P&A Grant Thornton

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Financial Statements and
Independent Auditors' Report

Rizal Microbank, Inc. – A Thrift Bank of RCBC

December 31, 2023 and 2022

Punongbayan & Araullo
20th Floor, Tower 1
The Enterprise Center
6766 Ayala Avenue
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Report of Independent Auditors

The Board of Directors
Rizal Microbank, Inc. – A Thrift Bank of RCBC
(A Wholly Owned Subsidiary of Rizal Commercial Banking Corporation)
Andarizal Center, Rizal Street corner Anda Street
Barangay 3-A, Davao City

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Rizal Microbank, Inc. – A Thrift Bank of RCBC (the Bank), which comprise the statements of financial position as at December 31, 2023 and 2022, and the statements of comprehensive income, statements of changes in equity and statements of cash flows for the years then ended, and notes to the financial statements, including material accounting policy information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank as at December 31, 2023 and 2022, and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards (PFRS).

Basis for Opinion

We conducted our audits in accordance with Philippine Standards on Auditing (PSA). Our responsibilities under those standards are further described in the *Auditors' 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 audits of the financial statements in the Philippines, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

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

In preparing the financial statements, management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

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

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

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

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

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

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

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our 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. As discussed in Note 21 to the financial statements, the Bank presented the supplementary information required by the Bureau of Internal Revenue (BIR) under Revenue Regulations (RR) 15-2010 in a supplementary schedule filed separately from the basic financial statements. RR 15-2010 requires the supplementary information to be presented in the notes to financial statements. The supplementary information for the years ended December 31, 2023 and 2022 required by the Bangko Sentral ng Pilipinas (BSP) as disclosed in Note 25 to the financial statements is presented for purposes of additional analysis. Such supplementary information required by the BIR and BSP are the responsibility of management and are not a required part of the basic financial statements prepared in accordance with PFRS; it is neither a required disclosure under the Revised Securities Regulation Code Rule 68 of the Philippine Securities and Exchange Commission. The supplementary information have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

PUNONGBAYAN & ARAULLO

By: Maria Isabel E. Comedia
Partner

CPA Reg. No. 0092966
TIN 189-477-563
PTR No. 10076138, January 3, 2024, Makati City
SEC Group A Accreditation
Partner - No. 92966-SEC (until financial period 2027)
Firm - No. 0002 (until financial period 2024)
BIR AN 08-002511-021-2022 (until Oct. 13, 2025)
Firm's BOA/PRC Cert. of Reg. No. 0002 (until Aug. 27, 2024)

February 23, 2024

P&A Grant Thornton

Punongbayan & Araullo
20th Floor, Tower 1
The Enterprise Center
6766 Ayala Avenue
1200 Makati City
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Supplemental Statement of Independent Auditors

The Board of Directors
Rizal Microbank, Inc. – A Thrift Bank of RCBC
(A Wholly Owned Subsidiary of Rizal Commercial Banking Corporation)
Andarizal Center, Rizal Street corner Anda Street
Barangay 3-A, Davao City

We have audited the financial statements of Rizal Microbank, Inc. – A Thrift Bank of RCBC (the Bank) for the year ended December 31, 2023, on which we have rendered the attached report dated February 23, 2024.

In compliance with the Revised Securities Regulation Code Rule 68, we are stating that the Bank has only one stockholder owning 100 or more shares of the Bank's capital stock as of December 31, 2023, as disclosed in Note 17 to the financial statements.

PUNONGBAYAN & ARAULLO

By: Maria Isabel E. Comedia
Partner

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February 23, 2024

RIZAL MICROBANK, INC. – A THRIFT BANK OF RCBC
(A Wholly Owned Subsidiary of Rizal Commercial Banking Corporation)
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2023 AND 2022
(Amounts in Philippine Pesos)

	Notes	2023	2022
RESOURCES			
CASH	8	**P 13,650,462**	P 12,754,048
DUE FROM BANGKO SENTRAL NG PILIPINAS	8	**80,981,879**	113,687,087
DUE FROM OTHER BANKS	8	**99,624,130**	124,000,360
LOANS ARISING FROM REVERSE REPURCHASE AGREEMENTS	8	**32,951,139**	23,946,353
LOANS AND RECEIVABLES - Net	9	**1,236,380,077**	1,195,774,563
BANK PREMISES, FURNITURE, FIXTURES AND EQUIPMENT - Net	10	**134,088,207**	115,123,858
INVESTMENT PROPERTIES - Net	11	**-**	57,934,857
NON-CURRENT ASSETS HELD FOR SALE	12	**53,666,457**	-
OTHER RESOURCES - Net	13	**34,526,782**	34,602,818
TOTAL RESOURCES		**P 1,685,869,133**	P 1,677,823,944
LIABILITIES AND EQUITY			
DEPOSIT LIABILITIES	14	**P 992,383,814**	P 1,049,954,750
BILLS PAYABLE	16	**40,000,000**	-
ACCRUED INTEREST AND OTHER EXPENSES	15	**20,325,331**	15,405,975
OTHER LIABILITIES	16	**122,785,704**	108,725,343
TOTAL LIABILITIES		**1,175,494,849**	1,174,086,068
EQUITY			
Capital stock	17	**1,126,358,000**	1,126,358,000
General loan loss reserves	17	**9,269,034**	9,269,034
Surplus reserves		**5,461,189**	5,461,189
Revaluation reserves	13, 20	**16,740,663**	13,207,446
Deficit		**(647,454,602)**	(650,557,793)
TOTAL EQUITY		**510,374,284**	503,737,876
TOTAL LIABILITIES AND EQUITY		**P 1,685,869,133**	P 1,677,823,944

See Notes to Financial Statements.

RIZAL MICROBANK, INC. – A THRIFT BANK OF RCBC
(A Wholly Owned Subsidiary of Rizal Commercial Banking Corporation)
STATEMENTS OF COMPREHENSIVE INCOME
FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022
(Amounts in Philippine Pesos)

	Notes	2023	2022
INTEREST INCOME			
Loans and receivables	9	**P 201,383,015**	P 176,465,018
Due from Bangko Sentral ng Pilipinas and other banks	8	**4,795,275**	1,898,476
		206,178,290	178,363,494
INTEREST EXPENSE			
Deposit liabilities	14	**39,892,128**	16,048,662
Others	16, 20	**4,771,161**	4,756,605
		44,663,289	20,805,267
NET INTEREST INCOME		**161,515,001**	157,558,227
IMPAIRMENT RECOVERY (LOSSES)	9	**(9,913,292)**	15,756,114
NET INTEREST INCOME AFTER IMPAIRMENT RECOVERY (LOSSES)		**151,601,709**	173,314,341
OTHER OPERATING INCOME	18	**64,962,591**	55,593,904
OTHER OPERATING EXPENSES	19	**(209,845,271)**	(206,491,555)
INCOME BEFORE TAX		**6,719,029**	22,416,690
TAX EXPENSE	21	**3,615,838**	2,825,302
NET INCOME		**3,103,191**	19,591,388
OTHER COMPREHENSIVE INCOME (LOSS)			
Items that will not be reclassified subsequently to profit or loss			
Fair value gains (losses) on financial assets through other comprehensive income	13	**3,427,465**	(12,434,155)
Remeasurements of retirement benefit plan	20	**105,752**	5,267,707
		3,533,217	(7,166,448)
TOTAL COMPREHENSIVE INCOME		**P 6,636,408**	P 12,424,940

See Notes to Financial Statements.

RIZAL MICROBANK, INC. – A THRIFT BANK OF RCBC
(A Wholly Owned Subsidiary of Rizal Commercial Banking Corporation)
STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022
(Amounts in Philippine Pesos)

						Revaluation Reserves			
	Notes	**Capital Stock**	**Deficit**	**General Loan Loss Reserves**	**Surplus Reserves**	**Remeasurements of Retirement Benefit Plan**	**Unrealized Fair Value Gains**	**Total**	**Total Equity**
Balance at January 1, 2023		P 1,126,358,000	(P 650,557,793)	P 9,269,034	P 5,461,189	P 5,612,141	P 7,595,305	P 13,207,446	P 503,737,876
Net income for the year		-	3,103,191	-	-	-	-	-	3,103,191
Other comprehensive income for the year	13, 20	-	-	-	-	105,752	3,427,465	3,533,217	3,533,217
Balance at December 31, 2023		**P 1,126,358,000**	**(P 647,454,602)**	**P 9,269,034**	**P 5,461,189**	**P 5,717,893**	**P 11,022,770**	**P 16,740,663**	**P 510,374,284**
Balance at January 1, 2022		P 1,126,358,000	(P 661,791,001)	P 910,854	P 5,461,189	P 344,434	P 20,029,460	P 20,373,894	P 491,312,936
General loan loss appropriation	17	-	(8,358,180)	8,358,180	-	-	-	-	-
Net income for the year		-	19,591,388	-	-	-	-	-	19,591,388
Other comprehensive income (loss) for the year	13, 20	-	-	-	-	5,267,707	(12,434,155)	(7,166,448)	(7,166,448)
Balance at December 31, 2022		P 1,126,358,000	(P 650,557,793)	P 9,269,034	P 5,461,189	P 5,612,141	P 7,595,305	P 13,207,446	P 503,737,876

See Notes to Financial Statements.

RIZAL MICROBANK, INC. – A THRIFT BANK OF RCBC
(A Wholly Owned Subsidiary of Rizal Commercial Banking Corporation)
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022
(Amounts in Philippine Pesos)

	Notes	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		P 6,719,029	P 22,416,690
Adjustments for:			
Interest income	8, 9	(206,178,290)	(178,363,494)
Interest received		205,767,522	180,637,908
Interest expense	14, 19, 20	44,663,289	20,805,267
Interest paid		(41,252,300)	(18,975,690)
Depreciation and amortization	10, 11, 13	29,659,229	30,224,503
Gain on sale of investment property	11, 18	(24,751,579)	(4,454,279)
Impairment (reversal of impairment) losses	9	(9,913,292)	(15,756,114)
Gain (loss) on loan modification		(6,126,721)	1,290,452
Gain on sale of bank premises, furniture, fixtures and equipment	10	(56,811)	(15,704,513)
Operating profit before working capital changes		(1,469,924)	22,120,730
Increase in loans and receivables		(24,154,733)	(217,048,821)
Decrease (increase) in investment properties		81,492,516	(2,900,309)
Increase in non-current assets held for sale		(53,666,457)	-
Decrease (increase) in other resources		2,362,557	(4,492,972)
Increase (decrease) in deposit liabilities		(57,570,936)	220,618,457
Increase in accrued interest and other expenses		5,420,149	3,345,913
Decrease in other liabilities		(7,423,665)	(2,945,252)
Cash generated from (used in) operations		(55,010,493)	18,697,746
Cash paid for taxes		(1,795,339)	(603,397)
Net Cash From (Used in) Operating Activities		(56,805,832)	18,094,349
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisitions of bank premises, furniture, fixtures and equipment	10	(15,712,623)	(26,291,907)
Proceeds from disposal of bank premises, furniture, fixtures and equipment	10	4,665,658	60,449,013
Acquisitions of computer software	13	(1,208,872)	(678,395)
Net Cash From (Used in) Investing Activities		(12,255,837)	33,478,711
CASH FLOWS FROM FINANCING ACTIVITIES			
Availments of bills payable	16	40,000,000	-
Payments of lease liabilities	16	(18,118,569)	(15,742,522)
Net Cash From (Used in) Financing Activities		21,881,431	(15,742,522)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		(47,180,238)	35,830,538
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	8		
Cash		12,754,048	12,496,095
Due from Bangko Sentral ng Pilipinas		113,687,087	121,830,106
Due from other banks		124,000,360	104,231,109
Loans arising from reverse repurchase agreement		23,946,353	-
		274,387,848	238,557,310
CASH AND CASH EQUIVALENTS AT END OF YEAR	8		
Cash		13,650,462	12,754,048
Due from Bangko Sentral ng Pilipinas		80,981,879	113,687,087
Due from other banks		99,624,130	124,000,360
Loans arising from reverse repurchase agreement		32,951,139	23,946,353
		P 227,207,610	P 274,387,848

Supplemental Information on Non-cash Investing and Financing Activity –

The Bank recognized additional right-of-use assets and liabilities amounting to P34.94 million and P34.87 million in 2023, repectively, and P18.73 million and P18.66 million in 2022, respectively (see Notes 10 and 16).

See Notes to Financial Statements.

RIZAL MICROBANK, INC. – A THRIFT BANK OF RCBC
(A Wholly Owned Subsidiary of Rizal Commercial Banking Corporation)
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2023 AND 2022
(Amounts in Philippine Pesos)

1. CORPORATE MATTERS

1.1 Incorporation and Operations

Rizal Microbank, Inc. – A Thrift Bank of RCBC (formerly known as Merchants Savings and Loan Association, Inc.) (the Bank) was incorporated in the Philippines on December 15, 1976. The Bank is licensed and authorized by the Bangko Sentral ng Pilipinas (BSP) to operate as a thrift bank and it focuses mainly in providing loans to microenterprise and small business operators as well as value chain players in the agricultural sector. As a thrift bank, the Bank, with prior Monetary Board approval, may also engage in trust, quasi-banking, and money market operations and act as collection agent/official depository for government and commercial entities. The Bank has also the authority to accept foreign currency deposits.

On March 22, 2011, the Bank secured the approval of the BSP to operate under its new trade name, Merchants Savings and Loan Association, Inc. On November 18, 2015, the Board of Directors (BOD) approved the change in corporate name of the Bank from Merchants Savings and Loan Association, Inc. to Rizal Microbank – A Thrift Bank. The BOD subsequently amended and approved the corporate name to Rizal Microbank, Inc. – A Thrift Bank of RCBC on April 27, 2018. The Securities and Exchange Commission (SEC) approved the Amended Articles of Incorporation and Amended By-Laws bearing its new corporate name on June 25, 2019.

The Bank's BOD and stockholders approved on January 27, 2012 and April 27, 2012, respectively, the amendment to the Bank's Articles of Incorporation to include the secondary purpose to sell, solicit or market insurance products and services as an insurance agent or broker especially for microinsurance products issued by life and non-life insurance companies as authorized by the Insurance Commission and in accordance with the rules and regulations of the BSP.

The Bank is a wholly owned subsidiary of Rizal Commercial Banking Corporation (RCBC or the Parent Bank), a publicly-listed company incorporated and domiciled in the Philippines. RCBC is a universal bank engaged in all aspects of banking. RCBC provides products and services related to traditional loans and deposits, trade finance, domestic and foreign fund transfers or remittance, cash management, treasury and trust and custodianship services. RCBC is 33.92% owned subsidiary of Pan Malayan Management and Investment Corporation (PMMIC or the ultimate parent company), a company incorporated and domiciled in the Philippines. PMMIC is the holding company of the flagship institutions of the Yuchengco Group of Companies.

The Bank's registered office and principal place of business is Andarizal Center, Rizal Street corner Anda Street, Barangay 3-A, Davao City. The registered office of RCBC is located at Yuchengco Tower, RCBC Plaza, 6819 Ayala Avenue cor. Sen. Gil Puyat Avenue, Makati City, while PMMIC is located at 48th Floor, Yunchengco Tower, RCBC Plaza, 6819 Ayala Avenue cor. Sen. Gil Puyat Avenue, Makati City.

As of December 31, 2023, the Bank has 18 branches (including its head office) in the areas of Agusan del Norte, Batangas, Bukidnon, Cebu, Davao del Norte, Davao del Sur, Metro Manila, Misamis Oriental, Occidental Mindoro, Palawan, and South Cotabato. Also, as of December 31, 2023, the Bank has two branch-lite units in Oriental Mindoro and Sultan Kudarat.

1.2 Approval of Financial Statements

The financial statements of the Bank as of and for the year ended December 31, 2023 (including the comparative financial statements as of and for the year ended December 31, 2022) were authorized for issue by the Bank's BOD on February 23, 2024.

2. MATERIAL ACCOUNTING POLICY INFORMATION

The material accounting policy information that has been used in the preparation of these financial statements is summarized below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of Preparation of Financial Statements

(a) Statement of Compliance with Philippine Financial Reporting Standards

The financial statements of the Bank have been prepared in accordance with Philippine Financial Reporting Standards (PFRS). PFRS are adopted by the Financial and Sustainability Reporting Standards Council (FSRSC) from the pronouncements issued by the International Accounting Standards Board (IASB), and approved by the Philippine Board of Accountancy.

The financial statements have been prepared using the measurement bases specified by PFRS for each type of asset, liability, income, and expense. The measurement bases are more fully described in the accounting policies that follow.

(b) Presentation of Financial Statements

The financial statements are presented in accordance with Philippine Accounting Standard (PAS) 1, *Presentation of Financial Statements*. The Bank presents a statement of comprehensive income separate from the statement of profit or loss.

The Bank presents a third statement of financial position as at the beginning of the preceding period when it applies an accounting policy retrospectively or makes a retrospective restatement or reclassification of items that has a material effect on the information in the statement of financial position at the beginning of the preceding period. The related notes to the third statement of financial position are not required to be disclosed.

(c) Functional and Presentation Currency

These financial statements are presented in Philippine pesos, the Bank's functional and presentation currency, and all values represent absolute amounts, except when otherwise indicated.

Items included in the financial statements of the Bank are measured using its functional currency. Functional currency is the currency of the primary economic environment in which the Bank operates.

2.2 *Adoption of Amended PFRS*

(a) Effective in 2023 that are Relevant to the Bank

The Bank adopted for the first time the following amendments to PFRS, which are mandatorily effective for annual periods beginning on or after January 1, 2023:

PAS 1 and PFRS Practice Statement 2 (Amendments)	:	Presentation of Financial Statements – Disclosure of Accounting Policies
PAS 8 (Amendments)	:	Definition of Accounting Estimates
PAS 12 (Amendments)	:	Deferred Tax Related to Assets and Liabilities from a Single Transaction

Discussed below and in the succeeding page are the relevant information about these amendments.

(i) PAS 1 and PFRS Practice Statement 2 (Amendments), *Presentation of Financial Statements – Disclosure of Accounting Policies.* The amendments replaced the requirement for entities to disclose their significant accounting policies with the requirement to disclose their material accounting policy information. The amendments also include guidance to help entities apply the definition of material in making decisions about accounting policy disclosures.

The amendments clarify that accounting policy information may be material because of its nature, even if the related amounts are immaterial, that accounting policy information is material if users of an entity's financial statements would need it to understand other material information in the financial statements and if an entity discloses immaterial accounting policy information, such information shall not obscure material accounting policy information. The application of these amendments is reflected in the Bank's financial statements under Notes 2 and 3.

