HDRDC), Director of House of David Investment and Management Corporation (HDIMC), Board of Trustee of House of David Foundation, Inc. (HDFI) and Mary the Queen College (Pampanga), Inc. (MQC).

Ms. Nunga graduated as a Cum Laude, a scholar, and a Philippine Institute of Certified Public Accountants (PICPA) Awardee with a degree of Bachelor of Science in Commerce, Major in Accounting from St. Scholastica's College.

DIRECTOR

Teresa David-Carlos

65, Filipino

Ms. Teresa David-Carlos was elected to the Board of Directors in 1982. She was the President and CEO from 1987 until her retirement on October 30, 2022.

She previously served as the President of Pampanga Federation of Rural Banks (PFRB) in 1989, President of Guagua Bankers Association (GBA) in 1993, Director/Treasurer of Rural Bankers Association of the Philippines (RBAP) for the fiscal year 2000 to 2001, President of Confederation of Central Luzon Rural Banks (CCLRB) for the fiscal year 2006 to 2007 and Director/Treasurer of Pampanga Chamber of Commerce and Industry, Inc. (PamCham) from September 2003 to December 2022. She is also the Chairperson of Pampanga Micro, Small, and Medium Enterprises Development Council (PMSMEDC) from 2007 to present, and Board of Trustee of Domus Pastorum Foundation, Inc. from April 2019 to present.

She currently sits as the Chairperson of House of David Investment and Management Corporation (HDIMC), House of David Foundation, Inc. (HDFI), and Mary the Queen College (Pampanga), Inc. (MQC). Also, she is a Director of House of David Realty and Development Corporation (HDRDC).

On December 16, 2022, she was elected as President of PamCham for 2023 to 2024.

Ms. Carlos is a Certified Public Accountant, and she finished her Bachelor of Science in Commerce, Major in Accounting at St. Scholastica's College in 1978.

DIRECTOR

Yolanda David-Aguila

58, Filipino

Ms. Yolanda David-Aguila has been a member of the Board of Directors since 2003.

Previously, she was the Special Assistant to the BOF President from 2014 to 2021. Now, she is a Director of House of David Investment and Management Corporation (HDIMC) since 1990, Director of House of David Realty and Corporation (HDRDC) since 1986, and a Trustee of House of David Foundation, Inc. (HDFI) and Mary the Queen College (Pampanga), Inc. (MQC).

Ms. Aguila graduated from St. Scholastica's College with a degree of Bachelor of Science in Commerce, Major in Business Management.

DIRECTOR

Engr. Jesus S. Nicdao

69, Filipino

Engr. Jesus S. Nicdao was elected to the Board of Directors in May 2015.

He served as Chairman of Clark Electric Development Corporation from 2001 to 2004, Director of Clark Development Corporation from 2001 to 2004, and Director of Clark International Airport Corporation from 2004 to 2010.

Engr. Nicdao is currently the Chairman of the Pampanga Chamber of Commerce and Industry, Inc. (PamCham), President of the Philippine Rotary Foundation, Inc., President of Help and Assistance for Rotary Philippine Districts, Inc., and a Trustee of Kapampangan Development Foundation, Inc. He concurrently sits as the Chairman and CEO of NIDEL Management Inc. (franchisee of Jollibee, Chowking, and Mang Inasal), Chairman of Sattlink Broadband System, Chairman of One Gray Builders and Construction Supply, Inc., and President of Privilege Homes Development Corporation.

Engr. Nicdao is a graduate of Bachelor of Science in Electrical Engineering from the Mapua Institute of Technology.

INDEPENDENT DIRECTOR

Atty. Elfren P. Hipolito, Jr.

62, Filipino

Atty. Elfren P. Hipolito, Jr. has been an Independent Director since May 2015. He is also the Chairperson of the Corporate Governance Committee (CGC) and a member of the Audit, Risk, and Compliance Committee (ARCC).

He was a former Trial Attorney at the Office of the Solicitor General, Past President of the Metro Angeles Chamber of Commerce and Industry, Inc. (MACCII), and former Director of the Clark Development Corporation (CDC) and Clark Water and Sewerage Corporation.

At present, he is a Senior Partner of the Hipolito, Tuazon, Cruz, Chipeco Law Offices based in Angeles City. He is also a member of the Board of Trustees, Executive Committee and Corporate Secretary of Holy Angel University, Inc. Director and member of the Audit Committee of Clark Electric and Distribution Corporation (CEDC), Director and Vice President for External Affairs of MACCII, Trustee and Corporate Secretary of the Cultural and Educational Foundation of Pampanga, Inc., President of the family-owned Dau Trading Corporation, and Vice President of Dau Realty and Development Corporation.

Atty. Hipolito, Jr. obtained his Bachelor of Arts Degree Major in Economics, Cum Laude, from San Beda College in 1980 and Bachelor of Laws degree from Ateneo de Manila University in 1984. He took and passed the Philippine Bar Examinations in the same year with a general weighted average of 83.88%.

DIRECTOR

Jose Paolo D. Carlos

31, Filipino

Jose Paolo D. Carlos was elected to the Board of Directors in July 2016. He joined the bank as Assistant Vice President in June 2016 and is currently the Senior Executive Vice President overseeing the Credit Management Group and Accounting and Finance Group.

He was the President of Pampanga Federation of Rural Banks (PFRB) for fiscal year 2018 to 2019 and was an Adviser from 2019 to 2021. He also served as Secretary of Confederation of Central Luzon Rural Banks (CCLRB) for fiscal year 2018 to 2019 and as Public Relations Officer for fiscal year 2020 to 2021.

Prior to joining BOF, he was the Chief Financial Officer of the House of David Group (HDG). He was also a member of the Board of Directors of DA Market Securities, Inc. (DMSI), and was a Financial Reporting Analyst at Citibank Makati City. Moreover, he is a Licensed Real Estate Broker, Licensed Real Estate Appraiser, and Licensed Non-Life Insurance Agent.

Mr. Carlos graduated from Ateneo de Manila University with a Bachelor's Degree Major in Management Economics and a Minor Degree in Financial Management. He also earned his MBA degree (Silver Medalist) from Ateneo Graduate School of Business in 2021.

DIRECTOR

Jaime P. Panganiban

61, Filipino

Mr. Jaime P. Panganiban has been a member of the Board of Directors since May 2019.

As a Senior Executive Vice President, he is currently overseeing the Lending Group, Corporate Support Group, and General Services Department.

Earlier on, he was elected as President of Pampanga Federation of Rural Banks (PFRB) for the fiscal year 2001 to 2002. He has also held positions in Rural Bank of Angeles as Area Manager from 1995 to 2002 and General Manager from 2003 to 2007.

Mr. Panganiban graduated from Holy Angel University with a degree in Bachelor of Science in Business Administration.

INDEPENDENT DIRECTOR

Rolando A. Rodriguez

71, Filipino

Mr. Rolando A. Rodriguez was elected as an Independent Director in January 2022. Concurrently, he became a member of the Corporate Governance Committee (CGC) on the same year.

He is an Independent Director of Toyota Financial Services Corporation, Director of Pasudeco Development Corporation, and Okeelanta, Inc. Furthermore, he is a Trustee of De La Salle Lipa, Chairman of Foundation for Lingap Kapampangan, Trustee/Vice Chairman of Domus Pastorum Foundation, Inc., Chairman of Dualtech Training Center Foundation, and Chairman of De La Salle Araneta University.

Mr. Rodriguez graduated Magna Cum Laude from De La Salle University with degrees in AB Economics and Bachelor of Science in Commerce, Major in Accountancy.

CORPORATE SECRETARY

Atty. Perlita Mateo-Sagmit

49, Filipino

Atty. Perlita C. Mateo-Sagmit onboarded BOF as a Legal Counsel and as the Corporate Secretary on May 2021.

Prior to this, she was at the forefront of the legal ecosystem of Clark Freeport Zone (CFZ) and Clark Special Economic Zone (CSEZ), as the former Vice President for Legal Affairs Group of the Clark Development Corporation (CDC), a Government-Owned and Controlled Corporation (GOCC) with a mandate to develop, manage, and operate the CFZ and CSEZ.

Atty. Mateo-Sagmit has more than 20 years of experience in CDC where she held several key positions in legal, management, and corporate officer positions. She currently practices her legal profession specializing in government and corporate law and processes.

She finished her Juris Doctor degree at San Beda University in Mendiola and her undergraduate studies at the University of Santo Tomas under the program of Bachelor of Science in Commerce, Major in Accounting.

Executive Committee

From January 01, 2022 to October 30, 2022

From left to right: Jose Paolo D. Carlos (Alternate Member), Teresa David-Carlos (Chairperson), Susan Jesusa David-Nunga (Member), Jaime P. Panganiban (Member)

Effective October 31, 2022

From left to right: Jose Paolo D. Carlos (Member), Susan Jesusa David-Nunga (Chairperson), Jaime P. Panganiban (Member)

Credit Committee

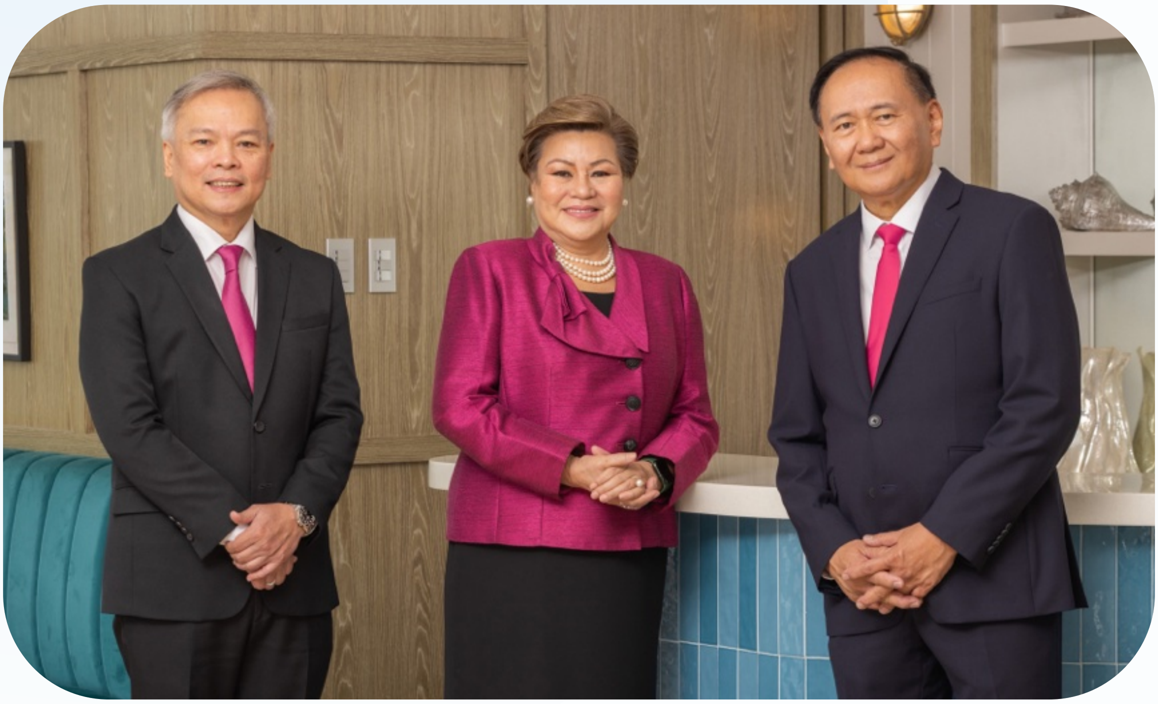
From January 01, 2022 to October 30, 2022

From left to right: Jaime P. Panganiban (Alternate Member), Susan Jesusa David-Nunga (Member), Teresa David-Carlos (Chairperson), Jose Paolo D. Carlos (Member)

Effective October 31, 2022

From left to right: Jose Paolo D. Carlos (Member), Susan Jesusa David-Nunga (Chairperson), Rona Q. Binuya (Alternate Member), Jaime P. Panganiban (Member)

Corporate Governance Committee



From left to right: Atty. Elfren P. Hipolito, Jr. (Member/Independent Director), Atty. Ma. Fides Andin-Balili (Chairperson/Independent Director), Rolando A. Rodriguez (Member/Independent Director)

Audit, Risk, and Compliance Committee

From left to right: Atty. Ma. Fides Andin-Balili (Member/Independent Director), Atty. Elfren P. Hipolito, Jr. (Chairperson/Independent Director), Engr. Jesus S. Nicdao (Member/Director)

Management Committee

From January 01, 2022 to October 30, 2022

From left to right: Alicia B. Sundiam (Chief Internal Auditor), Grace D. Castro (Lending Group Head), Teresa David-Carlos (President and CEO), Carmelo M. Ocampo (Credit Management Group Head), Jaime P. Panganiban (Senior Executive Vice President), Erlisa M. Banag (Chief Compliance Officer), Marylene M. Pachejo (Information Technology Group Head), Susan Jesusa David-Nunga (Senior Executive Vice President), Cristy C. Completo (Accounting and Finance Group Head), Jeanette Michelle S. Capati (Human Resources Department Head), Rona Q. Binuya (Branch Banking Group Head), Jose Paolo D. Carlos (Senior Executive Vice President)

Effective October 31, 2022

From left to right: Jeanette Michelle S. Capati (Human Resources Department Head), Erlisa M. Banag (Chief Compliance Officer), Carmelo M. Ocampo (Credit Management Group Head), Grace D. Castro (Lending Group Head), Zabrina D. Nunga (Corporate Support Group Head), Marylene M. Pachejo (Information Technology Group Head), Susan Jesusa David-Nunga (President and CEO), Jose Paolo D. Carlos (Senior Executive Vice President), Alicia B. Sundiam (Chief Internal Auditor), Jaime P. Panganiban (Senior Executive Vice President), Rona Q. Binuya (Executive Vice President), Cristy C. Completo (Accounting and Finance Group Head)

Executive Management

President and CEO
From January 1, 2022 to October 30, 2022

Teresa David-Carlos
65, Filipino

President and CEO
Effective October 31, 2022

Susan Jesusa David-Nunga
64, Filipino

Senior Executive Vice President

Jaime P. Panganiban
61, Filipino

Senior Executive Vice President

Jose Paolo D. Carlos
31, Filipino

Executive Vice President

Rona Q. Binuya
52, Filipino

Management Committee

Vice President
Lending Group

Grace D. Castro
47, Filipino

Vice President
Chief Internal Auditor

Alicia B. Sundiam
52, Filipino

Assistant Vice President
Information Technology Group

Marylene M. Pachejo
46, Filipino

Assistant Vice President
Chief Compliance Officer

Erlisa M. Banag
47, Filipino

Assistant Vice President
Credit Management Group

Carmelo M. Ocampo
49, Filipino

Assistant Vice President
Human Resources Department

Jeanette Michelle S. Capati
45, Filipino

Assistant Vice President
Corporate Support Group

Zabrina D. Nunga
25, Filipino

Accounting and Finance Group Head

Cristy C. Completo
39, Filipino

Bank Programs and Policies

Performance Assessment Program

The Performance Assessment Program is a program designed to communicate BOF's performance expectations to employees; assess the employee's work quality, determine the present skills, knowledge, and attitude as well as the training and development needs and appraise employee's future work potential. The said program aims to determine the extent to which employee performs work effectively.

The balanced scorecard is utilized by the Bank where strategic objectives of each Group, Department, Strategic Banking Unit (GDS) are indicated that are supported by Initiatives, Projects, Activities (IPA), and Key Operational Processes (KOPs), measured by Key Performance Indicators (KPIs). These, and behavioral KPIs based on the Bank's core values contribute to the achievement of the Bank's high-level goals.

The Employee Performance Evaluation System was developed and is implemented with the following goals and objectives:

1. To ensure the Bank's long-term survival by increasing the awareness of each individual employee of the goals and targets of the Bank and their specific positions/jobs, known as Key Results Areas (KRAs) and Key Functional Areas (KFAs);
2. To assess and reward each employee fairly and justly based on autonomously generated performance standards;
3. To streamline communication among and between departments and promote healthy competition, collaboration, and co-creation;
4. To systematically monitor performance and identify items requiring improvement activities and initiatives; and
5. To allow BOF to survive and champion in the mega-competition in the business field.

Every employee of BOF has their work performance reviewed at least twice a year. The measurement taken at the time of the reviews can be used to clarify job duties and expectations, acknowledge outstanding performance, suggest ways to improve performance, outline potential career goals, and form the basis for salary adjustment, and other management action such as training, promotion, and reclassification.

On the other hand, the performances of the Board of Directors (BOD) are being assessed annually based on the responsibilities expected of them and their adherence to corporate governance as per BSP Circular 969, as amended.

Orientation and Education Program

BOF provides relevant Seminars, Trainings, and Workshops (STWs) in compliance with regulations and laws issued by the regulatory bodies such as Bangko Sentral ng Pilipinas (BSP), Anti-Money Laundering Council (AMLC), Bureau of Internal Revenue (BIR), Securities and Exchange Commission (SEC), Philippine Deposit Insurance Corporation (PDIC), and Credit Information Corporation (CIC), etc.

The bank provides a copy of the general responsibility of the Board of Directors, the specific duties, and responsibilities of a Director upon boarding.

Newly appointed directors are also provided an orientation program of at least eight (8) hours, conducted by an institution accredited by the BSP. Directors shall have an annual continuing education of at least four (4) hours relevant in carrying their duties and responsibilities.

The Human Resources Department (HRD) conducts Training Need Analysis (TNA) to assess the current training needs of the directors and employees. Based on the outcome of the TNA, the HRD then formulates the relevant STWs to address the training needs as well as develop the employees in becoming highly competent professionals.

An annual budget for internal and external STWs is set as a guide for the HRD in implementing the STWs on a monthly basis.

Retirement Policy

BOF provides retirement benefits to its employees as mandated by the Philippine Labor Code. The minimum retirement pay shall be equivalent to the employee's ½ month salary for every year of service.

Minimum age for a director is set at twenty-five (25) years old and retirement age is set at seventy-five (75) years of age. The Board of Directors may opt to waive the required retirement age of any director, if an exception is deemed necessary to the best interest of the bank.

Independent directors may only serve the bank for a maximum cumulative term of nine (9) years reckoned from 2012, but may continue to serve as a Regular Director beyond nine (9) years.

Retirement Benefits:

1. Directors who are not employed by the bank are not eligible to receive any retirement benefits.
2. Directors who are employed by the bank are eligible for regular retirement benefits as per Retirement Plan Rules and Regulations (RPRR) of the bank.
3. Normal retirement age of Executive Management and other employees is sixty-five (65) years old, but they have the option to retire upon the attainment of the age of sixty (60) years old or more, but not beyond sixty-five (65) years old.

Succession Planning

Succession planning is in place in order to ensure business productivity at all times, especially for BOF's key officers. It is also a process that will support all Groups, Departments, Strategic Banking Units (GDS) in identifying critical positions, current and future competencies, i.e., knowledge, skills, abilities, and potential for future development, as individuals need to be successful in that position, and assessment of the performance of current talents to fulfill higher levels of roles and responsibilities to ensure business continuity, competitiveness, and development.

Remuneration Policy

Remuneration Policy and Structure for Executive and Non-Executive Directors

The Executive Directors (EDs) of the bank receive compensation in the form of salaries and allowances, bonuses, and per diem for attendance to Board meetings while Non-Executive Directors (NEDs) receive per diem for attendance to board meetings and board-level committee meetings.

Remuneration Policy for Senior Management

The remuneration for the Senior Management includes salaries, allowances, and bonuses. It is linked to individual performance, based on annual appraisals of the Senior Management. It also considers the employee's position, role, responsibilities, and activities in the bank as well as the risk that the employee takes on behalf of the bank. The four (4) highest compensated officers of the bank are the President and CEO, two (2) Senior Executive Vice Presidents, and one (1) Executive Vice President.

Policy, Guidelines, and Procedures on Material Related Party Transactions

Related Party Transaction

BOF has in place a board-approved Policy on Related Party Transactions (PRPT) which serves as a guide for the Executive Management and employees in identifying and reporting Related Party Transactions (RPTs). RPTs shall be allowed by the bank provided that these comply with applicable regulatory limits, requirements, and dealings are conducted at arm's length basis. Said transactions shall only be made and entered into, substantially on terms and conditions not less favorable than those with other customers of comparable risks.

Disclosure and Reporting

BOF adequately discloses in the Annual Report, if applicable, the overarching policies, guidelines, and procedures for managing RPTs, including managing of conflicts of interest or potential conflicts of interest, responsibilities, nature, terms and conditions, as well as original and outstanding individual and aggregate balances, including off-balance sheet commitments of material RPTs.

Transactions concerning deposit operations, regular trade transactions involving purchases and sales of debt securities traded in an active market are excluded from the reporting requirement to the Bangko Sentral ng Pilipinas (BSP).

Lease contracts and other similar contracts with recurring payment transactions shall only be reported once, upon approval of said transactions by the Board of Directors. In case the parties involved in the transactions are both supervised by the BSP, only the lessor, in case of a lease contract, or the party engaging or requesting for the services of the other bank, in case of other contracts, shall submit the report.

Material Related Party Transactions for the year 2022

Material Related Party Transactions per policy are defined to be those related party transactions amounting to Two Million Pesos (PhP 2,000,000.00) and above. For the year 2022, the bank does not have any material related party transaction.

Self-Assessment Function

Internal Audit Department

The Internal Audit Department (IAD) is composed of five (5) personnel headed by the Chief Internal Auditor (CIA) and is directly reporting to the Audit, Risk, and Compliance Committee (ARCC) and the Board of Directors. The key function of IAD is to add value to the bank's operations by:

1. Providing independent assurance to the Board, ARCC, and Executive Management on the adequacy and effectiveness of the bank's governance, risk management, and internal controls framework and processes.
2. Promoting and helping the Executive Management to build a robust control culture through proactive involvement in key projects and providing audit and consultancy expertise;
3. Delivering comprehensive risk-based audits;
4. Identifying and highlighting material risks, eliminating control redundancies, and enhancing productivity, where applicable; and
5. Recommending controls to mitigate identified risk exposures and monitoring timely corrective action.

Scope of Internal Audit

All processes; systems; Groups, Departments, and Strategic Banking Units (GDS); products and services; and activities, including outsourced services, shall fall within the overall scope of the internal audit function. The scope of internal audit shall cover, among others, but not limited to the following:

1. Evaluation of the adequacy, efficiency and effectiveness of internal control, risk management, and governance systems in the context of current and potential future risks;
2. Evaluation of risks relating to achievement of the strategic objectives if they are appropriately identified and managed;
3. Evaluation of operations or programs to ascertain whether results are in line with established objectives and goals;
4. Review of the reliability, effectiveness and integrity of management and financial information systems, including the electronic information system and electronic banking services;
5. Review of the systems and procedures of safeguarding the bank's physical and information assets;
6. Review if resources and assets are acquired economically, used efficiently, protected adequately, and its existence is verified periodically;
7. Review of the compliance system and the implementation of established Policies, Guidelines, and Procedures (PGPs);
8. Assessment of established processes and systems to ensure compliance with the bank's frameworks, PGPs, and Manual of Operations (MOOs) applicable laws, rules and regulations that could significantly impact BOF;
9. Review of areas of interest to regulators such as, among others monitoring of compliance with relevant laws, rules and regulations, including but not limited to the assessment of the adequacy of capital and provisions; liquidity level regulatory and internal reporting;
10. Perform consulting and advisory services related to governance, risk management and control as appropriate for the company;
11. Report on material risk and control issues including fraud risks, governance issues, or other matters as requested by the ARCC; and
12. Assess specific operations at the request of Executive Management and the ARCC.

The scope of work of IAD shall not relieve Executive Management, first and second line of defense from their responsibilities for compliance with, maintenance and improvement of controls in their respective areas of authority.

Risk and Compliance Department

The Risk and Compliance Department (RCD) is composed of four (4) personnel headed by the Chief Compliance Officer (CCO). The principal function of the CCO is to oversee the design of an appropriate compliance system, promote its effective implementation, and address breaches that may arise.

Compliance is not merely the function of the CCO but is a matter of concern of the Board of Directors, Executive and Senior Management, officers, and employees. It is the direct responsibility of each Group, Department, and Strategic Banking Unit (GDS) Head and each staff. It is essential that each director, officer, and staff comply with the spirit of compliance as well as the set policies, guidelines, and procedures. Compliance is to be regarded as a means of enhancing profitability within the limitation of regulatory requirements and good business practices.

The RCD directly reports to the ARCC and the Board of Directors on all relevant laws, rules and regulations, breaches, and keeps them informed on all relevant developments.

Review Process to Ensure the Effectiveness and Adequacy of the Internal Control System

The ARCC has been established by the Board of Directors to oversee the financial reporting, internal and external audit functions, and compliance to regulatory agencies' rules and regulations. The ARCC is likewise responsible in monitoring, reviewing, and evaluating the adequacy and effectiveness of the internal control system. Under the supervision of the ARCC are the CIA and CCO who regularly review the effectiveness of the internal control system and validate the compliance with rules and regulations through regular audit and compliance testing, respectively. Results of the validation are directly reported to the ARCC, and resolutions and actions taken thereon are presented to the Board of Directors for approval.

Dividend Policy

The Executive Management shall determine the amount of dividends to be declared and recommends the same to the Board of Directors (BOD) for approval. The BOD shall ensure that the requirements are in accordance with the BSP's Manual of Regulations for Banks (MORB). Distribution of the dividends shall be on or before the Annual Stockholders' Meeting.

For 2022, the BOD approved the declaration of cash dividends amounting to Twenty Million Pesos (PhP 20,000,000.00).

Major Stockholders owning more than 20% as of December 31, 2022

Name	Nationality	Status	%
House of David Investment and Management Corporation (HDIMC)	Filipino-owned	Voting	40.445068%

Each share in the name of every stockholder is equivalent to one (1) vote and cumulative voting shall be used in the election of the members of the Board of Directors.

Sustainability Framework

BOF joins the Bangko Sentral ng Pilipinas (BSP) and the Philippine Government in supporting the call for businesses to support the United Nations (UN) Sustainable Developmental Goals (SDGs) which recognize that development must balance economic, social, and environmental sustainability. The Bank is in the process of reviewing its existing framework to integrate social and environmental sustainability principles in the Bank's corporate governance framework, risk management systems, strategic objectives, and operations. For 2022, the bank has sent selected personnel to attend the following trainings on sustainability:

1. Introducing a Sustainable Skills Framework (SSF) for Banks;
2. Briefing on Sustainable Finance Framework and Environmental and Social Risk Management Framework; and
3. Rural Bankers Association of the Philippines (RBAP) 65th Charter Anniversary Symposium wherein one of the topics is Sustainable Finance.

The bank also had social sustainable projects for 2022 such as the Brigada Eskwela in Porac, and the Gift of Mobility Projects in Mabalacat and Pulilan. BOF also has existing loans qualified as environmental or green loans with an outstanding balance of PhP 81,388,969.95 as of December 31, 2022. Moreover, these loans funded by the bank can be mapped to the UN SDGs.

BOF supports the Sustainable Development Goals.

SDG3 Good Health and Well-Being

BOF continues to provide financing to PhilHealth accredited hospitals for the improvement and expansion of their facilities. As of December 31, 2022, financing to the health care industry amounts to PhP 38,635,893.39.

SDG6 Clean Water and Sanitation

BOF provides financing to industries engaged in waste management that helps to reduce dangerous effects of waste on human health and the environment. As of December 31, 2022, financing to this sector amounts to PhP 5,500,00.00.

SDG13 Climate Action

BOF supports the agri-business sector engaged in tunnelized poultry that eliminates food waste and controls air pollution. Climate controlled facilities for poultry can withstand extreme weather conditions; help protect chickens from disease, thereby increasing production. As of December 31, 2022, financing to sustainable agricultural projects amounts to PhP 37,253,076.56.

Consumer Protection Practices

Financial Consumer Protection Services

1. The paramount goal of BOF is to provide excellent, committed, transparent, fair, honest, and dedicated services to its clients that will translate into satisfaction, prestige, profitability, and stability. Its primary objective in designing its Policy on Consumer Protection is to protect the financial rights of its clients.
2. The Board of Directors, Executive, and Senior Management are responsible for developing consumer protection strategies and establishing an effective oversight over BOF's consumer protection programs.

Responsibilities of the Board of Directors

1. It has the ultimate responsibility for the level of consumer risk assumed by BOF. Accordingly, the Board of Directors approve the bank's overall business strategies and significant policies, including those related to managing and taking consumer risks;
2. It takes steps to develop an appropriate understanding of the consumer risks the bank faces through briefings from auditors and experts external to the organization;
3. It provides clear guidance regarding the level of consumer protection risk acceptable to the bank and ensures that the Executive Management implements the procedures and controls necessary to comply with the policies that have been adopted;
4. It is responsible for developing and maintaining a sound Consumer Protection Risk Management System (CPRMS) that is integrated into the overall framework for the entire product and service life cycle;
5. Each director has a level of knowledge commensurate with the nature of his or her role in managing the bank's customer protection program. This can be done through attendance of Seminars, Trainings, and Workshops (STWs), interaction with experts and regulatory personnel knowledgeable in this line;
6. It reviews and approves appropriate consumer protection policies to emit risks inherent in the bank's significant business lines, activities, or products, including ensuring effective oversight of any third-party providers that provide products and services for the bank;
7. It periodically reviews and approves consumer protection risk exposure limits to conform to any changes in the bank's strategies and addresses the extent of protection assumed by the customers when new products are introduced; and
8. It exercises such other powers as necessary in the performance of its duties.

Responsibilities of the Executive Management

1. It is responsible for implementing a program to manage the consumer compliance risks associated with the bank's business model, including ensuring compliance with laws and regulations on both long term and day-to-day basis. Accordingly, the Executive Management should be fully involved in its activities and possess sufficient knowledge of all major products to ensure the appropriate risk controls are in place and that accountability and lines of authority are clearly delineated.

2. It is also responsible for establishing and communicating a strong awareness of, and need for, effective consumer protection risk controls and high ethical standards.

Consumer Protection Risk Management System

BOF's Consumer Protection Risk Management System (CPRMS) is a means by which BOF identifies, measures, monitors, and controls consumer protection risks inherent in its operations. A carefully devised, implemented, and monitored CPRMS provides the foundation for ensuring BOF's adherence to consumer protection standards of conduct, and compliance with consumer protection laws, rules and regulations, thus ensuring that BOF's consumer protection practices, address and prevent identified risks to BOF, and associated risk of financial harm or loss to consumers.

Consumer Assistance Management System

BOF strives to improve its operations and to extend the best quality of service to its clients, suppliers, affiliates, and companies it deals with. BOF believes that the most effective scheme in coming up with the best services lies in recognizing, understanding, and resolving the complaints, comments, or concerns of the general public elevated through its Customer Care (C2).

All complaints whether simple or complex, are handled by the Consumer Assistance Team (CAT). The CAT shall be responsible for the following:

1. Receiving and acknowledging complaints and/ or concerns;
2. Investigating and resolving complaints;
3. Responding to inquiries; and
4. Timeliness of report.

Customer feedback are recorded and analyzed to improve the system and enhance personnel capabilities in handling complaints.

Corporate Social Responsibility Projects

As a leading rural bank, BOF recognizes the company's responsibility to be socially accountable to itself, its stakeholders, and the public. Tied to our Unique Value Proposition, building homegrown success with you, BOF's aim for shared growth extends from its clients to the rural areas it serves.

In 2022, the bank conducted CSR programs in Central Luzon namely in Porac, Mabalacat, and Pulilan.

Brigada Eskwela in Porac

With the goal to help last-mile schools, BOF in cooperation with Leonio Land Holdings, Inc., turned over school supplies and cleaning materials to the Sapang Uwak Highschool in Porac, Pampanga on September 28, 2022.

Gift of Mobility in Mabalacat

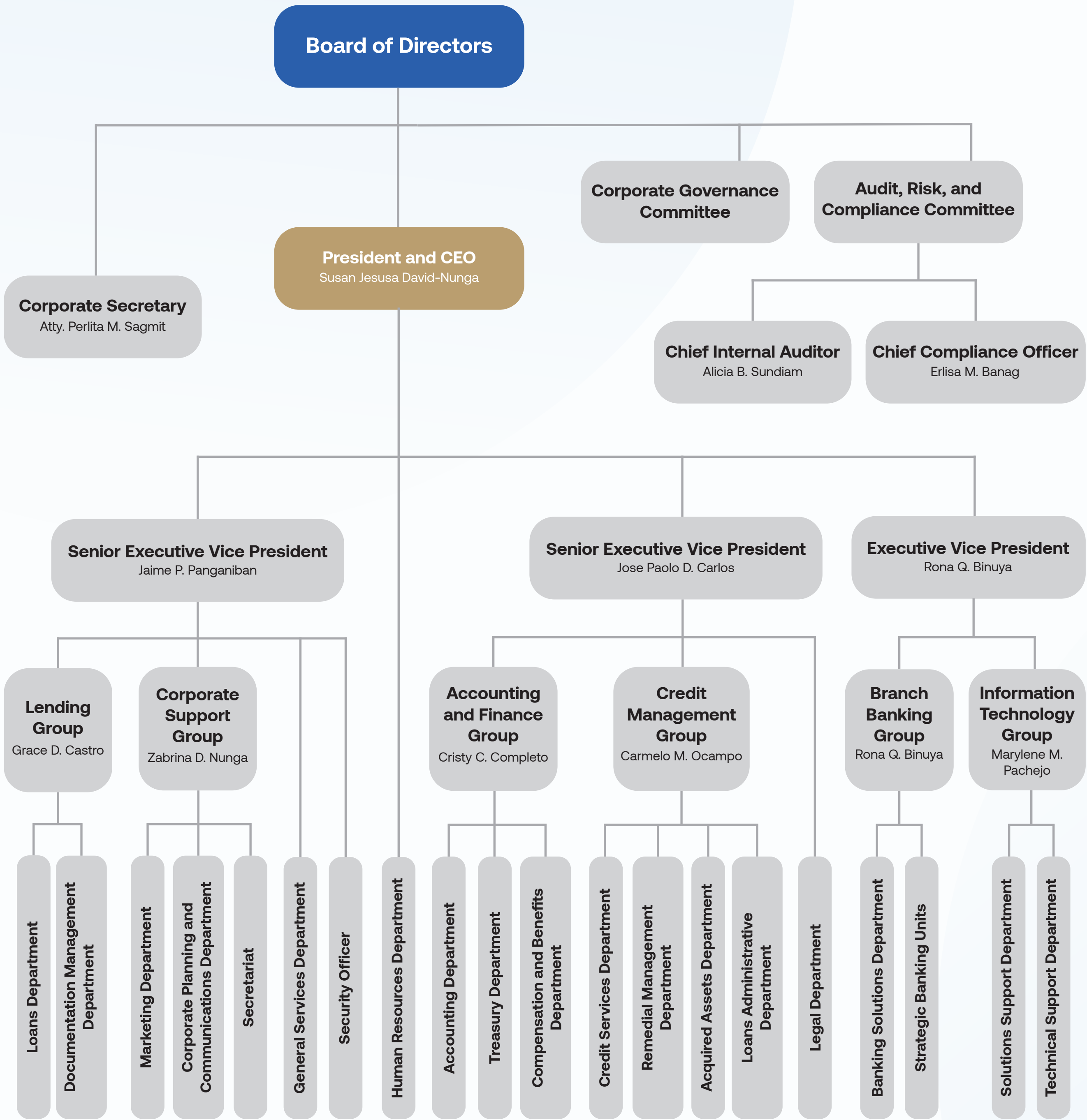
Last October 24, 2022, BOF in cooperation with House of David Foundation, Inc., met with Mabalacat City's Honorable Mayor Crisostomo C. Garbo to discuss the community's needs. We donated wheelchairs and canes to persons with disabilities with the objective of assisting them to move or walk through a helpful medium.

Gift of Mobility in Pulilan

Continuing the Gift of Mobility Project in Pulilan, on November 28, 2022, BOF together with House of David Foundation, Inc., met with Pulilan's Mayor to turnover wheelchairs and canes for disabled persons.

Organizational Chart

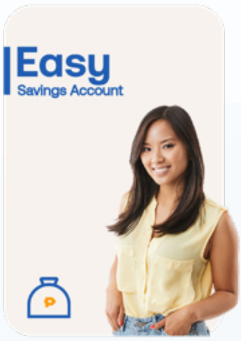
Effective October 31, 2022:



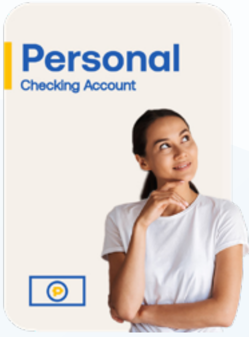
Products and Services

The essential savings account for kids.

The basic savings account to get you started.



The simple and reliable savings account for you.



The ultimate checking account that earns interest.

The optimum checking account for your business.

The ideal time deposit account for your future.

Agricultural Loans

Loans for agricultural needs such as planting, harvesting, gathering, or purchasing land, equipment, or livestock.

- Farming
- Fisheries
- Livestock

Business Loans

Loans for your business needs such as working capital to expand business and purchasing commodities.

- MSME Loan
- Real Estate Loan
- Industrial Loan
- Truck Loan

Consumer Loans

Loans for your life necessities and other essentials such as cars, houses, pensions, etc.

- Auto Loan
- Home Loan
- Fast Cash Loan
- Deposit Hold-out Loan
- SSS Pensioner's Loan

ecPAY
pera HUB
MoneyGram
PESONet
BDO Remit
US Dollar Exchange

Branch Directory

Pampanga

1. **Floridablanca Branch**
   Address: Poblacion, Floridablanca, Pampanga
   Email: floridablanca@bof.com.ph
   Landline: +63 45 970 0333
   Mobile: +63 908 814 1520

2. **Sto. Tomas Lubao Branch**
   Address: Crossing, Sto. Tomas Lubao, Pampanga
   Email: stotomaslubao@bof.com.ph
   Landline: +63 45 971 6224
   Mobile: +63 908 814 1509

3. **Sta. Cruz Lubao Branch**
   Address: C. Soto St., Sta. Cruz, Lubao, Pampanga
   Email: stacruz@bof.com.ph
   Landline: +63 45 971 6333
   Mobile: +63 908 814 1519

4. **Sto. Tomas Branch**
   Address: San Matias, Sto. Tomas, Pampanga
   Email: stotomas@bof.com.ph
   Landline: +63 45 961 2090
   Mobile: +63 908 814 1490

5. **Sta. Ana Branch**
   Address: Poblacion, Sta. Ana, Pampanga
   Email: staana@bof.com.ph
   Landline: +63 45 409 9814
   Mobile: +63 908 814 1517

6. **Arayat Branch**
   Address: Poblacion, Arayat, Pampanga
   Email: arayat@bof.com.ph
   Landline: +63 45 409 9660
   Mobile: +63 908 814 1554

7. **San Fernando Branch**
   Address: MacArthur Highway, Dolores, City of San Fernando, Pampanga
   Email: sanfernando@bof.com.ph
   Landline: +63 45 961 1460
   Mobile: +63 908 814 1487

8. **Candaba Branch**
   Address: Poblacion, Candaba, Pampanga
   Email: candaba@bof.com.ph
   Landline: +63 45 409 9998
   Mobile: +63 908 814 1571




9. **Guagua JASA Branch**

Address: Guagua Business Center, Jose Abad Santos Ave., San Matias, Guagua, Pampanga
Email: guagua@bof.com.ph
Landline: +63 45 405 0048
Mobile: +63 908 814 1521

10. **Magalang Branch**

Address: Sta. Cruz, Magalang, Pampanga
Email: magalang@bof.com.ph
Landline: +63 45 866 2334
Mobile: +63 908 814 1542

11. **Mabalacat Branch**

Address: One North Mall, MacArthur Highway, Dau, Mabalacat, Pampanga
Email: dau@bof.com.ph
Landline: +63 45 624 0008
Mobile: +63 908 814 1574

12. **Sta. Rita Branch**

Address: San Vicente, Sta. Rita, Pampanga
Email: starita@bof.com.ph
Landline: +63 45 497 0145
Mobile: +63 908 814 1489

13. **Angeles City Branch**

Address: T-Square Building, Sto. Rosario St., Sto. Domingo, Angeles City, Pampanga
Email: angelescity@bof.com.ph
Landline: +63 45 963 1280
Mobile: +63 908 814 1561

14. **Minalin Branch**

Address: 269 Poblacion, San Nicolas, Minalin, Pampanga
Email: minalin@bof.com.ph
Landline: +63 45 435 6319
Mobile: +63 908 814 1512

15. **Porac Branch**

Address: Gen. Luna St., Babo Sacan, Porac, Pampanga
Email: porac@bof.com.ph
Landline: +63 45 402 4976
Mobile: +63 908 814 1513

16. **Macabebe Branch**

Address: Brgy. San Gabriel, Macabebe, Pampanga
Email: macabebe@bof.com.ph
Landline: +63 45 403 9274
Mobile: +63 908 814 1540

17. **Guagua Plaza Branch Lite**

Address: HD Plaza Promenade, Plaza Burgos, Guagua, Pampanga
Email: guagua.lite@bof.com.ph
Landline: +63 45 961 0602
Mobile: +63 908 814 1521

18. **Bacolor Branch**

Address: Purok 1, Sta. Ines, Bacolor, Pampanga
Email: bacolor@bof.com.ph
Landline: +63 45 649 7877
Mobile: +63 908 814 1539

Bulacan

19. **Pulilan Branch**

Address: National Highway, Brgy. Paltao, Pulilan, Bulacan
Email: pulilan@bof.com.ph
Landline: +63 44 769 3283
Mobile: +63 908 814 1516

Tarlac

20. **Capas Branch**

Address: Poblacion, Capas, Tarlac
Email: capas@bof.com.ph
Landline: +63 45 925 0173
Mobile: +63 908 814 1563

Audited Financial Statements and Notes Disclosures

BOF, INC. (A RURAL BANK)
STATEMENTS OF FINANCIAL CONDITION
December 31, 2022 and 2021
(In Philippine Peso)

	NOTES	2022	2021
A S S E T S			
Cash and other cash items	6	**44,752,107**	54,339,237
Due from Bangko Sentral ng Pilipinas	6	**103,312,265**	134,741,006
Due from other banks	6	**740,934,445**	744,673,671
Financial assets at fair value through profit or loss	7	**10,331,059**	16,292,678
Other financial assets at amortized cost	8	**170,090,000**	75,341,770
Loans and receivables – net	9	**3,198,387,194**	3,034,187,452
Bank premises, furniture, fixtures and equipment – net	10	**175,354,863**	114,324,964
Right-of-use assets – net	11	**94,611,459**	94,107,164
Investment properties – net	12	**50,024,161**	108,511,348
Assets held for sale	13	**57,089,722**	-
Retirement asset – net	26	**1,304,893**	-
Deferred taxes – net	30	**42,581,445**	42,348,188
Other assets – net	14	**33,542,066**	34,951,858
TOTAL ASSETS		**4,722,315,679**	4,453,819,336
LIABILITIES AND STOCKHOLDERS' EQUITY			
L I A B I L I T I E S			
Deposit liabilities	16	**3,726,485,325**	3,478,348,163
Bills payable	17	**-**	70,000,000
Dividends payable	23	**3,919,285**	3,389,013
Income tax payable		**10,146,969**	13,810,691
Lease liabilities	18	**103,998,831**	100,555,734
Retirement liabilities – net	26	**-**	903,350
Other liabilities	19	**29,081,386**	30,865,122
TOTAL LIABILITIES		**3,873,631,796**	3,697,872,073
S T O C K H O L D E R S' E Q U I T Y			
Common Stock	21	**386,732,320**	386,732,320
Additional Paid-in Capital	21	**33,166,673**	33,166,673
Revaluation surplus	22	**15,320,903**	14,474,419
Remeasurement losses on retirement liabilities – net	26	**(241,477)**	(2,717,031)
Surplus free		**413,705,464**	324,290,882
TOTAL STOCKHOLDERS' EQUITY		**848,683,883**	755,947,263
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY		**4,722,315,679**	4,453,819,336

(See Notes to Financial Statements)

BOF, INC. (A RURAL BANK)
STATEMENTS OF COMPREHENSIVE INCOME
For the Years Ended December 31, 2022 and 2021
(In Philippine Peso)

	NOTES	2022	2021
INTEREST INCOME			
Loans and receivables	9	**288,401,556**	286,435,121
Due from other banks	6	**12,714,910**	11,270,668
Financial assets at fair value through profit or loss	7	**465,020**	706,562
Other financial assets at amortized cost	8	**4,858,005**	3,144,250
		306,439,491	301,556,601
INTEREST EXPENSE			
Deposit liabilities	16	**38,368,620**	30,729,254
Bills payable	17	**205,208**	88,125
Lease liabilities	18	**2,483,392**	1,847,732
		41,057,220	32,665,111
NET INTEREST INCOME		**265,382,271**	268,891,490
PROVISION FOR CREDIT AND IMPAIRMENT LOSSES	15	**42,371,286**	59,574,123
NET INTEREST INCOME AFTER PROVISION FOR CREDIT AND IMPAIRMENT LOSSES		**223,010,985**	209,317,367
OTHER INCOME – net	24	**134,258,578**	76,373,867
TOTAL OPERATING INCOME		**357,269,563**	285,691,234
OPERATING EXPENSES	25	**214,750,594**	175,838,259
INCOME BEFORE TAX		**142,518,969**	109,852,975
INCOME TAX EXPENSE	29	**33,354,257**	19,696,772
NET INCOME		**109,164,712**	90,156,203
OTHER COMPREHENSIVE INCOME			
ITEMS THAT WILL NOT BE RECLASSIFIED SUBSEQUENTLY TO PROFIT OR LOSS:			
Remeasurement – net	26	**2,475,554**	-
Revaluation surplus – net	30	**1,096,354**	74,961
TOTAL COMPREHENSIVE INCOME		**112,736,620**	90,231,164

(See Notes to Financial Statements)

BOF, INC. (A RURAL BANK)
STATEMENTS OF CHANGES IN EQUITY
For the Years Ended December 31, 2022 and 2021
(In Philippine Peso)

	Notes	Common Stock	Additional Paid-in Capital	Revaluation Surplus	Remeasurement losses on retirement liabilities – net	Surplus free	Total
Balance, January 1, 2021		386,732,320	33,166,673	14,649,328	(2,717,031)	245,884,809	**677,716,099**
Net income						90,156,203	**90,156,203**
Cash dividends declared	23					(12,000,000)	**(12,000,000)**
Piecemeal realization of revaluation surplus	10			(249,870)		249,870	**-**
Revaluation surplus – net	10,30			74,961			**74,961**
Balance, December 31, 2021	10,23,30	**386,732,320**	**33,166,673**	**14,474,419**	**(2,717,031)**	**324,290,882**	**755,947,263**
Net income						109,164,712	**109,164,712**
Cash dividends declared	23					(20,000,000)	**(20,000,000)**
Piecemeal realization of revaluation surplus	10			(249,870)		249,870	**-**
Revaluation surplus – net	10,30			1,096,354			**1,096,354**
Remeasurement – net	26				2,475,554		**2,475,554**
Balance, December 31, 2022	10,23,26,30	**386,732,320**	**33,166,673**	**15,320,903**	**(241,477)**	**413,705,464**	**848,683,883**

(See Notes to Financial Statements)

BOF, INC. (A RURAL BANK)
STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2022 and 2021
(In Philippine Peso)

	NOTES	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before tax		**142,518,969**	109,852,975
Adjustments for:			
Provision for credit and impairment losses	15	**42,371,286**	59,574,123
Depreciation and amortization	28	**28,251,883**	27,164,199
Write-off of bad debts	9,25	**9,534,630**	1,255,809
Retirement benefits	25,26	**9,301,268**	3,962,205
Interest expense	17,18	**2,688,600**	1,935,857
Unrealized loss on financial assets at FVTPL and due from other banks	6,7,24	**973,930**	919,814
Write-off of investment	7,25	**3,000**	-
Interest income from financial assets at FVTPL	7	**(465,020)**	(706,562)
Recovery on charged-off assets	9,24	**(2,718,676)**	(1,254,863)
Interest income from financial assets at amortized cost	8	**(4,858,005)**	(3,144,250)
Gain on reversal of impairment loss	10,12,24	**(9,414,551)**	-
Interest income from due from other banks	6	**(12,714,910)**	(11,270,668)
Loss (Gain) on sale of bank premises, furniture, fixtures and equpment	10,24	**(31,761,021)**	4,493
Gain on sale of investment properties	12,24	**(58,655,496)**	(41,593,522)
Operating cash flows before changes in working capital		**115,055,887**	146,699,610
Decrease (Increase) in operating assets:			
Loans and receivables		**(230,412,178)**	(494,790,102)
Other assets		**1,293,580**	(13,338,437)
Increase (Decrease) in operating liabilities:			
Deposit liabilities		**248,137,162**	251,624,578
Other liabilities		**(1,755,611)**	(8,574,881)
Net cash generared from (used in) operations		**132,318,840**	(118,379,232)
Interest received	6,7,8	**18,037,935**	15,121,480
Contributions to plan assets	26	**(8,208,772)**	(2,595,264)
Income tax paid		**(36,980,067)**	(29,958,681)
Net cash from (used in) operating activities		**105,167,936**	(135,811,697)
CASH FLOWS FROM INVESTING ACTIVITIES			
Proceeds from disposal of investment properties	12	**73,768,843**	56,701,778
Proceeds from disposal of bank premises, furnitures and equipment	10	**50,000,001**	9,858
Matured investment in FA at amortized cost	8	**5,251,770**	45,000,000
Matured investment in FA at FVTPL	7	**5,000,000**	-
Acquisition of bank premises, furniture, fixtures and equipment	10	**(85,398,211)**	(36,487,183)
Additional investments at FA at amortized cost	8	**(100,000,000)**	-
Net cash from (used in) investing activities		**(51,377,597)**	65,224,453
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from availment of bills payable	17	**10,000,000**	70,000,000
Interest paid on bills payable	17	**(233,333)**	(60,000)
Final tax paid	23	**(1,191,099)**	(718,704)
Interest paid on lease liabilities	18	**(2,483,392)**	(1,847,732)
Payment of lease liabilities	18	**(6,343,672)**	(6,218,993)
Dividends paid	23	**(18,278,629)**	(10,920,043)
Payment of bills payable	17	**(80,000,000)**	(30,000,000)
Net cash from (used in) financing activities		**(98,530,125)**	20,234,528
NET EFFECTS OF FOREIGN EXCHANGE RATE CHANGES ON CASH	6	**(15,311)**	468,451
NET DECREASE IN CASH AND CASH EQUIVALENTS		**(44,755,097)**	(49,884,265)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		**933,753,914**	983,638,179
CASH AND CASH EQUIVALENTS AT END OF YEAR		**888,998,817**	933,753,914

(See Notes to Financial Statements)

BOF, INC. (A RURAL BANK)
NOTES TO FINANCIAL STATEMENTS
December 31, 2022 and 2021

1. CORPORATE INFORMATION

BOF, Inc. (A Rural Bank) (the "Bank") was incorporated and registered with the Philippine Securities and Exchange Commission (SEC) on November 6, 2013 with Registration No. CS201318515. Pursuant to Republic Act No. 7353 and Monetary Board Resolution No. 573 dated April 4, 2013, it was granted on December 17, 2013 license to operate as a Rural Bank.