(ii) PAS 8 (Amendments), *Definition of Accounting Estimates.* The amendments introduced a new definition of accounting estimate which is a monetary amount in the financial statements that are subject to measurement uncertainty. It also clarifies that a change in accounting estimate that results from new information or new developments is not a 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. The application of these amendments had no significant impact on the Bank's financial statements.

(iii) PAS 12 (Amendments), *Deferred Tax Related to Assets and Liabilities from a Single Transaction.* The amendments narrow the scope of the initial recognition exception under PAS 12 so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences. The amendments also clarify that where payments that settle a liability are deductible for tax purposes, it is a matter of judgment (having considered the applicable tax law) whether such deductions are attributable for tax purposes to the liability recognized in the financial statements (and interest expense) or to the related asset component (and interest expense). Management assessed that the application of such amendments had no significant impact on the Bank's financial statements.

(b) *Effective in 2023 that is not Relevant to the Bank*

Among the amendments to PFRS, which are mandatorily effective for annual periods beginning on or after January 1, 2023, the amendments to PAS 12, *International Tax Reform – Pillar Two Model Rules*, are not relevant to the Bank's financial statements.

(c) *Effective Subsequent to 2023 but not Adopted Early*

There are amendments to existing standards effective for annual periods subsequent to 2023, which are adopted by the FSRSC. Management will adopt the following relevant pronouncements in accordance with their transitional provisions; and none of these are expected to have significant impact on the Bank's financial statements:

(i) PAS 1 (Amendments), *Presentation of Financial Statements – Classification of Liabilities as Current or Non-current* (effective from January 1, 2024)

(ii) PAS 1 (Amendments), *Presentation of Financial Statements – Non-current Liabilities with Covenants* (effective from January 1, 2024)

(iii) PAS 7 (Amendments), *Cash Flow Statements* and PFRS 7 (Amendments), *Financial Instruments: Disclosures – Supplier Finance Arrangements* (effective from January 1, 2024)

(iv) PFRS 16 (Amendments), *Leases – Lease Liability in a Sale and Leaseback* (effective from January 1, 2024)

(v) PAS 21 (Amendments), *The Effects of Changes in Foreign Exchange Rates – Lack of Exchangeability* (effective from January 1, 2025)

2.3 Financial Instruments

(a) *Financial Assets*

(i) *Classification, Measurement and Reclassification of Financial Assets*

The classification and measurement of financial assets is driven by the Bank's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. The classification and measurement of financial assets are described as follows.

Financial Assets at Amortized Cost

Where the business model is to hold assets to collect contractual cash flows, the Bank assesses whether the financial instruments' cash flows represent SPPI. In making this assessment, the Bank considers whether the contractual cash flows are consistent with basic lending arrangements, i.e., interest includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with basic lending arrangements, the related financial asset is classified and measured at FVTPL.

The Bank's financial assets at amortized cost are presented in the statement of financial position as Cash, Due from BSP, Due from Other Banks, Loans Arising from Reverse Repurchase Agreement, Loans and Other Receivables and as part of Other Resources in respect of rentals and other deposits, petty cash fund and coins on hand which are included in the account.

For purposes of cash flows reporting and presentation, cash and cash equivalents include cash and other cash items, due from BSP and other banks, and securities under reverse repurchase agreement (SPURRA) with original maturities of three months or less.

Financial Assets at Fair Value Through Other Comprehensive Income

At initial recognition, the Bank can make an irrevocable election (on an instrument-by-instrument basis) to designate equity investments as at FVOCI; however, such designation is not permitted if the equity investment is held by the Bank for trading or as mandatorily required to be classified as FVPL. The Bank has designated its equity instrument as at FVOCI. The Bank currently has no debt instruments in its FVOCI financial asset classification.

Financial Assets at Fair Value Through Profit or Loss

The Bank can only reclassify financial assets if the objective of its business model for managing those financial assets changes. Accordingly, the Bank is required to reclassify financial assets: (i) from amortized cost to FVTPL, if the objective of the business model changes so that the amortized cost criteria are no longer met; and, (ii) from FVTPL to amortized cost, if the objective of the business model changes so that the amortized cost criteria start to be met and the characteristic of the instrument's contractual cash flows meet the amortized cost criteria.

A change in the objective of the Bank's business model will be effected only at the beginning of the next reporting period following the change in the business model.

(ii) Effective Interest Rate Method and Interest Income

Interest income on financial assets measured at amortized cost and all interest-bearing debt financial assets classified as at FVPL, or at FVOCI, is recognized using the effective interest rate method.

If expectations regarding the cash flows on the financial asset are revised for reasons other than credit risk, the adjustment is booked as a positive or negative adjustment to the carrying amount of the asset with an increase or reduction in interest income. The Bank calculates interest income by applying the effective interest rate to the gross carrying amount of the financial assets, except for those that are subsequently identified as credit-impaired and or are purchased or originated credit-impaired assets.

The Bank calculates interest income by applying the effective interest rate to the gross carrying amount of the financial assets, except for those that are subsequently identified as credit-impaired and or are purchased or originated credit-impaired assets.

For financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the net carrying amount of the financial assets (after deduction of the loss allowance). If the asset is no longer credit-impaired, the calculation of interest income reverts to gross basis. For financial assets that were credit-impaired on initial recognition, interest income is calculated by applying a credit-adjusted effective interest rate to the amortized cost of the asset. The calculation of interest income does not revert to a gross basis even if the credit risk of the asset subsequently improves.

(iii) Impairment of Financial Assets

The Bank's ECL model follows a three-stage impairment approach, which guide in the determination of the loss allowance to be recognized in the financial statements. The staging of financial assets and definition of default for purposes of determining ECL are further discussed in Note 4.1.

ECL is a function of the probability of default (PD), loss-given default (LGD), and exposure-at-default (EAD), with the timing of the loss also considered, and is estimated by incorporating forward-looking economic information and through the use of experienced credit judgement. These elements are discussed more fully in Note 4.1.

The Bank calculates ECL either on an individual or a collective basis. For agricultural, microfinance and regular loans which were carried out on a collective basis, the financial instruments are grouped on the basis of shared credit risk characteristics, such as but not limited to instrument type, credit risk rating, collateral type, product type, historical net charge-offs, industry type, and geographical locations of the borrowers or counterparties. The Bank calculates ECL for corporate loans, sales contract receivables, and investment securities at amortized cost on an individual basis.

The Bank applies a simplified ECL approach for its accounts receivables and other risk assets wherein the Bank uses a provision matrix that considers historical changes in the behaviour of the portfolio of credit exposures based on internally collected data to predict conditions over the span of a given observation period. These receivables include claims from various counterparties, which are not originated through the Bank's lending activities. For these instruments, the Bank measures the loss allowance at an amount equal to lifetime ECL.

The Bank recognizes an impairment loss in profit or loss for all financial instruments subjected to ECL impairment assessment with a corresponding adjustment to their carrying amount through a loss allowance account. With respect to investments in debt securities that are measured at FVOCI, the related loss allowance account is recognized in other comprehensive income and accumulated in the Revaluation Reserves account and does not reduce the carrying amount of the financial asset in the statement of financial position.

(iv) Modification

When the Bank renegotiates or otherwise modifies the contractual cash flows of the loans to customers, the Bank assesses whether or not the new terms are substantially different to the original terms. The Bank considers, among others:

- if the borrower is in financial difficulty, whether the modification merely reduces the contractual cash flows to amounts the borrower is expected to be able to pay;
- whether any substantial new terms are introduced that will affect the risk profile of the loan;
- significant extension of the loan term when the borrower is not in financial difficulty;
- significant change in the interest rate;
- change in the currency the loan is denominated in; and/or,
- insertion of collateral, other security or credit enhancements that will significantly affect the credit risk associated with the loan.

If the terms are substantially different, the Bank derecognizes the financial asset and recognizes a new asset at fair value and recalculates a "new" effective interest rate for the asset. The date of renegotiation is consequently considered to be the date of initial recognition for impairment calculation, including for the purpose of determining whether a significant increase in credit risk has occurred.

However, the Bank also assesses whether the new financial asset recognized is deemed to be credit-impaired at initial recognition, especially in circumstances where the renegotiation was driven by the debtor being unable to make the originally agreed payments. Differences in the carrying amount are recognized in profit or loss as either gain or loss on derecognition of financial assets.

As to the impact on ECL measurement, the expected fair value of the "new" financial asset is treated as the final cash flow from the existing financial asset at the date of derecognition. Such an amount is included in the calculation of cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

If the terms are not substantially different, the renegotiation or modification does not result in derecognition, and the Bank recalculates the gross carrying amount based on the revised cash flows of the financial asset and recognizes a modification gain or loss in profit or loss.

(b) Financial Liabilities

Financial liabilities, which include deposit liabilities, accrued interest and other expenses, and other liabilities (except for tax-related payables and post-employment defined benefit obligation).

2.4 Bank Premises, Furniture, Fixtures and Equipment

Bank premises, furniture, fixtures and equipment, except land, are carried at cost less accumulated depreciation and amortization and any impairment in value. Land held for use in operation or administration is stated at cost less any impairment losses.

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

Buildings	10 to 25 years
Furniture, fixtures and office equipment	3 to 10 years
Transportation equipment	5 years

Leasehold improvements are amortized over the estimated useful lives of the improvements of ten years or the terms of the related leases, whichever is shorter.

Construction in progress represents properties under construction and is stated at cost. This includes costs of construction and other direct costs. The account is not depreciated until such time that the assets are completed and available for use.

2.5 Investment Properties

Investment properties pertain to parcels of land and building acquired by the Bank, in settlement of loans from defaulting borrowers through foreclosure or dation in payment, which are neither held by the Bank for sale in the next 12 months nor used in the rendering of services or for administrative purposes. This also includes properties held for rental.

Investment properties are stated at cost, less accumulated depreciation and any accumulated impairment losses (see Note 2.11).

Land is not subject to depreciation while building is depreciated over the remaining useful life at the date of foreclosure or over 10 years, whichever is shorter.

2.6 Non-current Assets Classified as Held for Sale

Non-current assets held for sale are measured at the lower of their carrying amounts, immediately prior to their classification as held for sale, and their fair value less costs to sell.

2.7 Intangible Assets

Intangible assets include computer software used in operations which are accounted for under the cost model and reported under Other Resources account in the statements of financial position. The cost of the asset is the amount of cash or cash equivalents paid or the fair value of the other considerations given to acquire an asset at the time of its acquisition. Capitalized costs are amortized on a straight-line basis over the estimated useful lives (ranging from two to five years) as the lives of these intangible assets are considered finite. In addition, intangible assets are subject to impairment testing as described in Note 2.11.

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and install the specific software.

2.8 Other Income and Expense Recognition

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

For revenues arising from various services which are to be accounted for under PFRS 15, *Revenue from Contracts from Customers*, it provides information about the nature and timing of satisfaction of performance obligations in contracts with customers, including significant payment terms, and the related revenue recognition policies such as *Service charges, fees and Commissions* – these income arising from loans, deposits, and other banking transactions are recognized as income based on agreed terms and conditions with customers, which are generally when the services have been performed.

For other income outside the scope of PFRS 15, the following provides information about the nature and the related revenue recognition policies:

a. *Trading and Securities Gains (Losses)* – These are recognized when the ownership of the securities is transferred to the buyer and is computed as the difference between the selling price and the carrying amount of the securities disposed of. These also include trading gains and losses as a result of the mark-to-market valuation of investment securities classified as FVPL.

b. *Gain or loss from assets sold or exchanged* – Income or loss from assets sold or exchanged is recognized when the title to the properties is transferred to the buyer or when the collectability of the entire sales price is reasonably assured. This is included in profit or loss as part of Other Operating Income or Other Operating Expenses in the statements of profit or loss.

c. *Recovery on charged-off assets* –Income arising from collections on accounts or recoveries from impairment of items previously written off are recognized in the year of recovery. This is included in profit or loss as part of Other Operating Income in the statements of profit or loss.

2.9 Leases

(a) *Bank as Lessee*

Subsequent to initial measurement, the liability will be reduced for payments made and increased for interest. Bank depreciates the right-of-use asset on a straight line basis from the lease commencement date to the earlier of the end of the useful life or the end of the lease term which is from 2 to 10 years.

The Bank has elected to account for any short-term leases (less than 12 months) using the practical expedients. Instead of recognizing a right-of-use asset and lease liability, the lease payments in relation to these are recognized as an expense in profit or loss on a straight-line basis over the lease term.

The corresponding right-of-use assets and lease liabilities are presented as part of Bank Premises, Furniture, Fixtures and Equipment, and Other Liabilities, respectively, in the statement of financial position.

(b) *Bank as Lessor*

As a lessor, the Bank classifies its leases as either finance or operating leases.

Leases which transfer to the lessee all risks and benefits incidental to ownership of the leased item are classified as finance leases and are presented at an amount equal to the Bank's net investment in the lease. Finance income is recognized based on the pattern reflecting a constant periodic rate of return on the Bank's net investment outstanding in respect of the finance lease and is included as part of Interest Income on loans and receivables.

Leases which do not transfer to the lessee substantially all the risks and benefits of ownership of the asset are classified as operating leases. Lease income from operating leases is recognized in profit or loss on a straight-line basis over the lease term.

2.10 Employee Benefits

The Bank provides retirement benefits to employees through a defined benefit plan and defined contribution plan, as well as other benefits.

The Bank's defined benefit plan covers all regular full-time employees. The pension plan is tax-qualified, non-contributory and administered by a trustee.

The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method.

3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

The preparation of the Bank's financial statements in accordance with PFRS requires management to make judgments and estimates that affect the amounts reported in the financial statements and related notes. Judgments and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results may ultimately vary from these estimates.

3.1 Critical Management Judgments in Applying Accounting Policies

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

(a) *Application of ECL to Financial Assets at Amortized Cost and Financial Assets at FVOCI*

The Bank uses the general approach to calculate ECL for all debt instruments carried at amortized cost and FVOCI, together with loan commitments and financial guarantee contracts. The allowance for impairment is based on the ECLs associated with the probability of default of a financial instrument in the next 12 months, unless there has been a significant increase in credit risk since origination of the financial instrument, in such case, a lifetime ECL for the instrument is recognized.

The Bank has established a policy to perform an assessment, at the end of each reporting period, whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument.

(b) *Evaluation of Business Model Applied and Testing the Cash Flow Characteristics of Financial Assets in Managing Financial Instruments*

The Bank manages its financial assets based on a business model that maintains adequate level of financial assets to match its expected cash outflows, largely in relation to its core deposit funding arising from customers' withdrawals and continuing loan disbursements to borrowers, and to manage its working capital.

The Bank's business models reflect how it manages its portfolio of financial instruments, mainly loans and receivable portfolio. The Bank's business models need not be assessed at entity level or as a whole but shall be applied at the level of a portfolio of financial instruments (i.e., group of financial instruments that are managed together by the Bank) and not on an instrument-by-instrument basis (i.e., not based on intention or specific characteristics of individual financial instrument).

In determining the classification of a financial instrument, the Bank evaluates in which business model a financial instrument or a portfolio of financial instruments belongs to, taking into consideration the objectives of each business model established by the Bank (e.g., held-for-trading, generating accrual income, direct matching to a specific liability) as those relate to the Bank's investment and lending strategies.

Furthermore, the Bank assesses whether the contractual terms of the financial assets give rise on specified dates to cash flows that are SPPI on the principal amount outstanding, with interest representing time value of money and credit risk associated with the principal amount outstanding.

The assessment as to whether the cash flows meet the test is made in the currency in which the financial asset is denominated. Any other contractual term that changes the timing or amount of cash flows (unless it is a variable interest rate that represents time value of money and credit risk) does not meet the amortized cost criteria. In cases where the relationship between the passage of time and the interest rate of the financial instrument may be imperfect, known as modified time value of money, the Bank assesses the modified time value of money feature to determine whether the financial instrument still meets the SPPI criterion.

The objective of the assessment is to determine how different the undiscounted contractual cash flows could be from the undiscounted cash flows that would arise if the time value of money element was not modified (the benchmark cash flows). If the resulting difference is significant, the SPPI criterion is not met. In view of this, the Bank considers the effect of the modified time value of money element in each reporting period and cumulatively over the life of the financial instrument.

If more than an infrequent sale is made out of a portfolio of financial assets carried at amortized cost, an entity should assess whether and how such sales are consistent with the objective of collecting contractual cash flows. In making this judgment, the Bank considers certain circumstances documented in its business model manual to assess that an increase in the frequency or value of sales of financial instruments in a particular period is not necessarily inconsistent with an HTC business model if the Bank can explain the reasons for those sales and why those sales do not reflect a change in Bank's objective for the business model.

(c) Distinction Between Investment Properties and Owner-occupied Properties

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

Some properties comprise a portion that is held to earn rental or for capital appreciation and another portion that is held for use for administrative purposes. If these portions can be sold separately (or leased out separately under finance lease) then these portions can be accounted for separately. If the portions cannot be sold separately, the property is accounted for as investment property only if an insignificant portion is held for use in operations or for administrative purposes. Judgment is applied in determining whether ancillary services are so significant that a property does not qualify as investment property. As of the end of the reporting period, the Bank has no property comprising a portion that is held for rental or for capital appreciation and with other portions held for use in operation or for administrative purposes.

(d) Determination of the Classification of Asset under Assets Held-for-Sale

The Bank classifies an asset as held-for-sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. In determining whether reclassification is in order, the asset must be available for immediate sale in its present condition subject to usual terms and the same must be highly probable, evidenced by a commitment to a plan to sell the asset, and an active program to locate a buyer and complete the plan must have been initiated. Further, the asset must be actively marketed for sale at a price that is reasonable in relation to its current fair value. In addition, the sale should be expected to qualify for recognition as a completed sale within one year from the date of classification, except if a delay will be caused by events or circumstances beyond the Bank's control and there is sufficient evidence that the Bank remains committed to its plan to sell the asset.

(e) Classification and Determination of Fair Value of Acquired Properties

The Bank classifies its acquired properties as Bank Premises, Furniture, Fixtures and Equipment if used in operations, and as Investment Properties if held for rental or for currently undetermined future use and is regarded as held for capital appreciation, or as financial asset. At initial recognition, the Bank determines the fair value of acquired properties through internal and external appraisal depending on the Bank's threshold policy. The appraised value is determined based on the current economic and market conditions, as well as the physical condition of the property.

The Bank's methodology in determining the fair value of acquired properties are further discussed in Note 7.4.