The Bank was organized under Rural Bank Act of 1952 (Republic Act No. 720, as amended by Republic Act No. 7353) primarily to carry and engage in the business of extending credits to small farmers and tenants and to deserving industries or enterprises; to have and exercise all authority and powers to do and perform all acts, and 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 purpose within such territory, as may be determined by the Monetary Board of the Bangko Sentral ng Pilipinas (BSP).

The Bank's principal and registered address is located at McArthur Highway, Dolores, City of San Fernando, Pampanga, Philippines.

The Bank currently holds its main office at San Fernando, Pampanga. The Bank currently has 20 branches (including a branch lite), including the main office located at:

No.	Branches	Address
1	Angeles	Stall 2 T-Square Bldg., Sto Rosario St., Sto. Domingo, Angeles City
2	Arayat	BOF Bldg., Poblacion, Arayat, Pampanga
3	Candaba	BOF Bldg., San Agustin, Candaba, Pampanga
4	Capas	Poblacion, Capas, Tarlac
5	Mabalacat	Unit 2 One North Mall, Mc Arthur Hi-way, Dau, Mabalacat City, Pampanga
6	Floridablanca	BOF Bldg., Macabulos St., Poblacion, Floridablanca, Pampanga
7	Guagua	Guagua Business Center, JASA, San Matias, Guagua, Pampanga
8	Magalang	Mona Bldg., Luciano St., Sta. Cruz, Magalang, Pampanga
9	Minalin	MBM Bldg., Plaza San Nicolas, Minalin, Pampanga
10	Porac	Gen. Luna St., Brgy. Babo Sacan, Porac, Pampanga
11	Pulilan	National Hi-way, Paltao, Pulilan, Bulacan
12	San Fernando	BOF Bldg., Mc Arthur Hi-way, Dolores, City of San Fernando, Pampanga (Main Branch)
13	Sta. Ana	San Joaquin, Poblacion, Sta. Ana, Pampanga
14	Sta. Cruz – Lubao	BOF Bldg., Crisostomo Sotto St., Sta. Cruz, Lubao, Pampanga

(Forwarded)

(Continued)

15	Sta. Rita	HD Bldg., San Vicente Sta. Rita Pampanga
16	Sto. Tomas	Mc Arthur Hi-way, San Matias, Sto. Tomas, Pampanga
17	Sto. Tomas – Lubao	BOF Bldg., Crossing St., Sto. Tomas, Lubao, Pampanga
18	Macabebe	San Gabriel, Macabebe, Pampanga
19	Guagua Branch Lite	HD Plaza Atrium Bldg., Plaza Burgos, Guagua, Pampanga
20	Bacolor	Sta. Ines, Bacolor, Pampanga

2. ADOPTION OF NEW AND REVISED ACCOUNTING STANDARDS

The Financial and Sustainability Reporting Standards Council (FSRSC) approved the issuance of new and revised Philippine Financial Reporting Standards (PFRS). The term "PFRS" in general includes all applicable PFRS, Philippine Accounting Standards (PAS), and Interpretations issued by the Philippine Interpretations Committee (PIC), Standing Interpretations Committee (SIC) and International Financial Reporting Interpretations Committee (IFRIC) which have been approved by the FSRSC and adopted by SEC.

These new and revised PFRS prescribe new accounting recognition, measurement and disclosure requirements applicable to the Bank. When applicable, the adoption of the new standards was made in accordance with their transitional provisions, otherwise the adoption is accounted for as change in accounting policy under PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*.

2.01 New and Revised PFRSs Applied with No Material Effect on the Financial Statements

The following new and revised PFRSs have been adopted in these financial statements. The application of these new and revised PFRSs has not had any material impact on the amounts reported for the current and prior years but may affect the accounting for future transactions or arrangements.

- Amendments to PFRS 16, *COVID-19-Related Rent Concessions beyond June 30, 2021*

  The following are the amendments to PFRS 16:

  - permit a lessee to apply the practical expedient regarding COVID-19-related rent concessions to rent concessions for which any reduction in lease payments affects only payments originally due on or before June 30, 2022 (rather than only payments originally due on or before June 30, 2021);
  - require a lessee applying the amendment to do so for annual reporting periods beginning on or after April 1, 2021;
  - require a lessee applying the amendment to do so retrospectively, recognising the cumulative effect of initially applying the amendment as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate) at the beginning of the annual reporting period in which the lessee first applies the amendment; and
  - specify that, in the reporting period in which a lessee first applies the amendment, a lessee is not required to disclose the information required by paragraph 28(f) of PAS 8.

The amendments are effective for annual reporting periods beginning on or after April 1, 2021.

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

  The following are the amendments in reference to the conceptual framework:

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

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

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

  The amendments prohibit a company from deducting from the cost of property, plant and equipment amounts received from selling items produced while the company is preparing the asset for its intended use. Instead, a company will recognize such sales proceeds and related cost in profit or loss.

  The amendments are effective for annual periods beginning on or after January 1, 2022. An entity applies the amendments retrospectively only to items of property, plant and equipment that are brought to the location and condition necessary for them to be capable of operating in the manner intended by management on or after the beginning of the earliest period presented in the financial statements in which the entity first applies the amendments.

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

  The amendments specify that the ‘cost of fulfilling’ a contract comprises the ‘costs that relate directly to the contract’. Costs that relate directly to a contract 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 are effective for annual periods beginning on or after January 1, 2022. Entities apply the amendments to contracts for which the entity has not yet fulfilled all its obligations at the beginning of the annual reporting period in which the entity first applies the amendments. Comparatives are not restated.

- Annual Improvements to PFRS Standards 2018-2020 Cycle

  Amendments to PFRS 1, *Subsidiary as a first-time adopter* - The amendment permits a subsidiary that applies paragraph D16(a) of PFRS 1 to measure cumulative translation differences using the amounts reported by its parent, based on the parent's date of transition to PFRSs.

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

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

  Amendments to PAS 41, *Taxation in fair value measurements* - The amendment removes the requirement in paragraph 22 of PAS 41 for entities to exclude taxation cash flows when measuring the fair value of a biological asset using a present value technique. This will ensure consistency with the requirements in PFRS 13.

  The amendments are effective for annual reporting periods beginning on or after January 1, 2022.

2.02 New and Revised PFRSs in Issue but Not Yet Effective

The Bank will adopt the following standards and interpretations enumerated below when they become effective. Except as otherwise indicated, the Bank does not expect the adoption of these new and amended PFRS, to have significant impact on the financial statements.

2.02.01 Standard Adopted by FSRSC and Approved by the Board of Accountancy (BOA)

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

  The amendments to PAS 1 are the following:

  - 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 defer the effective date of the January 2020 *Classification of Liabilities as Current or Non-Current (Amendments to PAS 1)* to annual reporting periods beginning on or after January 1, 2023. Earlier application of the January 2020 amendments continues to be permitted.

- Amendments to PAS 8, *Definition of Accounting Estimates*

  The definition of accounting estimates has been amended as follows: accounting estimates are "monetary amounts in financial statements that are subject to measurement uncertainty".

  The amendment also clarifies the following:

  - Entities develop accounting estimates if accounting policies require items in financial statements to be measured in a way that involves measurement uncertainty.
  - 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 recognised as income or expense in the current period. The effect, if any, on future periods is recognised as income or expense in those future periods.

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

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

  The amendments to PAS 1 are the following:

  - an entity is now required to disclose its material accounting policy information instead of its significant accounting policies;
  - several paragraphs are added to explain how an entity can identify material accounting policy information and to give examples of when accounting policy information is likely to be material;

  The amendments also clarify the following:

  - accounting policy information may be material because of its nature, even if the related amounts are immaterial;
  - 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
  - if an entity discloses immaterial accounting policy information, such information shall not obscure material accounting policy information.

In addition, PFRS Practice Statement 2 has been amended by adding guidance and examples to explain and demonstrate the application of the 'four-step materiality process' to accounting policy information in order to support the amendments to PAS 1.

The amendments are effective for annual reporting periods beginning on or after January 1, 2023, with earlier application permitted.

- Amendment to PAS 12, *Deferred tax related to assets and liabilities arising from a single transaction*

  The amendments introduce an exception to the initial recognition exemption (IRE) in PAS 12. Additional exclusions have been added to the IRE, detailed in paragraphs 15(b)(iii) and 24(c) for deferred tax liabilities and assets respectively. The effects of these amendments essentially mean that the IRE is not available for transactions which involve the recognition of both an asset and liability – which in turn leads to equal and opposite temporary differences – such that deferred taxes are calculated and booked for both temporary differences, both at initial recognition and subsequently. Applying this exception, an entity does not apply the initial recognition exemption for transactions that give rise to equal taxable and deductible temporary differences.

  The initial recognition exemption was initially included within PAS 12 to prevent a lack of reporting transparency for transactions which are not business combinations and, at the time of the transaction, do not affect either accounting or taxable profits. Under this exemption, deferred tax assets/liabilities would neither be recognized at initial recognition of the underlying asset/liability, nor subsequently.

  The amendments apply to transactions that occur on or after the beginning of the earliest comparative period presented. In addition, the amendments also apply to taxable and deductible temporary differences associated with right-of-use assets and lease liabilities, and decommissioning obligations and corresponding amounts recognized as assets at the beginning of the earliest comparative period presented.

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

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

  The amendment is a transition option relating to comparative information about financial assets presented on initial application of PFRS 17. The amendment is aimed at helping entities to avoid temporary accounting mismatches between financial assets and Insurance contract liabilities, and therefore improve the usefulness of comparative information for users of financial statements.

  PFRS 17 incorporating the amendment is effective for annual reporting periods beginning on or after January 1, 2025.

- PFRS 17, *Insurance Contracts*

  PFRS 17 sets out the requirements that an entity should apply in reporting information about insurance contracts it issues and reinsurance contracts it holds. It requires an entity that issues insurance contracts to report them on the balance sheet as the total of the fulfilment cash flows and the contractual service margin. It requires an entity to provide information that distinguishes two ways insurers earn profits from insurance contracts: the insurance service result and the financial result. It requires an entity to report as insurance revenue the amount charged for insurance coverage when it is earned, rather than when the entity receives premium. It requires that insurance revenue to exclude the deposits that represent the investment of the policyholder, rather than an amount charged for services. Similarly, it requires the entity to present deposit repayments as settlements of liabilities rather than as insurance expense.

  PFRS 17 is effective for annual periods beginning on or after January 1, 2025. Early application is permitted for entities that apply PFRS 9, *Financial Instruments* and PFRS 15, *Revenue from Contracts with Customers* on or before the date of initial application of PFRS 17.

  An entity shall apply PFRS 17 retrospectively unless impracticable, except that an entity is not required to present the quantitative information required by paragraph 28(f) of PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors* and an entity shall not apply the option in paragraph B115 for periods before the date of initial application of PFRS 17. If, and only if, it is impracticable, an entity shall apply either the modified retrospective approach or the fair value approach.

- Amendments to PFRS 17, *Insurance Contracts*

  The amendments cover the following areas:

  - Insurance acquisition cash flows for renewals outside the contract boundary;
  - Reinsurance contracts held—onerous underlying insurance contracts;
  - Reinsurance contracts held—underlying insurance contracts with direct participation features; and
  - Recognition of the contractual service margin in profit or loss in the general model.

  The amendments are affective to annual reporting periods beginning on or after January 1, 2025.

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

  The amendment is a transition option relating to comparative information about financial assets presented on initial application of PFRS 17. The amendment is aimed at helping entities to avoid temporary accounting mismatches between financial assets and Insurance contract liabilities, and therefore Improve the usefulness of comparative information for users of financial statements.

  PFRS 17 incorporating the amendment is effective for annual reporting periods beginning on or after January 1, 2025.

<u>2.02.02 Deferred</u>

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

  The amendments clarify the treatment of the sale or contribution of assets between an investor and its associate and joint venture. This requires an investor in its financial statements to recognize in full the gains and losses arising from the sale or contribution of assets that constitute a business while recognize partial gains and losses if the assets do not constitute a business (i.e. up to the extent only of unrelated investor share).

  On January 13, 2016, the FSRSC decided to postpone the original effective date of January 1, 2016 of the said amendments until the IASB has completed 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.

3. BASIS FOR THE PREPARATION AND PRESENTATION OF FINANCIAL STATEMENTS

3.01 Statement of Compliance

The financial statements have been prepared in conformity with the Philippine Financial Reporting Standards (PFRS). The financial statements have been prepared under the historical cost convention, except for properties carried at revalued amounts and financial instruments that are carried either at fair value or at amortized cost.

3.02 Functional and Presentation 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").

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

3.03 Order of Liquidity Presentation

Assets and liabilities of the Bank are presented in decreasing order of liquidity.

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 Fair Value Measurement

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.

When measuring fair value the Bank takes into consideration the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date.

A fair value measurement assumes that the transaction to sell the asset or liability is exchanged in an orderly transaction between market participants to sell the asset or transfer the liability at the measurement date under current market conditions. In addition, it assumes that the transaction takes place either: (a) in the principal market; or (b) in the absence of a principal market, in the most advantageous market.

The Bank considers the fair value of an asset or a liability 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.

A fair value measurement assumes that a financial or non-financial liability or an entity's own equity instruments (e.g. equity interests issued as consideration in a business combination) is transferred to a market participant at the measurement date. The transfer of a liability or an entity's own equity instrument assumes the following:

- A liability would remain outstanding and the market participant transferee would be required to fulfil the obligation. The liability would not be settled with the counterparty or otherwise extinguished on the measurement date.
- An entity's own equity instrument would remain outstanding and the market participant transferee would take on the rights and responsibilities associated with the instrument. The instrument would not be cancelled or otherwise extinguished on the measurement date.

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

The fair value hierarchy gives the highest priority to quoted prices (unadjusted) in active markets for identical assets or liabilities and the lowest priority to unobservable inputs.

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.
- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 inputs are unobservable inputs for the asset or liability.

4.02 Financial Assets

4.02.01 Initial Recognition and Measurement

The Bank shall recognize a financial asset in its statements of financial condition when, and only when, the Bank becomes a party to the contractual provisions of the instrument.

At initial recognition, the Bank shall measure a financial asset at its fair value plus, in the case of financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset.

4.02.02 Classification

➢ Financial Asset at Amortized Cost

A financial asset shall be measured at amortized cost if both of the following conditions are met:

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

The Bank's financial assets measured at amortized cost include due from BSP, due from other banks, loans and receivables, other financial assets at amortized cost, and accrued interest receivable, refundable deposit, accounts receivable and petty cash fund presented under 'other assets – net'.

a. Due from BSP and Other Banks

Due from BSP refers to the balance of the deposit account maintained with the BSP. Due from other banks pertain to cash deposits held at call with banks that are subject to insignificant risk of change in value. This shall be measured at the undiscounted amount of the cash or other consideration expected to be paid or received.

b. Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. This category includes financial assets such as direct loans to customers.

Loans and receivables are measured at amortized cost using the effective interest method, less any impairment. Interest income is recognized by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

c. Other Financial Assets at Amortized Cost

This pertains to treasury notes and retail treasury bonds which are fully guaranteed by the Philippine government. The contractual cash flow characteristics of this financial asset are solely for payments of principal and interest on the principal amount outstanding. While, the Bank's business model is to hold this financial asset in order to collect contractual cash flows.

This is subsequently measured at amortized cost using the effective interest method less any impairment, with revenue recognized on an effective yield basis.

- Financial Asset at Fair Value through Profit or Loss

  A financial asset shall be measured at fair value through profit or loss unless it is measured at amortized cost or at fair value through other comprehensive income.

  The Bank, at initial recognition, irrevocably designates a financial asset as measured at fair value through profit or loss, because it eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognizing the gains and losses on them on different bases.

  The Bank's financial assets at fair value through profit or loss include debt and equity investments.

  A financial asset shall be measured at fair value through other comprehensive income if both of the following conditions are met:

  - the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and
  - the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The Bank has no financial assets measured at fair value through other comprehensive income in both years.

4.02.03 Reclassification

When and only when, the Bank changes its business model for managing financial assets it shall reclassify all affected financial assets in accordance with Note 4.02.02. If the Bank reclassifies financial assets, it shall apply the reclassification prospectively from the reclassification date. The Bank shall not restate any previously recognized gains, losses (including impairment gains or losses) or interest.

4.02.04 Effective Interest Method

The effective interest method is a method of calculating the amortized cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts, through the expected life of the debt instrument, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Income is recognized on an effective interest basis for debt instruments.

4.02.05 Impairment

4.02.05.01 Expected Credit Loss Model

The Bank will conduct a study on the requirements of PFRS 9's Expected Credit Loss methodology. Currently, the Bank adopts Appendix 15 of Manual of Regulations for Banks (MORB) in setting up of allowance for credit losses.

As a general rule, Especially Mentioned and Substandard – Underperforming [e.g., substandard accounts that are unpaid or with missed payment of less than ninety (90) days shall be considered as Stage 2 accounts, while Substandard Non-performing, Doubtful, and Loss accounts shall be considered as Stage 3 accounts.

a. Individually Assessed Credit Exposures

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

  For unsecured loans and other credit exposures:

No. of Days Unpaid/with Missed Payment	Classification	Minimum ACL	Stage
31 - 90 days	Substandard (underperforming)	10%	2
91 - 120 days	Substandard (non-performing)	25%	3
121 - 180 days	Doubtful	50%	3
181 days and over	Loss	100%	3

  For secured loans and other credit exposures:

No. of Days Unpaid/with Missed Payment	Classification	Minimum ACL	Stage
31 - 90 days*	Substandard (underperforming)	10%	2
91 - 180 days*	Substandard (non-performing)	10%	3
181 - 365 days	Substandard (non-performing)	25%	3
Over a year - 5 years	Doubtful	50%	3
Over 5 years	Loss	100%	3

  * *When there is imminent possibility of foreclosure and expectation of loss, ACL shall be increased to 25%.*

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

- Loans and other credit exposures that exhibit the characteristics for classified accounts described under Section 143 *Credit Classification and Provisioning* shall be provided with ACL as follows:

Classification	Minimum ACL	Stage
Especially Mentioned	5%	2
Substandard – Secured	10%	2 or 3
Substandard – Unsecured	25%	2 or 3
Doubtful	50%	3
Loss	100%	3

b. Collectively Assessed Loans and other Credit Exposures

- Current "*Pass*" loans and other credit accommodations should be provided with a reasonable level of collective allowance, using historical loss experience adjusted for current conditions.
- Loans and other credit exposures with unpaid principal and/or interest shall be classified and provided with ACL based on the number of days of missed payments as follows:

  For unsecured loans and other credit exposures:

No. of Days Unpaid/with Missed Payment	Classification	Minimum ACL	Stage
1 – 30 days	Especially Mentioned	2%	2
31 - 60 days	Substandard	25%	2 or 3
1st restructuring 61 – 90 days	Doubtful	50%	3
91 days and over/ 2nd restructuring	Loss	100%	3

  For secured loans and other credit exposures:

No. of Days Unpaid/with Missed Payment	Classification	Minimum ACL		Stage
		Other types of collateral	Secured by real estate	
31 - 90 days	Substandard (underperforming)	10%	10%	2
91 - 120 days	Substandard (non-performing)	25%	15%	3
121 - 360 days	Doubtful	50%	25%	3
361 days - 5 years	Loss	100%	50%	3
Over 5 years	Loss	100%	100%	3

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

As part of the Bank's policy, it implements a curing period prior to booking of past due loans, effective April 05, 2019 as follows:

Loan Product	**Curing Period**
Regular Loan	30 days
Auto Loan	20 days
Unsecured Loan	10 days

4.02.06 Derecognition

The Bank shall derecognize a financial asset when, and only when the contractual rights to the cash flows the financial asset expire or it transfers the financial asset and the transfer qualifies for derecognition. The difference between the carrying amount and the consideration received shall be recognized in profit or loss.

4.02.07 Write-off

The Bank shall directly reduce the gross carrying amount of a financial asset when the Bank has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. A write-off constitutes a derecognition event.

4.03 Bank Premises, Furniture, Fixtures and Equipment

Bank premises, furniture, fixtures and equipment are initially measured at cost. The cost of an asset consists of its purchase price and costs directly attributable to bringing the asset to its working condition for its intended use. Subsequent to initial recognition, bank premises, furniture, fixtures and equipment are carried at cost less accumulated depreciation.

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. All other subsequent expenditures are recognized as expenses in the period in which those are incurred.

Land and building held for use in the production or supply of goods or services, or for administrative purposes, is stated in the statements of financial condition at their revalued amounts, being the fair value at the date of revaluation, determined from market-based evidence by appraisal undertaken by professional appraisers, less any subsequent accumulated depreciation and accumulated impairment losses. Revaluations are performed with sufficient regularity such that the carrying amounts do not differ materially from that which would be determined using fair values at the end of the reporting period.

Any revaluation increase arising on the revaluation of land and building is credited to revaluation surplus, except to the extent that it reverses a revaluation decrease for the same asset previously recognized as an expense, in which case the increase is credited to the profit or loss to the extent of the decrease previously charged. A decrease in carrying amount arising on the revaluation of such revalued assets is charged as an expense to the extent that it exceeds the balance, if any, held in the revaluation surplus relating to a previous revaluation of those assets.

Land is not depreciated. Depreciation is computed on the straight-line method, based on the estimated useful lives of the assets as follows:

Building	20 years
Furniture and fixtures	5 years
Transportation equipment	5 years
IT equipment	3 years

Leasehold rights and improvements are depreciated over the shorter between the improvements' useful life of 20 years or the lease term.

The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted prospectively if appropriate, if there is an indication of a significant change since the last reporting date.

Properties in the course of construction for rental or administrative purposes are carried at cost, less any recognized impairment loss. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

On the subsequent sale or retirement of a revalued property, the attributable revaluation surplus remaining in the revaluation reserve is transferred directly to retained earnings.

An item of bank premises, furniture, fixtures and equipment is derecognized on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of a bank premises, furniture, fixtures and equipment are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in profit or loss when the asset is derecognized.

4.04 Investment Properties

Investment properties pertain to Real and Other Properties Acquired (ROPA). Settlement of loans through foreclosure or dation in payment shall be booked under the ROPA account as follows:

(i) Upon entry of judgment in case of judicial foreclosure;

(ii) Upon execution of the sheriff's certificate of sale in case of extrajudicial foreclosure; and,

(iii) Upon notarization of the deed of dacion in case of dation in payment (dacion en pago)

If the carrying amount of ROPA exceeds ₱5 million, the appraisal of the foreclosed/purchased asset shall be conducted by an independent appraiser acceptable to the BSP.

ROPA is recognized as investment property when the asset is yet to be classified as asset held-for-sale. Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are carried at cost less any impairment in value.

An investment properties acquired through an exchange transaction is measured at fair value of the asset acquired unless the fair value of such an asset cannot be measured in which case the investment properties acquired is measured at the carrying amount of asset given up.

Expenditures incurred after the investment properties has been put into operations, such as repairs and maintenance costs, are normally charged against operations in the period in which the costs are incurred.

Allowance for impairment losses is recognized for any anticipated losses based on appraisal reports, current negotiations and programs to dispose these properties and the provisioning requirement of the BSP. The BSP requires banks to set up allowance for impairment losses based primarily on the holding period of the assets. Land, building and other non-financial assets not held for sale are impaired in accordance with Note 4.07.

Investment properties are derecognized when they have either been disposed of or are permanently withdrawn from use and no future benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment properties are recognized in the statements of comprehensive income under 'gain or loss on sale of assets' in the year of retirement or disposal.

4.05 Assets Held for Sale

Assets and disposal groups are classified as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one (1) year from the date of classification.

Assets and disposal groups classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell.

The Bank shall recognize an impairment loss for any initial or subsequent write-down of the asset to fair value less costs to sell.

The Bank shall recognize a gain for any subsequent increase in fair value less costs to sell of an asset, but not in excess of the cumulative impairment loss that has been recognized either in accordance with PFRS 5 or previously in accordance with PAS 36.

4.06 Intangible Assets

Intangible assets acquired separately are initially carried at cost. Subsequently, intangible assets with definite useful lives are carried at cost less accumulated amortization and accumulated impairment losses. Amortization is recognized on a straight-line basis over their estimated useful lives.

The estimated useful life of intangible assets is five (5) years.

The estimated residual value, useful life and amortization method are reviewed at the end of each annual reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

An intangible asset is derecognized on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in profit or loss when the asset is derecognized.

4.07 Impairment of Assets

At each reporting date, the Bank assesses whether there is any indication that any assets other than assets held for sale, deferred tax assets, assets arising from employee benefits, and financial assets that are within the scope of PFRS 9, *Financial Instruments*, may have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset 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 unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

When an impairment loss subsequently reverses, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset or cash-generating unit in prior years. A reversal of an impairment loss is recognized as income, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

4.08 Borrowing Costs

Borrowing costs are recognized in profit or loss in the period in which they are incurred.

4.09 Financial Liabilities

4.09.01 Initial Recognition and Measurement

The Bank recognizes a financial liability in its statements of financial condition when, and only when, the Bank becomes party to the contractual provisions of the instrument.

At initial recognition, the Bank measures a financial liability at its fair value minus transaction costs that are directly attributable to the acquisition or issue of the liability.

4.09.02 Classification

The Bank classifies all financial liabilities as subsequently measured at amortized, except for:

- financial liabilities at fair value through profit or loss;
- financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies;
- financial guarantee contracts;
- commitments to provide a loan at a below-market interest rate; and
- contingent consideration recognized by an acquirer in a business combination.

The Bank's financial liabilities measured at amortized cost include deposit liabilities, bills payable, dividends payable, lease liabilities and other liabilities (except for payable to government agencies and unearned income).

The Bank has no financial liabilities measured at fair value through profit or loss in both years.

4.09.03 Derecognition

The Bank removes a financial liability (or part of a financial liability) from its statements of financial condition when, and only when, it is extinguished (i.e. when the obligation in the contract is discharged or cancelled or expired).

The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognized in profit or loss.

4.10 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.

Ordinary shares are classified as equity.

4.11 Employee Benefits

4.11.01 Short-term Benefits

The Bank recognizes a liability net of amounts already paid and an expense for services rendered by employees during the accounting period. Short-term benefits given by the Bank to its employees include salaries and wages, employee benefits, directors' fee, and other benefits.

4.11.02 Post-employment Benefits

The Bank has funded, non-contributory retirement plan. This benefit defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

The cost of providing benefits is determined using the Projected Unit Credit Method (PUCM) which reflects services rendered by employees to the date of valuation and incorporates assumptions concerning employees' projected salaries. Post-employment expenses include current service cost, and net interest on defined benefit asset/liability. Remeasurements which include cumulative actuarial gains and losses are recognized directly in other comprehensive income and is also presented under equity in the statements of financial condition.

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

The asset or liability recognized in the statements of financial condition in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated annually by using the PUCM. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of market rates on government bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension obligation.

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

4.12 Provisions and Contingent Liabilities

4.12.01 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 of 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.

4.12.02 Contingent Liabilities

Contingent liabilities are not recognized because their existence will be confirmed only by the occurrence or non-occurrence of one (1) or more uncertain future events not wholly within the control of the Company.

Contingent liabilities are disclosed, unless the possibility of an outflow of resources embodying economic benefits is remote.

4.13 Revenue Recognition

The Bank recognizes revenue when (or as) the Bank satisfies a performance obligation by transferring a promised good or service (i.e. asset) to a customer. An asset is transferred when (or as) the customer obtains control of that asset.

4.13.01 Interest Income and Expense

Interest income and expense are recognized in the statements of comprehensive income for all instruments measured at amortized cost using the effective interest method.

The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability and allocating interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument (for example prepayment options) but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Once a financial asset or a group of similar assets has been written down as a result of an impairment loss, interest income is recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

4.13.02 Rental Income

The Bank's policy for recognition of revenue from operating leases is described in Note 4.15.

4.13.03 Principal versus Agent Considerations

The Bank should determine whether it is a principal or an agent in a transaction through the nature of its promise in a performance obligation.

The Bank determines whether the nature of its promise is a performance obligation to provide a specified service itself (i.e. the Bank is a principal) or to arrange for the other party to provide those services (i.e. the Bank is an agent).

The Bank is a principal if it controls a promised service before it transfers the service to a customer. It recognizes revenue in the gross amount of consideration to which it expects to be entitled in exchange for those services transferred.

The Bank is an agent if its performance obligation is to arrange for the provision of services by another party. It recognizes revenue in the amount of any fee or commission to which it expects to be entitled in exchange for arranging for the other party to provide its services.

4.13.04 Performance Obligations Satisfied at a Point in Time

If a performance obligation is not satisfied over time, the Bank satisfies the performance obligation at a point in time. The Bank considers indicators of the transfer of control, which include, but are not limited to, the following:

- The Bank has a present right to payment for the asset.
- The customer has legal title to the asset.
- The Bank has transferred physical possession of the asset.
- The customer has the significant risks and rewards of ownership of the asset.
- The customer has accepted the asset.

Sale of goods encompasses the sale of investment properties.

4.13.05 Performance Obligations Satisfied Over Time

The Bank recognizes revenue over time, this is when the customers simultaneously receive and consume the benefits provided by the Bank's performance as the Bank performs.

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for services provided in the normal course of business.

Income encompasses service charges and fees related to acquisition and origination of loan. These are amortized and recognized as income over the term of the loan.

4.14 Expense Recognition

Expense encompasses losses as well as those expenses that arise in the course of the ordinary activities of the Bank.

The Bank recognizes expenses in the statements of comprehensive income when a decrease in future economic benefits related to a decrease in an asset or an increase of a liability has arisen that can be measured reliably.

4.15 Leases

4.15.01 The Bank as Lessee

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 a consideration. To apply this definition the Bank assesses whether the contract meets three key evaluations, 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.
- The Bank has the right to direct the use of the identified asset throughout the period of use. The Bank assesses whether it has the right to direct how and for what purpose the asset is used throughout the period of use.

Right-of-Use (ROU) Asset

At the commencement date, the Bank measures the ROU asset at cost, which comprises of:

- initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any incentives received;
- any initial direct costs incurred by the Bank; and
- an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories. The Bank incurs the obligation for those costs either at the commencement date or as a consequence of having used the underlying asset during a particular period.

ROU asset is subsequently measured at cost less accumulated depreciation and accumulated impairment losses. The Bank depreciates the ROU asset on a straight-line basis from the lease commencement date to the earlier of the end of the useful life of the ROU asset or the end of the lease term. The Bank also assesses the ROU asset for impairment when such indicators exist.

The Bank has elected to account for short-term leases and low-value assets using the practical expedients. Instead of recognizing an ROU 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.

ROU assets are presented as a separate line item on the statements of financial condition.

Lease Liability

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 if not, the Bank uses the incremental borrowing rate.

At the commencement date, the lease payments included in the measurement of the lease liability comprise the following payments for the right to use the underlying asset during the lease term that are not paid at the commencement date:

- fixed payments (including in-substance fixed payments), less any incentives receivable;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable by the lessee under the residual value guarantees;
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising an option to terminate the lease.

After the commencement date, the Bank measures the lease liability by:

- increasing the carrying amount to reflect interest on the lease liability;

- reducing the carrying amount to reflect the lease payments made; and
- remeasuring the carrying amount to reflect any reassessment or lease modifications or to reflect in-substance fixed lease payments.

The Bank recognizes the amount of remeasurement of the lease liability as an adjustment to the ROU asset. However, if the carrying amount of the ROU asset is reduced to zero and there is further reduction in the measurement of the lease liability, the Bank recognizes any remaining amount of the remeasurement in profit or loss.

Lease liabilities are presented as a separate line item on the statements of financial condition.

4.15.02 The Bank as Lessor

Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized on a straight-line basis over the lease term.

4.16 Related Parties and Related Party Transactions

A related party is a person or entity that is related to the Bank that is preparing its financial statements. A person or a close member of that person's family is related to Bank if that person has control or joint control over the Bank, has significant influence over the Bank, or is a member of the key management personnel of the Bank or of a parent of the Bank.

An entity is related to the Bank if any of the following conditions applies:

- The entity and the Bank are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
- One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
- Both entities are joint ventures of the same third party.
- One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
- The entity is a post-employment benefit plan for the benefit of employees of either the Bank or an entity related to the Bank. If the Bank is itself such a plan, the sponsoring employers are also related to the Bank.
- The entity is controlled or jointly controlled by a person identified above.
- A person identified above has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
- Management entity providing key management personnel services to a reporting entity.

Close members of the family of a person are those family members, who may be expected to influence, or be influenced by, that person in their dealings with the Bank and include that person's children and spouse or domestic partner; children of that person's spouse or domestic partner; and dependents of that person or that person's spouse or domestic partner.

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:

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

4.17 Taxation

Income tax expense represents the sum of the current and deferred taxes.

4.17.01 Current Tax

Current tax 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.

4.17.02 Deferred Taxes

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.

Deferred tax liabilities are recognized for taxable temporary differences. Deferred tax assets arising from deductible temporary differences are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

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 set off 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.

4.17.03 Current and Deferred Taxes for the Period

Current and deferred taxes are recognized as an expense or income in profit or loss, except when they relate to items that are recognized outside profit or loss, whether in other comprehensive income or directly in equity, in which case the tax is also recognized outside profit or loss.

4.17.04 Final Tax on Dividends

When an entity pays dividends to its shareholders, it may be required to pay a portion of the dividends to taxation authorities on behalf of shareholders. Such an amount paid or payable to taxation authorities is charged to equity as part of the dividends.

4.17.05 Impact of Change in Tax Regime

Components of tax expense include any adjustments recognized in the period for current tax of prior period and the amount of deferred tax expense (income) relating to changes in tax rates. The provision for current income tax during the year include the difference between income tax per prior year financial statements and prior year income tax return.

Deferred tax assets and liabilities as of reporting period is remeasured using the new tax rates. The impact of remeasurement is recognized in profit or loss (i.e., provision for/benefit from deferred income tax), unless it can be recognized in other comprehensive income or another equity account as provided for in PAS 12.61A. Any movement in deferred taxes arising from the change in tax rates that will form part of the provision for/benefit from deferred taxes will be included as well in the effective tax rate reconciliation.

4.18 Events after the Reporting Period

The Bank identifies subsequent events as events that occurred after the reporting period but before the date when the financial statements were authorized for issue. Any subsequent events that provide additional information about the Bank's position at the reporting period, adjusting events, are reflected in the financial statements, while subsequent events that do not require adjustments, non-adjusting events, are disclosed in the notes to financial statements when material.

4.19 Changes in Accounting Policies

The adoption of the new and revised standards and as disclosed in Note 2.01 was made in accordance with their transitional provisions, otherwise the adoption is accounted for as change in accounting policy under PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*.

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTIES

In the application of the Bank's accounting policies, which are described in Note 4, Management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

5.01 Critical Judgments in Applying Accounting Policies

The following are the critical judgments, apart from those involving estimations that Management has made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognized in financial statements.

5.01.01 Revenue Recognition

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

5.01.02 Distinction between Bank Premises, Furniture, Fixtures and Equipment, Investment Properties and Assets Held for Sale

The Bank determines whether a property qualifies as investment properties. In making its judgment, the Bank considers whether the property generates cash flows largely independent of the other assets held by the entity. Owner-occupied properties generate cash flows that are attributable not only to the property but also to other assets used in the production or supply process.

As of December 31, 2022 and 2021, certain foreclosed residential and agricultural lots amounting to ₱50,024,161 and ₱108,511,348, respectively, were classified as investment properties, as disclosed in Note 12, since Management had no active program to locate buyers and sell the properties within one (1) year. Moreover, other foreclosed properties amounting to ₱57,089,722 and nil as of December 31, 2022 and 2021, respectively, were reclassified to assets held for sale, as disclosed in Notes 12 and 13, since Management had already active program to locate buyers and sell the properties within one (1) year.

Accordingly, the building is classified under bank premises, furniture, fixtures and equipment since it is primarily used in the bank's operations. Carrying amounts of the building amounted to ₱9,608,716 and ₱24,746,519 as of December 31, 2022 and 2021, respectively, as disclosed in Note 10. The Bank recognized rental income amounting to ₱6,546,349 and ₱6,901,045 in 2022 and 2021, respectively, on portion of bank premises leased out under operating leases, as disclosed in Notes 10, 24 and 27.

5.01.03 Assessment of Principal-Agency Arrangement

Bank commission includes only the gross inflows of economic benefits received and receivable by the entity on its own account. Amounts collected on behalf of third parties such as sales taxes, goods and services taxes and value added taxes are not economic benefits which flow to the entity and do not result in increases in equity. Therefore, these are excluded from bank commission. The Bank is in an agency relationship where the gross inflows of economic benefits include amounts collected on behalf of the principal and which do not result in increases in equity for the entity.

In 2022 and 2021, the Bank assessed that it is acting as an agent. Bank commission from agency agreement amounting to ₱1,463,133 and ₱1,288,753, respectively, were recognized as income, as disclosed in Note 24.

5.01.04 Assessment of Contractual Terms of a Financial Asset

The Bank determines whether the contractual terms of a financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. In making its judgments, the Bank considers whether the cash flows before and after the changes in timing or in the amount of payments represent only payments of principal and interest on the principal amount outstanding.

Management assessed that the contractual terms of its financial assets (excluding financial assets at fair value through profit or loss) are solely payments of principal and interest, and consistent with the basic lending arrangement. As of December 31, 2022 and 2021, the Bank's financial assets measured at amortized cost amounted to ₱4,233,431,226 and ₱4,009,524,524, respectively, as disclosed in Note 32.04.

5.01.05 Assessment of Timing of Satisfaction of Performance Obligations

The Bank satisfies a performance obligation by transferring control of a promised service to the customer, which could occur over time or at a point in time.

Performance obligation from sale of investment properties is satisfied at a point in time, this is when there is a present right to payment for the asset, the customer has legal title to the asset, transfer physical possession of the asset, the significant risks and rewards of ownership of the asset, and acceptance by the same of the customer.

In 2022 and 2021, revenue from sale of investment properties amounted to ₱58,655,496 and ₱41,593,522, respectively, as disclosed in Note 24.

Management assessed that the performance obligation is satisfied over time for service charges and fees, this is when the customer simultaneously receive and consumes the benefits provided by the Bank's performance. In 2022 and 2021, income from service charges and fees amounted to ₱11,269,340 and ₱12,220,343, respectively, as disclosed in Note 24.

5.01.06 Assessment of the Transaction Price and the Amounts Allocated to Performance Obligations

A performance obligation is a vendor's promise to transfer a service that is 'distinct' from other services identified in the contract.

Management assessed that the allocation of transaction price is not applicable since performance obligation when rendering of services is separate from sale of investment properties.

5.01.07 Assessment of Provision and Contingency

Judgment is exercised by Management to distinguish between provisions and contingencies. Policies on recognition of provision and contingencies are discussed in Note 4.12.

5.01.08 Determining whether or not a Contract Contains a Lease

In both years, Management assessed that various leasing arrangements disclosed in Note 27, qualified as leases since the contracts contain identified assets, the Bank has the right to obtain substantially all of the economic benefits, and the Bank has the right to direct the use of the identified assets throughout the period of use.

5.01.09 Determining whether or not it is Reasonably Certain that an Extension Option will be Exercised and Termination Option will not be Exercised

Lease term is the non-cancellable period for which the Bank has the right to use an underlying asset including optional periods when the Bank is reasonably certain to exercise an option to extend (or not to terminate) a lease. The Bank considers all relevant facts and circumstances that create an economic incentive for the lessee to exercise the option when determining the lease term and the enforceability of the option. The option to extend the lease term should be included in the lease term if it is reasonably certain that the lessee will exercise the option and the option is enforceable. The Bank is required to reassess the option when significant events or changes in circumstances occur that are within the control of the lessee.

For lease contracts, as disclosed in Note 27, Management assessed that it is reasonably certain that it will exercise the extension option and not exercise the termination option and that the extension option is enforceable.

5.01.10 Assessment of Classification of Lease

The Bank determines whether a lease qualifies as an operating lease. In making its judgments, the Bank considers whether the risk and reward of the leased property will be transferred to the lessee. A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership. Whether a lease is a finance lease or an operating lease depends on the substance of the transaction rather than the form of the contract.

The Bank entered into a lease agreement as a lessor. The Management determined that it retains all significant risks and rewards of ownership of this property which are accounted for under operating lease. The rental income earned by the Bank from its properties, all of which is leased out under operating leases, amounted to ₱6,546,349 and ₱6,901,045 in 2022 and 2021, respectively, as disclosed in Notes 10, 24 and 27.

5.02 Key Sources of Estimation Uncertainties

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

5.02.01 Reviewing Residual Values, Useful Lives and Depreciation Method of Bank Premises, Furniture, Fixtures and Equipment

The residual values, useful lives and depreciation method of the Bank's premises, furniture and fixtures are reviewed at least annually, and adjusted prospectively. The useful lives of the Bank's assets are estimated based on the period over which the assets are expected to be available for use. In determining the useful life of an asset, the Bank considers the expected usage, expected physical wear and tear, technical or commercial obsolescence arising from changes or improvements in production, or from a change in the market demand for the product or service output and legal or other limits on the use of the Bank's assets. In addition, the estimation of the useful lives is based on Bank's collective assessment of industry practice, internal technical evaluation and experience with similar assets. It is possible, however, that future results of operations could be materially affected by changes in estimates brought about by changes in factors mentioned above.

The amounts and timing of recorded expenses for any period would be affected by changes in these factors and circumstances. A reduction in the estimated useful lives of Bank's premises, furniture and fixtures would increase the recognized operating expenses and decrease assets. The Bank uses a depreciation method that reflects the pattern in which it expects to consume the asset's future economic benefits.

If there is an indication that there has been a significant change in the pattern used by which a Bank expects to consume an asset's future economic benefits, the entity shall review its present depreciation method and, if current expectations differ, change the depreciation method to reflect the new pattern.

In both years, Management assessed that there are no indications that there has been a significant change in pattern used by the Bank to consume assets' future economic benefits. As of December 31, 2022 and 2021, the aggregate carrying amounts of the depreciable bank premises, furniture, fixtures and equipment amounted to ₱36,088,127 and ₱49,346,135, respectively, as disclosed in Note 10.

5.02.02 Asset Impairment

The Bank performs an impairment review when certain impairment indicators are present. Determining the fair value of bank premises, furniture, fixtures and equipment, right-of-use assets, investment properties, intangible assets and other non-financial assets which require the determination of future cash flows expected to be generated from the continued use and ultimate disposition of such assets, requires the Bank to make estimates and assumptions that can materially affect the financial statements. Future events could cause the Bank to conclude that bank premises, furniture, fixtures and equipment, right-of-use assets, investment properties, intangible assets and other non-financial assets are 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 PFRS.

In both years, Management believes that there is no indication of impairment on its bank premises, furniture, fixtures and equipment, right-of-use assets, intangible assets and other non-financial assets. In 2021, Management assessed impairment on some of repossessed assets classified as investment properties. However, in 2022, Management assessed that some of investment properties are no longer impaired, hence, recognized gain on reversal of allowance for impairment loss amounting to ₱3,694,636, as disclosed in Notes 12 and 15.

As of December 31, 2022 and 2021, the aggregate carrying amounts of the aforementioned assets amounted to ₱332,825,227 and ₱331,314,710, respectively, as disclosed in Notes 10, 11, 12 and 14.

As of December 31, 2022 and 2021, the Bank has allowance for impairment losses on investment properties amounting to ₱1 and ₱4,064,093, respectively, as disclosed in Notes 12 and 15.

5.02.03 Estimating Allowance for Expected Credit Losses

The Bank estimates allowance for expected credit losses in accordance with Appendix 15 of the MORB for its due from BSP, due from other banks, loans and receivables, other financial assets at amortized cost, accrued interest receivable, refundable deposit, accounts receivable and petty cash fund presented under 'other assets' at each statements of financial condition date. In particular, judgment by Management is required in the estimation of the amount and timing of future cash flows when determining the level of allowance required. Such estimate is based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

The carrying value of loans and receivables are ₱3,198,387,194 and ₱3,034,187,452, net of allowance for expected credit losses on loans and receivables amounting to ₱181,931,548 and ₱171,368,983 as of December 31, 2022 and 2021, respectively, as disclosed in Notes 9 and 15.

In 2022 and 2021, the Bank recognized provisions for expected credit losses on loans, sales contract receivable and accounts receivable presented under 'other assets' amounting to ₱42,371,286 and ₱55,755,170, respectively, as disclosed in Note 15.

As of December 31, 2022 and 2021, the Bank's financial assets measured at amortized cost amounted to ₱4,233,431,226 and ₱4,009,524,524 respectively, as disclosed in Note 32.04.

5.02.04 Deferred Tax Assets

The Bank reviews the carrying amount at reporting date and reduces deferred tax assets to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilized prior to expiration.

In both years, Management believes that the Bank will be able to generate future taxable income against which the balances of deferred tax assets on allowance for expected credit losses, allowance for impairment loss on investment properties, unrealized loss on financial assets at FVTPL, effect of PFRS 16 and retirement liabilities will be applied. As of December 31, 2022 and 2021, the deferred tax assets recognized by the Bank amounted to ₱48,014,635 and ₱49,375,818, respectively, as disclosed in Note 30.

5.02.05 Post-employment Benefits

The determination of the retirement obligation and cost and other retirement benefits is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions include among others, discount rates, and rates of compensation increase. In accordance with PFRS, actual results that differ from the assumptions are recognized as remeasurements in other comprehensive income and therefore, generally affect recorded obligation. While the Bank believes that the assumptions are reasonable and appropriate, significant differences in the actual experience or significant changes in the assumptions may materially affect the pension and other retirement obligations.

For the years ended December 31, 2022 and 2021, retirement benefits expense amounted to ₱9,301,268 and ₱3,962,205, respectively, as disclosed in Notes 25 and 26.

In 2022 and 2021, the Company recognized remeasurement gain in OCI, net of related tax, amounting to ₱2,475,554 and nil, respectively, as disclosed in Note 26.02

Accordingly, retirement benefits obligation amounted to ₱8,101,471 and ₱11,381,157, as of December 31, 2022 and 2021, respectively, as disclosed in Note 26.02.

As of December 31, 2022 and 2021, remeasurement losses on retirement liabilities, net of related tax amounted to ₱241,477 and ₱2,717,031, respectively, as disclosed in Note 26.02.

5.02.06 Estimating Fair Value of Land and Building presented under Bank Premises, Furniture, Fixtures and Equipment and Investment Properties

The fair value of land and building have been arrived on the basis of a valuation carried out with reference to Philippine Valuation Standards. The valuation was determined by using Sales Comparison Approach.

In 2022 and 2021, the fair value of land presented under bank premises, furniture, fixtures and equipment amounted to ₱81,365,000 and ₱80,874,700, as disclosed in Note 10, while the fair values of land classified under investment properties amounted to ₱123,159,660 and ₱306,721,812, respectively, as disclosed in Note 12.

In 2022 and 2021, the fair value of building presented under bank premises, furniture, fixtures and equipment amounted to ₱37,582,286 and ₱46,988,336, as disclosed in Note 10, while the fair values of building classified under investment properties amounted to ₱60,920,541 and ₱112,500,443, respectively, as disclosed 12.

5.02.07 Estimating the Appropriate Discount Rate to Use

The Bank measures the lease liabilities 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 if not, the Bank uses the incremental borrowing rate.

Management used its incremental borrowing rate of 5% to measure the present value of its lease liabilities since the implicit rate was not readily available.

6. CASH AND CASH EQUIVALENTS

For the purpose of the statements of cash flows, cash and cash equivalents include cash and other cash items, due from BSP, and due from other banks.

Cash and cash equivalents at the end of the reporting periods, as shown in the statements of cash flows, can be reconciled to the related items in the statements of financial condition as follows:

		2022		2021
Cash and other cash items (Note 6.01)	₱	**44,752,107**	₱	54,339,237
Due from BSP (Note 6.02)		**103,312,265**		134,741,006
Due from other banks (Note 6.03)		**740,934,445**		744,673,671
	₱	**888,998,817**	₱	933,753,914

6.01 Cash and Other Cash Items

Cash and other cash items consist of the following:

		2022		2021
Cash in vault	₱	**36,188,569**	₱	47,760,737
Cash on ATM		**6,739,000**		6,578,500
Check and other cash items		**1,824,538**		-
	₱	**44,752,107**	₱	54,339,237

6.02 Due from BSP

Mandatory reserves represent the balance of the deposit account maintained with the BSP to meet reserve requirements and to serve as clearing account for interbank claims. Due from BSP does not bear annual interest rates in both years. Under Section 251 of the MORB, the Bank is required to maintain two percent (2%) of its statutory reserve requirements in 2022 and 2021 in the form of deposits placed in bank's demand deposit accounts with the BSP as among the allowable instruments for reserve cover. Section 252 of the MORB further provides that such deposit account with the BSP is not considered as a regular current account as BSP checks for drawings against such deposit which shall be limited to settlement of obligations with the BSP and withdrawals to meet cash requirements.

In accordance with Section 2 Paragraph b of Appendix 100, zero allowance for exposures under Stage 1 shall be rare. It shall be expected only for exposures with zero percent (0%) credit-risk weight under the Risk-Based Capital Adequacy Framework, such as Philippine peso-denominated exposures to the Philippine National Government and the BSP. In this regard, the Bank has a zero-credit rating exposure to its due from BSP. As of December 31, 2022 and 2021, the Bank's deposit account with BSP amounted to ₱103,312,265 and ₱134,741,006, respectively, in compliance with BSP reserve requirements.

6.03 Due from Other Banks

The balance of this account represents savings, time and demand deposit accounts with other local banks. Annual interest rates on these deposits ranges from 0.10% to 5.625% in 2022 and 2021. Details are as follows:

		2022		2021
Time deposit	₱	**560,039,583**	₱	530,000,000
Demand		**96,777,162**		88,326,902
Savings		**84,117,700**		126,346,769
	₱	**740,934,445**	₱	744,673,671

Due from other banks represent funds deposited with domestic banks which are used by the Bank as part of its working funds. Deposits earn interest for savings deposits from 0.10% to 0.25%, short-term time deposits from 1.50% to 4.50% and long-term time deposits from 4% to 5.625%.

In 2022 and 2021, interest earned and received from other banks amounted to ₱12,714,910 and ₱11,270,668, respectively.

In 2022 and 2021, realized foreign exchange gain from Bank's dollar account amounted to ₱37,224 and ₱2,642, respectively, as disclosed in Note 24.

Unrealized foreign exchange loss and gain on due from other banks in 2022 and 2021, amounted to ₱15,311 and ₱468,451, respectively, as disclosed in Note 24.

7. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

Movements of the account are disclosed below:

		2022		2021
January 1	₱	**16,292,678**	₱	17,680,943
Matured investments		**(5,000,000)**		-
Unrealized loss (Note 24)		**(958,619)**		(1,388,265)
Write-off (Note 25)		**(3,000)**		-
December 31	₱	**10,331,059**	₱	16,292,678

All securities are debt securities except for the PLDT investment which is an equity security. However, in 2022, the previously included PLDT investment was written off to comply with the BSP prohibition on investment in equity securities.