(f) *Determination of Lease Term of Contracts with Renewal and Termination Options*

In determining the lease term, management considers all relevant factors and circumstances that create an economic incentive to exercise a renewal option or not exercise a termination option. Renewal options and/or periods after termination options are only included in the lease term if the lease is reasonably certain to be extended or not terminated and the renewal of the contract is not subject to mutual agreement of both parties.

The factors that are normally the most relevant are (a) if there are significant penalties should the Bank pre-terminate the contract, and (b) if any leasehold improvements are expected to have a significant remaining value, the Bank is reasonably certain to extend and not to terminate the lease contract. Otherwise, the Bank considers other factors including historical lease durations and the costs and business disruption required to replace the leased asset.

The Bank did not include renewal options as part of the lease term of as the terms are renewable upon mutual agreement.

The lease term is reassessed if an option is actually exercised or not exercised or the Bank becomes obliged to exercise or not exercise it. The assessment of reasonable certainty is only revised if a significant event or a significant change in circumstances occurs, which affects this assessment, and that is within the control of the Bank.

(g) *Recognition of Provisions and Contingencies*

Judgment is exercised by management to distinguish between provisions and contingencies. Policies on recognition of provisions and contingencies are presented in Note 23.

In dealing with the Bank's various legal proceedings, its estimate of the probable costs that may arise from claims and contingencies has been developed in consultation and coordination with the Bank's internal and outside counsels acting in defense for the Bank's legal cases and are based upon the analysis of probable results.

Although the Bank does not believe that its dealing on these proceedings will have material adverse effect on the Bank's financial position, it is possible that future results of operations could be materially affected by changes in the estimates or in the effectiveness of the strategies conducted relating to those proceedings.

3.2 Key Sources of Estimation Uncertainty

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

(a) *Estimation of Allowance for ECL on Loans and Receivables*

The Bank aligned its Expected Credit Loss (ECL) Methodology with the parent bank's in 2022 ECL model. This was approved by the Board of Directors last October 27, 2022.

This methodology however still requires external validation to attest the approach used in computing ECL components such as Probability of Default (PD) and Loss Given Default (LGD) and Macroeconomic Overlay.

As updated on December 2023, the model validation of other RCBC subsidiaries, including the Bank, will spill over to Q1 of 2024, hence, the external validation team suggested to retain the existing model in computing the required allowance for credit losses as of December 2023.

This framework measures credit impairment of loan receivables in accordance with the provisions of PFRS 9 which considers past events, current conditions and forecasts of future economic conditions.

The ECL model integrates results of granular assessment of loan accounts which takes into consideration both the qualitative and quantitative factors in determining the significant increase in credit risk. Further, this assessment is classified based on the five colors depending on the severity of credit risk of the accounts.

Under this ECL framework, accounts are being assessed and classified using color codes which patterned to the COVID-19 Assistance and Recovery Enhancement (CARE) colors of the parent bank however, during 2023 they reverted back the use of S&P Rating which is their internal credit risk rating system. However, Bank opted to retain the color coding as it visually represents the level of credit risk per portfolio buckets. Color coding of accounts has been adopted only in 2021 which limits the required historical information to 2 years. Although PFRS 9 has no specific guidance nor explicit as to number of years of data requirement when computing ECL, careful assessment was made by the Bank in terms of the use of two-year historical data primarily for the consideration of the following: average lending period over which the Bank is exposed to credit risk, data quality, changes in economic conditions, and risk assessments. On the other hand, when measuring allowance for ECL for loans and receivables, management applies judgment in defining the criteria in assessing whether a financial asset has experienced SICR since initial recognition, and in the estimation of the contractual cash flows due from borrower and those that the Bank would expect to receive, taking into account the cash flows from the realization of collateral and integral credit enhancements.

The Bank's ECL calculations are outputs of complex models with a number of underlying assumptions about future economic conditions and credit behaviour of counterparties (e.g., the likelihood of counterparties defaulting and the resulting losses).

Significant factors affecting the estimates on the ECL model include:

- default history of group of accounts which determines the PD to be assigned to a specific portfolio of loans and receivables;
- criteria for assessing if there has been an SICR and when a financial asset will be transferred between the three stages;

- the Bank's definition of default for different segments of credit exposures that considers the regulatory requirements;
- establishing groups of similar financial assets (i.e., segmentation) for the purposes of measuring ECL on a collective basis; and,
- establishment of LGD parameters based on historical recovery rates of claims against defaulted counterparties.

The explanation of inputs, assumptions and estimation techniques used in measuring ECL and the analysis of the allowance for ECL on loans and receivables is further discussed in Note 4.1.

(b) *Fair Value Measurement for Financial Assets at FVOCI*

The Bank carries financial asset at fair value which requires judgment and use of accounting estimates. In cases when active market quotes are not available, fair value is determined by reference to the current market value of another financial instrument which is substantially the same or is calculated based on the expected cash flows of the underlying net base of the instrument or other more appropriated valuation techniques (see Note 7).

The amount of changes in fair value would differ if the Bank had utilized different valuation methods and assumptions. Any change in fair value of the financial asset would affect other comprehensive income.

The carrying values of the Bank's financial asset at FVOCI and the amount of fair value changes recognized are disclosed in Notes 7.2 and 13.1.

(c) *Determination of Appropriate Discount Rate in Measuring Lease Liabilities*

The Bank measures its lease liabilities at present value of the lease payments that are not paid at the commencement date of the lease contract. The lease payments were discounted using a reasonable rate deemed by management equal to the Bank's incremental borrowing rate.

In determining a reasonable discount rate, management considers the term of the leases, the underlying asset and the economic environment. Actual results, however, may vary due to changes in estimates brought about by changes in such factors.

(d) *Estimating Useful Lives of Bank Premises, Furniture, Fixtures and Equipment, Investment Properties, and Intangible Asset*

The Bank estimates the useful lives of bank premises, furniture, fixtures and equipment (except for land), investment properties (except for land), and intangible asset based on the period over which the assets are expected to be available for use. The estimated useful lives of these assets are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets.

The carrying amounts of bank premises, furniture, fixtures and equipment, investment properties, and intangible asset are analyzed in Notes 10, 11 and 13.2, respectively. Based on management's assessment as of December 31, 2023 and 2022, there is no change in the estimated useful lives of these assets in both years. Actual results, however, may vary due to changes in estimates brought about by changes in factors mentioned above.

(e) Determining Realizable Amount of Deferred Tax Assets

The Bank reviews its deferred tax assets at the end of each reporting period and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. As of December 31, 2023 and 2022, deferred tax assets were not recognized in the Bank's financial statements since management believes that those deferred tax assets will not be realized in the future (see Note 21).

(f) Estimation of Impairment Losses of Non-financial Assets

The Bank's premises, furniture, fixtures and equipment, intangible assets (recognized under Other Resources account), investment properties, non-current assets classified as held for sale, and other non-financial assets are subject to impairment testing.

Except for intangible assets with indefinite useful lives, PFRS requires that an impairment review be performed when certain impairment indications are present.

The Bank assesses impairment on these non-financial assets and considers the following important indicators:

- significant changes in asset usage;
- significant decline in assets' market value;
- obsolescence or physical damage of an asset;
- significant underperformance relative to expected historical or projected future operating results;
- significant changes in the manner of usage of the acquired assets or the strategy for the Bank's overall business; and,
- significant negative industry or economic trends.

If such indications are present and where the carrying amount of the asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

(g) Determination of Fair Value of Investment Properties

The Bank's investment properties are composed of parcels of land and building which are held for capital appreciation or held-for-lease, and are measured using cost model. The estimated fair value of investment properties disclosed in Notes 7.4 and 11 is determined on the basis of the appraisals conducted internally by management or where necessary (i.e., as required under the existing regulation of the BSP), by professional appraiser applying the relevant valuation methodologies as discussed therein.

For investment properties with appraisal conducted prior to the end of the current reporting period, management determines whether there are significant circumstances during the intervening period that may require adjustments or changes in the disclosure of fair value of those properties.

A significant change in key inputs and sources of information used in the determination of the fair value disclosed for those assets may result in adjustment in the carrying amount of the assets reported in the financial statements if their fair value will indicate evidence of impairment.

During the last quarter of 2023, all investment properties were reclassified to non-current assets held for sale as part of the commitment of the Bank to dispose of the properties to comply with the constitutional requirements on land ownership of the Bank (see Note 12).

(h) Valuation of Defined Benefit Retirement Obligation

The determination of the Bank's obligation and cost of retirement benefit is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions include, among others, discount rates, salary rate increase and employee turnover rate. A significant change in any of these actuarial assumptions may generally affect the recognized expense, other comprehensive income or loss and the carrying amount of the retirement obligation in the next reporting period.

The amounts of post-employment benefit obligation and related income or expense, and an analysis of the movements in the estimated present value of post-employment benefit obligation, as well as the significant assumptions used in estimating such obligation, are presented in Note 20.2

(i) Determination of Recoverable Amount of Non-Current Assets Held for Sale

In determining the recoverable amount of assets the Bank's non-current assets held-for-sale, the estimated fair value less cost to sell are determined by an independent appraiser or internal appraiser based on current appraised values of the properties or similar properties in the same location and condition.

The amount of assets classified as held-for sale by the Bank, its impairment and recovery are presented in Notes 12.

4. RISK MANAGEMENT OBJECTIVES AND POLICIES

The Bank is exposed to a variety of financial risks in relation to holding financial instruments. The Bank's risk management process is coordinated with the Parent Bank, in close cooperation with the BOD, and focuses on actively securing the Bank's short to medium-term cash flows by minimizing the exposure to financial markets. Long-term financial investments are managed to generate lasting returns.

The Bank does not actively engage in the trading of financial assets for speculative purposes nor does it write options. The most significant financial risks to which the Bank is exposed to are credit risk, liquidity risk and market risk as described below and in the succeeding pages.

4.1 Credit Risk Management Practices

Credit risk is the risk that the counterparty in a transaction may default, and arises from lending and other activities undertaken by the Bank.

The Bank manages credit risk through a system of policies and authorities that govern the processes and practices of all credit-originating and borrowing relationship management units.

The Risk Oversight Committee is responsible for the development and oversight of the Bank's risk management program. It defines the risk appetite and review the risk profile of the Bank to ensure that the risk is not higher than the risk appetite determined by the BOD. The Credit Risk Management Unit (CRMU), on the other hand, is responsible for: (a) the development of credit policies relating to account management; and, (b) the credit risk evaluation of group of borrowers in different segments of the Bank's loan portfolio. The CRMU also conducts a regular credit risk evaluation and monitoring of individual borrowers that involve specific asset quality review depending on certain materiality threshold that will reasonably capture the credit risk exposures of the Bank to a certain borrower.

At the loan origination stage of the lending process, exposure to credit risk for individual borrower is managed via adherence to a set of policies, the most notable features of which, in this context are: (a) credit approving authority that is not exercised by a single individual but rather, through a hierarchy of limits that is effectively exercised collectively; (b) branch managers have limited approval authority only within a certain credit exposure; and, (c) borrower credit analysis is performed at origination and at least annually thereafter or co-terminus with the renewal of the credit line.

Integral to the Bank's management of credit risk is ensuring a monitored level of exposures arising from an uneven distribution of counterparties in credit or in any other business relationships, or from a concentration in business sectors or geographic regions, which is capable of generating losses large enough to jeopardize an institution's solvency. The Bank monitors concentrations of credit risk by sector.

An analysis of concentrations of credit risk of the loan portfolio at the end of the reporting period is shown in Note 25(c).

4.1.1 Credit Risk Assessment and Measurement

Loans, regardless if the accounts have been fully paid, extended or renewed in subsequent period, are subjected to evaluation for possible losses. The Bank's estimation of credit exposure for risk management purposes is complex and requires the use of models, as the exposure varies with changes in market conditions affecting the credit behaviour of the Bank's borrowers, expected cash flows, and the passage of time. The assessment of credit risk of a portfolio of assets requires further estimations as to the PDs occurring, of the associated loss ratios, and of default correlations between counterparties; accordingly, such credit risk is measured using PD, LGD, and EAD, for purposes of measuring ECL.

Unlike previous years where credit risk assessment is performed based on per product segment of loan portfolio: regular and microfinance loans, the revised ECL methodology performs credit risk assessment on a granular basis for all credit accommodations. The process requires the use of Color Coding parameters to ensure all pertinent information are captured. This information includes the assessment of the following:

- impact on business operations (pandemic, calamities and etc)
- shift in business activities
- business operations (full or downsized)
- sales and purchase level
- customer relationship
- level of supply and manpower
- status of payables and receivables
- business profitability

- source of payment
- business profitability
- loan servicing
- loan relief measurement

With the implementation of the revised ECL model, the Bank also maintains the individual assessment of accounts for other information source of loan impairment. In assessing accounts subject to individual assessment, the Bank has established a materiality threshold of P2.0 million for all exposures. Such threshold shall be regularly reviewed at the end of reporting period to ensure that it appropriately captures what the Bank considers as material items of loan for individual assessment. The provision for ECL shall reflect consideration of the facts and circumstances gathered during the conduct of quality review and color coding assessment that affect the repayment of each individual loan as of evaluation date.

4.1.2 Assessment of Significant Increase in Credit Risk

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Bank assesses the change in the risk of a default occurring over the remaining life of the financial instrument. In making this assessment, the Bank assesses on a periodic basis both the quantitative and qualitative information that is reasonable and supportable, including historical experience as appropriate.

The Bank ECL model follows a three-stage impairment approach in determining the loss allowance to be recognized in the financial statements:

(i) Stage 1 – comprises of all credit exposures that are considered 'performing' and with no observed SICR since initial recognition. These include those financial instruments with low credit risk. For these financial instruments, the loss allowance is determined based on a 12-month ECL.

(ii) Stage 2 – comprises of all financial instruments assessed to have SICR since initial recognition based on the Bank's quantitative and qualitative criteria, though not yet deemed to be credit-impaired. Stage 2 includes credit exposures that are considered 'under-performing' in which credit risk assessment fall under the Especially Mentioned classification. Stage 2 financial instruments may also include those facilities where the credit risk has improved and have been reclassified from Stage 3 subject to the Bank's observation period on the creditworthiness of the counterparty. A lifetime ECL is recognized for these financial instruments.

(iii) Stage 3 – comprises credit exposures which are assessed as 'credit-impaired', thus considered by the Bank as 'non-performing', which is assessed consistently with the Bank's definition of default. Generally, this includes accounts classified as Substandard, Doubtful and Loss. The Bank recognizes a lifetime ECL for all credit-impaired financial assets.

Financial assets that are credit-impaired on initial recognition, if any, are classified as Purchased or Originated Credit Impaired (POCI) assets. ECL is only recognized or released to the extent that there is a subsequent change in the ECLs.

The credit risk of a particular exposure is deemed to have increased significantly since initial recognition if, based on the Bank's internal credit assessment, the borrower or counterparty is determined to have well-defined credit weaknesses. Significant increase in credit risk is holistically assessed by relying on the results of color coding as well as the number of days past due and collateral status of the borrower. Color coding transitions is being monitored on a timely basis so as to reflect the accurate condition of the credit exposures which further subject to the remedial measures by concerned lending units.

In subsequent reporting periods, if the credit risk of the financial instrument improves such that there is no longer a SICR since initial recognition, the Bank shall revert to recognizing a 12-month ECL. As a general rule, an upgrade or transfer of credit exposure from Stage 3 to Stage 1 is allowed when there is sufficient evidence to support that full collection of principal and interest is probable, consistent with the Bank's definition of curing period.

In identifying the color code of each account, careful assessment was made by Bank's CRMU to ensure the results of quantitative and qualitative assessment are accounted properly and is aligned to the definition of staging and classification of accounts set by the standards.

This staging and classification matrix also incorporated the comments and suggestions of the parent bank's technical working group handling ECL Model enhancements.

Initial Classification:

Color Code	Status	Stage	Classification
GREEN	Current	1	Pass
	Past due performing (1)	2	Especially Mentioned
YELLOW	Current	1	Pass
	Past due performing	2	Especially Mentioned
	Past due non-performing	3	Substandard
AMBER	Current (2)	1	Pass
	Past due performing (3)	2	Especially Mentioned
	Past due non-performing	3	Doubtful
ORANGE	Current	2	Especially Mentioned
	Past due performing	3	Substandard
	Past due non-performing	3	Doubtful
RED	Past due non-performing	3	Doubtful
			Loss

Notes:

(1) Technical past due accounts - Stage1/PASS
(2) Stage 2/EM if account is unmodified, no relief action program/plan availed
(3) Stage 3/Substandard if under bucket 61-90 days PD

Final Classification:

For Modified Accounts under Liquidity Risk Management (LRM), repackage, and restructured accounts.

1. Accounts which are *"Current"* upon repackaging/restructuring shall be initially classified to Stage 2 - Especially Mentioned.

    1.1 These accounts may improve to Stage 1 – Pass after maintaining its current status in the next 6 months, relative to the color classification.

2. Repackaged and restructured accounts with principal maturing at the end of the loan term (Balloon Modified Accounts).

    2.1 Those accounts repackaged and/or restructured only once shall have its ceiling of Stage 2 – Especially mentioned,

    2.2 Those accounts repackaged and/or restructured more than once shall have its ceiling of Stage 3 – Substandard.

3. Asset Quality Review

    3.1 The Bank follows the more conservative classification.

The Bank assigns loans based on classification into stages of impairment as follows:

Classification	Stages
Unclassified	1
Especially Mentioned	2
Defaulted	3

For purposes of the information disclosed for credit risk exposures, 'defaulted' accounts include those which are classified as Substandard, Doubtful, and Loss.

4.1.3 Definition of Default

The Bank defines a loan instrument as in default, which is aligned with the definition of credit-impaired, based on quantitative information on number of days past due per definition of default and non-performing loans under BSP Manual of Regulations for Banks (MORB) Section 304.

As part of a qualitative assessment of whether a customer is in default, the Bank also considers a variety of instances and factors that may indicate unlikeliness of the borrower to pay, which may include (a) significant financial difficulty of the borrower; (b) the restructuring of a loan by the Bank, for economic or legal reasons relating to the borrower's financial difficulty, on terms that the Bank would not consider otherwise; or (c) it becoming probable that the borrower will enter bankruptcy or other financial reorganization. When such events occur, the Bank carefully considers whether the event should result in treating the customer as in default.

A loan that has been renegotiated due to a deterioration in the borrower's condition is usually considered to be credit-impaired unless there is evidence that the risk of not receiving contractual cash flows has reduced significantly and there are no other indicators of impairment.

An instrument is considered to be no longer in default or have cured when the borrower is able to repay the instalments in arrears and the account no longer meets any of the default criteria for a consecutive period of 30 days within which the borrower shall make consecutive payments.

These criteria are consistent with the definition of default used for internal credit risk management purposes that is aligned with the default criteria used for regulatory capital purposes.

4.1.4 Expected Credit Loss Measurement Inputs

Integral to the Bank's established policies in measuring and calculating ECL on financial instrument is the use of appropriate model that applies relevant inputs and assumptions, that considers forward-looking information (FLI) as appropriate.

(a) *Key Inputs and Assumptions in the ECL Model*

The ECL is determined by projecting the PD, LGD and EAD for each future month for exposures assessed collectively.

(i) PD represents an estimate of likelihood of a borrower defaulting on its financial obligation over a given time horizon, either over the next 12 months (12-month PD) or over the remaining lifetime (lifetime PD) of the obligation. Under the revised ECL model, PD is computed in a simpler manner focusing on the performance of the accounts. In determining PD, the Bank performed segmentation of its credit exposures stratified based on homogenous characteristics, and developed a systematic PD methodology for each color code classification. The Bank uses the term "Observe Default Frequency" which is calculated as the percentage of defaulted borrowers to total number of borrowers per each color code. To note, the CRMU initially computed PD on a per product basis but it was observed that the level of default per product type is relatively low per population count hence it was advised that it be consolidated bankwide.

(ii) LGD pertains to estimate of loss related to the amount that may not be recovered after the borrower defaults. In the revised ECL model, the Bank estimates LGD using population statistics considering the following elements: restructured, written-off, transferred to Real and Other Properties Acquired (ROPA) accounts. The computation is patterned on the concept applied by the Parent Bank which calculates LGD on two matrices using LGD factors of 10% for secured and 100% for unsecured. Conservatively, the Bank accounts for improvement in LGD factors only after the account has been fully recovered through settlement and collateral disposition (actual cash flow). Further, in lieu of the net present value computation, specific accounts with adverse conditions are automatically downgraded to lower color coding classification with corresponding higher loss rates.

(iii) EAD represents the gross carrying amount of the exposure in the event of default, which include the amortized cost amount of an instrument.

The 12-month and lifetime LGDs are determined based on the factors which impact the recoveries made post default, and may vary by product type. For secured products, this is primarily based on collateral type and projected collateral values, historical discounts to market or book values due to forced sales, time to repossession and recovery costs observed. For unsecured products, LGD is typically set at product level due to the limited differentiation in recoveries achieved across different borrowers. The LGD is influenced by collection strategies.

(b) *Overlay of Forward-looking Information*

The Bank incorporates FLI in its assessment of SICR and calculation of ECL. The Bank has performed historical analysis and has identified the key macroeconomic variables (MEVs) impacting credit risk associated with its borrowers and/or counterparties.

The MEVs and their associated impact on the PD, LGD and EAD vary by financial instrument. To project the MEVs for the full remaining life of each financial instrument, a mean reversion approach has been used, which means that MEVs tend to either a long run average rate (e.g., for unemployment) or a long run average lending rate over a period of two to five years. The impact of these economic variables on the PD, LGD and EAD has been determined by performing statistical regression analysis to understand the impact changes in these variables have had historically on default rates and on the components of LGD and EAD.

The MEVs considered by the Bank include economic data and forecasts published by government bodies (e.g., BSP and Philippine Statistics Authority), international organizations (e.g., International Monetary Fund), and certain reputable private and academic organizations involved in forecasting. Accordingly, the Bank has identified key drivers for credit risk for its loan portfolio, which include among others, unemployment rate, lending rate, and inflation rate. Using an analysis of historical data, the Bank has assessed that the above economic factors have no significant impact on the calculation of ECL. Management reviews and monitors the appropriateness of FLIs on a regular basis and additional factors may be incorporated from time to time as deemed appropriate.

4.1.5 Impact of COVID-19 on Measurement of ECL

In response to the COVID-19 situation and the Bank's expectations of economic impacts, the key conditions and assumptions utilized in the Bank's calculation of ECL have been revisited and recalibrated. Given the economic recovery in the Philippines post-pandemic, the impact of COVID-19 on the historical data of the Bank has been excluded, as default rates during the pandemic were unusually high.

The economic scenarios and forward-looking macroeconomic assumptions underpinning the ECL calculation are outlined in Note 4.1.1. As of December 31, 2023, the expected impacts of COVID-19 have been reasonably captured using the Bank's business-as-usual (BAU) ECL methodology (i.e., the ECL methodology consistently used in the prior years) and post-model adjustments.

Prior 2023, the Bank utilized its revised business-as-usual (BAU) ECL methodology, incorporating the impacts of COVID-19 on historical trends, correlations, and forward-looking economic scenarios of the Bank under its new normal assessments, eliminating the necessity for separate post-model adjustments. Notwithstanding that the measurement inputs and assumptions, including forward-looking macroeconomic assumptions were recalibrated in response to the COVID-19 situation, the fundamental ECL mechanics and methodology underpinning the Group's measurement of ECL have remained consistent with the prior periods.

In identifying the impact of COVID-19 pandemic to the Bank's customers, the Bank re-segmented its loan portfolio based on the perceived and expected COVID-19 impact to the customers' businesses and industries which also considers additional qualitative characteristics that would elevate COVID-19 changes to SICR such as differentiation of temporary liquidity need from permanently impacted or SICR.

Supporting the re-segmentation is the Recovery and Collection Execution (RACE) Program, primarily designed to: (1) extend financial assistance to customers by way of extended repayment plans given cash flow tightness and (2) immediately get the customer back into the habit of paying based on amounts they can afford. In accordance with regulatory guidance, the Bank also implemented mandatory payment holidays to all eligible loans (see also Note 4.1.8).

4.1.6 Credit Risk Exposures and Allowance for Credit Losses

(a) Maximum Credit Exposures

The table below sets out the gross carrying amounts of the exposures to credit risk on financial assets measured at amortized cost at the end of the reporting period, before taking into consideration the effect of collateral and other credit enhancements.

	Notes	**2023**	2022
Cash	8	**P 13,650,462**	P 12,754,048
Due from BSP	8	**80,981,879**	113,687,087
Due from other banks	8	**99,624,130**	124,000,360
Loans arising from reverse repurchase agreements	8	**32,951,139**	23,946,353
Loans and receivables:	9		
Receivable from customers		**1,276,148,380**	1,234,418,375
Sales contract receivables		**19,183,941**	19,653,218
Accrued interest receivables		**7,369,612**	6,958,844
Others		**2,705,276**	3,338,079
Rental and other deposits	13	**3,580,055**	3,497,561
		P 1,536,194,874	P 1,542,253,925

Cash equivalents, which include loans and advances to banks [i.e., Due from BSP, Due from Other Banks and Loans under Reverse Repurchase Agreements], see Note 8, are held with BSP and financial institutions counterparties that are reputable and with low credit risk. This includes the deposits to the Parent Bank (see Note 22.2).

The information about the credit exposures on the Bank's loans and receivables by stages of impairment as of December 31, 2023 and 2022 is shown at their gross carrying amounts with the corresponding allowance for ECL are shown below.

(i) Receivables from customers:

	Stage 1	Stage 2	Stage 3	Total
2023				
Credit Quality				
Unclassified	P 1,011,138,764	P -	P -	P 1,011,138,764
Especially mentioned	-	58,279,458	-	58,279,458
Defaulted	-	-	206,730,158	206,730,158
Gross carrying amount	1,011,138,764	58,279,458	206,730,158	1,276,148,380
Allowance for ECL	(5,885,975)	(3,405,675)	(58,990,797)	(68,282,447)
Carrying amount	**P 1,005,252,789**	**P 54,873,783**	**P 147,739,361**	**P 1,207,865,933**
2022				
Credit Quality				
Unclassified	P 987,188,386	P -	P -	P 987,188,386
Especially mentioned	-	63,981,072	-	63,981,072
Defaulted	-	-	183,248,917	183,248,917
Gross carrying amount	987,188,386	63,981,072	183,248,917	1,234,418,375
Allowance for ECL	(6,972,627)	(3,560,037)	(57,377,659)	(67,910,323)
Carrying amount	P 980,215,759	P 60,421,035	P 125,871,258	P 1,166,508,052

(ii) Accrued interest receivables and others:

	Stage 1	Stage 2	Stage 3	Total
2023				
Credit Quality				
Unclassified	P 9,302,014	P -	P -	P 9,302,014
Especially mentioned	-	337,872	-	337,872
Defaulted	-	-	435,002	435,002
Gross carrying amount	9,302,014	337,872	435,002	10,074,888
Allowance for ECL	(744,685)	-	-	(744,685)
Carrying amount	**P 8,557,329**	**P 337,872**	**P 435,002**	**P 9,330,203**
2022				
Credit Quality				
Unclassified	P 9,164,366	P -	P -	P 9,164,366
Especially mentioned	-	175,858	-	175,858
Defaulted	-	-	956,699	956,699
Gross carrying amount	9,164,366	175,858	956,699	10,296,923
Allowance for ECL	(683,630)	-	-	(683,630)
Carrying amount	P 8,480,736	P 175,858	P 956,699	P 9,613,293

(iii) Sales contract receivables:

The carrying amount of the Bank's sales contract receivables is P19.18 million and P19.65 million, respectively, and classified as Stage 1 category and are considered current as of December 31, 2023, and 2022, respectively. No ECL was recognized for the Bank's sales contract receivables in 2023 and 2022.

(b) Allowance for ECL

The table below shows the reconciliation of the loss allowance for ECL for receivable from customers as of December 31, 2023 and 2022.

	Stage 1	Stage 2	Stage 3	Total
2023				
Balance at beginning year	P 6,972,627	P 3,560,037	P 57,377,659	P 67,910,323
Transfers:				
Stage 1 to Stage 2	(349,966)	349,966	-	-
Stage 2 to Stage 3	-	(1,274,763)	1,274,763	-
Stage 3 to Stage 2	-	231,452	(231,452)	-
Written-off	-	-	(9,480,113)	(9,480,113)
Assets derecognized or repaid	(752,786)	(134,104)	(1,177,019)	(2,063,909)
New assets originated:				
Remained in Stage 1	16,100	-	-	16,100
Moved to Stage 2 and 3	-	673,087	11,226,959	11,900,046
Balance at end of year	**P 5,885,975**	**P 3,405,675**	**P 58,990,797**	**P 68,282,447**
2022				
Balance at beginning year	P 18,589,517	P 10,972,129	P 101,895,630	P 131,457,276
Transfers:				
Stage 2 to Stage 1	1,386,697	(1,386,697)	-	-
Stage 1 to Stage 3	(990,450)	-	990,450	-
Stage 2 to Stage 3	-	(2,824,637)	2,824,637	-
Written-off	-	(3,556,576)	(44,234,264)	(47,790,840)
Assets derecognized or repaid	(12,336,663)	(421,195)	(5,420,593)	(18,178,451)
New assets originated:				
Remained in Stage 1	323,526	-	-	323,526
Moved to Stage 2 and 3	-	777,013	1,321,799	2,098,812
Balance at end of year	P 6,972,627	P 3,560,037	P 57,377,659	P 67,910,323

ECL on cash and cash equivalents and other financial instruments (except for receivable from customers) were assessed by management to be not significant.

The Bank recognized an allowance of P0.74 million and P0.68 million on accrued interest receivables and others. These financial instruments were in Stage 1 category and are considered current as of December 31, 2023, and 2022, respectively.

(c) Significant Changes in Gross Carrying Amounts Affecting Allowance for ECL

The table below provides information on how the significant changes in the gross carrying amounts of receivables from customers contributed to the change in the amount of allowance for ECL.

	Stage 1	Stage 2	Stage 3	Total
2023				
Balance at beginning year	P 987,188,386	P 63,981,072	P 183,248,917	P 1,234,418,375
Transfers:				
Stage 1 to Stage 2	(35,301,471)	35,301,471	-	-
Stage 2 to Stage 3	-	(25,629,526)	25,629,526	-
Stage 3 to Stage 2	-	6,417,145	(6,417,145)	-
Written-off	-	-	(9,480,113)	(9,480,113)
Assets derecognized or repaid	(658,742,766)	(29,401,683)	(2,478,695)	(690,623,144)
New assets originated:				
Remained in stage 1	717,994,615	-	-	717,994,615
Moved to Stage 2 and 3	-	7,610,979	16,227,668	23,838,647
Balance at end of year	**P 1,011,138,764**	**P 58,279,458**	**P 206,730,158**	**P 1,276,148,380**
2022				
Balance at beginning year	P 814,849,075	P 139,679,008	P 118,705,975	P 1,073,234,058
Transfers:				
Stage 1 to Stage 2	(45,978,523)	45,978,523	-	-
Stage 2 to Stage 3	-	(52,669,957)	52,669,957	-
Stage 3 to Stage 2	-	1,647,613	(1,647,613)	-
Written-off	-	(3,556,576)	(44,234,264)	(47,790,840)
Assets derecognized or repaid	(332,708,879)	(67,213,376)	(37,150,937)	(437,073,192)
New assets originated:				
Remained in stage 1	551,026,713	-	-	551,026,713
Moved to Stage 2 and 3	-	115,837	94,905,799	95,021,636
Balance at end of year	P 987,188,386	P 63,981,072	P 183,248,917	P 1,234,418,375

4.1.7 Collateral Held as Security and Other Credit Enhancements

The Bank holds collateral against loans and advances to customers in the form of real estate mortgage, chattel mortgage, assignment of receivables, personal guaranty and other forms of security. Estimates of fair value are based on the value of collateral assessed at the time of borrowing and are updated as deemed appropriate (i.e., generally at the time of credit renewal or at foreclosure event).

Generally, collateral is not held over loans and advances to other banks, except when securities are held as part of reverse repurchase and securities borrowing arrangements.

The fair value of collateral and other security enhancements held against the loan portfolio as of December 31, 2023 and 2022 were classified per stage as follows:

	Stage 1	Stage 2	Stage 3	Total
2023				
Real properties	P 1,830,340,652	P 316,164,143	P 183,183,555	P 2,329,688,350
Chattel	421,180,368	23,751,134	185,719,454	630,650,956
Hold-out deposits	93,181,652	2,629,120	6,250,086	102,060,858
	P 2,344,702,672	**P 342,544,397**	**P 375,153,095**	**P 3,062,400,164**
2022				
Real properties	P 2,287,309,464	P 200,923,759	P 36,096,320	P 2,524,329,543
Chattel	424,325,845	26,324,659	132,368,449	583,018,953
Hold-out deposits	19,173,718	2,209,226	2,150,714	23,533,658
	P 2,730,809,027	P 229,457,644	P 170,615,483	P 3,130,882,154

The Bank has recognized certain properties arising from foreclosures in settlement of loan account amounting to P11.57 million and P14.84 million in 2023 and 2022, respectively (see Note 11).

The Bank's manner of disposing the collateral for impaired loans and receivables is normally through sale of these assets after foreclosure proceedings have taken place.

The Bank does not generally use the non-cash collateral for its own operations.

There were no changes in the Bank's collateral policies in 2023 and 2022.

4.1.8 Modifications of Financial Assets

(a) Financial Reliefs Provided by the Bank

In certain cases, the Bank modifies the terms of the loans provided to the borrowers due to commercial renegotiations, or for distressed loans, with a view of maximizing recovery of the contractual amount of obligation that the Bank is owed to. Restructuring policies and practices are based on indicators or criteria which, in the management's judgment, indicate that payment will most likely continue. Such policies are continuously reviewed and updated as necessary. Restructuring is most commonly applied to term or corporate loans.

On July 5, 2021, the Bank's BOD approved to launch RACE in response to client's request for additional loan payment relief measures. Many of the Bank's loan clients continue to suffer due to the impact of the pandemic on their business as well as other adverse situations that put the business in a difficult and challenging financial position.

Specifically, the following are the loan relief measures to be offered to clients:

- payment holiday with or without loan term extension;
- loan refinancing/repacking; and,
- loan restructuring.

On top of the government reliefs, the Bank has offered financial relief through its RACE Program, which was approved by the Executive Committee on May 28, 2020, in response to the COVID-19 situation. These relief measures were granted to eligible customers to allow them to get back into the habit of paying loans and included the following:

- payment relief including extension of contractual terms;
- principal and interest relief including lower amortization on extended term with interest payment only on the first year; and,
- extension of balloon repayment terms.

As of December 31, 2023 and 2022, the total outstanding balance of loans modified under the RACE Program amounts to P194.29 million and P202.47 million, respectively.

(b) Assessment of SICR

The risk of default of such assets after modification is assessed at the reporting date and compared with the risk under the original terms at initial recognition, when the modification is not substantial and so does not result in derecognition of the original asset. The Bank monitors the performance of the financial asset subsequent to its modification.

The Bank may determine that the credit risk has significantly improved after restructuring (in accordance with the new terms for six consecutive months or more), so that the assets are moved from Stage 3 or Stage 2.

The Bank continues to monitor if there is a subsequent SICR in relation to such modified assets through the use of specific models for modified assets (see also Note 4.1.2).

4.2 Liquidity Risk

Liquidity risk is the risk from inability of the Bank to settle its maturing obligations when they become due because of inability to liquidate assets or obtain adequate funding from other financing sources. In view of this, the Bank ensures that sufficient liquid assets are carefully managed to meet short-term and medium-term funding, and regulatory requirements.

Analysis of maturity profile of the financial assets and financial liabilities of the Bank are shown below.