In 2022 and 2021, interest earned and received from financial assets at fair value through profit or loss amounted to ₱465,020 and ₱706,562, respectively.

In both years, interest rates range from 3.25% to 8.00%.

8. OTHER FINANCIAL ASSETS AT AMORTIZED COST

Movements of the account are disclosed below:

		2022		2021
January 1	₱	**75,341,770**	₱	120,341,770
Additions		**100,000,000**		-
Matured		**(5,251,770)**		(45,000,000)
December 31	₱	**170,090,000**	₱	75,341,770

Other financial assets at amortized cost pertains to treasury notes and retail treasury bonds which are fully guaranteed by the Philippine government.

Under current bank regulations, investments in bonds and other debt instruments shall not exceed 50% of adjusted statutory net worth plus 40% of total deposit liabilities. As of December 31, 2022 and 2021, the Bank is within the prescribed limit.

In 2022 and 2021, interest earned and received from these investments amounted to ₱4,858,005 and ₱3,144,250, respectively.

Interest rates range from 2.800% to 4.875% and 4.375% to 6.375% in 2022 and 2021, respectively.

9. LOANS AND RECEIVABLES – net

The Bank's loans and receivables consist of:

		2022		2021
Loans receivable	₱	**3,367,741,761**	₱	3,203,060,308
Unamortized discount		**(5,047,998)**		(9,364,563)
Allowance for expected credit losses		**(181,629,051)**		(171,187,307)
		3,181,064,712		3,022,508,438
Sales contract receivable		**23,865,391**		15,714,632
Unamortized discount		**(6,240,412)**		(3,853,942)
Allowance for expected credit losses		**(302,497)**		(181,676)
		17,322,482		11,679,014
	₱	**3,198,387,194**	₱	3,034,187,452

The Bank's loan accounts are stated at the outstanding balance, reduced by estimated unamortized discount and allowance for expected credit losses.

In 2022 and 2021, the Bank disposed certain investment properties. Out of the total selling price, ₱18,200,000 and ₱1,080,000, respectively, would be paid in installment, as disclosed in Note 12.

The loans receivable amounting to nil and ₱70,000,000 for the years ended December 31, 2022 and 2021, respectively, were pledged as collaterals for the borrowings from Land Bank of the Philippines and Development Bank of the Philippines, as disclosed in Note 17.

Total interest earned on loans amounted to ₱284,682,996 and ₱280,605,583 in 2022 and 2021, respectively, with interest rates ranging from 6.00% to 34.00% in both years.

In 2022 and 2021, recovery on charged-off assets amounted to ₱2,718,676 and ₱1,254,863, respectively, as disclosed in Note 24.

In 2022 and 2021, the Bank has written-off bad debts amounting to ₱9,534,630 and ₱1,255,809, respectively, as disclosed in Note 25.

As of December 31, 2022 and 2021, accrued interest receivable amounted to ₱15,078,323 and ₱14,535,764, respectively, as disclosed in Note 14.

Sales contract receivable refers to subsequently sold assets which are acquired in settlement of loans through foreclosure or dacion in payment. Sales contract receivable are collectible on an installment basis whereby the title of the said investment property is transferred to the buyer only upon full payment of the agreed selling price.

The Bank earned interest on sales contract receivable amounting to ₱3,718,560 and ₱5,829,538 in 2022 and 2021, respectively, with interest rate ranging from 8.00% to 20.50% and 9.00% to 20.50% in 2022 and 2021, respectively.

Movements during 2022 for loans receivables from customers are as follows:

	Stage 1 Individual	Stage 2 Individual	Stage 3 Individual	Total
Agricultural and agrarian loans				
Balance at January 1, 2022	₱ 452,998,063	₱ 3,750,000	₱ 30,703,739	₱ **487,451,802**
New assets originated or purchased	258,690,000	-	-	**258,690,000**
Assets derecognized or repaid	(240,447,786)	(11,750,000)	(21,761,000)	**(273,958,786)**
Amounts written off	-	-	(4,190,932)	**(4,190,932)**
Transfers to Stages 2 and 3	(23,863,138)	-	-	**(23,863,138)**
Transfers from Stage 1	-	19,687,518	-	**19,687,518**
Transfers from Stage 1	-	-	4,175,620	**4,175,620**
Balance at December 31, 2022	447,377,139	11,687,518	8,927,427	**467,992,084**
Commercial loans				
Balance at January 1, 2022	924,340,156	11,318,755	113,323,224	**1,048,982,135**
New assets originated or purchased	675,474,000	-	-	**675,474,000**
Assets derecognized or repaid	(487,520,725)	(7,042,075)	(64,417,321)	**(558,980,121)**
Amounts written off	-	-	(13,556,663)	**(13,556,663)**
Transfers to Stages 2 and 3	(100,236,385)	-	-	**(100,236,385)**
Transfers from Stage 1	-	16,274,948	-	**16,274,948**
Transfers from Stage 1	-	-	83,961,437	**83,961,437**
Others	-	-	(6,604,762)	**(6,604,762)**
Balance at December 31, 2022	1,012,057,046	20,551,628	112,705,915	**1,145,314,589**
Other type of loans				
Balance at January 1, 2022	1,582,544,995	57,086,779	26,994,597	**1,666,626,371**
New assets originated or purchased	820,928,620	-	-	**820,928,620**
Assets derecognized or repaid	(704,521,074)	(3,988,740)	(20,708,008)	**(729,217,822)**
Amounts written off	-	-	(862,031)	**(862,031)**
Transfers to Stages 2 and 3	(205,050,553)	-	-	**(205,050,553)**
Transfers from Stage 1	-	52,544,658	-	**52,544,658**
Transfers from Stage 1	-	-	152,505,894	**152,505,894**
Others	-	-	(3,040,049)	**(3,040,049)**
Balance at December 31, 2022	1,493,901,988	105,642,697	154,890,403	**1,754,435,088**
	₱ **2,953,336,173**	₱ **137,881,843**	₱ **276,523,745**	₱ **3,367,741,761**

Movements during 2021 for loans receivables from customer follows:

		Stage 1		Stage 2		Stage 3		Total
		Individual		Individual		Individual		
Agricultural and agrarian loans								
Balance at January 1, 2021	₱	310,078,200	₱	-	₱	8,435,800	₱	318,514,000
New assets originated or purchased		320,645,000		-		-		320,645,000
Assets derecognized or repaid		(148,375,137)		(250,000)		(2,143,063)		(150,768,200)
Amounts written off		-		-		(938,998)		(938,998)
Transfers to Stages 2 and 3		(29,350,000)		-		-		(29,350,000)
Transfers from Stage 1		-		4,000,000		-		4,000,000
Transfers from Stage 1		-		-		25,350,000		25,350,000
Balance at December 31, 2021		452,998,063		3,750,000		30,703,739		487,451,802
Commercial loans								
Balance at January 1, 2021		868,201,701		27,651,094		92,715,250		988,568,045
New assets originated or purchased		511,715,000		-		-		511,715,000
Assets derecognized or repaid		(406,451,706)		(2,826,569)		(41,134,977)		(450,413,252)
Amounts written off		-		-		(887,658)		(887,658)
Transfers to Stage 3		(49,124,839)		-		-		(49,124,839)
Transfers to Stage 3		-		(13,505,770)		-		(13,505,770)
Transfers from Stages 1 and 2		-		-		62,630,609		62,630,609
Balance at December 31, 2021		924,340,156		11,318,755		113,323,224		1,048,982,135
Other type of loans								
Balance at January 1, 2021		1,395,237,818		4,668,253		32,818,723		1,432,724,794
New assets originated or purchased		684,660,760		-		-		684,660,760
Assets derecognized or repaid		(433,155,065)		(2,386,947)		(6,975,708)		(442,517,720)
Amounts written off		-		-		(8,241,463)		(8,241,463)
Transfers to Stages 2 and 3		(64,198,518)		-		-		(64,198,518)
Transfers from Stage 1		-		54,805,473		-		54,805,473
Transfers from Stage 1		-		-		9,393,045		9,393,045
Balance at December 31, 2021		1,582,544,995		57,086,779		26,994,597		1,666,626,371
	₱	2,959,883,214	₱	72,155,534	₱	171,021,560	₱	3,203,060,308

The movements of the allowance for expected credit losses for sales contract receivable as of December 31, 2022 and 2021 are summarized as follows:

		2022		2021
Beginning, January 1	₱	**181,676**	₱	846,455
Provision (Note 15)		**120,821**		-
Reversal (Note 15)		**-**		(664,779)
Ending, December 31	₱	**302,497**	₱	181,676

The movements of the allowance for expected credit losses for loans receivable as of December 31, 2022 and 2021 are summarized as follows:

		2022		2021
Beginning, January 1	₱	**171,187,307**	₱	134,895,241
Provision (Note 15)		**42,134,253**		55,629,030
Reversal (Note 15)		**(31,692,509)**		(19,336,964)
Ending, December 31	₱	**181,629,051**	₱	171,187,307

Classification of allowance for expected credit losses of loans receivable as follows:

		2022		2021
Specific	₱	**160,220,777**	₱	151,605,460
Collective		**21,408,274**		19,581,847
	₱	**181,629,051**	₱	171,187,307

The allowance for expected 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.

Non-Performing Loans (NPLs) classified as secured and unsecured are as follows:

		2022		2021
Secured	₱	**267,974,548**	₱	141,251,994
Unsecured		**6,719,135**		28,932,531
	₱	**274,693,683**	₱	170,184,525

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

		2022		2021
Past due accounts:				
91 – 180 days past due	₱	**72,832,947**	₱	45,575,548
Over 180 days past due		**201,860,736**		124,608,977
	₱	**274,693,683**	₱	170,184,525

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

		2022		2021
Total Non-performing loans	₱	**274,693,683**	₱	170,184,525
Less: Non-performing loans covered by allowance for expected credit losses		**83,228,323**		61,188,088
	₱	**191,465,360**	₱	108,996,437

Information regarding the Bank's NPLs (based on Section 304 of the MORB) are as follows:

		2022		2021
Gross NPLs	₱	**274,693,683**	₱	170,184,525
Ratio of gross NPLs to gross TLP (%)		**8.17%**		5.33%
Net NPLs		**191,465,360**		108,996,437
Ratio of net NPLs to gross TLP (%)		**5.69%**		3.41%
Ratio of total allowance for expected credit losses to gross NPLs (%)		**66.12%**		100.59%
Ratio of specific allowance for expected credit losses on gross TLP to gross NPLs (%)		**58.33%**		89.08%

Status of loans, net of unamortized loan discount, per product line are as follows:

	2022			2021		
	Performing	**Non-Performing**	**Total**	Performing	Non-Performing	Total
Agricultural and agrarian loans	**₱ 458,949,233**	**₱ 8,927,433**	**₱ 467,876,666**	₱ 456,598,136	₱ 30,703,745	₱ 487,301,881
Microenterprise loans	**240,000**	**346,724**	**586,724**	1,167,750	300,158	1,467,908
Small and medium enterprise loans	**1,031,543,045**	**112,541,775**	**1,144,084,820**	933,831,859	112,535,841	1,046,367,700
Loans to private corporations	**1,351,331,899**	**114,942,931**	**1,466,274,830**	1,415,425,025	-	1,415,425,025
Loans to individuals for housing purposes	**108,610,616**	**25,152,545**	**133,763,161**	82,975,325	22,616,591	105,591,916
Loans to individuals primarily for personal use purposes	**1,518,110**	**85**	**1,518,195**	1,730,571	230,024	1,960,595
Loans to individual for other purposes	**135,807,177**	**12,782,190**	**148,589,367**	131,782,554	3,798,166	135,580,720
	₱ 3,088,000,080	**₱ 274,693,683**	**₱ 3,362,693,763**	₱ 3,023,511,220	₱ 170,184,525	₱ 3,193,695,745

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

The total carrying amounts and revalued amounts of the Bank's bank premises, furniture, fixtures and equipment as of December 31, 2022 and 2021 are as follows:

		2022		2021
Carrying amounts:				
Building under construction	₱	**101,384,336**	₱	27,096,429
Furniture and fixtures		**8,050,100**		6,760,839
IT equipment		**3,994,535**		4,441,661
Transportation equipment		**3,364,810**		3,242,561
Leasehold rights and improvements		**11,069,966**		10,154,555
		127,863,747		51,696,045
Revalued amount:				
Land		**37,882,400**		37,882,400
Building		**9,608,716**		24,746,519
		47,491,116		62,628,919
	₱	**175,354,863**	₱	114,324,964

10.01 At Cost

The total carrying amounts of the Bank's bank premises, furniture, fixtures and equipment as of December 31, 2022 and 2021 are as follows:

		Building under Construction		Furniture and Fixtures		IT Equipment		Transportation equipment		Leasehold Rights and Improvements		Total
January 1, 2021												
Cost	₱	-	₱	20,096,525	₱	17,865,674	₱	7,788,756	₱	17,578,420	₱	**63,329,375**
Accumulated depreciation and amortization		-		(16,824,133)		(13,752,804)		(2,988,444)		(5,705,210)		**(39,270,591)**
Carrying amount		**-**		**3,272,392**		**4,112,870**		**4,800,312**		**11,873,210**		**24,058,784**
Movements during 2021												
Balance, January 1, 2021		-		3,272,392		4,112,870		4,800,312		11,873,210		**24,058,784**
Additions		27,096,429		5,009,229		2,656,325		-		123,500		**34,885,483**
Disposals												
Cost		-		(309,537)		(811,515)		-		-		**(1,121,052)**
Accumulated depreciation and amortization		-		302,431		804,270		-		-		**1,106,701**
Depreciation and amortization (Notes 25 and 28)		-		(1,513,676)		(2,320,289)		(1,557,751)		(1,842,155)		**(7,233,871)**
Adjustments												
Cost		-		(73,235)		28,335		-		-		**(44,900)**
Accumulated depreciation and amortization		-		73,235		(28,335)		-		-		**44,900**
Balance, December 31, 2021		**27,096,429**		**6,760,839**		**4,441,661**		**3,242,561**		**10,154,555**		**51,696,045**
December 31, 2021												
Cost		27,096,429		24,722,982		19,738,819		7,788,756		17,701,920		**97,048,906**
Accumulated depreciation and amortization		-		(17,962,143)		(15,297,158)		(4,546,195)		(7,547,365)		**(45,352,861)**
Carrying amount	**₱**	**27,096,429**	**₱**	**6,760,839**	**₱**	**4,441,661**	**₱**	**3,242,561**	**₱**	**10,154,555**	**₱**	**51,696,045**

(Forwarded)

(Continued)

	Building under Construction	Furniture and Fixtures	IT Equipment	Transportation equipment	Leasehold Rights and Improvements	Total
January 1, 2022						
Cost	₱ 27,096,429	₱ 24,722,982	₱ 19,738,819	₱ 7,788,756	₱ 17,701,920	₱ **97,048,906**
Accumulated depreciation and amortization	-	(17,962,143)	(15,297,158)	(4,546,195)	(7,547,365)	**(45,352,861)**
Carrying amount	**27,096,429**	**6,760,839**	**4,441,661**	**3,242,561**	**10,154,555**	**51,696,045**
Movements during 2022						
Balance, January 1, 2022	27,096,429	6,760,839	4,441,661	3,242,561	10,154,555	**51,696,045**
Additions	74,287,907	3,622,006	2,215,994	2,400,000	2,742,630	**85,268,537**
Disposals						
Cost	-	(285,000)	-	(2,400,000)	(1,576,190)	**(4,261,190)**
Accumulated depreciation and amortization	-	285,000	-	2,399,999	1,576,190	**4,261,189**
Depreciation and amortization (Notes 25 and 28)	-	(2,332,745)	(2,663,120)	(2,277,750)	(1,827,219)	**(9,100,834)**
Adjustments						
Cost	-	(68,892)	(8,421)	-	-	**(77,313)**
Accumulated depreciation and amortization	-	68,892	8,421	-	-	**77,313**
Balance, December 31, 2022	**101,384,336**	**8,050,100**	**3,994,535**	**3,364,810**	**11,069,966**	**127,863,747**
December 31, 2022						
Cost	101,384,336	27,991,096	21,946,392	7,788,756	18,868,360	**177,978,940**
Accumulated depreciation and amortization	-	(19,940,996)	(17,951,857)	(4,423,946)	(7,798,394)	**(50,115,193)**
Carrying amount	₱ **101,384,336**	₱ **8,050,100**	₱ **3,994,535**	₱ **3,364,810**	₱ **11,069,966**	₱ **127,863,747**

** Adjustments were made to reclassify erroneous cost and accumulated depreciation component of furniture, fixtures and IT equipment.*

10.02 At Revalued Amount

Details of the Bank's bank premises, furniture, fixtures and equipment carried at revalued amount are as follows:

	Land	Building	Total
January 1, 2021			
Cost	₱ 19,364,035	₱ 84,349,449	₱ **103,713,484**
Revaluation surplus	18,518,365	18,120,262	**36,638,627**
Accumulated depreciation – cost	-	(60,997,246)	**(60,997,246)**
Accumulated depreciation – surplus	-	(15,266,414)	**(15,266,414)**
Carrying amount	**37,882,400**	26,206,051	**64,088,451**
Movements during 2021			
Balance, January 1, 2021	37,882,400	26,206,051	**64,088,451**
Additions – Cost	-	1,601,700	**1,601,700**
Depreciation – Cost (Notes 25 and 28)	-	(2,811,362)	**(2,811,362)**
Depreciation – Revaluation Surplus (Notes 25 and 28)	-	(249,870)	**(249,870)**
Adjustments			
Cost	-	7,244	**7,244**
Accumulated depreciation – Cost	-	(7,244)	**(7,244)**
Balance, December 31, 2021	**37,882,400**	**24,746,519**	**62,628,919**
December 31, 2021			
Cost	19,364,035	85,958,393	**105,322,428**
Revaluation surplus	18,518,365	18,120,262	**36,638,627**
Accumulated depreciation – Cost	-	(63,815,852)	**(63,815,852)**
Accumulated depreciation – Revaluation Surplus	-	(15,516,284)	**(15,516,284)**
Carrying amount	₱ **37,882,400**	₱ **24,746,519**	₱ **62,628,919**

(Forwarded)

(Continued)

		Land		Building		Total
January 1, 2022						
Cost	₱	19,364,035	₱	85,958,393	₱	**105,322,428**
Revaluation surplus		18,518,365		18,120,262		**36,638,627**
Accumulated depreciation – Cost		-		(63,815,852)		**(63,815,852)**
Accumulated depreciation – Revaluation Surplus		-		(15,516,284)		**(15,516,284)**
Carrying amount		**37,882,400**		**24,746,519**		**62,628,919**
Movements during 2022						
Balance, January 1, 2022		37,882,400		24,746,519		**62,628,919**
Additions		-		129,674		**129,674**
Disposals						
Cost		-		(37,547,431)		**(37,547,431)**
Accumulated depreciation – Cost		-		25,028,367		**25,028,367**
Depreciation – Cost (Notes 25 and 28)		-		(2,498,543)		**(2,498,543)**
Depreciation – Revaluation Surplus (Notes 25 and 28)		-		(249,870)		**(249,870)**
Adjustments						
Cost		-		(7,244)		**(7,244)**
Accumulated depreciation – Cost		-		7,244		**7,244**
Balance, December 31, 2022		**37,882,400**		**9,608,716**		**47,491,116**
December 31, 2022						
Cost		19,364,035		48,533,392		**67,897,427**
Revaluation surplus		18,518,365		18,120,262		**36,638,627**
Accumulated depreciation – Cost		-		(41,278,784)		**(41,278,784)**
Accumulated depreciation – Revaluation Surplus		-		(15,766,154)		**(15,766,154)**
Carrying amount	₱	**37,882,400**	₱	**9,608,716**	₱	**47,491,116**

Had the Bank's land and building been measured on a historical cost basis, their carrying amount would have been as follows:

		2022		2021
Land	₱	**19,364,035**	₱	19,364,035
Building		**7,254,608**		22,142,541
	₱	**26,618,643**	₱	41,506,576

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

In both years, all additions of bank premises, furniture, fixtures and equipment were paid in cash.

In 2022 and 2021, the Bank sold some furniture, fixtures and equipment at cost with book value of ₱1 and ₱14,351 for ₱1 and ₱9,858 resulting to a loss of nil and ₱4,493, respectively, as disclosed on Note 24.

In 2022, the Bank sold a building at revalued amount with book value of ₱12,519,064 for ₱50,000,000 resulting to a gain on disposal amounting to ₱31,761,021, as disclosed in Note 24. The building sold has initial recognized impairment loss amounting to ₱5,719,915, hence upon sale, the Bank recognized gain on reversal of impairment loss amounting to ₱5,719,915, as disclosed in Note 24.

The Bank recognized rental income amounting to ₱6,546,349 and ₱6,901,045, in 2022 and 2021, respectively, on portion of bank premises leased out under operating leases, as disclosed in Notes 24 and 27.

There are no bank premises, furniture, fixtures and equipment pledged as security for the Bank's liabilities.

As of December 31, 2022 and 2021, the Bank has no outstanding contractual commitments to acquire certain bank premises, furniture, fixtures and equipment.

Fully depreciated assets held by the Bank are still in use as of December 31, 2022 and 2021.

The Bank determined that there are no indication that an impairment loss has occurred on its bank premises, furniture, fixtures and equipment. Aggregate fair values land and building classified under bank premises, furniture, fixtures and equipment amounting to ₱118,947,286 and ₱127,863,036 as of December 31, 2022 and 2021, respectively, have been arrived on the basis of a valuation carried out by internal and external appraisers.

11. RIGHT-OF-USE ASSETS – net

The carrying amounts of the Bank's right-of-use assets as of December 31, 2022 and 2021 are as follows:

		2022		2021
Cost	₱	**116,651,337**	₱	49,183,137
Accumulated depreciation		**(22,544,173)**		(12,941,874)
Carrying amount		**94,107,164**		36,241,263
Movements during the year				
January 1		**94,107,164**		36,241,263
Additions (Note 18)		**9,786,769**		67,468,201
Depreciation (Notes 25 and 28)		**(9,282,474)**		(9,602,300)
Adjustments				
Cost		**(7,113,256)**		-
Accumulated depreciation		**7,113,256**		-
Balance, December 31		**94,611,459**		94,107,164
December 31				
Cost		**119,324,850**		116,651,337
Accumulated depreciation		**(24,713,391)**		(22,544,173)
Carrying amount	₱	**94,611,459**	₱	94,107,164

The details of the lease contracts are disclosed in Note 27.

As of December 31, 2022 and 2021, lease liabilities related to ROU assets amounted to ₱103,998,831 and ₱100,555,734, respectively, as disclosed in Note 18.

Adjustments in 2022 pertain to expired lease contract for the relocated branches.

In both years, the Bank has determined that there is no indication that impairment has occurred on its right-of-use assets.

12. INVESTMENT PROPERTIES – net

The carrying amounts of the Bank's investment properties consisting of residential and agricultural lots foreclosed from delinquent borrowers are as follow:

		2022		2021
January 1				
Cost	₱	**153,047,112**	₱	161,318,320
Accumulated depreciation		**(40,471,671)**		(37,659,828)
Allowance for impairment loss		**(4,064,093)**		(245,140)
Carrying amount		**108,511,348**		123,413,352
Movements during the year				
January 1		**108,511,348**		123,413,352
Additions		**31,323,713**		12,137,280
Depreciation (Note 28)		**(7,120,162)**		(7,266,796)
Provision for impairment loss (Note 15)		**-**		(3,818,953)
Reversal of impairment loss (Note 24)		**3,694,636**		-
Disposals				
Cost		**(41,837,919)**		(20,408,488)
Accumulated depreciation		**12,172,811**		4,454,953
Allowance for impairment loss (Note 15)		**369,456**		-
Reclassification (Note 13)				
Cost		**(76,564,889)**		-
Accumulated depreciation		**19,475,167**		-
Balance, December 31		**50,024,161**		108,511,348
December 31				
Cost		**65,968,017**		153,047,112
Accumulated depreciation		**(15,943,855)**		(40,471,671)
Allowance for impairment loss		**(1)**		(4,064,093)
Carrying amount	₱	**50,024,161**	₱	108,511,348

As of December 31, 2022 and 2021, foreclosed assets amounting to ₱14,604,765 and ₱16,830,855, respectively, were still under the name of the constituent banks which are former Bank of Lubao and Bank of Florida. Per Bank's legal counsel, transfer of properties of the constituent banks in favor of Bank is unnecessary since one of the effects of the consolidation is that all properties of constituent banks are deemed transferred to Bank as supported by the case of Commissioner of Internal Revenue vs. Pilipinas Shell Petroleum Corporation, G.R. No. 192398 dated September 29, 2014.

In 2022, the Bank disposed certain investment properties with carrying amount of ₱29,295,652 for ₱91,968,843 realizing a gain on sale amounting to ₱58,655,496, net of discount on sales contract receivable of ₱4,017,695, as disclosed in Note 24. Out of the total selling price, ₱73,768,843 was paid in cash and ₱18,200,000 will be paid in installment, as disclosed in Note 9.

In 2021, the Bank disposed certain investment properties with carrying amount of ₱15,953,535 for ₱57,781,778 realizing a gain on sale amounting to ₱41,593,522, net of discount on sales contract receivable of ₱234,721, as disclosed in Note 24. Out of the total selling price, ₱56,701,778 was paid in cash and ₱1,080,000 will be paid in installment, as disclosed in Note 9.