	Less than One Month	One to Three Months	Three Months to One Year	More than One Year	Non-Maturity	Total
2023						
Resources:						
Cash	P 13,650,462	P -	P -	P -	P -	P 13,650,462
Due from BSP	80,981,879	-	-	-	-	80,981,879
Due from other banks	99,624,130	-	-	-	-	99,624,130
Loans arising from reverse repurchase agreements	32,951,139	-	-	-	-	32,951,139
Loans and receivables:						
Receivable from customers	108,547,376	202,424,935	427,757,899	471,096,314	-	1,209,826,524
Accrued interest receivables	7,369,612	-	-	-	-	7,369,612
Sales contract receivables	517,093	1,552,871	4,265,150	12,848,827	-	19,183,941
Other Resources:						
Rental and other deposits	-	-	-	-	3,580,055	3,580,055
	343,641,691	203,977,806	432,023,049	483,945,141	3,580,055	1,467,167,742
Liabilities:						
Deposit liabilities	281,305,406	256,017,972	146,597,430	2,466,049	305,996,957	992,383,814
Accrued interest and other expenses	-	-	-	-	12,106,691	12,106,691
Bills Payable	40,000,00	-	-	-	-	40,000,000
Other liabilities	33,462,630	2,736,221	11,097,142	73,443,919	-	120,739,912
	354,768,036	258,754,193	157,694,572	75,909,968	318,103,648	1,165,230,417
Net periodic surplus (gap)	(11,126,345)	(54,776,387)	274,328,477	408,035,173	(314,523,593)	301,937,325
Cumulative total surplus	**(P 11,126,345)**	**(P 65,902,732)**	**P 208,425,745**	**P 616,460,918**	**P 301,937,325**	**P -**
2022						
Resources:						
Cash	P 12,754,048	P -	P -	P -	P -	P 12,754,048
Due from BSP	113,687,087	-	-	-	-	113,687,087
Due from other banks	124,000,360	-	-	-	-	124,000,360
Loans arising from reverse repurchase agreements	23,946,353	-	-	-	-	23,946,353
Loans and receivables:						
Receivable from customers	88,610,216	181,915,621	435,199,094	463,437,570	-	1,169,162,501
Accrued interest receivables	6,958,844	-	-	-	-	6,958,844
Sales contract receivables	536,454	1,609,361	4,291,630	13,215,773	-	19,653,218
Other Resources:						
Rental and other deposits	-	-	-	-	3,497,561	3,497,561
	370,493,362	183,524,982	439,490,724	476,653,343	3,497,561	1,473,659,972
Liabilities:						
Deposit liabilities	265,916,548	291,281,260	171,026,029	3,034,818	318,696,095	1,049,954,750
Accrued interest and other expenses	-	-	-	-	12,301,861	12,301,861
Other liabilities	41,065,589	3,173,556	8,462,816	54,282,204	-	106,984,165
	306,982,137	294,454,816	179,488,845	57,317,022	330,997,956	1,169,240,776
Net periodic surplus (gap)	63,511,225	(110,929,834)	260,001,879	419,336,321	(327,500,395)	304,419,196
Cumulative total surplus	P 63,511,225	(P 47,418,609)	P 212,583,270	P 631,919,591	P 304,419,196	P -

The contractual maturities reflect the gross cash flows (including contractual interest on deposit liabilities) which may differ from the carrying values of the financial liabilities at the end of the reporting periods.

4.3 Market Risk

Interest Rate Risk

Interest rate risk is the risk to earnings or capital resulting from adverse movements in the interest rates. The economic perspective of interest rate risk focuses on the value of a bank in the current interest rate environment and the sensitivity of that value to changes in interest rates.

The Bank closely monitors the movements of interest rates in the market and review its interest-bearing financial assets and liabilities structure to ensure that exposures to fluctuations in interest rates are kept within acceptable limits.

The following are the maturity profile of the Bank's interest-bearing financial instruments as of December 31, 2023 and 2022:

	Less than One Month	One to Three Months	Three Months to One Year	More than One Year	Non-Maturity	Total
2023						
Resources:						
Due from BSP	P 80,981,879	P -	P -	P -	P -	P 80,981,879
Due from other banks	99,624,130	-	-	-	-	99,624,130
Loans arising from reverse repurchase agreements	32,951,139	-	-	-	-	32,951,139
Receivable from customers	108,547,376	202,424,935	427,757,899	471,096,314	-	1,209,826,524
Sales contract receivables	517,093	1,552,871	4,265,150	12,848,827	-	19,183,941
	322,621,617	203,977,806	432,023,049	483,945,141	-	1,442,567,613
Liabilities:						
Deposit liabilities	281,305,406	256,017,972	146,597,430	2,466,049	305,996,957	992,383,814
Bills Payable	40,000,000	-	-	-	-	40,000,000
Other liabilities	1,588,194	2,736,221	11,097,142	73,443,919	-	88,865,476
	322,893,600	258,754,193	157,694,572	75,909,968	305,996,957	1,121,249,290
Net periodic surplus (gap)	(271,983)	(54,776,387)	274,328,477	408,035,173	(305,996,957)	321,318,323
Cumulative total surplus	**(P 271,983)**	**(P 55,048,370)**	**P 219,280,107**	**P 627,315,280**	**P 321,318,323**	**P -**
2022						
Resources:						
Due from BSP	P 113,687,087	P -	P -	P -	P -	P 113,687,087
Due from other banks	124,000,360	-	-	-	-	124,000,360
Loans arising from reverse repurchase agreements	23,946,353	-	-	-	-	23,946,353
Receivable from customers	88,610,216	181,915,621	435,199,094	463,437,570	-	1,169,162,501
Sales contract receivables	536,454	1,609,361	4,291,630	13,215,773	-	19,653,218
	350,780,470	183,524,982	439,490,724	476,653,343	-	1,450,449,519
Liabilities:						
Deposit liabilities	265,916,548	291,281,260	171,026,029	3,032,818	318,696,095	1,049,954,750
Other liabilities	1,057,852	3,173,556	8,462,816	54,282,204	-	66,976,428
	266,974,400	294,454,816	179,488,845	57,317,022	318,696,095	1,116,931,178
Net periodic surplus (gap)	83,806,070	(110,929,834)	260,001,879	419,336,321	(318,696,095)	333,518,341
Cumulative total surplus	P 83,806,070	(P 27,123,764)	P 232,878,115	P 652,214,436	P 333,518,341	P -

4.4 Impact of London Interbank Offered Rate (LIBOR) Reform

As disclosed in Note 2.3(a), the Bank currently has no exposure to contracts which reference LIBOR and extend beyond 2021, including swaps which will transition under the International Swaps and Derivatives Association (ISDA) protocols.

In 2021, the Bank established a working team consisting of key personnel from treasury, finance, risk, IT, legal, compliance and lending groups to oversee the Bank's transition plan. This working group put in place a transition project for those contracts which reference USD LIBOR to transition them to Secured Overnight Financing Rate (SOFR), with the aim of minimizing the potential disruption to business and mitigating operational risks and possible financial losses. This transition project is considering changes to systems, processes, risk management and valuation models, as well as managing related tax and accounting implications. Significant risk areas affected by the replacement of LIBOR include: (i) updating systems and processes which capture USD LIBOR referenced contracts; (ii) amending affected contracts, or existing fallback/transition clauses not operating as anticipated; and (iii) reviewing mismatches in timing of derivatives and loans transitioning from USD LIBOR and the resulting impact on economic risk management.

As confirmed by the United Kingdom's Financial Conduct Authority that LIBOR setting will either cease to be provided or no longer representative for:

- all Sterling, Euro, Swiss Franc and Japanese Yen settings and the 1-week and 2-month USD settings by December 31, 2021; and,

- remaining overnight, 1-month, 3-month and 12-month USD settings by June 30, 2023.

The Bank has decided to continue the use of USD LIBOR for its outstanding contracts until June 30, 2023. On the other hand, beginning January 1, 2022, the Bank will use the Chicago Mercantile Exchange (CME) Term SOFR as reference for new loans while new derivative contracts will use SOFR.

As of December 31, 2022, the Bank has initiated set-up of the required changes to systems and processes to be fully implemented in 2023. Internal briefings were held across all lending units to disseminate the use of the new benchmark. The Bank also sent notice to identified clients advising them of benchmark developments and the Bank's adoption of CME Term SOFR for new loans beginning 2022. Loan documentations have also been reviewed for consistency with the new benchmark.

The Bank continues to engage with industry participants and the BSP, to ensure an orderly transition to SOFR and to minimize the risks associating from transition, and it will continue to identify and assess risks associated with the USD LIBOR replacement.

The following are the key risks for the Bank arising from the transition:

- Liquidity risk: There are fundamental differences between LIBOR and the various alternative benchmark rates which the Bank will be adopting. LIBOR are forward-looking term rates published for a period (e.g., three months) at the beginning of that period and include an inter-bank credit spread, whereas alternative benchmark rates are typically risk-free overnight rates published at the end of the overnight period with no embedded credit spread. These differences will result in additional uncertainty regarding floating rate interest payments which will require additional liquidity management. The Bank's liquidity risk management policy has been updated to ensure sufficient liquid resources to accommodate unexpected increases in overnight rates.

- Litigation risk: If no agreement is reached to implement the interest rate benchmark reform on existing contracts (e.g., arising from differing interpretation of existing fallback terms), there is a risk of prolonged disputes with counterparties which could give rise to additional legal and other costs. The Bank is working closely with all counterparties to avoid this from occurring.

- Operational risk: The Bank's current treasury management system is undergoing upgrades to fully manage the transition to alternative benchmark rates and there is a risk that such upgrades are not fully functional in time, resulting in additional manual procedures which give rise to operational risks. The Bank is working closely with its system provider to ensure the relevant updates are made in good time and the Bank has alternative manual procedures in place with relevant controls to address any potential delay.

5. CAPITAL MANAGEMENT AND BSP REPORTING COMPLIANCE

5.1 Capital Management

It is the Bank's policy to maintain a strong capital base to sustain the development of its business and to meet regulatory capital requirements at all times. It also seeks to maintain a prudent balance between the advantages and flexibility afforded by a strong capital position and the higher returns on equity possible with greater leverage.

5.2 Regulatory Capital

The Bank's lead regulator, the BSP, sets and monitors the capital requirements of the Bank.

In implementing current capital requirements, the BSP requires the Bank to maintain a prescribed ratio of qualifying regulatory capital to total risk-weighted assets including market risk and operational risk computed based on BSP-prescribed formula provided under its relevant circulars.

On January 15, 2013, the BSP issued Circular No. 781, effective on January 1, 2014, *Basel III Implementing Guidelines on Minimum Capital Requirements*, which provides the implementing guidelines on the revised risk-based capital adequacy framework particularly on the minimum capital and disclosure requirements for universal banks and commercial banks, as well as their subsidiary bank and quasi-banks, in accordance with the Basel III standards.

Prior to 2014, the Bank is required to maintain a capital adequacy ratio (CAR) of 10% of qualifying regulatory capital to total risk-weighted assets including market risk and operational risk.

The BSP has adopted the Basel III risk-based capital adequacy framework effective January 1, 2014, which requires the Bank to maintain:

- Common Equity Tier 1 (CET1) of at least 6.0% of risk weighted assets;
- Tier 1 Capital of at least 7.5% of risk-weighted assets;
- Qualifying Capital (Tier 1 plus Tier 2 Capital) of at least 10.0% of risk-weighted assets; and,
- Capital Conservation Buffer of 2.5% of risk weighted assets, comprised of CET1 Capital.

In computing for the CAR, the regulatory qualifying capital is analyzed into two tiers which are: (i) Tier 1 Capital comprised of CET1 and Additional Tier 1 (AT1) capital, and, (ii) Tier 2 Capital, each adjusted for prescribed regulatory deductions.

Tier 1 Capital and Tier 2 Capital are defined as follows, subject to deductions as defined in relevant regulations:

(i) CET1 Capital includes the following:

- paid-up common stock;
- common stock dividends distributable;
- additional paid-in capital;
- deposit for common stock subscription;
- retained earnings;
- undivided profits;
- other comprehensive income from net unrealized gains or losses on financial assets at FVOCI and cumulative foreign currency translation; and,
- minority interest in subsidiary banks which are less than wholly-owned, subject to regulatory conditions.

(ii) AT1 Capital includes:

- instruments that do not qualify as CET1, but meet the criteria set out in Annex B of BSP Circular 781;
- financial liabilities meeting loss absorbency requirements set out in Annex E of BSP Circular 781;
- financial liabilities bearing loss absorbency features at point of non-viability as set out in Annex F of BSP Circular 781;
- additional paid-in capital resulting from issuance of AT1 capital;
- deposit for subscription to AT1 instruments; and,
- minority interest in subsidiary banks which are less than wholly-owned, subject to regulatory conditions.

(iii) Tier 2 Capital includes:

- instruments issued that are not qualified as Tier 1 capital but meet the criteria set forth in Annex C of BSP Circular 781;
- financial liabilities bearing loss absorbency features at point of non-viability as set out in Annex F of BSP Circular 781;
- deposit for subscription of Tier 2 capital;
- appraisal increment reserve – bank premises, as authorized by the Monetary Board;

- general loan loss provisions; and,
- minority interest in subsidiary banks that are less than wholly-owned, subject to regulatory conditions.

Risk assets consist of total assets after exclusion of cash on hand, due from BSP, loans covered by hold-out on or assignment of deposits, loans, or acceptances under letters of credit to the extent covered by margin deposits, and other non-risk items as determined by the Monetary Board of the BSP.

The Bank's regulatory capital position as reported to the BSP are shown below.

	2023	2022
Tier 1 Capital	**P 488,979,263**	P 482,160,384
Tier 2 Capital	**432,044**	1,528,287
Total regulatory qualifying capital	**P 489,411,307**	P 483,688,671
Total risk weighted assets	**P 1,679,216,523**	P 1,659,638,826
Capital ratios:		
Total regulatory capital expressed as percentage of total risk-weighted assets	**29.15%**	29.14%
Total Tier 1 expressed as percentage of total risk-weighted assets	**29.12%**	29.05%

The Bank is in compliance with the minimum capital requirement of the BSP for thrift banks (with head office outside national capital region with 11 to 50 branches) amounting to P400 million as of December 31, 2023 and 2022.

5.3 Leverage Ratio

On June 9, 2015, the BSP issued Circular No. 881, *Implementing Guidelines on the Basel III Leverage Ratio Framework*, which provides the implementing guidelines on the leverage ratio framework designed to act as a supplementary measure to the risk-based capital requirements. It sets out a minimum leverage ratio of 5.00% and shall be complied with at all times.

The Basel III leverage ratio is defined as the ratio of capital measure (Tier 1 Capital) and the exposure measure which include on-balance sheet and securities financing transactions exposures and off-balance sheet items.

The Bank's Basel III leverage ratio as reported to the BSP are as follows:

	2023	2022
Tier 1 Capital	**P 488,979,263**	P 482,160,384
Exposure Measure	**1,679,790,359**	1,684,223,699
	29.11%	28.63%

5.4 Liquidity Coverage Ratio and Net Stable Funding Ratio

On March 10, 2016, the BSP issued Circular No. 905, *Implementation of Basel III Framework on Liquidity Standards - Liquidity Coverage Ratio and Disclosure Standards*, which provides the implementing guidelines on liquidity coverage ratio (LCR) and disclosure standards that are consistent with the Basel III framework. This Circular requires the Bank to maintain available High Quality Liquid Assets (HQLA) to meet anticipated net cash outflows for a 30-day periods under stress conditions. The Bank has fully complied with the LCR minimum requirement of 100% coverage effective January 1, 2019.

To strengthen the Bank's short-term liquidity position and as a defense against potential onset of liquidity stress, it maintains adequate stock of unencumbered HQLAs that consists of cash or assets that can be freely converted into cash at little or no loss of value in private markets.

The Bank's LCR is analyzed below.

	Total Unweighted Value	Total Weighted Value
2023		
Total stock of HQLA	P 127,583,480	P 127,583,480
Expected Net Cash Outflows	876,466,827	91,321,672
LCR		**139.71%**
2022		
Total stock of HQLA	P 150,387,488	P 150,387,488
Expected Net Cash Outflows	954,385,690	79,122,926
LCR		190.07%

Net Stable Funding Ratio (NSFR), as detailed in BSP Circular 1007, *Implementing Guidelines on the Adoption of the Basel III Framework on Liquidity Standards - Net Stable Funding Ratio*, measures the availability of medium and long-term stable funding to support illiquid assets and business activities on an on-going basis. It is an assessment of the level of sustainable funding required to reduce funding risk over a one-year time horizon. The NSFR complements the LCR, which promotes short-term resilience of the Bank's liquidity profile.

To promote long-term resilience against liquidity risk, the Bank maintains a stable funding profile in relation to the composition of its assets and off-balance sheet activities and seeks to meet this objective by limiting over reliance on short-term wholesale funding and promoting enhanced assessment of funding risk across all on- and off-balance sheet accounts.

The Bank's Basel III NSFR are summarized below.

	2023	2022
Available stable funding	**P 1,397,151,456**	P 1,442,725,298
Required stable funding	**1,030,950,731**	1,000,060,483
Basel III NSFR	**1.36%**	1.44%

6. CATEGORIES AND OFFSETTING OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

6.1 Carrying Amounts and Fair Values by Category

The carrying amounts and fair values of the categories of financial assets and financial liabilities presented in the statements of financial position are shown below.

	Notes	2023 Carrying Amounts	2023 Fair Values	2022 Carrying Amounts	2022 Fair Values
Financial Assets					
At amortized cost:					
Cash	8	**P 13,650,462**	**P 13,650,462**	P 12,754,048	P 12,754,048
Due from BSP	8	**80,981,879**	**80,981,879**	113,687,087	113,687,087
Due from other banks	8	**99,624,130**	**99,624,130**	124,000,360	124,000,360
Loans arising from reverse repurchase agreements	8	**32,951,139**	**32,951,139**	23,946,353	23,946,353
Loans and receivables – net	9	**1,236,380,077**	**1,149,098,067**	1,195,774,563	1,075,726,077
Other resources:					
Rental and other deposits	13	**3,580,055**	**3,580,055**	3,497,561	3,497,561
		1,467,167,742	**1,379,885,732**	1,473,659,972	1,353,611,486
At fair value –					
Financial assets at FVOCI	13	**17,100,271**	**17,100,271**	13,672,806	13,672,806
		P 1,484,268,013	**P1,396,986,003**	P 1,487,332,778	P1,367,284,292
Financial Liabilities					
At amortized cost:					
Deposit liabilities	14	**P 992,383,814**	**P 996,244,843**	P 1,049,954,750	P1,054,194,511
Bills payable	16	**40,000,000**	**40,000,000**	-	-
Accrued interest and other expenses	15	**12,106,691**	**12,106,691**	12,301,861	12,301,861
Other liabilities	16	**120,739,912**	**120,739,912**	106,984,165	106,984,165
		P 1,165,230,417	**P1,169,091,446**	P 1,169,240,776	P1,173,480,537

Management considers that the carrying amounts of the Bank's financial instruments which are measured at amortized cost approximate their fair values either because these financial instruments have maturities of one year or less, or the effect of discounting for those with maturities of more than one year is immaterial. The fair value of financial assets at FVOCI is determined using valuation technique disclosed in Note 7.2.

6.2 Offsetting of Financial Assets and Financial Liabilities

Certain financial assets and financial liabilities of the Bank with amounts presented in the statements of financial position as at December 31, 2023 and 2022 are subject to offsetting, enforceable master netting arrangements and similar agreements. However, there were no financial assets and financial liabilities presented at net in the statements of financial position. Presented below is the financial assets and financial liabilities subject to offsetting but the related amounts are not set-off in the statements of financial position.

	December 31, 2023			December 31, 2022		
	Related amounts not set-off in the statement of financial position			Related amounts not set-off in the statement of financial position		
	Financial instruments	**Collateral received**	**Net amount**	Financial instruments	Collateral received	Net amount
Financial assets – Loans and receivables	**P1,236,380,077**	**(P 102,060,859)**	**P1,134,319,218**	P1,195,774,563	(P 23,533,658)	P1,172,240,905
Financial liabilities – Deposit liabilities	**P 992,383,814**	**(P 102,060,859)**	**P 890,322,955**	P1,049,954,750	(P 23,533,658)	P1,026,421,092

For purposes of presenting the information, the related amounts not set-off in the statements of financial position pertains to hold-out deposit which serves as the Bank's collateral enhancement for certain loans and receivables. The financial instruments that can be set-off are only disclosed to the extent of the amounts of the Bank's counterparties.

For financial assets subject to enforceable master netting arrangements or similar arrangements between the Bank and counterparties allows for net settlement of the relevant financial assets and liabilities when both elect to settle on a net basis. In the absence of such election, financial assets and liabilities will be settled on a gross basis, however, each party to the master netting agreement or similar agreement will have the option to settle all such amounts on a net basis in the event of default of the other party.

7. FAIR VALUE MEASUREMENT AND DISCLOSURES

7.1 Fair Value Hierarchy

In accordance with PFRS 13, *Fair Value Measurement*, the fair value of financial assets and financial liabilities and non-financial assets which are measured at fair value on a recurring or non-recurring basis and those assets and liabilities not measured at fair value but for which fair value is disclosed in accordance with other relevant PFRS, are categorized into three levels based on the significance of inputs used to measure the fair value.

The fair value hierarchy has the following levels:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities that an entity can access at the measurement date;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and,
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The level within which the asset or liability is classified is determined based on the lowest level of significant input to the fair value measurement.

For purposes of determining the market value at Level 1, a market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

For investments which do not have quoted market price, the fair value is determined by using generally acceptable pricing models and valuation techniques or by reference to the current market value of another instrument which is substantially the same after taking into account the related credit risk of counterparties, or is calculated based on the expected cash flows of the underlying net asset base of the instrument.

When the Bank uses valuation technique, it maximizes the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to determine the fair value of an instrument are observable, the instrument is included in Level 2. Otherwise, it is included in Level 3.

7.2 Financial Instruments Measured at Fair Value

The Bank's financial asset at FVOCI, which consist of investment in unquoted equity securities of a privately-owned company, amounted to P17.10 million and P13.67 million as of December 31, 2023 and 2022, respectively (see Note 13.1).

As of December 31, 2023 and 2022, the fair value of the Bank's equity securities categorized under Level 3 of the fair value hierarchy, is estimated and determined through valuation technique using the dividend discounted model. The management assessed that considering the regular dividend payments expected from the investee company in the future, this valuation technique provides appropriate measurement of the fair value of the investment. In discounting the cash flows from dividends, the Bank used a discount rate of 7.38% and 9.23% in 2023 and 2022, respectively.

The reconciliation of the carrying amount of financial assets at FVOCI under Level 3 of the fair value hierarchy is shown below.

	Note	**2023**	2022
Balance at beginning of year		**P 13,672,806**	P 26,106,961
Fair value gains (losses)		**3,427,465**	(12,434,155)
Balance at end of year	13	**P 17,100,271**	P 13,672,806

7.3 Fair Value of Financial Instruments Measured at Amortized Cost

The fair value hierarchy of cash and cash equivalents is within Level 1, while fair value hierarchy of all other financial assets and financial liabilities measured at amortized cost is within Level 3.

The following are the methods used to determine the fair value of financial assets and financial liabilities not presented in the statements of financial position at their fair values:

(a) Cash and Cash Equivalents

Due from BSP and Due from other banks include items in the course of collection. The fair value of floating rate placements and overnight deposits is their carrying amount. The estimated fair value of fixed interest-bearing deposits is based on discounted cash flows using prevailing money market interest rates for debts with similar credit risk and remaining maturity, which for short-term deposits approximate the nominal value.

(b) Loans and Receivables

Loans and receivables are net of provisions for impairment. The estimated fair value of loans and receivables represents the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at current market rates to determine fair value.

(c) Deposit Liabilities

The estimated fair value of deposits is the amount repayable on demand.

(d) Other Resources and Other Liabilities

Due to their short duration, the carrying amounts of other resources and liabilities in the statements of financial position are considered to be reasonable approximation of their fair values.

7.4 Fair Value Disclosures for Investment Properties and Non-Current Assets Classified as Held for Sale

For purposes of determining the fair value hierarchy, the Bank categorized the fair value disclosed for investment properties within Level 3 wherein the inputs used in the determination of fair value are not based on observable market data or the significant adjustments were made on the observable prices used as reference of fair value.

The fair values disclosed for the Bank's investment properties and non-current assets held for sale as of December 31, 2023 and 2022 were based on the appraisals performed by the Bank's internal appraisers and independent and qualified appraisers having appropriate and recent experience in the fair value measurement of similar properties in the relevant locations.

To some extent, the valuation process conducted by the appraisers was made in discussion with the Bank's management with respect to the determination of the inputs such as the size, age, and condition of the land, and the comparable prices in the corresponding property location. In estimating the fair values of the investment properties and non-current asset held for sale, management takes into account the market participant's ability to generate economic benefits by using the assets in their highest and best use. Based on management assessment, the best use of the Bank's investment properties is agricultural utilization.

The Level 3 fair value of land was derived using the observable recent prices of the reference properties and were adjusted for differences in key attributes such as property size, zoning and accessibility. The most significant input into this valuation approach is the price per square meter; hence, the higher the price per square meter, the higher the fair value of the properties.

As of December 31, 2022, the total estimated fair values of the investment properties P111.20 million (see Notes 11).

On October 25, 2023, the Bank reclassified all its investment properties as non-current assets classified as held for sale. The total estimated fair value of the non-current assets held for sale amounted to P151.57 million (see Note 12).

8. CASH AND CASH EQUIVALENTS

The components of Cash and Cash Equivalents account are as follows:

	2023	2022
Cash	**P 13,650,462**	P 12,754,048
Due from BSP	**80,981,879**	113,687,087
Due from other banks	**99,624,130**	124,000,360
Loans arising from reverse repurchase agreements	**32,951,139**	23,946,353
	P 227,207,610	P 274,387,848

Cash consist of funds in the form of Philippine currency notes and coins in the Bank's vault.

Due from BSP represents the aggregate balance of deposit accounts in local currency maintained with BSP primarily to meet reserve requirements and to serve as a clearing account for interbank claims (see Note 14). The outstanding balance as of December 31, 2023 and 2022 includes Overnight Deposit Facility with the BSP amounting P61.0 million and P32.0 million, respectively, bearing annual interest rates of 6.0% and having a one day term.

Placements with BSP are all denominated in Philippine peso at the end of each reporting period.

Due from other banks represents regular deposits with local banks with annual interest rates ranging from 0.25% to 1.00% in 2023, and from 0.10% to 0.25% in 2022.

Loans arising from reverse repurchase agreements bear interest of 6.38% and 5.50% in 2023 and 2022, respectively.

Interest income earned from cash equivalents are as follows:

	2023	2022
Due from BSP	**P 3,163,056**	P 1,356,709
Due from other banks	**1,632,219**	541,767
	P 4,795,275	P 1,898,476

9. LOANS AND RECEIVABLES

This account is composed of the following:

	Note	**2023**	2022
Loans and discounts –			
Receivable from customers		**P 1,276,148,380**	P 1,234,418,375
Other receivables:			
Sales contract receivables	10	**19,183,941**	19,653,218
Accrued interest receivables		**7,369,612**	6,958,844
Others		**2,705,276**	3,338,079
		1,305,407,209	1,264,368,516
Allowance for impairment		**(69,027,132)**	(68,593,953)
		P 1,236,380,077	P 1,195,774,563

Loans and receivables earn an average effective interest at rates ranging from 1.00% to 48.15% per annum, and from 5.00% to 53.16% per annum in 2023 and 2022, respectively. Interest income earned from loans and receivables amounting to P201.38 million and P176.47 million in 2023 and 2022, respectively, and presented as part of Interest Income in the statements of comprehensive income.

Sales contract receivable represents the present value of the installment receivable arising from the sale of investment properties and asset held for sale on an installment basis.

Accounts receivable consist of cash advances to officers and employees subject to liquidation.

The changes in the total amount of allowance for impairment of loans and receivables are summarized below.

	Note	**2023**	2022
Balance at beginning of year		**P 68,593,953**	P 132,160,962
Impairment losses during the year		**9,913,292**	-
Write-offs		**(9,480,113)**	(47,790,840)
Reversal of impairment losses during the year		**-**	(15,756,114)
Transfer to other account	11	**-**	(20,055)
Balance at end of year		**P 69,027,132**	P 68,593,953

10. BANK PREMISES, FURNITURE, FIXTURES AND EQUIPMENT

The gross carrying amounts and accumulated depreciation and amortization of bank premises, furniture, fixtures and equipment at the beginning and end of 2023 and 2022 are shown below.

	Land	Buildings	Furniture, Fixtures and Office Equipment	Leasehold Improvements	Transportation Equipment	Right-of-Use Assets	Construction in Progress	Total
December 31, 2023								
Cost	P -	P -	P 51,005,581	P 84,881,628	P 24,316,178	P 92,176,176	P -	P 252,379,563
Accumulated depreciation and amortization	-	-	(42,828,854)	(53,082,144)	(7,848,882)	(14,531,476)	-	(118,291,356)
Net carrying amount	**P -**	**P -**	**P 8,176,727**	**P 31,799,484**	**P 16,467,296**	**P 77,644,700**	**P -**	**P 134,088,207**
December 31, 2022								
Cost	P -	P -	P 48,135,329	P 76,737,967	P 22,491,842	P 69,548,432	P 4,509,994	P 221,423,564
Accumulated depreciation and amortization	-	-	(41,487,949)	(46,421,943)	(6,080,373)	(12,309,441)	-	(106,299,706)
Net carrying amount	P -	P -	P 6,647,380	P 30,316,024	P 16,411,469	P 57,238,991	P 4,509,994	P 115,123,858
January 1, 2022								
Cost	P 33,441,945	P 33,431,348	P 47,908,264	P 72,612,564	P 16,579,199	P 62,614,304	P -	P 266,587,624
Accumulated depreciation and amortization	-	(21,797,572)	(39,210,750)	(39,644,190)	(12,425,444)	(11,799,424)	-	(124,877,380)
Net carrying amount	P 33,441,945	P 11,633,776	P 8,697,514	P 32,968,374	P 4,153,755	P 50,814,880	P -	P 141,710,244

A reconciliation of the carrying amounts of bank premises, furniture, fixtures and equipment at the beginning and end of 2023 and 2022 are shown below.

	Land	Buildings	Furniture, Fixtures and Office Equipment	Leasehold Improvements	Transportation Equipment	Right-of-Use Assets	Construction in Progress	Total
Balance at January 1, 2023, net of accumulated depreciation and amortization	P -	P -	P 6,647,380	P 30,316,024	P 16,411,469	P 57,238,991	P 4,509,994	P 115,123,858
Additions	-	-	4,481,883	8,143,661	3,087,079	34,937,186	-	50,649,809
Disposals	-	-	(6,179)	-	(92,674)	-	(4,509,994)	(4,608,847)
Depreciation and amortization charges for the year	-	-	(2,946,357)	(6,660,201)	(2,938,578)	(14,531,477)	-	(27,076,613)
Balance at December 31, 2023 net of accumulated depreciation and amortization	**P -**	**P -**	**P 8,176,727**	**P 31,799,484**	**P 16,467,296**	**P 77,644,700**	**P -**	**P 134,088,207**
Balance at January 1, 2022, net of accumulated depreciation and amortization	P 33,441,945	P 11,633,776	P 8,697,514	P 32,968,374	P 4,153,755	P 50,814,880	P -	P 141,710,244
Additions	-	-	2,353,846	4,529,998	14,898,069	18,733,552	4,509,994	45,025,459
Disposals	(33,441,945)	(10,693,000)	(46,746)	-	(562,809)	-	-	(44,744,500)
Depreciation and amortization charges for the year	-	(940,776)	(4,357,234)	(7,182,348)	(2,077,546)	(12,309,441)	-	(26,867,345)
Balance at December 31, 2022 net of accumulated depreciation and amortization	P -	P -	P 6,647,380	P 30,316,024	P 16,411,469	P 57,238,991	P 4,509,994	P 115,123,858

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, 2023 and 2022, the Bank has satisfactorily complied with this BSP requirement.

The Bank disposed of certain bank premises, furniture, fixtures and equipment amounting to P4.61 million and P44.74 million in 2023 and 2022, respectively. Such disposals resulted in a gain amounting to P0.06 million and P5.87 million in 2023 and 2022, respectively, and are presented as part of Other Operating Income in the statements of comprehensive income (see Note 18).

In 2022, the Bank disposed of certain land and building with a net book value of P10.93 million and P7.59 million, respectively, through a sales contract with the buyer at a total consideration of P24.40 million, resulting in a gain of P5.87 million. The outstanding balance as of December 31, 2023 and 2022 amounting to P19.18 million and P19.65 million, respectively, is included as part of Sales contract receivables under the Loans and Receivables account in the statements of financial position (see Note 9). There was no similar transaction in 2023.

The cost of fully depreciated assets that are still being used in operation amounts to P64.42 million and P54.93 million as of December 31, 2023 and 2022, respectively.

None of the Bank's premises and other property and equipment were used as collateral or security to any liability or commitment as of the end of each reporting period.

The Bank has several leases covering the office space of its branches. Terms of the lease agreements range from two to ten years and include escalation rates ranging from 4.5% to 6.0%. With the exception of short-term leases and leases of low-value underlying assets, each lease is reflected as a right-of-use asset under Bank Premises, Furniture, Fixtures and Equipment and the related obligation as Lease liabilities under Other Liabilities (see Note 16) on the statements of financial position. The Bank recognized right-of-use assets with average remaining term of two to eight years as of December 31, 2023 and 2022.

11. INVESTMENT PROPERTIES

Investment properties pertain to parcels of land and building acquired through foreclosure in settlement of borrower's loan accounts. These are held by the Bank for capital appreciation and rentals.

On May 29, 2023, RCBC's BOD approved a disposal plan for all of the Bank's investment properties to comply with constitutional requirements on land ownership. This project consisted of three projects, one of which is the sale of consolidated real and other properties acquired nationwide that includes properties of both the RCBC and its subsidiaries.

Consequently, on October 25, 2023, the Bank reclassified all its investment properties to non-current assets held for sale in compliance with the directives of the parent bank.

The gross carrying amounts and accumulated depreciation and impairment losses of investment properties at the beginning and end of 2022 are shown below.

	Land	Buildings	Total
December 31, 2022			
Cost	P 47,768,097	P 12,157,815	P 59,925,912
Accumulated depreciation	-	(1,991,055)	(1,991,055)
Net carrying amount	P 47,768,097	P 10,166,760	P 57,934,857
January 1, 2022			
Cost	P 40,410,543	P 12,494,880	P 59,905,423
Accumulated depreciation	-	(1,097,507)	(1,097,507)
Net carrying amount	P 40,410,543	P 11,397,373	P 51,807,916

The reconciliations of the carrying amounts of investment properties at the beginning and end of 2023 and 2022 are shown below.

	Land	Buildings	Total
Balance at January 1, 2023 – net of accumulated depreciation and impairment	P 47,768,097	P 10,166,760	P 57,934,857
Additions	10,487,695	1,086,246	11,573,941
Disposals	(13,602,406)	(1,046,015)	(14,648,421)
Depreciation for the year	-	(1,193,920)	(1,193,920)
Transfer to assets classified as held for sale (see Note 12)	(44,653,386)	(9,013,071)	(53,666,457)
Balance at December 31, 2023 - net of accumulated depreciation and impairment	P -	P -	P -
Balance at January 1, 2022 – net of accumulated depreciation and impairment	P 40,410,543	P 11,397,373	P 51,807,916
Additions	13,673,478	1,164,830	14,838,308
Disposals	(6,315,924)	(1,167,796)	(7,483,720)
Depreciation for the year	-	(1,227,647)	(1,227,647)
Balance at December 31, 2022 - net of accumulated depreciation and impairment	P 47,768,097	P 10,166,760	P 57,934,857

As of December 31, 2022, the carrying amount of investment properties amounted to P57.93 million with allowance for impairment amounting to P1.99 million. The gross carrying amount includes P14.84 million cost of the parcel of land and building foreclosed by the Bank in 2022, while the allowance for impairment pertains to the amount reclassified by the Bank in 2022 from its previously recognized allowance for impairment on the related loans and receivable (see Note 9). There was no similar transaction in 2023.

In 2023 and 2022, the Bank recognized a gain on disposal of investment properties of P24.75 million and P4.45 million, respectively, and rental income amounting to P0.05 million and P0.56 million, respectively, which is presented in Other operating income in the statements of comprehensive income (see Note 18).

Expenses incurred by the Bank related to investment properties include taxes and licenses amounting to P0.44 million and P4.86 million in 2023 and 2022, respectively.

As of December 31, 2023 and 2022, the foreclosed investment properties still subject to redemption period by the borrowers amount to P10.00 million and P7.30 million, respectively.

The estimated fair values of the properties amounted to P27.77 million and P111.20 million as of December 31, 2023 and 2022, respectively (see Note 7.4).

12. NON-CURRENT ASSETS CLASSIFIED AS HELD FOR SALE

A reconciliation of the carrying amounts of non-current assets classified as held for sale at the beginning and end of 2023 is shown below.

	Land	Buildings	Total
Balance at the beginning of the year	P -	P -	P -
Reclassification from investment properties (see Note 11)	44,653,386	9,013,071	53,666,457
Balance at the end of the year	**P 44,653,386**	**P 9,013,071**	**P 53,666,457**

The carrying values of these investment properties which were reclassified to assets held for sale amounted to P53.67 million, while the related appraised values amounted to P151.57 million was made during the last quarter of 2023 (see Notes 7.4 and 11).

The Bank targets to dispose all of the properties during the first half of the year 2024. Disposal of the assets on a business-as-usual basis via auctions and negotiated sales are still underway.