The Bank has carried out a review of the recoverable amounts of its investment properties and determined that there is indication that an impairment loss has occurred on some its investment properties. Aggregate fair values land and building classified under investment properties amounting to ₱184,080,201 and ₱419,222,255 as of December 31, 2022 and 2021, respectively, have been arrived on the basis of a valuation carried out by internal and external appraisers.

13. ASSETS HELD FOR SALE

On December 31, 2022, the Bank's repossessed and other acquired property are reclassified and accounted for as assets held for sale, as disclosed in Note 12, since the carrying amounts of the said properties will be all recovered through sale transactions. As of December 31, 2022 and 2021, assets held for sale amounted to ₱57,089,722 and nil, respectively. The Bank intends to dispose the said assets upon reclassification to assets held for sale. Search is underway for buyers.

No impairment loss was recognized on reclassification of the land as held-for-sale and at the end of the reporting period. Fair values of the Bank's assets held for sale amounting to ₱231,206,283 as of December 31, 2022 have been arrived on the basis of a valuation carried out by internal and external appraisers.

14. OTHER ASSETS – net

Below is the composition of the Bank's other assets:

		2022		2021
Accrued interest receivable (Note 9)	**₱**	**15,078,323**	₱	14,535,764
Prepaid expenses		**8,111,729**		8,333,888
Refundable deposits		**4,305,564**		4,028,398
Stationery and supplies on hand		**2,094,849**		2,131,285
Documentary stamps		**1,656,831**		2,866,035
Accounts receivable – net		**1,224,435**		1,917,463
Petty cash fund		**99,000**		99,000
Miscellaneous		**971,335**		1,040,025
	₱	**33,542,066**	₱	34,951,858

Prepaid expenses pertain to supervisory fee of BSP, bonuses, insurances and subscription for Core Banking System.

Refundable deposits pertain to security deposits for rentals, internet, electric connectivity, and others. As of December 31, 2022 and 2021, refundable deposits related for rentals amounted to ₱2,490,817 and ₱2,270,276, respectively, as disclosed in Note 27.

Accounts receivable gross of allowance for expected credit losses amounted to ₱1,341,731 and ₱2,075,157 as of December 31, 2022 and 2021, respectively.

The movements of the allowance for expected credit losses for accounts receivables are presented as follows:

		2022		2021
Balance, January 1	₱	**157,694**	₱	225,731
Provision for impairment loss (Note 15)		**116,212**		126,140
Reversal/adjustments (Note 15)		**(156,610)**		(194,177)
Balance, December 31	₱	**117,296**	₱	157,694

14.01 Intangible Asset – net

In 2022 and 2021, the Bank's fully amortized intangible assets amounting to ₱19,012,972 are still in use.

This account refers to the costs that are directly associated with identifiable and unique software controlled by the Bank as of December 31, 2022 and 2021 and will generate economic benefits attributable to the asset that will flow to the Bank.

15. ALLOWANCE FOR EXPECTED CREDIT AND IMPAIRMENT LOSSES

Allowance for expected credit and impairment losses is composed of the following:

		2022		2021
Balance, January 1				
Loans receivable (Note 9)	₱	**171,187,307**	₱	134,895,241
Sales contract receivables (Note 9)		**181,676**		846,455
Investment properties (Note 12)		**4,064,093**		245,140
Accounts receivable (Note 14)		**157,694**		225,731
		175,590,770		136,212,567
Provision for expected credit and impairment losses on:				
Loans receivable (Note 9)		**42,134,253**		55,629,030
Sales contract receivables (Note 9)		**120,821**		-
Investment properties (Note 12)		**-**		3,818,953
Accounts receivable (Note 14)		**116,212**		126,140
		42,371,286		59,574,123
Adjustments to previous provision for expected credit and impairment losses on:				
Loans receivable (Note 9)		**(31,692,509)**		(19,336,964)
Sales contract receivables (Note 9)		**-**		(664,779)
Investment properties (Note 12)		**(369,456)**		-
Accounts receivable (Note 14)		**(156,610)**		(194,177)
		(32,218,575)		(20,195,920)
Reversal of previous allowance for expected credit losses:				
Investment properties (Notes 12 and 24)		**(3,694,636)**		-
Balance, December 31				
Loans receivable (Note 9)		**181,629,051**		171,187,307
Sales contract receivables (Note 9)		**302,497**		181,676
Investment properties (Note 12)		**1**		4,064,093
Accounts receivable (Note 14)		**117,296**		157,694
	₱	**182,048,845**	₱	175,590,770

16. DEPOSIT LIABILITIES

The components of deposit liabilities are as follows:

		2022		2021
Savings deposits	₱	**2,002,259,702**	₱	1,881,290,868
Time deposits		**1,724,225,623**		1,597,057,295
	₱	**3,726,485,325**	₱	3,478,348,163

In 2022 and 2021, savings deposits incur interest at rates at 0.125% and 0.25%, respectively, while time deposits incur interest at rates ranging from 0.50% to 3.00% and 0.50% to 2.00%, respectively.

Interest expense on deposit liabilities in 2022 and 2021 amounted to ₱38,368,620 and ₱30,729,254, respectively.

As of December 31, 2022 and 2021, accrued interest expense amounted to ₱4,451,399 and ₱5,277,593, respectively, as disclosed in Note 19.

Under BSP regulations, demand deposits, savings deposits and time deposits of the Bank are subject to statutory reserve equivalent to 2% in 2022 and 2021. As of December 31, 2022 and 2021, the Bank is in compliance with such regulations.

17. BILLS PAYABLE

This account consists of borrowings from:

		2022		2021
Land Bank of the Philippines	₱	**-**	₱	50,000,000
Development Bank of the Philippines		**-**		20,000,000
	₱	**-**	₱	70,000,000

The movements of the account are as follows:

		2022		2021
January 1	₱	**70,000,000**	₱	30,000,000
Additions		**10,000,000**		70,000,000
Payments		**(80,000,000)**		(30,000,000)
December 31	₱	**-**	₱	70,000,000

The term of bills payable ranges from 30 to 31 days in both years. These are subject to interest rates ranging from 3.25% to 4.00% and 3.25% to 3.75% in 2022 and 2021, respectively.

As of December 31, 2022 and 2021, loans receivable amounting to nil and ₱70,000,000, respectively, were pledged as collaterals for the said borrowings, as disclosed in Note 9. The amount pledged shall be released by the rediscounting institution once the re-discounted loan has been fully paid upon maturity. In case a particular loan account pledged as collateral is paid in full by the borrower before it matures, the equivalent re-discounted value shall be paid by the Bank to the re-discounting institution before the pledged collateral can be released.

Interest expense on bills payable for the years ended December 31, 2022 and 2021 amounted to ₱205,208 and ₱88,125, respectively.

As of December 31, 2022 and 2021, accrued interest expense amounted to nil and ₱28,125, respectively, as disclosed in Note 19. Interest paid on bills payable in 2022 and 2021 amounted to ₱233,333 and ₱60,000, respectively.

18. LEASE LIABILITIES

The Bank, as a lessee, entered into various leasing arrangements as disclosed in Note 27. The following are the amounts of lease liabilities:

	Minimum Lease Payments		Present Value of Minimum Lease Payments	
	2022	2021	**2022**	2021
Not later than one (1) year	₱ **10,115,054**	₱ 8,536,504	₱ **5,035,316**	₱ 6,185,505
Later than one (1) year but not later than five (5) years	**32,594,778**	30,209,493	**14,165,340**	12,691,686
Later than five (5) years	**136,051,889**	136,198,208	**84,798,175**	81,678,543
	178,761,721	174,944,205	**103,998,831**	100,555,734
Discount	**(74,762,890)**	(74,388,471)	-	-
Present value of minimum lease payments	**103,998,831**	100,555,734	**103,998,831**	100,555,734
Current lease liabilities	**(5,035,316)**	(6,185,505)	**(5,035,316)**	(6,185,505)
Non-current lease liabilities	₱ **98,963,515**	₱ 94,370,229	₱ **98,963,515**	₱ 94,370,229

Movements in the account are as follows:

	2022	2021
Balance, January 1	**₱ 100,555,734**	₱ 39,306,526
Additions (Note 11)	**9,786,769**	67,468,201
Finance cost incurred	**2,483,392**	1,847,732
Finance cost paid	**(2,483,392)**	(1,847,732)
Payments on lease liabilities	**(6,343,672)**	(6,218,993)
Balance, December 31	**₱ 103,998,831**	₱ 100,555,734

The interest rate inherent in the leases is fixed at the contract date for all of the lease term. The average effective interest rate contracted approximates 5% in both years.

The Bank is compliant with the terms and conditions of the lease contracts.

19. OTHER LIABILITIES

This account consists of:

		2022		2021
Accounts payable	₱	**15,145,109**	₱	17,030,508
Accrued expenses		**5,880,833**		5,233,172
Accrued interest expense (Notes 16 and 17)		**4,451,399**		5,305,718
Payable to government agencies		**1,948,243**		1,575,739
Security deposits (Note 27)		**753,528**		1,513,114
Unearned income		**713,726**		18,323
Due to Philippine Crop Insurance Corporation (PCIC)		**188,548**		188,548
	₱	**29,081,386**	₱	30,865,122

Accounts payable pertains to unidentified and other related loan payments. It also includes advance payments on ROPA.

Accrued expenses pertain to accrual of employee benefits, taxes and licenses.

20. RELATED PARTY TRANSACTIONS

Nature of relationship of the Bank and its related parties are disclosed below:

Related Parties	Nature of Relationship
Stockholders	Directors, Officers, Stockholders and Related Interests
Directors	Directors, Officers, Stockholders and Related Interests
Officers	Directors, Officers, Stockholders and Related Interests

As required by BSP, the Bank discloses loan transactions with its associates, affiliates and with certain directors, officers, stockholders and related interests (DOSRI). Existing banking regulations limit the amount of individual loans to DOSRI, 70% of which must be secured, to the total of their respective deposits and book value of their respective investments in the lending Bank within the Bank. In the aggregate, loans to DOSRI generally should not exceed total equity or 15% of total loan portfolio, whichever is lower.

As of December 31, 2022 and 2021, the Bank has no outstanding DOSRI loans.

The amounts of loans disclosed for related parties above differ with the amounts disclosed for key management personnel since the composition of DOSRI is more expansive than that of key management personnel.

Section 342 of the MORB, provides that the total outstanding loans, other credit accommodation and guarantees to each of the bank's/quasi-bank's subsidiaries and affiliates shall not exceed 10% of the net worth of the lending bank/quasi-bank, provided that the unsecured portion of which shall not exceed 5% of such net worth. Further, the total outstanding loans, credit accommodations and guarantees to all subsidiaries and affiliates shall not exceed 20% of the net worth of the lending bank/quasi-bank; and the subsidiaries and affiliates of the lending bank/quasi-bank are not related interest of any director, officer and/or stockholder of the lending institution, except where such director, officer or stockholder sits in the BOD or is appointed officer of such Bank as representative of the bank/quasi-bank. As of December 31, 2022 and 2021, the Bank is in compliance with these requirements.

20.01 Remuneration of Key Management Personnel

The Bank provided remuneration to its directors and other members of key management personnel as follows:

		2022		2021
Short-term benefits	₱	**27,984,704**	₱	25,622,869
Retirement benefits		**4,327,348**		3,962,205
	₱	**32,312,052**	₱	29,585,074

20.02 Revenue Regulations No. 34 – 2020

The Bank is not covered by the requirements and procedures for related transactions provided in RR 34-2020.

21. ISSUED CAPITAL

21.01 Preferred Stock

Shown below are the details on preferred stock:

	2022			2021		
	Stocks		**Amount**	Stocks		Amount
Authorized - ₱10 par value	**2,000,000**	₱	**20,000,000**	2,000,000	₱	20,000,000

As of December 31, 2022 and 2021, there were no issued preference share.

21.02 Common Stock

Shown below are the details of common stock:

	2022			2021		
	Stocks		**Amount**	Stocks		Amount
Authorized - ₱10 par value	**48,000,000**	**₱**	**480,000,000**	48,000,000	₱	480,000,000
Issued and fully paid	**38,673,232**	**₱**	**386,732,320**	38,673,232	₱	386,732,320

Ordinary shares carry one (1) vote per share and a right to dividends.

Additional paid-in capital amounted to ₱33,166,673 as of December 31, 2022 and 2021.

22. REVALUATION SURPLUS

The revaluation surplus arises from the revaluation of land and building as of December 31, 2022 and 2021 amounting to ₱15,320,903 and ₱14,474,419, respectively. When revalued land and building is sold, the portion of the revaluation surplus that relates to that asset, and is effectively realized, is transferred directly to retained earnings. Deferred tax liabilities amounted to ₱5,106,967 and ₱6,203,321 as of December 31, 2022 and 2021, respectively, as disclosed in Note 30.

23. DIVIDENDS DECLARED

On February 16, 2021, the Board of Directors unanimously approved the declaration of cash dividends to common stockholders of record as of December 31, 2020 amounting to ₱12,000,000 with Board Resolution No. 2021-02-130, payable on March 15, 2021.

On February 15, 2022, the Board of Directors unanimously approved the declaration of cash dividends to common stock stockholders of record as of December 31, 2022 amounting to ₱20,000,000 with Board Resolution No. 2022-02-116, payable on March 15, 2022.

Below are the movements on cash dividends payable:

		2022		2021
January 1	**₱**	**3,389,013**	₱	3,027,760
Declaration		**20,000,000**		12,000,000
Final tax paid		**(1,191,099)**		(718,704)
Dividends paid		**(18,278,629)**		(10,920,043)
December 31	**₱**	**3,919,285**	₱	3,389,013

24. OTHER INCOME – net

An analysis of the Bank's other income from its operations is as follows:

		2022		2021
Gain on sale of investment properties (Note 12)	₱	**58,655,496**	₱	41,593,522
Gain (loss) on sale of bank premises, furniture, fixtures and equipment (Note 10)		**31,761,021**		(4,493)
Penalties on loans		**13,366,718**		14,037,006
Service charges		**10,191,219**		4,571,444
Reversal of impairment loss (Notes 10 and 12)		**9,414,551**		-
Rental income (Notes 10 and 27)		**6,546,349**		6,901,045
Recovery on charged-off assets (Note 9)		**2,718,676**		1,254,863
Bank commission		**1,463,133**		1,288,753
Service fees		**1,078,121**		7,648,899
Realized foreign exchange gain (Note 6)		**37,224**		2,642
Unrealized loss on FA at FVTPL and due from other banks – net (Notes 6 and 7)		**(973,930)**		(919,814)
	₱	**134,258,578**	₱	76,373,867

25. OPERATING EXPENSES

This account consists of:

		2022		2021
Compensation and benefits (Note 26)	₱	**65,858,770**	₱	61,341,616
Depreciation and amortization (Note 28)		**28,251,883**		27,164,199
Information technology		**17,874,413**		11,237,430
Taxes and licenses		**14,442,863**		12,304,823
Transportation and travel		**12,420,231**		10,267,592
Write-off of bad debts (Note 9)		**9,534,630**		1,255,809
Retirement benefits (Note 26)		**9,301,268**		3,962,205
Insurance		**8,349,646**		7,911,820
Professional fee		**6,952,624**		4,420,230
Litigation		**6,893,923**		4,852,080
Security and janitorial service		**6,221,057**		5,968,777
SSS, PhilHealth and HDMF Contributions (Note 26)		**4,393,118**		3,966,492
Power, light and water		**4,359,162**		3,565,452
Trainings and seminars		**4,147,156**		1,375,879
Referral fee		**3,929,387**		1,866,709
Representation		**2,435,087**		2,838,714
Repairs and maintenance		**2,088,650**		2,012,215
Supplies		**1,964,264**		1,828,490
Advertisement		**1,816,285**		1,863,560
Postage and communication		**1,070,082**		1,130,633
Supervision fees		**875,109**		741,987
Donation		**334,030**		121,700
Membership dues		**266,000**		273,263
Rental (Note 27)		**228,579**		-
Fines and penalties		**37,010**		2,795,817
Periodicals and magazines		**26,080**		40,189
Write-off of FA at FVTPL (Note 7)		**3,000**		-
Miscellaneous		**676,287**		730,578
	₱	**214,750,594**	₱	175,838,259

Information technology pertains to annual technical support for obtained software and IT equipment which is not capitalized.

Fines and penalties pertain tax deficiency on income tax, documentary stamp tax, percentage tax, expanded withholding tax, final withholding tax and miscellaneous tax per 2020 BIR assessment.

Miscellaneous pertains to interest on tax deficiency and other petty expenses of the Bank.

26. EMPLOYEE BENEFITS

Aggregate employee benefits expense comprised:

		2022		2021
Short-term benefits				
Compensation and benefits (Note 26.01)	₱	**65,858,770**	₱	61,341,616
SSS, PhilHealth and HDMF contributions		**4,393,118**		3,966,492
Retirement benefits (Note 26.02)		**9,301,268**		3,962,205
	₱	**79,553,156**	₱	69,270,313

26.01 Compensation and Benefits

Breakdown of compensation and benefits, as disclosed in Note 25, are as follows:

		2022		2021
Salaries and wages	₱	**46,515,718**	₱	42,902,260
Employee benefits		**15,821,449**		15,012,104
Directors' fee		**1,923,500**		1,754,500
Other benefits		**1,598,103**		1,672,752
	₱	**65,858,770**	₱	61,341,616

Employee benefits consist of 13th month pay and bonuses of employees and officers.

26.02 Retirement Benefits

The Bank has a single retirement plan under the regulatory framework of the Philippines. Under R.A. No. 7641, the Bank is legally obliged to provide a minimum retirement pay for qualified employees upon retirement. The framework, however, does not have a minimum funding requirement. The Bank's benefit plan is aligned with this framework.

The Bank has defined benefit plan for qualifying employees. Under the plan, the employees are entitled to retirement benefits equal to 30 days pay per year of service on attainment of a normal retirement age of 60. The payments for the unfunded benefits are borne by the Bank as it falls due. Plan assets held by trustee are governed by a trust agreement between the latter and the Bank.

The plan shall be administered by a trustee appointed by the Bank who shall be responsible for the general administration of the plan. The trustee may create a Retirement Committee or seek the advice of a counsel and may appoint an investment manager or managers to manage the fund, an independent accountant to audit the fund and an actuary to value the fund.

The most recent actuarial valuations of plan assets and the present value of the defined benefit obligation were carried out on October 4, 2022 by The Insular Life Assurance Co. Ltd. The present value of the defined benefit obligation, and the related current service cost and past service cost, were measured using the PUCM.

In both years, there was no plan amendment and curtailment in the Bank's retirement plan.

The Bank is not required to pre-fund the future defined benefits payable under the Retirement Plan before they become due. For this reason, the amount and timing of contributions to the Retirement Fund are at the Bank's discretion. However, in the event a defined benefit claim arises and the Retirement Fund is insufficient to pay the claim, the shortfall will then be due and payable from the Bank to the Retirement Fund.

The principal assumptions used for purposes of the actuarial valuation were as follows:

	2022	2021
Discount rate	**7.24%**	3.77%
Salary increase rate	**3.00%**	5.00%

The sensitivity analysis of the defined benefit obligation of changes in the weighted principal assumption is as follows:

	Impact on Defined Benefit Obligation		
	Change in Assumption	**Increase in Assumption**	**Decrease in Assumption**
2022			
Discount rate	**100 bps**	**Decrease by 9%**	**Increase by 11%**
Salary increase rate	**100 bps**	**Increase by 12%**	**Decrease by 10%**
2021			
Discount rate	100 bps	Decrease by 10%	Increase by 13%
Salary increase rate	100 bps	Increase by 12%	Decrease by 10%

The above sensitivity analysis is based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions, the same method (present value of the defined benefit obligation calculated with the projected unit credit method at the end of the reporting period) has been applied as when calculating the pension liability recognized within the statements of financial condition.

The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to the previous year.

Assumed life expectancy is not applicable because under the Bank's Retirement Plan, benefits are paid in full in a lump sum upon retirement or separation of an employee.

Amounts recognized in profit or loss in respect of these defined benefit plans are as follows:

	2022	2021
Current service cost	**₱ 9,181,480**	₱ 3,962,205
Net interest cost on obligation	**119,788**	-
	₱ 9,301,268	₱ 3,962,205

The amounts included in the statements of financial condition arising from the Bank's obligation in respect of its defined benefit plans are as follows:

		2022		2021
Present value of defined benefit obligation	₱	**8,101,471**	₱	11,381,157
Fair value of plan assets		**(9,406,364)**		(10,477,807)
	₱	**(1,304,893)**	₱	903,350

To conform with the provisions of PAS 19-R that the amount recognized as defined benefit obligation shall be net of the fair value of plan asset at the reporting dates.

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

		2022		2021
Balance, January 1	₱	**11,381,157**	₱	7,418,952
Current service cost		**9,181,480**		3,962,205
Net interest cost		**119,788**		-
Gains (Loss) arising from:				
Changes in financial assumptions		**(3,987,363)**		-
Deviations of experience from assumptions		**686,624**		-
Payment from retirement fund		**(9,280,215)**		-
Balance, December 31	₱	**8,101,471**	₱	11,381,157

Movements in the remeasurement losses on retirement liabilities, net of deferred taxes, recognized in other comprehensive income (OCI):

		2022		2021
Cumulative loss in OCI, January 1	₱	**2,717,031**	₱	2,717,031
Remeasurement		**(3,300,739)**		-
Deferred tax		**825,185**		-
Cumulative loss in OCI, December 31	₱	**241,477**	₱	2,717,031

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

		2022		2021
Fair value of plan assets, January 1	₱	**10,477,807**	₱	7,648,389
Contribution		**8,208,772**		2,829,418
Payment of retirement benefits		**(9,280,215)**		-
Fair value of plan assets, December 31	₱	**9,406,364**	₱	10,477,807

In 2022, the Bank recognized interest income from plan assets amounting to ₱309,282, which was netted against interest cost from defined benefit obligation amounting to ₱429,070.

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

		2022		2021
Net defined liability (asset), January 1	₱	**903,350**	₱	(229,437)
Retirement expense		**9,301,268**		3,962,205
Contributions		**(8,208,772)**		(2,829,418)
Remeasurements		**(3,300,739)**		-
Net defined liability (asset), December 31	₱	**(1,304,893)**	₱	903,350

Funding Arrangements

The Bank is not required to pre-fund the future defined benefits payable under the Retirement Plan before they become due. For this reason, the amount and timing of contributions to the Retirement Fund are at the Bank's discretion. However, in the event a benefit claim arises and the Retirement Fund is insufficient to pay the claim, the shortfall will then be due and payable by the Bank to the Retirement Fund.

The Bank is exposed to a number of risks through its defined benefit plan. The most significant risks are detailed below:

Asset-liability Matching Strategies to Manage Risks

The Bank ensures that the investment positions are managed within an Asset-Liability Matching (ALM) framework that has been developed to achieve long-term investments that are in line with the obligations under the benefit schemes. Within this framework, the Bank's ALM objective is to match assets to the retirement obligations by investing in long-term fixed interest securities with maturities that match the benefit payments as they fall due and in the appropriate currency. The Bank actively monitors how the duration and the expected yield of the investments are matching the expected cash outflows arising from the retirement obligations. The group has not changed the processes used to manage its risks from previous periods. The Bank does not use derivatives to manage its risk. Investments are well diversified, such that the failure of any single investment would not have a material impact on the overall level of assets. A large portion of assets in the current year consists of debt instrument. The group believes that debt instrument offers the best returns over the long term with an acceptable level of risk.

Volatility Risk

The plan liabilities are calculated using a discount rate based on the Bankers Association of the Philippines (BAP) PHP Bloomberg BVAL Reference Rates (BVAL) benchmark reference curve for the government securities market (previously the PDEx (PDST-R2) market yields on benchmark government bonds) as of the valuation date and considering the average years of remaining working life of the employees as the estimated term of the benefit obligation.

As the plans mature, the Bank intends to reduce the level of investment risk by investing more in assets that better match the liabilities. The assets are composed of debt instruments, domestic equities and cash equivalents. The government bonds represent investments in Philippine government securities only.

However, the Bank believes that due to the long-term nature of the plan liabilities and the strength of the supporting group, a level of continuing equity investment is an appropriate element of the group's long-term strategy to manage the plans efficiently.

Investment Risk

Investment risk is the risk that investments on plan assets will result to a lower return than originally expected. This risk emanates on the premise that funded defined benefit plans should be arranged on the basis of Asset-Liabilities Matching principle.

Thus, plan assets and future contributions are invested in such a way that it will generate return to cover-up future payments of defined benefit obligations and interest costs. These plan activities expose the Bank to sensitivity in investment risks that would result to lower plan assets and higher defined benefit obligations should the performance of the investment portfolio falls below the inflation rate, interest rates and other economic conditions.

Investment risk is mitigated through proper investment planning and concentration of investments. Plan assets as of December 31, 2022 and 2021 are concentrated both on government securities which account for 64% of the total plan assets.

Inflation Risk

Inflation risk is the risk that the equivalent purchasing power of the plan assets will not be able to match the recorded liabilities.

Payments for the defined benefit plan of the Bank are affected by inflation. However, the exposure to this risk is immaterial.

27. LEASE AGREEMENTS

27.01 The Bank as a Lessee

The Bank has several leases of properties. With the exception of short-term leases and leases of low-value underlying assets, each lease is reflected on the statements of financial condition as a ROU assets and a lease liabilities. The Bank presents its ROU assets as a separate line item on the statements of financial condition.

27.01.01 Lease Liabilities

The Bank entered into lease agreements covering its branch premises which have terms ranging from five (5) to twenty-five (25) years, renewable at the option of the Bank under certain terms and conditions. The lease agreements include provisions for annual escalation rates ranging from three percent (3%) to ten percent (10%). The lease agreements also require refundable deposits amounting to ₱2,490,817 and ₱2,270,276, as of December 31, 2022 and 2021, respectively, as disclosed in Note 14.

27.01.02 Lease payments not recognized as a liability

Certain lease agreements with lease payments recognized as lease liabilities ended during the year. However, the Bank did not renew the said agreements as branches utilizing the said lease were also relocated in 2022. Hence, the Bank qualified these transactions as operating lease and recognize rent expense on leased properties amounting to ₱228,579 and nil in 2022 and 2021, respectively, as disclosed in Note 25.

27.02 The Bank as a Lessor

Operating leases relate to bank premises with average lease term terms ranging from three (3) to ten (10) years. The lease agreements include provisions for annual escalation rates ranging from 5% to 10%. The lease agreements also require security deposits which amounted to ₱753,528 and ₱1,513,114 as of December 31, 2022 and 2021, respectively, as disclosed in Note 19.

The property rental income earned, by the Bank from its properties, all of which is leased out under operating leases, amounted to ₱6,546,349 and ₱6,901,045 for the years ended 2022 and 2021, respectively, as disclosed in Notes 10 and 24.

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

		2022		2021
Not later than one (1) year	₱	**3,100,215**	₱	5,374,791
Later than one (1) year, but not later than two (2) years		**2,963,877**		4,867,410
Later than two (2) years, but not later than three (3) years		**2,767,190**		732,170
Later than three (3) years, but not later than four (4) years		**2,716,177**		94,809
Later than four (4) years, but not later than five (5) years		**2,030,957**		-
Later than five (5) years		**9,815,959**		-
	₱	**23,394,375**	₱	11,069,180

28. DEPRECIATION AND AMORTIZATION

Breakdown of depreciation and amortization as disclosed in Note 25 is as follow:

		2022		2021
Bank premises, furniture, fixtures and equipment at cost (Note 10)	₱	**11,599,377**	₱	10,045,233
Right-of-use of assets (Note 11)		**9,282,474**		9,602,300
Investment properties (Note 12)		**7,120,162**		7,266,796
Revaluation surplus (Note 10)		**249,870**		249,870
	₱	**28,251,883**	₱	27,164,199

29. INCOME TAXES

29.01 Income Tax Recognized in Profit or Loss

Components of income tax expense are as follows:

		2022		2021
Current tax expense	₱	**33,316,345**	₱	31,110,629
Deferred tax expense (benefit) (Note 30)		**37,912**		(11,413,857)
	₱	**33,354,257**	₱	19,696,772

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	₱	**142,518,969**	₱	109,852,975
Tax expense at 25%		**35,629,742**		27,463,244
Tax effects of the following:				
Reversal of deferred taxes – net		**2,903,738**		(5,294,743)
Non-deductible interest expense		**1,127,371**		461,933
Non-deductible expenses		**-**		1,189,298
Effect of adjustment to current tax		**-**		(59,512)
Non-taxable interest income		**(367,131)**		(283,078)
Reversal of impairment loss		**(1,429,979)**		-
Interest income subject to final tax		**(4,509,484)**		(3,780,370)
	₱	**33,354,257**	₱	19,696,772

30. DEFERRED TAXES – net

Below is the offsetting of deferred tax assets and deferred tax liabilities:

	2022	2021
Deferred tax assets (Note 30.01)	₱ **48,014,635**	₱ 49,375,818
Deferred tax liabilities (Note 30.02)	**(5,433,190)**	(7,027,630)
	₱ **42,581,445**	₱ 42,348,188

30.01 Deferred Tax Assets

The component of the Bank's deferred tax assets with respective movement are as follows:

	Allowance for Expected Credit Losses – Loans and Receivables	**Allowance for Impairment Losses – Investment Properties**	**Allowance for Expected Credit Losses – Accounts Receivables/ SCR**	**Unrealized Loss on Financial Assets at FVTPL and Due from Other Banks**	**Effect of PFRS 16**	**Retirement Liabilities**	**Total**
Balance, January 1, 2021	₱ 35,856,377	₱ 216,022	₱ (127,989)	₱ -	₱ 1,231,947	₱ 785,604	₱ **37,961,961**
Recognized in profit or loss	6,940,450	800,001	1,091,474	229,954	292,293	2,059,685	**11,413,857**
Balance, December 31, 2021	**42,796,827**	**1,016,023**	**963,485**	**229,954**	**1,524,240**	**2,845,289**	**49,375,818**
Recognized in profit or loss	2,610,436	(1,016,023)	(858,537)	13,529	734,701	(2,020,104)	**(535,998)**
Recognized in OCI	-	-	-	-	-	(825,185)	**(825,185)**
Balance, December 31, 2022	₱ **45,407,263**	₱ **-**	₱ **104,948**	₱ **243,483**	₱ **2,258,941**	₱ **-**	₱ **48,014,635**

30.02 Deferred Tax Liabilities

The component of the Bank's deferred tax liabilities with respective movement are as follows:

	Unrealized Gain on Financial Assets at FVTPL	Revaluation Surplus	Retirement Asset	Total
Balance, January 1, 2021	₱ 824,309	₱ 6,278,282	₱ -	₱ **7,102,591**
Recognized in OCI	-	(74,961)	-	**(74,961)**
Balance, December 31, 2021	**824,309**	**6,203,321**	**-**	**7,027,630**
Recognized in profit or loss	(824,309)	-	326,223	**(498,086)**
Recognized in OCI	-	(1,096,354)	-	**(1,096,354)**
Balance, December 31, 2022	**₱ -**	**₱ 5,106,967**	**₱ 326,223**	**₱ 5,433,190**

Management assessed that there is a legally enforceable right to set off current tax assets against current tax liabilities and 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, hence, deferred tax assets and liabilities are presented net in the financial statements in both years.

31. FAIR VALUE MEASUREMENTS

31.01 Fair Value of Financial Assets and Liabilities

The carrying amounts and estimated fair values of the Bank's financial assets and financial liabilities as of December 31, 2022 and 2021 are presented below:

	2022		2021	
	Carrying Amounts	**Fair Values**	Carrying Amounts	Fair Values
Financial Assets:				
Cash and other cash items	**₱ 44,752,107**	**₱ 44,752,107**	₱ 54,339,237	₱ 54,339,237
Due from BSP	**103,312,265**	**103,312,265**	134,741,006	134,741,006
Due from other banks	**740,934,445**	**740,934,445**	744,673,671	744,673,671
Financial assets at fair value through profit or loss	**10,331,059**	**10,331,059**	16,292,678	16,292,678
Other financial assets at amortized cost	**170,090,000**	**170,090,000**	75,341,770	75,341,770
Loans and receivables – net	**3,198,387,194**	**3,198,387,194**	3,034,187,452	3,034,187,452
Other assets – net	**20,707,322**	**20,707,322**	20,580,625	20,580,625
	₱ 4,288,514,392	**₱ 4,288,514,392**	₱ 4,080,156,439	₱ 4,080,156,439
Financial Liabilities:				
Deposit liabilities	**₱ 3,726,485,325**	**₱ 3,726,485,325**	₱ 3,478,348,163	₱ 3,478,348,163
Bills payable	**-**	**-**	70,000,000	70,000,000
Dividends payable	**3,919,285**	**3,919,285**	3,389,013	3,389,013
Lease Liabilities	**103,998,831**	**103,998,831**	100,555,734	100,555,734
Other liabilities	**26,419,417**	**26,419,417**	29,721,060	29,721,060
	₱ 3,860,822,858	**₱ 3,860,822,858**	₱ 3,682,013,970	₱ 3,682,013,970

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

- Due to either short-term or demand feature of financial assets and financial liabilities other than the loans and receivables, financial assets at fair value through profit or loss and deposit liabilities, Management believes that carrying values approximate the fair values.
- Financial assets at fair value through profit or loss are debt securities except for the PLDT investment which is an equity security measured using quoted market rates.
- Loans and receivables – fair values of the Bank's loans and receivables are estimated using the effective interest method less any allowance for impairment and principal repayment or reduction and using current incremental lending rates for similar types of loans. Where the instrument reprices on a quarterly basis or has a relatively short maturity, the carrying amounts approximate their fair values.
- Due to demand nature of deposits liabilities and bills payable, Management believes that the carrying amounts approximate their fair values.
- Management believes that the carrying amount of lease liabilities approximates its fair value since this was discounted using the Bank's incremental borrowing rate at the date of initial application.

31.02 Fair Value Determinations of Asset

The following provides an analysis of assets and liabilities that are measured at fair value on a non-recurring basis subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which inputs to valuation techniques are observable:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that can be accessed at the measurement date;
- Level 2 inputs are inputs other than quoted prices included within the Level 1 that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

31.02.01 Fair Value Hierarchy

Shown below are the fair values of assets:

Recurring Fair Value Measurements

		Level 1		Level 2		Level 3		Total
2022								
Land	**₱**	**-**	**₱**	**-**	**₱**	**81,365,000**	**₱**	**81,365,000**
Building		**-**		**-**		**37,582,286**		**37,582,286**
2021								
Land	₱	-	₱	-	₱	80,874,700	₱	80,874,700
Building		-		-		46,988,336		46,988,336

Fair Value Disclosure

	Level 1	Level 2	Level 3	Total
2022				
Investment properties	**₱ -**	**₱ -**	**₱ 184,080,201**	**₱ 184,080,201**
2021				
Investment properties	₱ -	₱ -	₱ 419,222,255	₱ 419,222,255

Non-recurring Fair Value Measurements

	Level 1	Level 2	Level 3	Total
2022				
Assets held for sale	**₱ -**	**₱ -**	**₱ 231,206,283**	**₱ 231,206,283**

31.02.02 Valuation Technique used to Derive Level 3 Fair Value

Land and Building

The fair values are carried out with reference to Philippine Valuation Standards. Sales comparison approach is a comparative approach that considers the sales of similar or substitute properties and related market data and establishes a value estimate by processes involving comparison. Listings and offerings may also be considered.

Investment Properties and Assets Held for Sale

The fair value was derived using the market comparison approach. Market comparison approach is a valuation technique that uses prices and other relevant information generated by market transactions involving identical or comparable assets. Under market comparison approach, the most significant input into this valuation is the price per square meter.

31.02.03 Highest and Best Use

The Bank's non-financial assets are composed of land and building under 'bank premises, furniture, fixtures and equipment' and residential and agricultural lots under 'investment properties' being idle and held for capital appreciation and land and building held for use in the production or supply of goods or services, or for administrative purposes. However, as of December 31, 2022 and 2021, the Bank assessed the highest and best use of the foregoing assets from the perspective of market participants. The land and building could be sold. On other hand, residential and agricultural lots under 'investment properties' could be developed for rental. Management is currently assessing probable options by which it can derive best benefits from the property.

32. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

32.01 Risk Management System

All financial institutions assume some amount of risk as part of normal operations. It is the policy of the Bank to manage and control the amount of risk it assumes. The primary objectives of the Bank's asset/liability management process include consistent earnings-to-growth plan and Net Worth to Assets within acceptable and controllable levels of the following main risks:

- Interest Rate Risk (IRR) – is identified on mismatches on maturities. It measures interest rate risk by identifying gaps between repricing dates of assets and liabilities.
- Liquidity Risk – current and prospective risk to earnings or capital arising from Bank's inability to meet its obligations when they come due without incurring unacceptable losses.
- Credit Risk – involves the possible financial losses of the Bank resulting from default of its borrowers or from the depreciation in value of the assets acquired by the Bank in settlement of loans.

Other risks are measured from time to time. Their importance is also a key to the Bank's continued successful operations. The Management reviews these risks at least annually, and more often as conditions may warrant.

- Market risk – risk that values of assets and liabilities or revenues will be adversely affected by changes in market conditions such as market movements.
- Operations Risk – arises from the failure and inefficiency of the Bank's internal policies, system failure and human error that result in unexpected loss to the Bank, inadequacy in management reporting system, weakness in organization set up and poor management oversight.
- Legal risk – the potential loss due to non-existent, incomplete, incorrect and unenforceable documentation that the Bank use to protect and enforces right under the law on obligations and contracts.
- Compliance Risk – the risk to earnings or capital arising from violations of, or non-conformity with laws, rules, regulations, prescribed practices, internal policies, and procedures.
- Reputation Risk – occurs when the Bank is seen or perceived to be poorly prepared to deal with its operational difficulties or when it seems to lack the ability to operate normally and efficiently during crises.
- Technology Risk – arises from the inefficiency and insufficiency of the Bank's electronic or computerized systems and its existing technology in use to process its transactions.

32.02 Liquidity and Funds Management

32.02.01 Liquidity

Liquidity is measured in terms of having sufficient funds available at all times, to meet fully and promptly, the legitimate demands for money made on the bank arising from deposit withdrawal, presentation of cheques, maturing investments, draws under committed loan facilities, and other financial commitments. The Bank needs to assure depositors that they can withdraw their funds when desired, borrowers of the availability of funds to meet legitimate demands for credit expansion, and employees of the Bank stability and longevity. It must be remembered however that too much liquidity will have a negative impact on profitability, while too little liquidity will increase the risk of insolvency. The Bank is deemed to have adequate liquidity when it can obtain sufficient cash promptly and at a reasonable rate (cost). The determination of the adequacy of the Bank's liquidity position depends upon an analysis of the Bank's position relative to the following factors: (i) historical funding requirements; (ii) current liquidity position; (iii) anticipated future funding needs; (iv) present and anticipated asset quality; (v) present and future earnings capacity; and (vi) sources of funds.

32.02.02 Funding

Forecasting future events is essential to adequate liquidity planning. Sound financial management can help buffer negative changes in the Bank's economic climate and accentuate positive ones. Forecasting of future events is very subjective and fraught with potential error. Management must therefore develop contingency plans in case its projections are wrong. Effective contingency planning involves identifying minimum and maximum liability needs and weighing the alternative courses of action designed to meet the needs. Monthly cash flow projections will be sought from large customers.

The following are alternative ways the Bank can meet its liquidity needs: (i) increase core (retail) deposits; (ii) acquire interbank deposits; (iii) sell large time or notice deposits in domestic money market; (iv) borrow from lender of last resort (BSP); (v) borrow the Inter Bank Market; (vi) lengthen the average life of the bank's liabilities portfolio; (vii) maintain unused lines of credit with other financial institutions; and (viii) loan participations.

The Management reviews annually, as part of the annual budget preparation, or as often as necessary, the Bank's deposit structure in relation to volume and trend of various types of deposits, maturity distribution of time deposits and rates paid compared to rates offered by competitors.

32.02.03 Analysis of Financial Liabilities by Remaining Contractual Maturities

The table below shows the maturity profile of Bank's financial liabilities as of December 31, 2022 and 2021 based on contractual undiscounted repayment obligations:

	2022		
	Within One (1) Year	**Beyond One (1) Year**	**Total**
Deposit liabilities			
Savings	**₱ 2,002,259,702**	**₱ -**	**₱ 2,002,259,702**
Time	**1,721,451,925**	**2,773,698**	**1,724,225,623**
Dividends payable	**3,919,285**	**-**	**3,919,285**
Lease liabilities	**10,115,054**	**168,646,667**	**178,761,721**
Other liabilities	**26,419,417**	**-**	**26,419,417**
	₱ 3,764,165,383	**₱ 171,420,365**	**₱ 3,935,585,748**

	2021		
	Within One (1) Year	Beyond One (1) Year	Total
Deposit liabilities			
Savings	₱ 1,881,290,868	₱ -	₱ 1,881,290,868
Time	1,581,013,597	16,043,698	1,597,057,295
Bills payable	70,000,000	-	70,000,000
Dividends payable	3,389,013	-	3,389,013
Lease liabilities	8,536,504	166,407,701	174,944,205
Other liabilities	29,721,060	-	29,721,060
	₱ 3,573,951,042	₱ 182,451,399	₱ 3,756,402,441

32.02.04 Expected Maturity of Financial Asset

The following table details the Bank's expected maturity for its non-derivative financial assets. The table has been drawn up based on the undiscounted contractual maturities of the financial assets including interest that will be earned on those assets. The inclusion of information on non-derivative financial assets is necessary in order to understand the Bank's liquidity risk management as the liquidity is managed on a net asset and liability basis.

	Weighted Average Effective Interest Rate	On Demand	Within one (1) Year	More than one (1) year to five (5) years	Total
December 31, 2022					
Cash and other cash items	**-**	**₱ 44,752,107**	**₱ -**	**₱ -**	**₱ 44,752,107**
Due from BSP	**-**	**103,312,265**	**-**	**-**	**103,312,265**
Due from other banks	**0.10% to 5.625%**	**180,894,862**	**480,039,583**	**80,000,000**	**740,934,445**
Financial assets at fair value through profit or loss	**3.25% to 8.00%**	**-**	**4,942,370**	**5,388,689**	**10,331,059**
Other financial asset at amortized cost	**2.800% to 4.875%**	**-**	**110,020,000**	**60,070,000**	**170,090,000**
Loans and receivables – net	**4.25% to 6.25%**	**-**	**682,551,205**	**2,515,835,989**	**3,198,387,194**
Other assets – net	**-**	**99,000**	**16,302,758**	**4,305,564**	**20,707,322**
		₱ 329,058,234	**₱ 1,293,855,916**	**₱ 2,665,600,242**	**₱ 4,288,514,392**
December 31, 2021					
Cash and other cash items	-	₱ 54,339,237	₱ -	₱ -	₱ 54,339,237
Due from BSP	-	134,741,006	-	-	134,741,006
Due from other banks	0.10% to 5.625%	214,673,671	450,000,000	80,000,000	744,673,671
Financial assets at fair value through profit or loss	3.25% to 8.00%	-	5,015,749	11,276,929	16,292,678
Other financial asset at amortized cost	4.375% to 6.375%	-	25,321,770	50,020,000	75,341,770
Loans and receivables – net	6.00% to 34.00%	-	701,089,646	2,333,097,806	3,034,187,452
Other assets – net	-	99,000	16,453,227	4,028,398	20,580,625
		₱ 403,852,914	₱ 1,197,880,392	₱ 2,478,423,133	₱ 4,080,156,439

32.03 Market Risk Management

Market risk refers to the uncertainty of future earnings resulting from changes in interest rates, exchange rates, market prices and volatilities. The Bank assumes market risk from consumer and corporate loans, position taking, and trading and investment activities.

The strategy for controlling market risk shall involve: (i) stringent control and limits; (ii) regular reporting of positions; and (iii) regular review of all control and limits.

32.03.01 Interest Rate Risk Management

Interest rate risk arises when there is a mismatch between positions which are subject to interest rate adjustments within a specified period. The most important source of interest rate risk is the Bank's lending, funding and investments activities, where fluctuations in interest rates are reflected in interest margins and earnings.

32.03.01.01 Asset Allocation Strategies

Interest rate risk is managed through (1) investments (2) loan pricing, and (3) deposit pricing. Asset/Liability policies and strategies is formulated upon the examination of how interest rate risk affect overall business risk, i.e., capital risk, and liquidity risk, credit risk, interest rate risk. After review of the current situation, the Board of Directors devised various strategies to minimize risk while maximizing earnings and net worth. The following methods for managing the asset/liability mix are reviewed: (i) buying and selling assets; (ii) changing liability structure and mix; (iii) balance sheet growth, structure, and maturity; and (iv) hedging.

The proper strategy depends on the current level of risk, the time frame, and the current interest rate environment. If the Bank determines that there is a good chance that interest rates will increase, an attempt is made to extend fixed-rate liabilities to longer maturities while purchasing variable rate assets in order to widen the net interest margin. If it is perceived that interest rates will decline, an attempt is made to shorten fixed rate liabilities while securing longer-term fixed-rate assets in order to increase the net interest margin. Asset maturities will be managed as a result of the liability structure to maintain compliance within the ranges detailed.

32.03.01.02 Sensitivity Analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for non-derivative instruments at the end of the reporting period. For floating rate liabilities, the analysis is prepared assuming the amount of the financial assets and liabilities outstanding at the end of the reporting period was outstanding for the whole year. A 10% increase is used when reporting interest rate risk internally to key management personnel and this represents Management's assessment of the reasonably possible change in interest rates.

	2022					
	Amount	Ave. Rate	Increase 10%	Interest Based on Average	Interest Based on Increase	Net Effect
Interest Income						
Due from other banks	12,714,910	3.39%	3.73%	25,117,678	27,636,855	2,519,177
Loans and receivables	288,401,556	12.44%	13.68%	387,323,188	425,930,966	38,607,778
	301,116,466			412,440,866	453,567,821	41,126,955
Interest Expense						
Deposit liabilities						
Savings deposit	3,682,444	0.13%	0.14%	2,602,938	2,803,164	200,226
Time deposit	34,686,176	1.78%	1.96%	30,691,216	33,794,822	3,103,606
	38,368,620			33,294,154	36,597,986	3,303,832
Net Interest Income	262,747,846			379,146,712	416,969,835	37,823,123

	2021					
	Amount	Ave. Rate	Increase 10%	Interest Based on Average	Interest Based on Increase	Net Effect
Interest Income						
Due from other banks	₱ 11,270,668	1.38%	1.52%	₱ 10,276,497	₱ 11,319,040	₱ 1,042,543
Loans and receivables	286,435,121	10.47%	11.52%	317,679,426	349,538,394	31,858,968
	297,705,789			327,955,923	360,857,434	32,901,511
Interest Expense						
Deposit liabilities						
Savings deposit	4,288,422	0.25%	0.28%	4,703,227	5,267,614	564,387
Time deposit	26,440,833	1.75%	1.93%	27,948,503	30,823,206	2,874,703
	30,729,255			32,651,730	36,090,820	3,439,090
Net Interest Income	₱ 266,976,534			₱ 295,304,193	₱ 324,766,614	₱ 29,462,421

There is no material impact of changes in interest rates on equity for the years ended December 31, 2022 and 2021.

Due from other banks represent funds deposited with domestic banks which are used by the Bank as part of its working funds. Deposits earn interest for savings deposits from 0.10% to 0.25%, short-term time deposits from 1.00% to 2.75% and long-term time deposit from 4% to 5.625%.

The following table provides for the effective interest rates by period of maturity as of December 31, 2022 and 2021 for the Bank:

	2022		
	Less than six (6) months	**Six (6) months to one (1) year**	**Greater than one (1) year**
Financial Assets			
Due from other banks	**0.10% to 4.50%**	**1.50% to 2.875%**	**2.75% to 5.625**
Financial assets at fair value through profit or loss	-	**3.250%**	**8.00%**
Other financial assets at amortized cost	**2.80% to 3.01%**	-	**4.25% to 4.875**
Loans and receivables – net	**7.50% to 12.00%**	**6.50% to 33.11%**	**6.00% to 34.70%**
Financial Liabilities			
Deposit liabilities			
Savings	**0.25%**	-	-
Time	**0.50% to 5.00%**	**0.50% to 3.50%**	**3.00% to 3.50%**

	2021		
	Less than six (6) months	Six (6) months to one (1) year	Greater than one (1) year
Financial Assets			
Due from other banks	0.10% to 1.75%	1.25% to 2.75%	4.00% to 5.625%
Financial assets at fair value through profit or loss	-	-	3.25% to 8.00%
Other financial assets at amortized cost	-		4.375% to 6.375%
Loans and receivables – net	8.00% to 10.00%	6.50% to 31.55%	6.00% to 34.22%
Financial Liabilities			
Deposit liabilities			
Savings	0.25%	-	-
Time	0.50% to 1.50%	1.75% to 1.50%	3.00% to 4.50%

32.04 Credit Risk Management

Credit risk is the risk of loss resulting from the failure of a borrower or counterparty to honor its financial or contractual obligation. The Bank is exposed to credit risks from due from BSP, due from other banks, loans and receivables, accrued interest receivable, other financial assets at amortized cost and refundable deposit and accounts receivable presented under 'other assets'.

The Bank's credit risk shall be consistent with separate written policies and procedures. The credit policies include the Bank's credit structure, target markets, credit evaluation, administration and monitoring and collection guidelines. Moreover, the Bank continuously monitors defaults of customers and other counterparties, identified either individually or by group, and incorporate this information into its credit risk controls. The Bank's policy is to deal only with creditworthy counterparties. In addition, for certain type of loans, collateral and required to mitigate credit risk.

Financial assets measured at amortized cost are as follows:

		2022		2021
Due from BSP	₱	**103,312,265**	₱	134,741,006
Due from other banks		**740,934,445**		744,673,671
Loans and receivables – net		**3,198,387,194**		3,034,187,452
Other financial assets at amortized cost		**170,090,000**		75,341,770
Accrued interest receivable		**15,078,323**		14,535,764
Refundable deposits		**4,305,564**		4,028,398
Accounts receivable – net		**1,224,435**		1,917,463
Petty cash fund		**99,000**		99,000
	₱	**4,233,431,226**	₱	4,009,524,524

The Bank's assessment of expected credit loss on due from BSP and due from other banks is detailed as follows:

	December 31, 2022				December 31, 2021			
		Gross Carrying Amount		**Estimated credit losses**		Gross Carrying Amount		Estimated credit losses
Due from BSP	₱	103,312,265	₱	-	₱	134,741,006	₱	-
Due from other banks								
Demand		96,777,162		-		88,326,902		-
Saving		84,117,700		-		126,346,769		-
Time		560,039,583		-		530,000,000		-
	₱	844,246,710	₱	-	₱	879,414,677	₱	-

The Bank believes that the assessed amount of ECL above is immaterial. As of December 31, 2022 and 2021, expected credit losses on due from BSP and due from other banks amounted to nil.

32.04.01 Loan Portfolio – Expected Credit Loss

The calculation of allowance for expected credit losses of Loan Portfolio is currently based on the methodologies provided in the Appendix 15 of MORB.