13. OTHER RESOURCES

This account consists of:

	Notes	**2023**	2022
Investments at FVOCI	7.2, 13.1	**P 17,100,271**	P 13,672,806
Office supplies		**3,931,392**	3,718,109
Rental and other deposits		**3,580,055**	3,497,561
Retirement benefit asset	20.2	**2,651,313**	6,034,398
Prepaid expense		**2,494,080**	2,154,279
Computer software - net	13.2	**1,690,619**	1,870,443
Miscellaneous		**3,079,052**	3,655,222
		P 34,526,782	P 34,602,818

Miscellaneous resources include, among others, revolving fund and advances relating to the consolidation of titles of certain properties.

13.1 Financial Asset at FVOCI

Financial asset at FVOCI represent the Bank's investment in equity securities of BancNet, Inc. The fair value of this investment increased by P3.43 million in 2023 and decreased by P12.43 million in 2022, which is recognized as an adjustment in other comprehensive income (loss) as an item that will not be reclassified to profit or loss.

No dividend income received by the Bank on this investment both in 2023 and 2022.

13.2 Computer Software

The gross carrying amounts and the accumulated amortization of computer software at the beginning and end of 2023 and 2022 follow:

	December 31, 2023	December 31, 2022	January 1, 2022
Cost	**P 14,075,282**	P 12,866,441	P 12,188,016
Accumulated amortization	**(12,384,663)**	(10,995,998)	(8,866,457)
Net carrying amount	**P 1,690,619**	P 1,870,443	P 3,321,559

A reconciliation of the carrying amounts of computer software at the beginning and end of 2023 and 2022 is shown below.

	Note	**2023**	2022
Balance at January 1, net of accumulated amortization		**P 1,870,443**	P 3,321,559
Amortization charges for the year	19	**(1,388,696)**	(2,129,511)
Additions		**1,208,872**	678,395
Net carrying amount		**P 1,690,619**	P 1,870,443

14. DEPOSIT LIABILITIES

The following is the breakdown of deposit liabilities:

	2023	2022
Current	**P 35,578,175**	P 48,406,198
Savings	**270,418,782**	270,291,898
Time	**686,386,857**	731,256,654
	P 992,383,814	P 1,049,954,750

Interest rates per annum on deposit liabilities ranging from 0.25% to 6.50% in 2023 and from 0.25% to 6.13% in 2022.

In 2020, BSP Circular No. 1092, *Reduction in Reserve Requirements* was released further reducing the required reserves to 3.0%. In 2023, BSP Circular No. 1175, *Reduction in Reserve Requirements* was released further reducing the required reserves to 20% effective June 30, 2023. The Bank is compliant with these BSP regulations as of the end of each reporting period.

The available reserves consist of the demand deposit account to BSP amounting to P80.98 million and P113.69 million as of December 31, 2023 and 2022, respectively (see Note 8).

15. ACCRUED INTEREST AND OTHER EXPENSES

This account consists of:

	2023	2022
Accrued gross receipt tax	**P 8,218,640**	P 3.104,114
Accrued interest	**3,480,410**	4,202,392
Accrued insurance - Philippine Deposit Insurance Corporation	**1,012,900**	960,881
Accrued other expenses	**7,613,381**	7,138,588
	P 20,325,331	P 15,405,975

Other accrued expenses include mainly accruals for utilities, janitorial, security and professional services.

16. BILLS PAYABLE AND OTHER LIABILITIES

The breakdown of this account is shown below.

	2023	2022
Bills Payable	**P 40,000,000**	P -
Other Liabilities:		
Lease liabilities	**P 88,865,476**	P 66,976,428
Accounts payable	**30,286,242**	38,366,100
Withholding taxes payable	**1,139,233**	930,307
Income tax payable	**906,559**	810,871
Miscellaneous	**1,588,194**	1,641,637
	P 122,785,704	P 108,725,343

Bills payable pertain to the Bank's borrowed funds from RCBC, parent bank, for additional funds in 2023 with a prevailing interest rate of 6.58% and a term of 5 days. There was no similar transactions in 2022.

In 2020, the Bank entered into an agreement with Agricultural Credit Policy Council (ACPC) to participate in the implementation of the Post-COVID-19 support programs for small farmers and fisherfolks. The Bank will serve as a lending conduit who will release loan proceeds to eligible borrowers. The Bank received P45.00 million as an initial credit fund for the implementation of the program and is included as part of Accounts payable.

Accounts payable includes fund received from ACPC, notarial fees, payable to insurance companies and resigned employees, cash bond of the loan account specialists and unliquidated documentary stamp taxes related to time deposit transactions initially paid by the depositors.

The movements in the lease liabilities recognized in the statements of financial position are as follows:

	2023	2022
Balance at January 1	**P 66,976,428**	P 59,505,070
Additions	**34,937,186**	18,733,552
Payments of lease liabilities	**(18,118,569)**	(15,742,522)
Interest	**5,070,431**	4,480,328
Balance at December 31	**P 88,865,476**	P 66,976,428

The lease liabilities is secured by the related underlying assets (see Note 10). The undiscounted maturity analysis of lease liabilities are as follows:

	Within 1 Year	Within 2 Years	Within 3 Years	Within 4 Years	Within 5 Years	More than 5 Years	Total
December 31, 2023							
Lease payments	P 18,633,168	P18,581,261	P 13,679,250	P13,747,788	P10,197,511	P32,849,144	P107,688,122
Finance Charges	(3,211,611)	(3,988,672)	(3,260,691)	(2,611,090)	(2,001,490)	(3,749,092)	(18,822,646)
Net present Value	**P 15,421,557**	**P14,592,589**	**P 10,418,559**	**P11,136,698**	**P 8,196,021**	**P 29,100,052**	**P 88,865,476**
December 31, 2022							
Lease payments	P 15,584,272	P14,557,413	P 14,364,220	P 9,292,770	P 9,097,254	P16,681,017	P 79,576,946
Finance Charges	(2,890,048)	(2,960,914)	(2,215,365)	(1,599,205)	(1,120,824)	(1,814,162)	(12,600,518)
Net present Value	P 12,694,224	P11,596,499	P 12,148,855	P 7,693,565	P 7,976,430	P14,866,855	P 66,976,428

The Bank has elected not to recognize lease liabilities for short-term leases or for leases of low value assets. Payments made under such leases are expensed on a straight-line basis.

As at December 31, 2023 and 2022, the Bank has no committed leases which had not yet commenced.

The expenses relating to short-term leases and leases of low value assets amounted to P1.65 million in 2023 and P1.53 million in 2022 and is presented as part of Occupancy under Other Operating Expenses in the statements of comprehensive income (see Note 19).

17. EQUITY

17.1 Capital Stock

The Bank's capital stock is composed of 20,000,000 authorized shares with P100 par value per share. As of December 31, 2023 and 2022, there are 11,263,580 shares issued and outstanding at P100 par value or P1.13 billion.

As of December 31, 2023 and 2022, the Bank has only one stockholder owning 100 or more shares of the Bank's capital stock for both years.

17.2 Appropriation of General Loan Loss Reserves

Pursuant to the requirements of the BSP under Circular No. 1011, the Bank shall recognize general loan loss provisions equivalent to one percent of all outstanding loans as of the end of the reporting period, except for accounts considered as credit risk-free under the existing BSP regulations. In cases when the computed allowance for ECL on those exposures is less than the required one percent general loan loss provisions required, the deficiency is recognized through appropriation from the Bank's available surplus. The accumulated amount of appropriation to General Loan Loss Reserves for general loan loss portfolio for both years amounted to P9.27 million.

17.3 Revaluation Reserves

Revaluation reserves comprise of gains and losses arising from the remeasurements of the Bank's retirement benefit plan and fair value changes on its financial asset at FVOCI.

18. OTHER OPERATING INCOME

This account consists of the following:

	Notes	2023	2022
Service fees and commission		**P 27,354,940**	P 30,933,671
Gain on sale of investment property	11	**24,751,579**	4,454,279
Gain on disposal of property and equipment	10	**56,811**	15,704,513
Rent income	11	**54,734**	561,576
Other income		**12,744,527**	3,939,865
		P 64,962,591	P 55,593,904

Other income includes notarial fees, penalty, holding fees, establishment fees charged to customers and pre-termination fees.

19. OTHER OPERATING EXPENSES

The details of this account are shown below and the succeeding page.

	Notes	2023	2022
Salaries and employee benefits	20.1	**P 106,453,034**	P 102,637,088
Depreciation and amortization	10, 11, 13.2	**29,659,229**	30,224,503
Taxes and licenses		**22,171,244**	19,959,768
Messengerial, janitorial and security	22.3	**11,942,503**	11,852,206
Transportation and travel		**6,508,402**	3,244,486
Insurance		**5,403,060**	5,095,995
Management and other professional fees		**4,854,096**	3,567,004
Postage and utilities		**4,066,359**	5,448,213
Power, light and water	22.3	**3,648,457**	3,881,074
Information technology		**3,174,492**	3,101,873
Balance brought forward		**P 197,880,876**	P 189,012,210

	Notes	2023	2022
Balance brought forward		**P 197,880,876**	P 189,012,210
Repairs and maintenance		**2,572,681**	2,413,445
Fuel and lubricant		**2,202,001**	2,333,625
Stationery and supplies		**2,173,757**	2,440,909
Occupancy	16, 22.3	**1,646,927**	1,532,831
Advertising and publicity		**969,081**	605,795
Supervision fees		**447,860**	432,061
Miscellaneous		**1,952,088**	7,720,679
		P 209,845,271	P 206,491,555

20. EMPLOYEE BENEFITS

20.1 Salaries and Employee Benefits

Expenses recognized for employee benefits are presented below.

	Notes	2023	2022
Short-term employee benefits		**P 102,528,202**	P 97,834,895
Post-employment defined benefit	20.2	**3,924,832**	4,802,193
	19	**P 106,453,034**	P 102,637,088

20.2 Retirement Benefit Plan

(a) Characteristics of the Defined Benefit Plan

The Bank maintains a partially-funded, tax-qualified, non-contributory defined retirement benefit plan that is being administered by a trustee bank covering all regular full-time employees (see Note 22.5). The trustee bank managed the fund under the supervision of the Corporate Governance Committee of the Bank who acts in the best interest of the plan assets and is responsible for setting the investment policies.

The normal retirement age is 60 with a minimum of 10 years of credited service. The plan also provides for an early retirement upon attainment of age 50 and completion of at least 10 years of credit service subject to the approval of the BOD. Normal retirement benefit is an amount equivalent to 125% of employee’s final covered compensation for every year of credited service.

(b) Explanation of Amounts Presented in the Financial Statements

Actuarial valuations are made annually to update the post-employment benefit costs and the amount of contributions. All amounts presented in the succeeding pages are based on the actuarial valuation reports obtained from independent actuary in 2023 and 2022.

The amount of retirement benefit asset recognized in the statements of financial position and presented as part of Other Resources account is determined as follows (see Note 13):

	2023	2022
Fair value of plan assets	P 35,690,240	P 35,399,213
Present value of the obligation	(32,853,335)	(28,701,952)
Effect of the asset ceiling	(185,592)	(662,863)
	P 2,651,313	P 6,034,398

The movements in the present value of the retirement benefit obligation are as follows:

	2023	2022
Balance at beginning of year	P 28,701,952	P 31,683,194
Current service cost	3,924,832	4,802,193
Interest expense	2,210,050	1,584,160
Remeasurement – actuarial losses (gains) arising from changes in:		
- financial assumptions	(1,493,742)	(8,314,442)
- experience adjustments	254,503	1,084,344
Benefits paid	(744,260)	(2,137,497)
Balance at end of year	P 32,853,335	P 28,701,952

The movements in the fair value of plan assets are presented below.

	2023	2022
Balance at beginning of year	P 35,399,213	P 32,180,516
Interest income	2,697,085	1,680,588
Contributions	-	5,000,000
Negative return on plan assets (excluding amounts included in net interest)	(1,661,798)	(1,324,394)
Benefits paid	(744,260)	(2,137,497)
Balance at end of year	P 35,690,240	P 35,399,213

The composition of the fair value of plan assets at the end of the reporting period for each category and risk characteristics is shown below.

	2023	2022
Due from other banks	P 9,368,688	P 30,177,000
Philippine government bonds	26,100,273	5,084,824
Others – net	221,279	137,389
	P 35,690,240	P 35,399,213

The fair values of the Philippine government bonds are determined based on the Bloomberg Valuation Services (BVAL). The plan assets earned a net gain of P1.04 million in 2023 and net loss of P0.36 million in 2022.

Plan assets do not comprise any of the Bank's own financial instruments or assets held and owned by its related parties.

The components of amounts recognized in profit or loss and in other comprehensive income in respect of the defined benefit post-employment plan are as follows:

	2023	2022
Recognized in profit or loss:		
Current service cost	**P 3,924,832**	P 4,802,193
Net interest expense	**(435,995)**	(95,244)
	P 3,488,837	P 4,706,949
Recognized in other comprehensive loss (income):		
Actuarial losses (gains) arising from changes in:		
- financial assumptions	**(P 1,493,742)**	(P 8,314,442)
- experience adjustments	**254,503**	1,084,344
Negative return on plan assets (excluding amounts included in net interest)	**1,661,798**	1,324,394
Effect on asset ceiling	**(528,311)**	637,997
	(P 105,752)	(P 5,267,707)

Current service cost and the past service cost arising from the plan amendment is included as part of Salaries and employee benefits under Other Operating Expenses account in the statements of comprehensive income (see Notes 19 and 20.1).

Past service costs arise from the decrease in expected rate of salary increase during the year.

The net interest expense is presented as part of Others under Interest Expense account in the statements comprehensive income.

Amounts recognized in other comprehensive loss will not be reclassified subsequently to profit or loss. In determining the amounts of the retirement obligation, the following significant actuarial assumptions were used:

	2023	2022
Discount rates	**7.00%**	7.70%
Expected rate of salary increases	**4.00%**	5.00%

Assumptions regarding future mortality experience are based on published statistics and mortality tables. The average remaining working lives of an individual retiring at the age of 60 is 27. These assumptions were developed by management with the assistance of an independent actuary. Discount factors are determined close to the end of each reporting period by reference to the interest rates of a zero-coupon government bond with terms to maturity approximating to the terms of the retirement obligation. Other assumptions are based on current actuarial benchmarks and management's historical experience.

(c) Risks Associated with the Retirement Plan

The plan exposes the Bank to actuarial risks such as investment risk, interest rate risk, longevity risk and salary risk.

(i) Investment and Interest Risks

The present value of the defined benefit obligation is calculated using a discount rate determined by reference to market yields of government bonds. Generally, a decrease in the interest rate of a reference government bonds will increase the plan obligation. However, this will be partially offset by an increase in the return on the plan's investments in debt securities and if the return on plan asset falls below this rate, it will create a deficit in the plan.

Currently, the plan is heavily invested in government bonds and due from other banks which are generally considered to be less risky than equity investments.

(ii) Longevity and Salary Risks

The present value of the defined benefit obligation is calculated by reference to the best estimate of the mortality of the plan participants during their employment, and to their future salaries. Consequently, increases in the life expectancy and salary of the plan participants will result in an increase in the plan obligation.

(d) Other Information

The information on the sensitivity analysis for certain significant actuarial assumptions, the Bank's asset-liability matching strategy, and the timing and uncertainty of future cash flows related to the retirement plan are described below and in the succeeding pages.

(i) Sensitivity Analysis

The following table summarizes the effects of changes in the significant actuarial assumptions used in the determination of the post-employment defined benefit obligation as of December 31, 2023 and 2022:

	Impact on Post-Employment Defined Benefit Obligation		
	Change in Assumption	**Increase in Assumption**	**Decrease in Assumption**
December 31, 2023			
Discount rate	**+/- 1%**	**(P 4,912,828)**	**P 4,036,129**
Salary growth rate	**+/- 1%**	**5,016,344**	**(4,177,817)**
December 31, 2022			
Discount rate	+/- 1%	(P 4,564,579)	P 3,735,785
Salary growth rate	+/- 1%	4,645,692	(3,855,703)

The sensitivity analysis is based on a change in an assumption while holding all other assumptions constant. This analysis may not be representative of the actual change in the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated.

Furthermore, in presenting the above sensitivity analysis, the present value of the defined benefit obligation has been calculated using the projected unit credit method at the end of the reporting period, which is the same as that applied in calculating the defined benefit obligation recognized in the statements of financial position.

(ii) Asset-liability Matching Strategies

To efficiently manage the retirement plan, the Bank ensures that the investment positions are managed in accordance with its asset-liability matching strategy which is to ensure that investments are in line with the obligations under the retirement scheme. This strategy aims to match the plan assets to the retirement obligations by investing in less risky investments (placements with BSP and government bonds).

(iii) Funding Arrangements and Expected Contributions

The plan is currently overfunded by P2.65 million based on the latest actuarial valuation. While there is no minimum funding requirement in the country, the size of the underfunding may pose a cash flow risk in about five to 10 years' time when the total expected benefit payments would have exhausted the assets currently in the fund.

The maturity profile of undiscounted expected benefit payments within 10 years as of December 31 from the plan follows:

	2023	2022
More than one year to five years	**P 12,454,363**	P 12,334,506
More than five years to ten years	**13,364,925**	12,960,174
	P 25,819,288	P 25,294,680

The weighted average duration of the defined benefit obligation at the end of the reporting period is 14.5 years.

21. INCOME TAXES

21.1 Current and Deferred Taxes

The components of tax expense relating to profit or loss and other comprehensive income follow:

		2023		2022
Reported in profit or loss:				
Current tax expense:				
Minimum corporate income tax (MCIT)	**P**	**2,654,718**	P	1,642,575
Final tax at 20% and 15%		**961,120**		1,182,727
	P	**3,615,838**	P	2,825,302

A reconciliation of tax on pretax profit computed at the applicable statutory rates to tax expense reported in the statements of profit or loss follows:

		2023		2022
Tax on pretax profit at 25%	**P**	**1,679,757**	P	5,604,173
Adjustment for income subjected to lower tax rates	**(**	**237,699)**	(	101,893)
Tax effects of:				
Excess MCIT over regular corporate income tax (RCIT)		**3,125,288**		11,553,577
Non-deductible expenses	**(**	**1,287,841)**		1,362,843
Unrecognized deferred tax assets		**608,165**	(	15,045,367)
Non-taxable income	**(**	**271,832)**	(	548,031)
Tax expense	**P**	**3,615,838**	P	2,825,302

The Bank is subject to the MCIT, which is computed at 2% starting July 2023 and 1% in 2022 of gross income net of allowable deductions, as defined under the tax regulations, or to RCIT, whichever is higher. The Bank is liable for MCIT in 2023 and 2022 since the Bank is in a net taxable loss position in both in years.