32.04.02 Probability of Default

The probability of default is measured over either 12-month or the lifetime of a financial instrument.

32.04.03 Maximum Exposure to Credit Risk Before Collateral Held or Other Credit Enhancements

An analysis of the maximum exposure to credit risk without taking into account any collateral held or other credit enhancements is shown below:

		2022		2021
Due from BSP	₱	**103,312,265**	₱	134,741,006
Due from other banks		**740,934,445**		744,673,671
Loans and receivables		**3,198,387,194**		3,034,187,452
	₱	**4,042,633,904**	₱	3,913,602,129

32.04.04 Concentration by Industry

The table below show the industry sector analysis of the Bank's financial assets in gross amounts before and after taking into account the fair value of the loan collateral held or other credit enhancements:

		2022		2021
Consumption	₱	**1,518,195**	₱	1,960,595
Small and medium enterprise		**1,144,084,820**		1,046,367,700
Agricultural		**467,876,666**		487,301,881
Microfinance		**586,724**		1,467,908
Other loans		**1,748,627,358**		1,656,597,661
		3,362,693,763		3,193,695,745
Allowance for expected credit losses		**181,629,051**		171,187,307
	₱	**3,181,064,712**	₱	3,022,508,438

32.04.05 Collateral and Other Credit Enhancements

The Bank holds collateral against loans and receivables in the form of real estate. Estimates of fair value are based on the value of collateral assessed at the time of borrowing and generally are not updated except when a loan is assessed to be impaired. Generally, collateral is held over loans and advances to the Bank. Collateral is usually not held against investment securities, and no such collateral was held as of December 31, 2022. The Bank is not permitted to sell or repledge the collateral held in the absence of default by the owner of the collateral.

32.04.06 Credit Quality per Class of Financial Assets

Loans, receivables and other financial assets are either classified as High Grade, Standard Grade and Substandard Grade depending on the inherent risks or weaknesses noted on the accounts during credit evaluation periodically conducted following the credit classification criteria of the BSP.

High Grade credits are those accounts that do not have greater than normal risk or do not have potential weaknesses. Lumped under this category are credits covered by hold-out on deposits and sovereign guarantees, following the Bank's Internal Credit Risk Rating System.

Standard Grade credits represent accounts that are current in status and not impaired with risk rating of 4 to 5.

Substandard Grade credits represent accounts that display potential weaknesses, by the occurrence of limited or random delinquency/default, which when left unattended,
may affect the repayment of the loan and increase credit risk to the Bank.

The Bank's borrower's risk rating system considers the combination of application data, internal as well as external data. Presented below are the characteristics of each of the Bank's risk rating/grade:

1 - Excellent. Borrower pays as agreed, no history of delinquencies. Payment source is sustainable, with strong trends in operation. The borrower meets earnings and payment expectations. There are no disruptions from external factors. Management shows competence under the present business model.

2 - Strong. Borrower pays as agreed, no history of delinquencies. Strong liquidity, borrower meets earnings and payment expectations. There are no disruptions from external factors. Management shows competence under the present business model.

3 - Good. Borrower pays as agreed, no history of default in the last 12 months. The borrowing base/payment source fully supports the line of credit. Account meets expectations, with no disruptions from external factors. Management shows competence under the present business model.

4 - Satisfactory. Borrower pays as agreed. Liquidity is adequate to marginal. Expectations are generally met. There are known sources of external disruptions but effects can be anticipated. There may be recent departures or lack of key personnel.

5 - Acceptable. Liquidity may be marginal or, certain operating trends could show a decline but neither would seriously jeopardize repayment. Expectations not always met. The business model may change with new external factors. There are uncertainties in business environment. Turnover and unfilled management positions may be chronic.

6 - Watchlisted. May occasionally turn past due for 30-60 days but will likely revert to current. Liquidity is marginal. Earnings and payment expectations are not met.

Some defaults occur. There are identified external factors that have a negative effect on operations. The Bank changes its business model with negative implications (for both shareholders and lenders).

7 - Especially Mentioned. There is evidence of weakness in financial condition and credit worthiness. Credit evaluation should show a negative risk rating. Financial difficulties are expected and credit exposure is at risk. Negative external factors are affecting the business. The borrower's ability or willingness to service the debt is in doubt.

8 - Sub-standard. Credit evaluation estimates up to 50% probability of default. Collection of principal and/or interest becomes questionable. The operation cannot support the present debt burden. Second way out (collateral) is weak or insufficient. Managerial record is unfavorable or characteristically weak.

9 - Doubtful. The extent of loss to creditors still cannot be quantified but is likely to be significant. The borrower is unable or unwilling to service the debt even over an extended period. Loss is unavoidable despite efforts by both borrower and creditor. Managerial record is unfavorable or characteristically weak.

10 - Loss. The prospect of re-establishment of credit-worthiness is remote. Debt servicing is remote. The lender is taking steps to foreclose on available collateral. 100% loss is set for unsecured loans. Loss may not be easily determined but is not practical to defer a write-off. The borrower and/or his co-makers are insolvent.

	2022					
	Neither Past Due nor Specifically Impaired					
	High Grade	**Standard Grade**	**Substandard Grade**	**Past Due but Not Individually Impaired**	**Individually Impaired**	**Total**
Due from BSP	**₱ 103,312,265**	**₱ -**	**₱ -**	**₱ -**	**₱ -**	**₱ 103,312,265**
Due from other banks	**740,934,445**	**-**	**-**	**-**	**-**	**740,934,445**
Other financial assets at amortized cost	**170,090,000**	**-**	**-**	**-**	**-**	**170,090,000**
Loans and receivables	**2,975,648,606**	**-**	**-**	**388,679,913**	**27,278,633**	**3,391,607,152**
Other assets	**20,707,322**	**-**	**-**	**-**	**-**	**20,707,322**
	₱ 4,010,692,638	**₱ -**	**₱ -**	**₱ 388,679,913**	**₱ 27,278,633**	**₱ 4,426,651,184**

	2021					
	Neither Past Due nor Specifically Impaired					
	High Grade	Standard Grade	Substandard Grade	Past Due but Not Individually Impaired	Individually Impaired	Total
Due from BSP	₱ 134,741,006	₱ -	₱ -	₱ -	₱ -	₱ 134,741,006
Due from other banks	744,673,671	-	-	-	-	744,673,671
Other financial assets at amortized cost	75,341,770	-	-	-	-	75,341,770
Loans and receivables	2,973,781,085		-	231,753,322	13,240,533	3,218,774,940
Other assets	20,580,625	-	-	-	-	20,580,625
	₱ 3,949,118,157	₱ -	₱ -	₱ 231,753,322	₱ 13,240,533	₱ 4,194,112,012

The table below shows the aging analysis of past due but not impaired loans and receivables per class that the Bank held as of December 31, 2022 and 2021.

Under PFRS 7, a financial asset is past due when a counterparty has failed to make a payment when contractually due.

	2022			2021		
	90-180 days	**Over 180 days**	**Total**	90-180 days	Over 180 days	Total
Loans and discounts	**₱ 211,759,504**	**₱ 176,920,409**	**₱ 388,679,913**	₱ 117,782,454	₱ 113,970,868	₱ 231,753,322

The banks restructured loans amounted to ₱774,046,697 and ₱827,499,940 as of December 31, 2022 and 2021.

33. CAPITAL MANAGEMENT OBJECTIVES, POLICIES AND PROCEDURES

The Bank manages its capital to ensure that the Bank will be able to continue as going concern while maximizing the return to stakeholders through the optimization of the debt and equity balance.

The capital structure of the Bank consists of equity of the Bank (comprising capital stock, additional paid-in capital, revaluation surplus, remeasurement losses on retirement liabilities and surplus free).

Based on Manual of Regulations for Banks under Section 121, as amended by BSP Circular 1151 series of 2022, *Amendments to the Minimum Capitalization of Rural Banks*, the Bank is required to meet the capital requirement amounting to ₱200,000,000. As of December 31, 2022 and 2021 the Bank's total capital stock is ₱386,732,320 in both years.

The Bank's Board of Directors reviews the capital structure of the Bank on an annual basis. As part of this review, the Board considers the cost of capital and the risks associated with each class of capital.

The Bank's capital structure is as follows:

	2022	2021
Common stock	**₱ 386,732,320**	₱ 386,732,320
Additional paid-in capital	**33,166,673**	33,166,673
Revaluation surplus	**15,320,903**	14,474,419
Remeasurement losses on retirement liabilities – net	**(241,477)**	(2,717,031)
Surplus free	**413,705,464**	324,290,882
	₱ 848,683,883	₱ 755,947,263

Under Section 34 of R.A. No. 8791/Section 125 of the MORB, the determination of the Bank's compliance with regulatory requirements and ratios is based on the amount of the Bank's unimpaired capital as reported to the BSP, which is determined on the basis of regulatory accounting policies that differ from PFRS in some respects.

In addition, in compliance with the risk-based capital ratio, the Bank, shall maintain a minimum adjusted risk-based CAR covering combined credit risk and market risk of ten percent (10%) calculated on solo and on consolidated basis which is expressed as a percentage of qualifying capital to risk-weighted assets which includes credit risk and market risk-weighted assets. The components of this calculation are as follows:

- **Market risk-weighted assets** are the sum of the capital charges for all market risk categories calculated using either the standardized approach or the internal models approach [multiplied by 125% for those calculated using the standardized methodology to be consistent with the higher capital charge for credit risk, i.e., ten percent (10%) as opposed to BIS recommended eight percent (8%) multiplied by 10. (The multiplier 10 is the reciprocal of the BSP required minimum capital adequacy ratio for credit risk of ten percent (10%). The effect is to convert the sum of the market risk capital charges into a risk-weighted assets equivalent which can then be directly added to the total credit risk-weighted assets).

- **Credit risk-weighted assets** are the total risk weighted assets calculated in accordance with Appendix to Section 125, less the part calculated for on-balance sheet debt securities and equities in the trading book. (The credit risk-weighted assets for on-balance sheet debt securities and equities are deducted because they represent an element now covered by the market risk capital charge).

- **Operational risk-weighted assets** are risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This definition includes legal risk, but excludes strategic and reputational risk. Operational risk capital charge is calculated as the three (3)-year average of the simple summation of the regulatory capital charges across each of the business lines in each year. In any given year, negative capital charges (resulting from negative gross income) in any business line may offset positive capital charges in other business lines without limit. However, where the aggregate capital charge across all business lines within a given year is negative, then figures for that year shall be excluded from both the numerator and denominator. The resultant operational risk capital charge is to be multiplied by 125% before multiplying by ten (10) [i.e., the reciprocal of the minimum capital ratio of ten percent (10%)].

- **Qualifying capital** consist of Tier 1 capital which comprised of paid-up common stock, surplus and surplus reserves and Tier 2 capital elements in which upper. Tier 2 capital is composed of net unrealized gains on available for sale equity securities and general loan loss provision.

  The Bank deducted from the total of Tier 1 capital the total outstanding unsecured credit accommodations, both direct and indirect, to DOSRI; unsecured loans and deferred income tax.

  The Bank did not deduct any from Tier 2 capital.

33.01 Capital Management

The primary objective of the Bank's capital management is to ensure that it complies with externally imposed capital requirements and to maintain 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.

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.

As of December 31, 2022 and 2021, the Bank is in compliance with the current banking regulation.

The regulatory capital is analyzed 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 of the Bank are defined as follows:

a. Tier 1 Capital includes the following:
i. paid up common stock,
ii. additional paid-up capital
iii. surplus,
iv. surplus reserves, and
v. undivided profits (for domestic banks only).

Subject to deductions for:
i. deferred income tax.

b. Tier 2 Capital includes:
i. perpetual cumulative preferred stock,
ii. appraisal increment reserve – bank premises
iii. 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
Tier 1 Capital	₱ **790,348,258**	₱ 701,241,895
Tier 2 Capital	**36,729,176**	34,056,266
Gross qualifying capital	**827,077,434**	735,298,161
Total risk-weighed assets	₱ **4,817,051,718**	₱ 4,537,287,635
Total Capital ratio	**17.17%**	16.21%
Tier 1 ratio	**16.41%**	15.46%

As of December 31, 2022 and 2021, the Bank's capital adequacy ratio (CAR) and capital is in compliance with the regulatory requirements.

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

There have been no material changes in the Bank's management of capital during those years.

The BSP sets also another measure of Bank's liquidity by minimum liquidity ratio. Under the existing BSP regulations, the Bank's minimum liquidity ratio is expressed as a percentage of eligible stock of liquid assets to its total qualifying liabilities.

a. The stock of liquid assets shall consist of:
i. cash on hand,
ii. eligible debt securities,
iii. deposits in other banks, and
iv. interbank loans receivables with contractual maturity dates that fall within the next 30 calendar days.

b. The qualifying liabilities shall consist of the following:

- Total liabilities, where the following obligations are subject to the conversion factors as stated below:
  i. Retail current and regular savings deposits with outstanding balance per account of ₱500,000 and below subject to 50% conversion factor,
  ii. deposits where the account holder has no contractual or legal discretion to withdraw said deposit or pre-terminate the account within the next 30 calendar days, borrowings that are non-callable in, or have contractual maturity dates beyond, the next calendar days, and
  iii. obligations arising from operation expenses.

- Irrevocable obligations under off-balance sheet items, such as:
  i. guarantees issued,
  ii. trade related guarantees,
  iii. letters of credit, and
  iv. other committed credit lines.

Information regarding the Bank's "minimum liquidity ratio" as of December 31, 2022 and 2021 is shown below.

	2022	2021
Stock of liquid assets	₱ 1,067,595,338	₱ 1,025,385,363
Qualifying liabilities	3,352,002,393	3,156,262,898
Minimum Liquidity Ratio	31.85%	32.49%

As of December 31, 2022 and 2021, the Bank's minimum liquidity ratio is in compliance with the regulatory requirements.

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

	2022	2021
Capital exposure measure (Tier 1 Capital)	₱ 790,348,258	₱ 701,241,895
Exposure measures	4,743,723,952	4,473,401,183
Leverage Ratio	16.66%	15.68%

	2022	2021
On balance sheet exposures	₱ 4,743,723,952	₱ 4,473,401,183
Derivatives Exposures	-	-
Securities Financing Transactions	-	-
Off balance sheet (OBS) items	-	-
Total exposure measures	₱ 4,743,723,952	₱ 4,473,401,183

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

34. NON-CASH TRANSACTIONS

The Bank entered into the following non-cash investing and financing activities which are not reflected in the statements of cash flows:

	2022	2021
Additions to ROU assets and lease liabilities	₱ 9,786,769	₱ 67,468,201
Adjustment in bank premises, furniture and equipment	84,557	37,656
Reclassification of year-end balance of investment property to assets held for sale	57,089,722	-
	₱ 66,961,048	₱ 67,505,857

35. RECONCILIATION OF LIABILITIES FROM FINANCING ACTIVITIES

Reconciliation of liabilities arising from financing activities are as follows:

		2022		2021
January 1	₱	**170,583,859**	₱	69,306,526
Changes from financing cash flows				
Proceeds from availment of borrowings		**10,000,000**		70,000,000
Additions to lease liabilities		**9,786,769**		67,468,201
Finance cost incurred on lease liabilities		**2,483,392**		1,847,732
Finance cost incurred on borrowings		**205,208**		88,125
Finance cost paid on borrowings		**(233,333)**		(60,000)
Finance cost paid on lease liabilities		**(2,483,392)**		(1,847,732)
Payment of lease liabilities		**(6,343,672)**		(6,218,993)
Payment of borrowings		**(80,000,000)**		(30,000,000)
December 31	₱	**103,998,831**	₱	170,583,859

36. APPROVAL OF FINANCIAL STATEMENTS

These financial statements were approved and authorized for issuance by the Board of Directors on March 21, 2023.

37. SUPPLEMENTARY INFORMATION REQUIRED BY THE BSP

Presented below are the supplementary information required by the BSP under the Manual of Regulations for Banks (MORB), to be disclosed as part of the notes to financial statements based on BSP Circular 1074, Amendments to Regulations on Financial Audit of Banks.

37.01 Basic Quantitative Indicators of Financial Performance

The key financial performance indicators of the Bank are shown below (in %):

	2022	2021
Return on average equity	**13.70%**	12.58%
Return on average assets	**2.35%**	2.12%
Net interest margin	**6.39%**	7.00%
TIER 1 Capital ratio	**16.41%**	15.46%
Capital adequacy ratio	**17.17%**	16.21%
Minimum liquidity ratio	**31.85%**	32.49%
Leverage ratio	**16.66%**	15.68%

37.02 Capital Instruments Issued

The Bank has no capital instruments issued in both years.

37.03 Significant Credit Exposures

As of December 31, 2022 and 2021, information on the concentration of credit as to industry or economic sector is as follows:

		2022	%		2021	%
Real Estate activities	₱	**989,842,842**	**29.39%**	₱	907,775,841	28.34%
Wholesale and retail trade, repair of motor vehicles and motorcycles		**520,825,108**	**15.47%**		555,319,270	17.34%
Agriculture, forestry & fishing		**467,992,090**	**13.90%**		487,451,808	15.22%
Education		**226,443,392**	**6.72%**		214,970,777	6.71%
Accommodation and food service activities		**334,654,708**	**9.94%**		222,147,361	6.94%
Other service activities		**191,717,546**	**5.69%**		154,938,134	4.84%
Transportation and storage		**184,537,830**	**5.48%**		124,424,922	3.88%
Manufacturing		**149,474,844**	**4.44%**		199,459,364	6.23%
Construction		**120,111,802**	**3.57%**		107,507,148	3.36%
Mining and quarrying		**99,368,222**	**2.95%**		99,641,017	3.11%
Human health and social work activities		**41,924,877**	**1.24%**		41,199,705	1.29%
Activities and household as employers; undifferentiated goods and services- producing activities of household for own use		**30,320,908**	**0.90%**		36,264,366	1.13%
Financial and insurance activities		**9,000,000**	**0.27%**		50,000,000	1.56%
For household consumption		**1,527,592**	**0.05%**		1,960,595	0.06%
	₱	**3,367,741,761**	**100.00%**	₱	3,203,060,308	100.00%

As of December 31, 2022 and 2021 the Bank complied with BSP Manual of Regulations for Banks, Sec. 304 and Sec. 175 requirements of BSP Manual of Regulations for Banks.

The BSP considers the concentration of credit exists when the total loan exposure to a particular industry on economic sector exceeds 30% of the total loan portfolio. During 2022 and 2021, no concentration of credit exists to a particular industry.

37.04 Breakdown of Total Loans as to Security and Status

The table below shows the breakdown of loans and discounts as to secured and unsecured and as to the type of security as of December 31, 2022 and 2021:

		2022	%		2021	%
Loan secured by:						
Real Estate	₱	**3,060,841,423**	**90.89%**	₱	2,961,958,718	92.47%
Deposit hold-out		**28,387,377**	**0.84%**		13,679,722	0.43%
Securities and others		**78,218,999**	**2.32%**		64,180,760	2.00%
Secured		**3,167,447,799**	**94.05%**		3,039,819,200	94.90%
Unsecured		**200,293,962**	**5.95%**		163,241,108	5.10%
	₱	**3,367,741,761**	**100.00%**	₱	3,203,060,308	100.00%

37.05 Information on Related Party Loans

In the ordinary course of business, the Bank entered into loan and other transactions with its certain directors, officers, stockholders and related interests (DOSRI). Under the Bank's policy, these loans and other transactions are made substantially on the same terms as with other individuals and businesses of comparable risk. Under current banking regulations, the amount of individual loans to DOSRI, of which 70% must be secured, should not exceed the amount of their respective deposits and book value of investments in the Bank. On the aggregate, loans to DOSRI should not exceed the Bank's total capital funds or 15% of the Bank's total loan portfolio, whichever is lower. These limits do not apply to loans secured by assets considered as non-risks as defined in the regulations.

The following table shows information relating to DOSRI accounts of the Bank:

Particulars	DOSRI Loans		Related party loans (inclusive of DOSRI Loans)	
	2022	2021	**2022**	2021
Outstanding Loans	₱ -	₱ -	₱ -	₱ 2,115,320
Percent of DOSRI/ Related Party loans to total loan Portfolio	**0.00%**	0.00%	**0.00%**	0.70%
Percent of unsecured DOSRI/ Related Party? Loans to total DOSRI/ Related Party Loans	**0.00%**	0.00%	**0.00%**	0.00%
Percent of past due DOSRI/ Related Party loans to total DOSRI/ Related Party loans	**0.00%**	0.00%	**0.00%**	0.00%
Percent of non- performing DOSRI/ Related Party loans to total DOSRI/ Related Party loans	**0.00%**	0.00%	**0.00%**	0.00%

37.06 Aggregate Amount of Secured Liabilities and Assets Pledged as Security

As of December 31, 2022 and 2021, the Bank has no secured liabilities and assets pledged as security except for loans receivable pledged as collaterals for bills payable in 2021 amounting to ₱70,000,000.

37.07 Commitments and Contingent Liabilities

As of December 31, 2022 and 2021, the Bank has no contingencies and commitments arising from off-balance sheet items, transaction-related contingencies, short-term self-liquidating trade-related contingencies arising from movement of goods, sale and repurchase agreements not recognized in the statements of financial condition; interest and foreign exchange-rate related items; and other commitments.

37.08 Breakdown of Exposures to Trustees, Officers and their Related Interest (TORI)

The Bank has no outstanding loans to Trustees, Officers and their Related Interest as of December 31, 2022 and 2021.

38. SUPPLEMENTARY INFORMATION UNDER REVENUE REGULATIONS NO. 15 – 2010

The Bureau of Internal Revenue (BIR) has released a new revenue regulation dated November 25, 2010 amending Revenue Regulations No. 21-2002 setting forth additional disclosures on Notes to Financial Statements. Below are the disclosures required
by the said Regulation:

38.01 Taxes, Duties and Licenses Paid or Accrued

The details of the Bank's taxes and licenses fees paid or accrued in 2022 are as follows:

38.01.01 Documentary Stamp Tax

The Bank's documentary stamp tax paid during the year amounted to ₱1,170,243 arising from time deposits, bills payable and lease agreements in pursuant to new documentary stamp tax rates under RA 10963 or the TRAIN Law of 2017.

38.01.02 Other Taxes and Licenses

An analysis on the Bank's other taxes and licenses and permit fees paid or accrued during the year is as follows:

Gross receipts tax	₱	12,160,474
Permits		768,903
Real estate tax		235,370
Transfer tax		82,500
Registration		25,373
	₱	**13,272,620**

Taxes and licenses were charged directly to operating expenses.

38.01.03 Withholding Taxes

An analysis on the Bank's withholding taxes paid or accrued during the year is as follows:

Expanded withholding taxes	₱	3,492,395
Withholding tax on compensation and benefits		2,982,627
Final withholding taxes		1,191,099
	₱	**7,666,121**

The interest expense paid to peso savings deposit, time deposit and deposit substitutes were subjected to final withholding tax of 20%.

38.01.04 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.

39. SUPPLEMENTARY INFORMATION UNDER REVENUE REGULATION NO. 19 – 2011

Pursuant to Section 244 in relation to Section 6(H) of the National Internal Revenue Code of 1997 (Tax Code), as amended, these Regulations are prescribed to revise BIR Form 1702 setting forth the following schedules. Below are the disclosures required by the said Regulation:

39.01 Revenue

The Bank's revenue for the taxable year pertain to interest income from loans and receivables amounted to ₱286,933,031.

39.02 Interest Expense

The Bank's interest expense from deposit liabilities and borrowed funds are as follows:

Interest expense	₱	38,573,828
BIR limit		(4,509,484)
	₱	**34,064,344**

39.03 Taxable Other Income

The Bank's other income for the taxable year is as follows:

Gain on sale of investment properties	₱	58,655,496
Gain from sale of bank premises		31,761,021
Penalties on loans		13,366,718
Service charges		10,191,219
Rent Income		6,546,349
Recovery on charged-off assets		2,718,676
Service fees		1,078,121
Bank commission		1,463,133
Foreign exchange gain		37,224
	₱	**125,817,957**

39.04 Itemized Deductions

The following is an analysis of the Bank's itemized deductions for the taxable year:

Compensation and benefits	₱	65,858,770
Provision for credit and impairment losses		32,218,575
Depreciation and amortization		18,969,409
Information technology		17,874,413
Taxes and licenses		14,442,863
Transportation and travel		12,420,231
Bad debts		9,537,630
Rental		9,055,643
Insurance		8,349,646
Contribution to retirement fund		8,208,772
Professional fee		6,952,624
Litigation		6,893,923
Security and janitorial service		6,221,057
SSS, PhilHealth and HDMF contribution		4,393,118
Power, light and water		4,359,162
Trainings and seminars		4,147,156
Referral fee		3,929,387
Representation		2,435,087
Repairs and maintenance		2,088,650
Supplies		1,964,264
Advertisement		1,816,285
Postage and communication		1,070,082
Supervision fees		875,109
Donation		334,030
Membership dues		266,000
Fines and penalties		37,010
Periodicals and magazines		26,080
Miscellaneous		676,287
	₱	**245,421,263**

39.05 Reconciliation on Effect of PFRS 16

		Per PFRS		**Effect of Adoption of PFRS 16**		**Per Tax Code**
Depreciation and amortization	₱	28,251,883	₱	(9,282,474)	₱	18,969,409
Finance cost		41,057,220		(2,483,392)		38,573,828
Rental		228,579		8,827,064		9,055,643

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2022 BOF Annual Report Committee

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Chairperson

Jaime P. Panganiban
Jose Paolo D. Carlos
Advisers

Members:
Rona Q. Binuya
Alicia B. Sundiam
Erlisa M. Banag
Grace D. Castro
Cristy C. Completo
Jeanette Michelle S. Capati
Marian A. Montano