The details of excess MCIT over RCIT which can be applied against RCIT due within three consecutive years from the year the MCIT was incurred. The details of excess MCIT over RCIT with its corresponding validity is shown below.

Year Incurred	Amount	Expired	Remaining Balance	Expiry Year
2023	P 2,654,718	P -	P 2,654,718	2026
2022	1,642,575	-	1,642,575	2025
2021	1,432,229	-	1,432,229	2024
2020	2,683,868	(2,683,868)	-	2023
	P 8,413,390	(P 2,683,868)	P 5,729,522	

Pursuant to Section 4(bbb) of R.A. No. 11494, *Bayanihan II*, the NOLCO for taxable years 2020 and 2021 can be claimed as deduction within five consecutive years immediately following the year of such loss. The breakdown of NOLCO which can be applied against taxable income within five consecutive years from the year the loss was incurred is shown below. In 2023 and 2022, NOLCO period reverted to 3 years.

Year Incurred	Original Amount	Expired	Applied	Remaining Balance	Valid Until
2023	P 1,882,278	P -	P -	P 1,882,278	2026
2022	39,472,854	-	-	39,472,854	2025
2021	6,608,986	-	-	6,608,986	2026
2020	24,288,646	-	-	24,288,646	2025
	P 72,252,764	**P -**	**P -**	**P 72,252,764**	

In 2023 and 2022, the Bank claimed itemized deductions in computing its income tax due.

The Bank has not recognized the net deferred tax assets related to the following temporary differences because management believes that the Bank may not be able to generate sufficient taxable profit in the future against which the benefits of these net deferred tax assets can be utilized:

	2023		2022	
	Amount	**Tax Effect**	Amount	Tax Effect
Allowance for impairment	**P 69,027,132**	**P 17,256,783**	P 68,593,953	P 17,148,488
Right-of-use assets	**(77,644,700)**	**(19,411,175)**	(57,238,991)	(14,309,748)
Lease liabilities	**88,865,476**	**22,216,369**	66,976,428	16,744,107
NOLCO	**72,252,764**	**18,063,191**	70,370,486	17,592,622
Past service cost	**13,383,731**	**3,345,933**	15,677,056	3,919,264
Excess MCIT over RCIT	**16,111,094**	**16,111,094**	15,669,674	15,669,674
Rental income differential	**-**	**-**	(2,128,842)	(532,211)
Retirement benefit asset	**2,651,313**	**662,828**	6,034,398	1,508,600
	P 184,646,810	**P 58,245,023**	P 183,954,162	P 57,740,796

21.2 Supplementary Information Required under Revenue Regulations (RR) No. 15-2010

The BIR issued RR No. 15-2010 which requires certain tax information to be disclosed as part of the notes to financial statements. Such supplementary information is, however, not a required disclosure under the PFRS and SEC rules and regulations covering the form and content of financial statements under the Revised Securities Regulation Code Rule 68.

The Bank presented this tax information required by the BIR as a supplementary schedule filed separately from the basic financial statements.

22. RELATED PARTY TRANSACTIONS

In the ordinary course of business, the Bank has transactions with the Parent Bank and other related parties as defined below. These transactions include regular banking transactions, outside services and lease of office space. The summary of the Bank's transactions and outstanding balances with the Parent Bank and other related parties as of and for the years ended December 31, 2023 and 2022 is as follows:

		2023		2022	
Related Party Category	Notes	**Amount of Transaction**	**Outstanding Balance**	Amount of Transaction	Outstanding Balance
Parent Bank					
Cash deposits	8, 22.2	**P 15,662,188**	**P 92,552,132**	P 4,315,572	P 76,889,944
Bills payable	16	**40,000,000**	**40,000,000**	-	-
Interest income on deposits	22.2	**78,146**	**-**	100,085	-
Rent income	11, 18	**54,734**	**-**	558,075	-
Expenses:					
Occupancy	19, 22.3	**3,063,376**	**-**	6,638,674	-
Messengerial, janitorial and security	19, 22.3	**77,314**	**-**	1,696,974	-
Power, light and water	19, 22.3	**65,463**	**-**	60,007	-
Retirement plan	20.2, 22.5	**291,027**	**35,690,240**	3,218,697	35,399,213
Related Parties Under Common Ownership					
Advances granted	22.4	**-**	**-**	4,022,630	-
Key Management Personnel Compensation	22.6	**18,985,917**	**-**	19,766,252	-

22.1 Directors, Officers, Stockholders and other Related Interests (DOSRI)

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

As of December 31, 2023 and 2022, the Bank has DOSRI loans amounted to P6.80 million and P5.64 million, respectively, and is in compliance with these regulatory requirements.

22.2 Bank Deposits

As of December 31, 2023 and 2022, the Bank has deposit accounts with RCBC, parent bank, amounting to P92.55 million and P76.89 million, respectively, which are presented as part of Due from Other Banks account in the statements of financial position. These bank accounts are interest-bearing and subject to normal banking terms and conditions applied by RCBC to ordinary depositors (see Note 8).

The Bank declared its deposit accounts with related parties as DOSRI credit accommodation as of December 31, 2023 and 2022, which are secured by the related parties' investments in government securities.

22.3 Messengerial, Janitorial and Security and Occupancy, Power, Light and Water

The Bank, as a lessee, entered into a sublease agreement with RCBC. Incidental to the sublease agreement, RCBC paid expenses on behalf of the Bank, including messengerial, janitorial and security, and power, light and water which are presented under Other Operating Expenses account in the statements of comprehensive income (see Note 19).

The rent and the related expenses are generally settled through cash payments with no interest charged on the outstanding balance, if any, at the end of the reporting period. There are no outstanding payables relating to these transactions as of December 31, 2023 and 2022.

22.4 Advances

In 2022, the Bank paid certain expenses relating to the consolidation of titles of certain properties of RCBC-JPL Holding Company, Inc., a related party under common control by the Parent Bank. The related outstanding balance is presented as part of Miscellaneous under Other Resources account in the statement of financial position will be reclassified to Bank Premises upon receipt of title of land from registry of deeds. There are no outstanding balances relating to these transactions as of December 31, 2023 and 2022.

22.5 Transactions with the Retirement Fund

The Bank's retirement fund covered under their post-employment defined benefit plan maintained for qualified employees is administered and managed by RCBC's Trust Department. The carrying amount and the composition of the plan assets (including savings deposit maintained with RCBC) as of December 31, 2023 and 2022, are shown in Note 20.2.

In 2022, the Bank made an additional contribution to the retirement plan amounting to P5.0 million. No similar transaction in 2023.

The retirement fund neither provides any guarantee or surety for any obligation of the Bank nor its investments covered by any restriction or liens.

22.6 Key Management Personnel Compensation

Short-term benefits paid to key management employees amounted to P18.99 million and P19.77 million in 2023 and 2022, respectively.

23. COMMITMENTS AND CONTINGENCIES

The following are the significant commitments and contingencies involving the Bank:

23.1 Operating Lease Commitments – Bank as a Lessor

The Bank entered into operating lease agreement as lessor of its parcel of land leased out to RCBC. The lease has a term of 25 years commencing on January 1, 2012. The lease contract has a fixed escalation rate of 3% starting on the second year of the lease term.

Rent income from this contract is shown as part of Other Operating Income in the statements of comprehensive income (see Note 18).

The Bank is subject to risk incidental to the leasing operations which include, among others, changes in the market rental rates, inability to renew leases upon lease expiration and inability to collect rent from lessees due to bankruptcy or insolvency of lessees. To mitigate these risks, and in case a lessee pre-terminates without at least six month prior written notice, the lessor shall be entitled to be indemnified for all actual damages plus attorney's fee equivalent to 10% but no less than P20,000 in addition to the cost of suit which the law may entitle to recover.

The Bank future minimum rental receivables under this operating lease arrangement in 2022 are as follows.

Within one year	P	645,886
After one year but not more than two years		665,263
After two years but not more than three years		685,221
After three years but not more than four years		705,777
After four years but not more than five years		726,951
More than five years		8,583,684
	P	12,012,782

In 2023, the Bank sold the said property for P34.90 million which resulted in a gain on sale of P22.64 million.

23.2 Others

In the normal course of business, the Bank makes various commitments, including undrawn loan commitment to customer, and incurs certain contingent liabilities that are not given recognition in the financial statements. As of December 31, 2023 and 2022, management believes that losses, if any, that may arise from these commitments and contingencies will not have any material effect on the financial statements.

23.3 Capital Commitments

As of December 31, 2023 and 2022, the Bank has no contractual commitment for the acquisition of Bank premises, furniture, fixtures and equipment, and Investment properties (see Notes 10 and 11).

24. MATURITY ANALYSIS OF RESOURCES AND LIABILITIES

		2023			2022		
	Notes	Within One Year	Beyond One Year	Total	Within One Year	Beyond One Year	Total
Financial Resources							
Cash	8	P 13,650,462	P -	P 13,650,462	P 12,754,048	P -	P 12,754,048
Due from BSP	8	80,981,879	-	80,981,879	113,687,087	-	113,687,087
Due from other banks	8	99,624,130	-	99,624,130	124,000,360	-	124,000,360
Loans arising from reverse repurchase agreements	8	32,951,139	-	32,951,139	23,946,353	-	23,946,353
Loans and other receivables – net	9	479,480,618	756,899,459	1,236,380,077	673,552,342	522,222,221	1,195,774,563
Other resources – net	13	-	20,680,326	20,680,326	-	17,170,367	17,170,367
		706,688,228	777,579,785	1,484,268,013	947,940,190	539,392,588	1,487,332,778
Non-financial Resources							
Bank premises, furniture, fixtures and equipment – net	10	-	134,088,207	134,088,207	-	115,123,858	115,123,858
Investment properties – net	11	-	-	-	-	57,934,857	57,934,857
Non-current assets classified as held for sale	12	53,666,457	-	53,666,457	-	-	-
Other resources – net	13	7,420,984	6,425,472	13,846,456	11,560,061	5,872,390	17,432,451
		61,087,441	140,513,679	201,601,120	11,560,061	178,931,105	190,491,166
		P 767,775,669	P 918,093464	P 1,685,869,133	P 959,500,251	P 718,323,693	P 1,677,823,944

	Notes	2023 Within One Year	2023 Beyond One Year	2023 Total	2022 Within One Year	2022 Beyond One Year	2022 Total
Financial Liabilities							
Deposit liabilities	14	**P 684,166,853**	**P 308,216,961**	**P 992,383,814**	P 728,223,837	P 321,730,913	P 1,049,954,750
Accrued interest and other expenses	15	**12,106,691**	**-**	**12,106,691**	12,301,861	-	12,301,861
Bills Payable	16	**40,000,000**	**-**	**40,000,000**	-	-	-
Other liabilities	16	**47,295,993**	**73,443,919**	**120,739,912**	51,574,506	55,409,659	106,984,165
		783,569,537	**381,660,880**	**1,165,230,417**	792,100,204	377,140,572	1,169,240,776
Non-financial Liabilities							
Accrued interest and other expenses	15	**8,218,640**	**-**	**8,218,640**	3,104,114	-	3,104,114
Other liabilities	16	**2,045,792**	**-**	**2,045,792**	1,741,178	-	1,741,178
		10,264,432	**-**	**10,264,432**	4,845,292	-	4,845,292
		P 793,833,969	**P 381,660,880**	**P 1,175,494,849**	P 796,945,496	P 377,140,572	P 1,174,086,068

25. SUPPLEMENTARY INFORMATION REQUIRED BY THE BANGKO SENTRAL NG PILIPINAS

Presented below are the supplementary information required by the BSP under Section 174 (Appendix 55) of the BSP Manual of Regulations for Banks to be disclosed as part of the notes to financial statements based on BSP Circular 1074, *Amendments to Regulations on Financial Audit of Banks*.

(a) Selected Financial Performance Indicators

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

	2023	2022
Return on average equity		
Net income / Average total equity	**0.61%**	3.95%
Return on average resources		
Net income / Average total resources	**0.18%**	1.32%
Net interest margin		
Net interest income / Average interest earning resources	**13.18%**	9.46%

(b) Capital Instruments Issued

As of December 31, 2023, the Bank has no capital instruments considered in the computation of the Bank's regulatory and qualifying capital in accordance with Circular 781, *Basel III Implementing Guidelines on Minimum Capital Requirements, which may include*, instruments recorded as part of equity or a financial liability qualifying as Tier 2 capital.

(c) Significant Credit Exposures for Loans

The Bank's concentration of credit as to industry for its receivables from customers' portfolio (gross of allowance for ECL) follows:

	2023		2022	
	Amount	**Share**	Amount	Share
Wholesale and retail trade, repair of motor vehicles motorcycles, personal household goods	**P 681,197,070**	**53%**	P 691,053,571	56%
Agriculture, forestry and fishing	**211,411,472**	**17%**	187,509,803	15%
Transportation, storage and communication	**66,126,122**	**5%**	70,453,600	6%
Hotels and restaurants	**52,468,552**	**4%**	53,849,758	4%
Construction	**49,298,743**	**4%**	51,371,140	4%
Real estate, renting and business activities	**47,283,872**	**4%**	29,607,590	2%
Manufacturing	**37,028,494**	**3%**	46,537,831	4%
Electricity, gas and water supply	**20,104,241**	**2%**	10,745,123	1%
Private households with employed persons	**17,760,071**	**1%**	26,867,819	2%
Mining and quarrying	**16,504,045**	**1%**	19,980,361	2%
Others	**76,965,698**	**6%**	46,441,779	4%
	P 1,276,148,380	**100%**	P 1,234,418,375	100%

The BSP considers that concentration of credit exists when total loan exposure to a particular industry or economic sector exceed 30% of total loan portfolio except for thrift banks.

Others consists of loans granted to industries under health and social work, and wellness centers.

(d) Credit Status of Loans

The breakdown of total loans (receivable from customers) as to status is shown below and the succeeding page.

	2023		
	Performing	**Non-performing**	**Total Loan Portfolio**
Gross carrying amount:			
Micro enterprise	P 135,669,392	P 21,759,065	P 157,428,457
Agricultural loan	529,544,570	46,388,679	575,933,249
SME	442,198,962	11,878,978	454,077,940
Salary	6,801,905	-	6,801,905
Other	38,258,158	43,648,671	81,906,829
	1,152,472,987	123,675,393	1,276,148,380
Allowance for ECL	(1,176,729)	(67,105,718)	(68,282,447)
Net carrying amount	**P 1,151,296,258**	**P 56,569,675**	**P 1,207,865,933**

	2022		
	Performing	Non-performing	Total Loan Portfolio
Gross carrying amount:			
Micro enterprise	P 134,362,186	P 32,109,553	P 166,471,739
Agricultural loan	556,135,114	11,189,972	407,814,346
SME	396,624,374	17,787,975	573,923,089
Salary	2,060,461	-	2,060,461
Other	40,500,068	43,648,672	84,148,740
	1,129,682,203	104,736,172	1,234,418,375
Allowance for ECL	(2,211,916)	(65,698,407)	(67,910,323)
Net carrying amount	P 1,127,470,287	P 39,037,765	P 1,166,508,052

Non-performing loans (NPLs) included in the total loan portfolio of the Bank as of December 31, 2023 and 2022 are presented below, net of allowance for ECL.

	2023	2022
Gross NPLs	**P 123,675,393**	P 104,736,172
Allowance for impairment	**(67,105,718)**	(65,698,407)
Net carrying amount	**P 56,569,675**	P 39,037,765

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

Restructured loans shall be considered non-performing. However, if prior to restructuring, the loans were categorized as performing, such classification shall be retained. Moreover, NPLs shall remain classified as such until (a) there is sufficient evidence to support that full collection of principal and interests is probable and payments of interest and/or principal are received for at least 6 months; or (b) written off.

Restructured loans amount to P20.36 million and P14.97 million as of December 31, 2023 and 2022, respectively. The related allowance for credit loss of such loans amounted to P15.74 million and P14.14 million as of December 31, 2023 and 2022, respectively.

Interest income recognized on impaired loans and receivables amounted to P1.08 million and 4.16 million in 2023 and 2022, respectively.

(e) *Analysis of Loan Portfolio as to Type of Security*

The breakdown of total loans (receivable from customers, net of unearned interests or discounts) as to security follows:

	2023	2022
Secured:		
Real estate mortgage	**P 777,713,074**	P 788,644,434
Chattel mortgage	**58,544,578**	76,305,041
Hold-out deposit	**12,682,147**	23,533,657
Others	**44,130,291**	3,353,966
	893,070,090	891,837,098
Unsecured	**383,078,290**	342,581,277
	P 1,276,148,380	P 1,234,418,375

(f) *Information on Related Party Loans*

In the ordinary course of business, the Bank has loan transactions with its other affiliates, and with certain DOSRI. Under existing policies of the Bank, these loans are made substantially on the same terms as loans to other individuals and businesses of comparable risks.

Under the current BSP regulations, the amount of individual loans to a DOSRI, 70% of which must be secured, should not exceed the amount of the encumbered deposit and book value of the investment in the Bank and/or any of its lending and nonbank financial subsidiaries. In the aggregate, loans to DOSRIs, generally, should not exceed the total equity or 15% of the total loan portfolio of the Bank. However, non-risk loans are excluded in both individual and aggregate ceiling computation.

The following table shows the information relating to the loans, credit accommodations and guarantees to DOSRI, excluding loans granted as fringe benefits to officers which are excluded from the individual ceiling as of December 31, 2023 and 2022 in accordance with BSP reporting guidelines:

	DOSRI Loans		Related Party Loans (inclusive of DOSRI)	
	2023	2022	2023	2022
Total outstanding loans	**P -**	P -	**P -**	P -
% of loans to total loan portfolio	**0%**	0%	**-**	-
% of unsecured loans to total DOSRI/related party loans	**0%**	0%	**-**	-
% of past due loans to total DOSRI/related party loans	**0%**	0%	**-**	-
% of non-performing loans to total DOSRI/ related party loans	**0%**	0%	**-**	-

(g) Secured Liabilities and Assets Pledged as Security

As of December 31, 2023 and 2022, the Bank has no assets pledged as security for liabilities.

(h) Contingencies and Commitments Arising from Off-balance Sheet Items

The Bank has no commitments and contingent accounts as of December 31, 2023 and 2022.